



Observatory of European SMEs
2002 / No 7

**Recruitment of employees:
Administrative burdens on SMEs
in Europe**



Observatory of European SMEs
2002, No. 7

Recruitment of employees: administrative burdens on SMEs in Europe

This report has been prepared from information provided by all partners of the European Network for SME Research ENSR (see Annex IV) and was coordinated by Dr. Sanita Schröder and Mr. Michael Holz from Institut für Mittelstandsforschung, Bonn, the German ENSR partner.

The report does not express the Commission's official views; neither the Commission nor the consultants accept liability for the consequences of actions taken on the basis of the information contained herein.

OBSERVATORY OF EUROPEAN SMEs

A series of reports submitted to the Enterprise Directorate-General of the European Commission (see also Annex IV to this report) by:

KPMG Special Services and EIM Business & Policy Research in the Netherlands

in co-operation with:

European Network for SME Research (ENSR), and Intomart

For more information on the current series of reports in the framework of The Observatory of European SMEs, see the website of the Enterprise DG at <http://europa.eu.int/comm/enterprise>.

Previous Observatory Reports

In the period 1992-1999 six reports of The European Observatory for SMEs were published (comprehensive volumes of 360 to 480 pages each). Each report gives an overview of the structure and developments of the SME sector and looks into a range of specific areas.

The report published in July 2000 (6th Observatory Report) focused for instance on the markets for products and services, labour market issues, access to both finance and Community programmes, electronic commerce, and associations and foundations in the social economy. It also contained in-depth studies on vocational training for SMEs and new services.

The 6th Observatory Report is published in English, French and German. The report is currently out of print, but a limited number of copies are still available. Please send your request to: ENTR-COMPETIT-BENCHMARK@cec.eu.int.

The first five Annual Reports are still available and can be ordered at: EIM Business & Policy Research, PO Box 7001, 2701 AA Zoetermeer, The Netherlands. Phone: + 31 (0) 79 3413634, Fax: + 31 (0) 79 3415024, E-mail: info@eim.nl.

These are the abbreviations used in this report for the Europe-19

A	Austria	NL	Netherlands
B	Belgium	P	Portugal
DK	Denmark	S	Sweden
D	Germany	UK	United Kingdom
EL	Greece	EU	European Union
E	Spain	IS	Iceland
F	France	LI	Liechtenstein
FIN	Finland	NO	Norway
IRL	Ireland	EEA	European Economic Area
I	Italy	CH	Switzerland
L	Luxembourg	Europe-19	EEA plus Switzerland

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

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

Luxembourg: Office for Official Publications of the European Communities

ISBN 92-894-3586-0

© European Communities, 2002. Reproduction is authorised provided the source is acknowledged.

Printed in Belgium

Contents

Preface.....	5
Summary	7
Chapter 1	
Introduction	9
1.1. The problem and applied methodology	9
1.2. Definition of administrative burdens	10
1.2.1. Definition of administrative burdens with regard to the recruitment process	11
Chapter 2	
Administrative burdens and their importance for SMEs.....	13
2.1. Major business constraints on SMEs.....	13
2.2. Administrative burdens and SMEs' recruitment decisions	15
2.3. The development of administrative burdens since 1997	16
2.4. SMEs' different perception of administrative burdens.....	19
2.4.1. The impact of familiarity with the relevant legislation	19
2.4.2. Personal characteristics.....	200
Chapter 3	
The nature of administrative burdens	21
3.1. Administrative procedures in the recruitment process.....	21
3.1.1. Institutions to be contacted in the recruitment process	24
3.1.2. Conclusions	26
3.2. Complexity and obscurity of employment regulations	26
3.2.1. Evidence of the impact of employment legislation in its entirety	28
3.2.2. Law enforcement and legal certainty.....	30
3.2.3. Conclusions	30

Chapter 4

Administrative burdens and actual recruitment behaviour	31
4.1. Administrative burdens and the recruitment of regular employees.....	31
4.2. The strategic use of temporary agency labour and outsourcing.....	32

Chapter 5

Government initiatives.....	35
5.1. Electronic government.....	35
5.2. Threshold levels in employment related legislation	37
5.2.1. Impact of thresholds on the recruitment decision	38
5.3. Government initiatives related to the recruitment process	39
5.3.1. Initiatives or relief when recruiting the first employee	39
5.3.2. Initiatives or relief when recruiting a subsequent employee	40
5.4. Use of government support	41

Chapter 6

Conclusions and recommendations for further action	43
References.....	45

Annexes

I Concepts of administrative burdens	49
II Statistical data on regression results.....	53
III Initiatives in the countries.....	55
III.1. Simplification of administrative obligations	55
III.2. Availability of support measures or organisations.....	56
III.3. Evidence of applied modern technology - electronic government ...	59
III.4. Development in the employment related regulations.....	61
III.4.1. Forms of employment.....	61
III.4.2. Social security and pension requirements	62
III.4.3. Dismissal law.....	63
III.4.4. Working time.....	63
III.4.5. Legislation for specific social groups.....	63
III.4.6. Health and safety regulation	64
IV Names and addresses of the consortium partners.....	65

Preface

Enterprises are at the heart of the strategy launched by the European Council in Lisbon in March 2000. Reaching the objective of becoming the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth, more and better jobs and greater social cohesion will ultimately depend on how successful enterprises, especially small- and medium-sized ones, are.

The *Observatory of European SMEs* was established by the Commission in December 1992 in order to improve monitoring of the economic performance of SMEs in Europe. Its task is to provide information on SMEs to policy-makers at the national and European level, researchers, SME organisations and to SMEs themselves.

The reports of the Observatory provide an overview of the current situation in the SME sector in Europe through statistics on the number of enterprises, on total employment and on production by size of enterprise. In addition, the Observatory reports cover a range of thematic issues.

The *Observatory of European SMEs* covers 19 countries: the 15 countries of the EU, plus Iceland, Liechtenstein, Norway and Switzerland.

During 2002, the following reports are planned to be published:

- Highlights from the 2001 Survey
- SMEs in Europe, including a first glance at EU Candidate Countries
- Regional Clusters in Europe
- European SMEs and Social and Environmental Responsibility
- Business Demography in Europe
- High Tech SMEs in Europe
- Recruitment of Employees: Administrative Burdens on SMEs in Europe
- Tax incentives for SMEs in Europe
- Highlights from the 2002 Survey

The research for the Observatory reports is carried out on behalf of the Enterprise Directorate-General of the European Commission by ENSR, the European Network for SME Research, co-ordinated by EIM Business & Policy Research from the Netherlands in a consortium led by KPMG Special Services from the Netherlands.

For a description of the activities of the Enterprise DG, see the website of the European Commission: <http://europa.eu.int/comm/dgs/enterprise>. For more information on the Observatory of European SMEs, including how to access or order the reports, see: http://europa.eu.int/comm/enterprise/enterprise_policy/analysis/observatory.htm. Information on previous reports of the Observatory may be found there as well.

Summary

Recruitment of Employees: Administrative Burdens on SMEs in Europe

- Administrative burdens in the field of employment regulations substantially affect the recruitment decisions for 31 % of the approximate six million enterprises in Europe-19. These enterprises also show a statistically significant smaller employment growth than those enterprises that are only marginally affected by administrative burdens.
- Contrary to the goal set out by the EU Member States at the Luxembourg Job Summit in 1997 to reduce administrative burdens on SMEs in particular when recruiting additional employees, almost two thirds (64 %) of enterprise owners in Europe-19 indicate that from their point of view administrative burdens resulting from employment regulation have increased since 1997. Only 3 % of SMEs indicate that they have decreased.
- Recruitment of employees involves a number of administrative procedures imposed by employment regulation. In Europe-19, on average, 3.3 obligatory administrative procedures have to be gone through when recruiting the first employee and 2.1 procedures when recruiting a subsequent employee. Nevertheless each administrative procedure generally entails only one single 'work step', i.e. a one-off registration or notification.
- However, administrative burdens in the majority of the countries do not primarily stem from the number and nature of obligatory administrative procedures in the recruitment process in terms of 'form filling', delivery of the requested information and contacts with authorities. Rather they stem from the preparatory work, the information collection and the complexity and obscurity of the (entire) employment legislation.
- Administrative burdens cannot be significantly reduced by concentrating just on one or on a small number of regulatory fields. Relieving SMEs from administrative burdens requires a holistic approach.
- SMEs' perception of administrative burdens depends to a large extent on whether an entrepreneur is familiar with the relevant regulations. It also depends on personal characteristics such as educational and professional background.
- Outsourcing and temporary agency labour are not used by SMEs as strategic tools in order to avoid administrative burdens that would otherwise result from the recruitment of regular employees.
- The experience with threshold levels in employment regulation in some countries shows that they can be useful instruments in order to relieve smaller scaled enterprises from administrative burdens.

Chapter 1

Introduction

1.1. The problem and applied methodology

Many studies present evidence that regulations have a negative impact on enterprises' performance.¹ The World Bank, for example, concludes that out of a list of 15 potential obstacles, enterprises consider tax, employment and environment regulations to be the top three obstacles for their business performance.² An important reason for the negative impact of regulations on businesses' performance is the resulting administrative burdens that enterprises have to cope with.

In the field of employment there is also evidence that administrative burdens, which result from employment regulation, adversely affect the overall job creation, particularly in small firms. It is said that smaller businesses are disproportionately affected because they have limited management resources and no specialist staff to understand and meet the legal requirements.³ At the same time, SMEs are recognised to be an important generator of employment. They represent over 99 % of all enterprises in Europe. Some 20.4 million SMEs employ 66 % of the total European workforce. Micro enterprises alone employ 34 % of the total European workforce.⁴ Hence, if administrative burdens have a negative impact on SMEs' recruitment decisions, their job creation potential cannot be fully exploited.

In the Joint Employment Report 2000 it states that there is a growing consensus among the countries on the need to simplify administrative procedures for businesses.⁵ Negative impacts of regulations and formalities on enterprises shall be reduced and legal obligations shall be reformed which might directly or indirectly discourage growth and employment especially in smaller firms.⁶ Although political support as expressed in the National Action Plans (NAPs) appears to be strong, it is stated that more ex-post evaluations of achieved results would add credibility to the measures already undertaken.

Available analyses of administrative burdens in the context of employment creation often focus on the start-up process of enterprises.⁷ They concentrate on technical and quantifiable issues related to the start-up process such as the number of obligatory procedures and their time requirement. However, so far there is little evidence of administrative burdens related to the recruitment of staff. Information on administrative burdens resulting from the administrative procedures in the recruitment process and from the employment regulation in a cross-country

1 OECD, *Businesses' Views on Red Tape, Administrative and regulatory burdens on small and medium-sized enterprises*, Paris, 2001, p. 12.

2 Brunetti, A., Kisunko G. and Weder B., *How Businesses See Government - Responses from Private Sector Surveys in 69 Countries*, World Bank Paper, Washington DC, 1997.

3 OECD, *Businesses' Views on Red Tape, Administrative and regulatory burdens on small and medium-sized enterprises*, Paris, 2001, p. 21.

4 European Commission, *Observatory of European SMEs: SMEs in Europe, including a first glance at EU Candidate Countries*; Report submitted to the Enterprise Directorate General by KPMG Special Services, EIM Business & Policy Research, and ENSR, Brussels, 2002, p. 8.

5 Joint Employment Report, COM (2000) 551, 2000, p. 44.

6 OECD, *Regulatory Reform for Smaller Firms*, Science Technology Industry, Paris, 1999, p. 5.

7 See for example LOGOTECH, S.A. (1997), *Étude comparative internationale des dispositions légales et administratives pour la formation de petites et moyennes entreprises aux pays de l'Union Européenne, les États-Unis et le Japon*, (International comparative study into the legal and administrative procedures related to employment creation in SMEs in the EU, the USA and Japan), *Projet EIMS 96/142*; Nicoletti, G.; Scarpetta, S. and Boylaud, O., *Summary Indicators of Product Market Regulation with an Extension to Employment Protection Legislation*, in: OECD (ed.), *Economics Department Working Papers*, No. 226, Paris, 2000 and Schroer, E., and M. Holz, *Verwaltungsbedingter Zeitaufwand für die Umsetzung von Gründungsvorhaben (Administrative time requirement for the realisation of start ups)*, published by IfM Bonn in: *IfM-Materialien No. 144*, Bonn, 2000.

comparison is seldom available. Based on the results from the 2001 ENSR Survey on SMEs⁸ and on national studies from the countries of Europe-19⁹, this report aims to provide information on this issue.

This report focuses on administrative burdens related to the recruitment of employees. It is composed of six sections. In the first section the problem and the methodology applied is presented together with a definition of administrative burdens.

The second section highlights the importance of administrative burdens for European SMEs. First, the importance of administrative regulations compared to other possible business constraints is illustrated. Then, the analysis focuses exclusively on administrative burdens related to the recruitment of employees. Referring to results from the 2001 ENSR Survey on SMEs, it is shown to what extent these burdens influence SMEs' recruitment decisions. Finally, the enterprises' views on the development of administrative burdens since the Luxembourg Jobs Summit in 1997 are presented, where the goal was set out to review and to simplify administrative burdens on SMEs when recruiting employees.

In the third section, the nature of administrative burdens is investigated in detail. The aim is to identify the main origin of administrative burdens. Therefore, the number and the nature of administrative procedures in the recruitment process are investigated. In addition, it is analysed if specific fields (or the entirety) of employment legislation are a source of administrative burdens. Finally, it is shown that SMEs' perception of administrative burdens is not only influenced by the complexity of recruitment procedures but also by person-related factors.

In section four the impact that administrative burdens really have on the actual recruitment behaviour of entrepreneurs is studied. It is taken into account that the recruitment behaviour is influenced by a large number of different factors, administrative burdens being only one among many. Furthermore, it is analysed to what extent entrepreneurs use temporary agency labour and outsourcing as a strategic tool to avoid administrative burdens that would otherwise result from regular employment.

In section five government initiatives in the countries of Europe-19 are presented which intend to relieve SMEs from administrative burdens in the recruitment process. In the last section, conclusions are drawn and recommendations for further action are given.

1.2. Definition of administrative burdens

In economic literature there is no standard definition of administrative burdens because the identification is rather complex and difficult.¹⁰ In a lot of publications indicators are presented that describe what is meant when speaking of administrative burdens in the individual context without providing a concrete definition.¹¹

The US Office of Management and Budget (OMB)¹² measures the paperwork burden in terms of resources that enterprises devote annually to meet information requests by administrative authorities.¹³ These include the reviewing of instructions, the use of technology to collect, process, and disclose information, the search for data sources, the completion and transmission of the requested information.¹⁴

In an OECD publication it concludes that administrative burdens have risen significantly in OECD countries in recent years due to expanding regulations and increasing government demands for information.¹⁵ In this context only the very general terms 'regulations' and 'increasing government demand for information' serve as a description of what is meant by administrative burdens.¹⁶ In another publication by the OECD, administrative regulations are described as paperwork and administrative formalities by which governments collect information and inter-

8 The ENSR Surveys on small and medium-sized enterprises (SMEs) carried out in the framework of the Observatory of European SMEs, should contribute to the knowledge of the actual state of affairs in the business sector in Europe and foster understanding of developments taking place in various fields. Running a survey among more than 7 600 SMEs across Europe, enables issues such as perception of administrative burdens to be studied, by providing comparable data covering nineteen countries. In addition, the data will be made available to a wider audience by means of the (forthcoming). European Observatory CD-Rom.

9 Europe-19 refers in this report to the 15 EU Member States, Norway, Iceland, Liechtenstein and Switzerland.

10 Nicoletti, G.; Scarpetta, S.; Boylaud, O., Summary Indicators of Product Market Regulation with an Extension to Employment Protection Legislation, in: OECD (ed.), Economics Department Working Papers, No. 226, Paris, 2000, p. 17.

11 OECD, *Businesses' Views on Red Tape, Administrative and regulatory burdens on small and medium-sized enterprises*, Paris, 2001, p. 13.

12 OMB's role is to help improve administrative management, to develop better performance measures and co-ordinating mechanisms and to reduce any unnecessary burdens on the public.

13 In the USA, the term 'administrative burdens' is not commonly used. Instead, the term 'paperwork burden' is more widespread.

14 US Office of Management and Budget (2002), p. 2.

15 OECD Public Management Committee, *Regulatory Policies in OECD Countries. From Intervention to Regulatory Governance*, Paris, 2001, p. 34.

16 In another paragraph of the same publication, it is pointed out that one of the most common complaints from businesses in OECD countries is the number and complexity of government formalities and paperwork. See OECD Public Management Committee, *Regulatory Policies in OECD Countries. From Intervention to Regulatory Governance*, Paris, 2001, p. 34.

vene in individual economic decisions. It is recommended to eliminate obsolete regulations, to improve transparency and to streamline and simplify those regulations that are really necessary.¹⁷

All in all, the description of what can be associated with administrative burdens in detail relies significantly on the field of research the definition is applied to. For this report a definition of administrative burdens has been chosen that makes it possible to focus on two important aspects associated with the recruitment of employees. The first aspect deals with the number and nature of administrative procedures, employers are obliged to go through when they recruit employees. The second aspect is associated with employment regulation employers have to be aware of when they want to recruit employees.

Both the above mentioned aspects are dealt with in another definition of administrative burdens by the OECD including all the time and resources spent by owners, managers, staff or hired experts to understand regulations, collect, plan, process, report, retain data and fill in forms required by governments.¹⁸ On the basis of this definition and its application to the recruitment of employees the definition of administrative burdens is as follows:

1.2.1. Definition of administrative burdens with regard to the recruitment process

Administrative burdens are:

- The number and nature of the obligatory administrative procedures entrepreneurs have to go through in the recruitment process including obligatory contacts with authorities, 'form filling' and delivery of the requested information to the respective authorities;
- The preparatory work and information collection; as entrepreneurs first have to find out which specific regulations are relevant for their individual case, they have to understand these norms and they have to work out which precise actions are demanded from them.

Administrative burdens under this definition may therefore on the one hand stem from the number and nature of administrative procedures in the recruitment process, their complexity and obscurity. On the other hand they may result from the (frequently changing) employment legislation and its complexity and obscurity. Both aspects might pose considerable burdens on enterprises and therefore present a bottleneck for employment creation especially in small firms.

¹⁷ OECD, Reducing the Risk of Policy Failure. Challenges for Regulatory Compliance, Paris, 2000, p. 9.

¹⁸ OECD, Businesses' Views on Red Tape, Administrative and regulatory burdens on small and medium-sized enterprises, Paris, 2001, p. 50.

Chapter 2

Administrative burdens and their importance for SMEs

Section 2 focuses on possible business constraints on SMEs in general and the significance of administrative regulations in particular. The importance of administrative regulations as a business constraint is analysed by country, size-class and economic sector. Evidence is provided to what extent administrative burdens in the recruitment process affect SMEs' recruitment decisions. In addition, the development of administrative burdens since 1997 is presented from the enterprises' point of view. Finally, evidence of SMEs' different perceptions of administrative burdens is presented, depending on their familiarity with the relevant legislation and depending on personal characteristics.

2.1. Major business constraints on SMEs

Administrative regulations are just one factor among others that can have a negative influence on SMEs' business activities in Europe-19. The 2001 ENSR Survey on SMEs reveals the importance of administrative regulations compared to a number of other sources of SMEs' business constraints over the last two years.¹⁹

Figure 2.1 shows that all over Europe-19, 10 % of SMEs (in total approx. 2 million enterprises) indicate administrative regulations²⁰ to be the most important constraint on their business performance. Currently, administrative regulations represent the third most important constraint on European SMEs. Only lack of skilled labour (21 %) and access to finance (15 %) are cited more often. 22 % of enterprises report that there is no specific major business constraint at all.

These results indicate that administrative regulations constitute a considerable bottleneck for business activities from the enterprises' point of view. This is particularly true for larger scaled enterprises. 13 % of SMEs with 10 to 49 employees and 16 % of those employing 50 to 249 employees report administrative regulations to be the most important business constraint. The analysis by economic sector reveals that the entrepreneurs' perception of administrative regulations as a major business constraint does not differ much. Administrative regulations have a slightly higher importance for enterprises operating in the service sector than for those in industry and trade.²¹

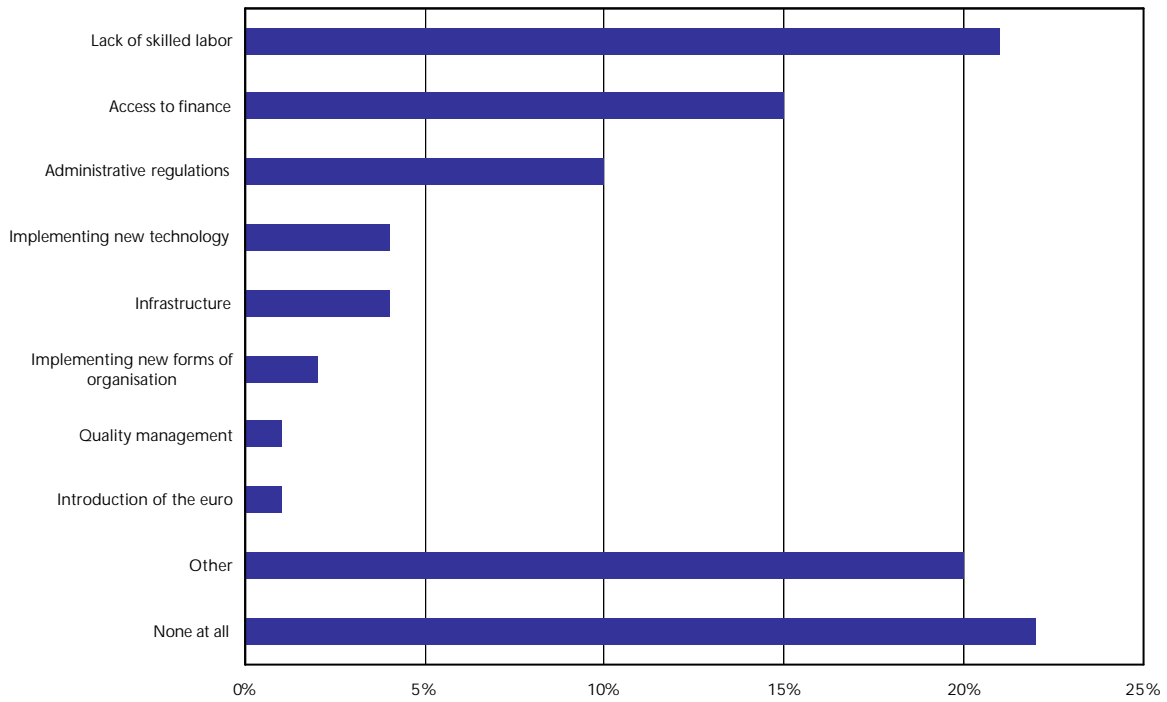
Much greater differences can be found by looking at the individual countries (see Figure 2.2). There, remarkable differences can be found by looking at administrative regulations as a major business constraint. In some countries the need to address the problem of administrative regulations seems to be much higher than in other countries.

19 Administrative regulations in this context do not only cover employment related issues. In the survey this term has been used in a very general context, thus, giving a more general hint with respect to the importance of administrative regulations among other possible business constraints.

20 The respective question in the 2001 ENSR Survey on SMEs did not focus exclusively on administrative burdens in the recruitment process but included also fields such as environment, health and safety etc.

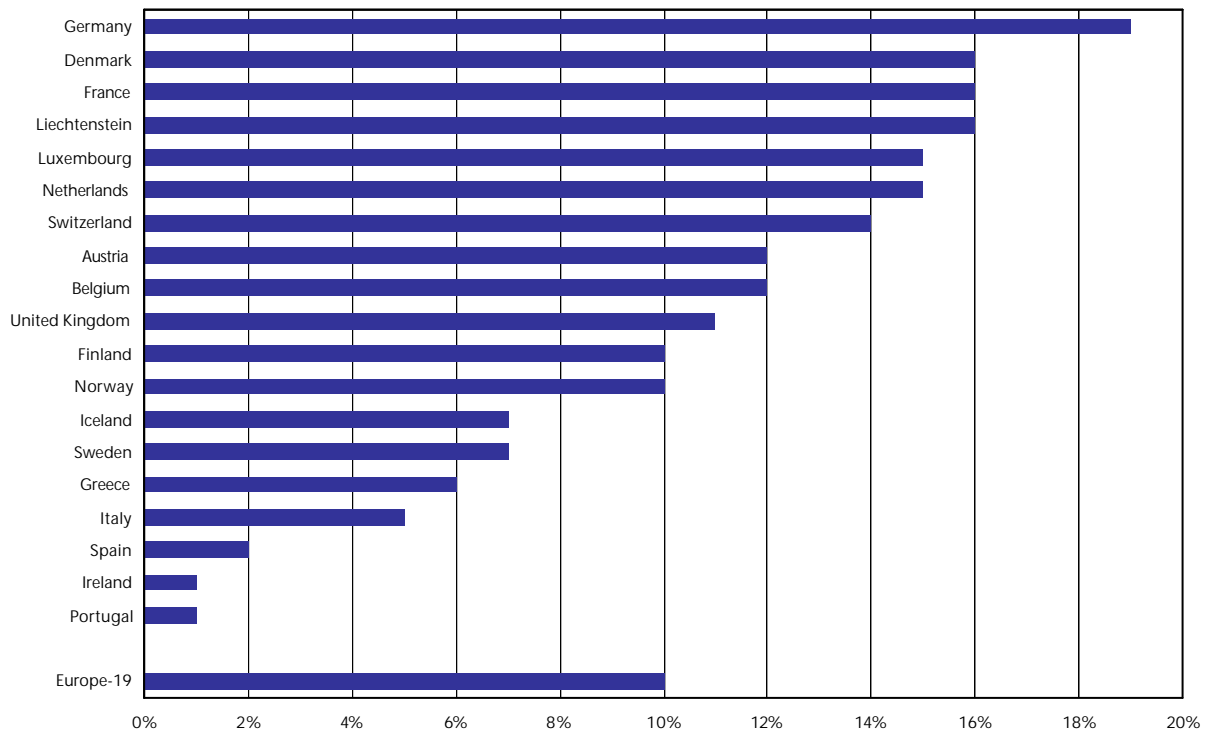
21 Firms working in sectors such as businesses services (13 %), transport/communication (12 %) and personal services (11 %) show slightly higher scores than their counterparts in manufacturing (9 %), construction (9 %) wholesale trade (9 %) and retail trade (8 %).

Figure 2.1: Most important business constraint identified by enterprises, Europe-19, 2001



Source: The 2001 ENSR Survey on SMEs.

Figure 2.2: Administrative regulations as major business constraint, by country, Europe-19, 2001



Source: The 2001 ENSR Survey on SMEs.

To conclude, for every tenth European SME administrative regulations represent the single most important business constraint, while larger SMEs are more affected than smaller ones.

While this section focused on administrative regulations in a very general sense, the following section focuses exclusively on administrative burdens in the field of employment regulations.

2.2. Administrative burdens and SMEs' recruitment decisions

The 2001 ENSR Survey on SMEs presents evidence to what extent administrative burdens in the field of employment regulations influence entrepreneurs' recruitment decisions (see Table 2.1).²²

Table 2.1: Impact of administrative burdens on SMEs' recruitment decisions, by enterprise size, Europe-19, 2001

	Number of employees					Total
	0	1	2-9	10-49	50-249	
Not at all/a little	73 %	74 %	67 %	67 %	68 %	69 %
Considerably/(very) much	27 %	26 %	33 %	33 %	32 %	31 %
Total	100 %	100 %	100 %	100 %	100 %	100 %

Source: The 2001 ENSR Survey on SMEs.

Looking at size specific characteristics, some differences between very small enterprises employing zero or one employee(s) and the remaining group of relatively larger scaled enterprises can be found. In fact, very small enterprises claim less often than their larger counterparts that administrative burdens have a substantial influence on their recruitment decisions.

This result can be explained by exemptions in employment regulations, which relieve smaller businesses from a number of administrative burdens. Therefore, smaller enterprises might feel less burdened because their overall burden is smaller compared to that of larger firms that must comply with a larger number of administrative obligations placing burdens on them.²³

Another possible explanation relates to systematic differences in the motivation for employment growth.²⁴ Thus, enterprise owners without employees may not have the intention to take on employees at all. So, it cannot necessarily be concluded that administrative burdens distract them from recruiting staff. By contrast, enterprises actually employing staff tend to feature a much higher motivation for employment growth.²⁵ Administrative burdens might be of major concern for them.

The analysis by economic sectors shows that enterprises working in the transport and communication sector (39 %), in manufacturing (35 %) and in retail trade (33 %) are more often substantially affected by administrative burdens than firms engaged in other sectors. In particular, firms in the construction sector (27 %) and in business services (28 %) complain less often about administrative burdens that have a negative influence on their recruitment decisions. However, despite these slight differences, administrative burdens seem to be of similar concern for entrepreneurs across all economic sectors.

In the following, the extent of administrative burdens affecting SMEs' recruitment decisions is analysed by country (see Figure 2.3). While on average all across Europe-19, 31 % of firms state that administrative burdens substantially affect their recruitment decisions, some considerable differences can be found when looking at the situation in the individual countries.

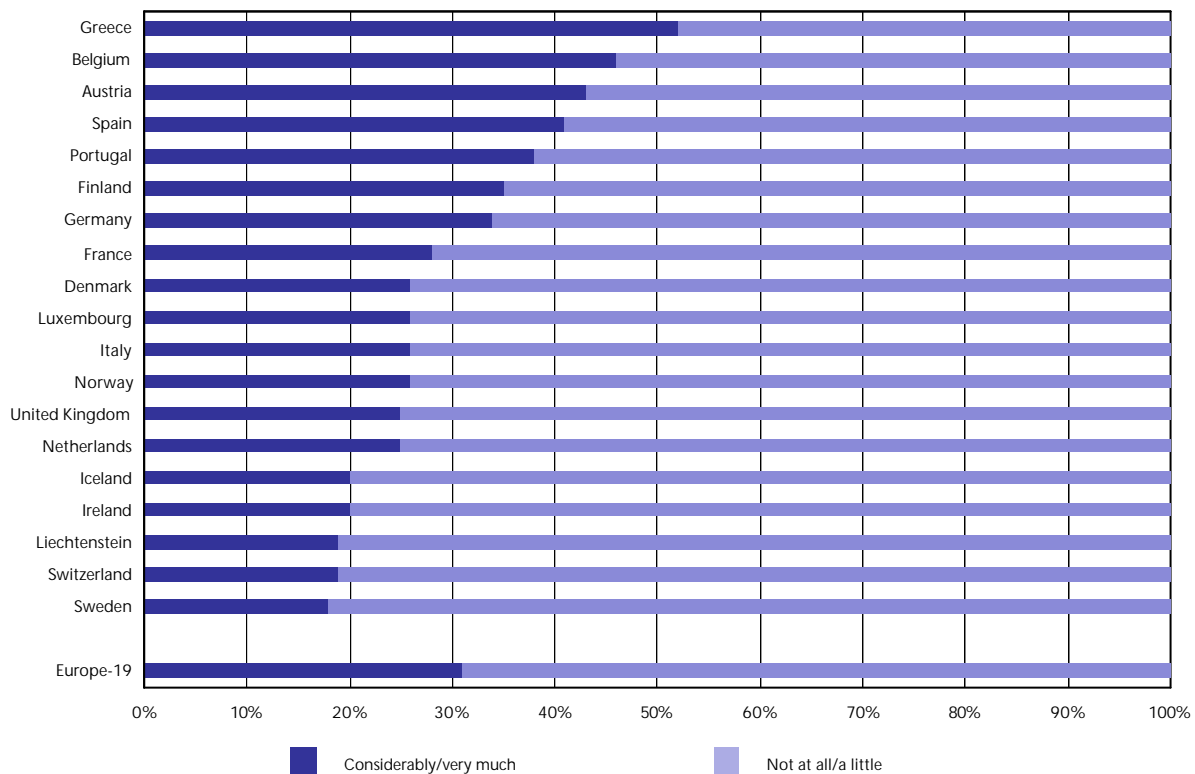
22 The figures presented do not include the category 'don't know/no answer' (approx. 5 % of respondents).

23 Very small enterprises are often engaged in service industries. These micro enterprises are often not subject to the large number of rather complex health and safety regulations.

24 Mäki, K., and T. Pukkinen, Työnantajaksi ryhtymisen kynnykset (Barriers to employment among Finnish self employed.), Studies and Reports, Ministry of Trade and Industry, Helsinki, 2000. - Henrekson, M., En ond cirkel för tjänstesektorn, in: Arbetsmarknad & Arbetsliv 4, p. 137-152, 1998. - Danish Agency for Trade and Industry, (The conditions of the female entrepreneur), 2000.

25 These statements are also confirmed by results from the 2001 ENSR Survey on SMEs. When asked for the one main focus of their business policy, only every fourth (25 %) firm without employees indicated (broadly defined) growth as its main objective. By contrast, 30 % of enterprises with 1-49 employees and even 38 % of firms with 50-249 employees pursue a primarily growth-oriented business policy. The business policy of firms not employing staff is to a higher degree determined by the struggle to survive (25 %) or by the need for consolidation (24 %). - Even when focussing only on those enterprises, which actually name growth as their main policy aim, considerable size-related differences in the motivation for employment growth can be detected. Indeed, for only 13 % of growth-oriented enterprises without employees, growth means employment growth. Instead, growth is predominantly understood as increase in sales (78 %) and strengthening of the enterprise image (40 %). By contrast, for 27 % to 35 % of growth-oriented firms which already employ staff, growth also means employment growth, though they mainly focus on sales increases (79 % - 85 %) and image-strengthening (29 % - 46 %) as well.

Figure 2.3: Impact of administrative burdens in the field of employment regulations on SMEs' recruitment decisions, by country, Europe-19, 2001



Source: The 2001 ENSR Survey on SMEs.

Indeed, enterprise owners in Greece (52%), Belgium (46%), Austria (43%), Spain (41%), Portugal (38%), Finland (35%) and Germany (34%) indicate more often a substantial impact of administrative burdens on their recruitment decisions than their counterparts in the other countries of Europe-19. Thus, in these countries, from the enterprises' point of view there is a particular need to relieve SMEs from administrative burdens in the field of employment regulations. By contrast, entrepreneurs in Sweden (18%), Liechtenstein (19%), Switzerland (19%), Iceland (20%) and Ireland (20%) are less affected by administrative burdens when recruiting employees.

The largest differences with respect to the significance of the problem can be found when looking at the situation in the individual countries. Indeed, while in Sweden only 18% of entrepreneurs say that their recruitment decisions are substantially influenced by administrative burdens, in Greece more than half of all SMEs (52%) complain about administrative burdens related to the recruitment of employees.

These results suggest that administrative burdens are not primarily a problem of specific enterprise sizes or economic sectors. Instead, it seems that it is more the specific legal and procedural environment in the individual country that determines to what extent SMEs encounter administrative burdens in the recruitment process. Hence, the necessity to relieve SMEs from administrative burdens differs strongly between the countries.

2.3. The development of administrative burdens since 1997

At the Luxembourg Jobs Summit in 1997, an ambitious European employment strategy was endorsed in order to provide a more favourable framework for employment growth by reducing administrative burdens, and in particular those related to the recruitment of additional employees. Therefore, it is interesting to analyse whether European entrepreneurs do indeed sense a reduction of administrative burdens since 1997.

The 2001 ENSR Survey on SMEs focuses on administrative burdens resulting from employment regulations. The results show that almost two thirds (64%) of enterprises in Europe-19 indicate that from their point of view administrative burdens resulting from employment regulation have actually increased since 1997 (see Table 2.2).

These results clearly indicate that the overall majority of business owners perceive growing administrative burdens in the field of employment regulations since 1997. Thus, a large number of European enterprises do not only face substantial burdens when recruiting employees (see Section 2.2) but the burden is perceived to be still growing despite policymakers' intention to reduce the burden.

Table 2.2: Enterprise owners' perception of the development of administrative burdens resulting from employment regulations since 1997, by enterprise size, Europe-19, 2001

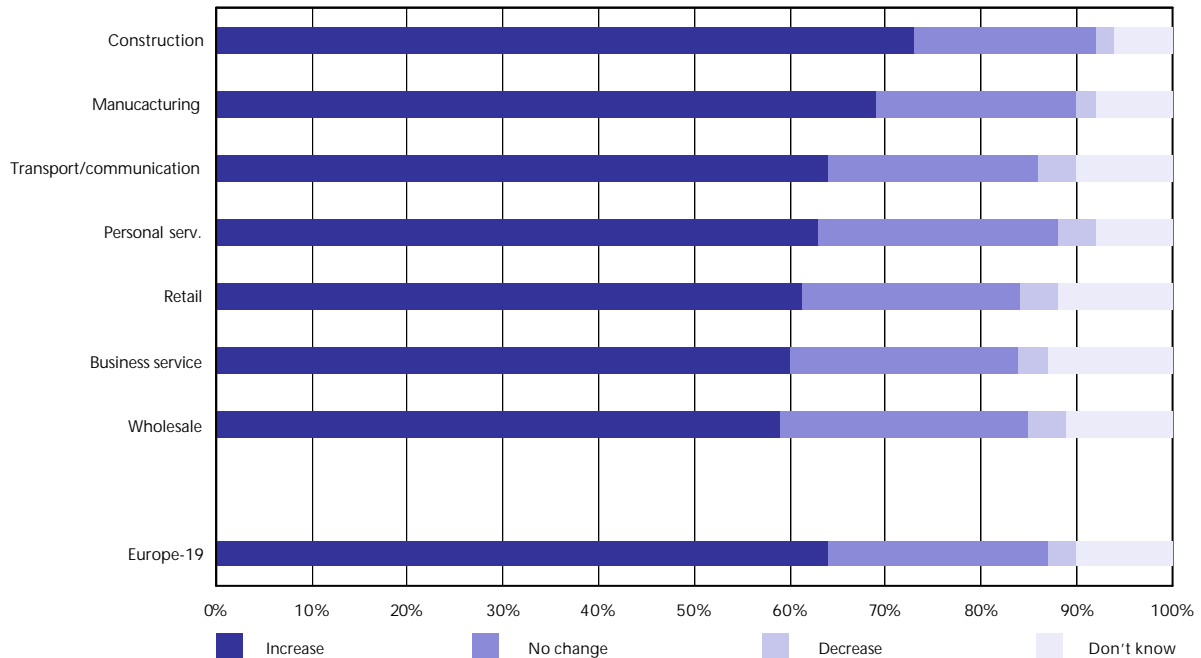
	Number of employees					Total
	0	1	2-9	10-49	50-249	
Increase	42 %	51 %	69 %	75 %	80 %	64 %
Decrease	4 %	2 %	3 %	2 %	1 %	3 %
No change	27 %	31 %	21 %	18 %	15 %	23 %
Don't know/no answer	27 %	16 %	7 %	5 %	3 %	10 %
Total	100 %	100 %	100 %	100 %	100 %	100 %

Source: The 2001 ENSR Survey on SMEs.

An analysis by enterprise size reveals that larger enterprises sense considerably more often than smaller firms an increase of administrative burdens since 1997. The share of companies indicating an increase of administrative burdens rises steadily with enterprise size.

By contrast, a large number of firms without employees or with just one employee indicate that there has been no change in the amount of administrative burdens on them or that they cannot clearly define the changes in administrative burdens.²⁶ These results can be partly explained by the fact that a large number of the smallest enterprises are very young firms. Therefore, they may have difficulties to assess the development of administrative burdens over time.

Figure 2.4: Development of administrative burdens since 1997 from the enterprise owners' point of view, by economic sector, Europe-19, 2001



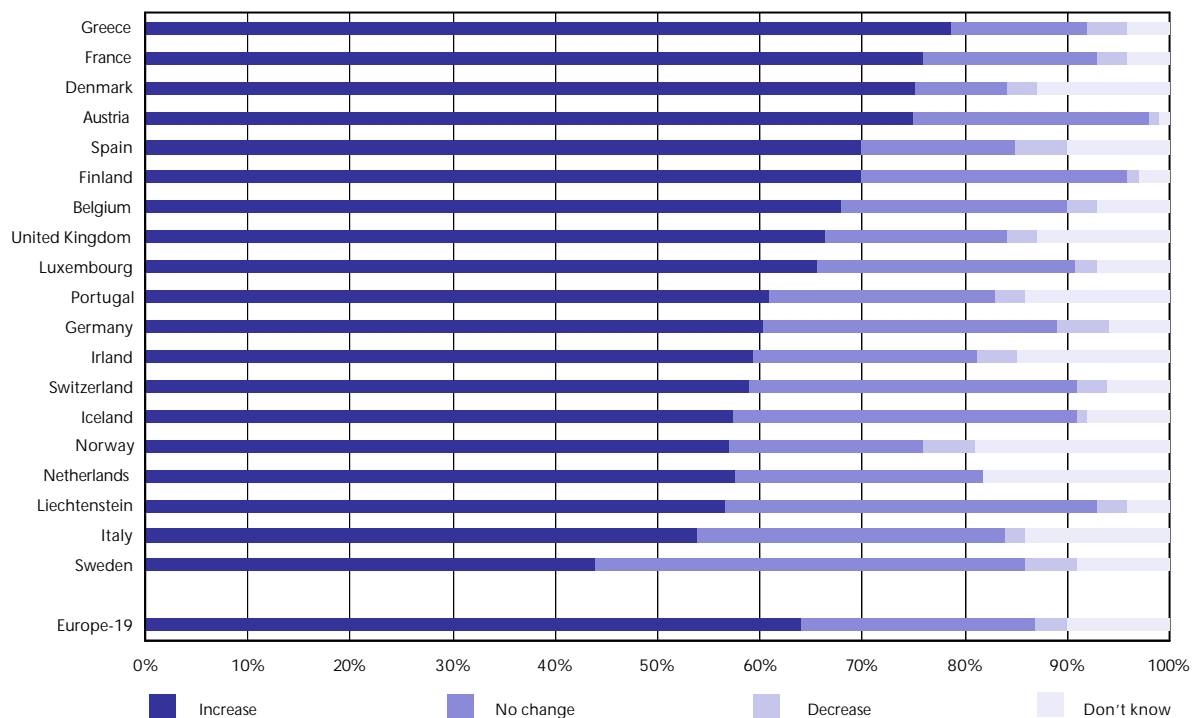
Source: The 2001 ENSR Survey on SMEs.

²⁶ Hence, 27 % of enterprise without employees and 16 % of enterprise with one employee are not able to comment on the recent development of administrative burdens. By stark contrast, only 3 % to 7 % of firms with two and more employees face similar difficulties in clearly formulating their impression.

With respect to economic sectors, enterprises in construction (73 %) and manufacturing (69 %) most often state an increase of administrative burdens since 1997 (see Figure 2.4). By contrast, enterprises engaged in trade and in the service sector less often sense a growing burden (59 % - 64 %). Across the different economic sectors, only a very small share of SMEs (2 % to 4 %) say that administrative burdens have decreased since 1997.

The analysis of the development of administrative burdens since 1997 by country shows that enterprises in Greece (78 %), Denmark (76 %), France (76 %), Austria (75 %), Finland (70 %), Spain (70 %), Belgium (68 %), the United Kingdom (67 %) and Luxembourg (65 %) indicate more often that administrative burdens have increased since 1997 than firms in other countries of Europe-19 (see Figure 2.5).²⁷ By contrast, in particular business owners from Sweden (44 %), Italy (54 %), Liechtenstein (56 %), The Netherlands (57 %), Norway (57 %), and Iceland (58 %) claim less often an increase of administrative burdens caused by employment regulations.

Figure 2.5: Development of administrative burdens since 1997 from the enterprise owners' point of view, by country, Europe-19, 2001



Source: The 2001 ENSR Survey on SMEs.

A relatively large share of enterprises indicate that there has been no change of administrative burdens since 1997. There is no substantial number of firms in any country that indicate that administrative burdens have decreased.

In spite of the increased attention paid by policy makers to administrative burdens, enterprise owners still do not perceive a relief in this respect. Instead, the analysis by size-class, country and sector shows that the majority of enterprise owners experienced an increase of administrative burdens related to employment regulation since 1997. Therefore, in Section 3 possible sources of administrative burdens in the field of employment regulation are investigated. In order to be able to identify possible sources of administrative burdens related to recruitment correctly, a two fold approach has been chosen in order to separate technical aspects, e.g. administrative procedures that have to be gone through in the recruitment process itself and employment regulation as another potential source of administrative burdens.

²⁷ Interestingly, out of the seven countries (Greece, Belgium, Austria, Spain, Portugal, Finland and Germany) where an above average share of SMEs are substantially affected by administrative burdens when recruiting employees (see Section 2.2.), only two (Germany and Portugal) feature a below-average share of SMEs perceiving an increase of administrative burdens since 1997. Thus, SMEs in the remaining five countries are not only substantially affected by administrative burdens more often but they also sense a growing burden more frequently than enterprises in the other countries of Europe-19.

First, the number and nature of the obligatory administrative procedures that an entrepreneur has to go through in the recruitment process in terms of obligatory contacts with authorities, 'form filling' and delivery of the requested information to the respective authorities are investigated and the way they are organised (see Section 3.1 and 3.2).

Second, the different fields of employment regulations that an entrepreneur has to take care of when recruiting employees are investigated (see Section 3.3). Administrative burdens in this context can result from the complexity and obscurity of various norms or from employment regulation in its entirety. They can make an entrepreneur's preparatory work and information collection for recruitment difficult because he has to find out which specific regulations are relevant for his individual case, he has to understand these norms and he has to work out which precise actions are demanded from him.

This two fold approach in Section 3 can reveal whether administrative burdens mainly result from technical aspects related to the administrative procedures such as obligatory contacts with authorities, completing forms and delivering them to the respective authorities or from the complexity and obscurity of employment regulation or even from both aspects.

2.4. SMEs' different perception of administrative burdens

In this section reasons for different perceptions of administrative burdens between enterprise owners are elaborated.

2.4.1. The impact of familiarity with the relevant legislation

In Europe-19, the majority of new enterprises start their business activities without employees. Some of them may not have any motivation to grow at all. However, enterprises that do intend to grow may be hampered by administrative burdens that result from obscure and complex employment regulations. A British study recognises that enterprise owners' perceptions of regulatory burdens may be greater than the burden really is.²⁸

In a Finnish study, the views of enterprise owners not employing staff were compared to those of small-scale employers.²⁹ The study suggests that from the perspective of the self employed, the recruitment of staff seems to be more difficult than it actually is, partly because the self employed have a lack of knowledge in this respect. The self employed considered almost all barriers more significant than employers.³⁰ Among the most significant barriers to growth and employment are the bureaucracy related duties on employees' wages and difficulties in cases of dismissal. 40 % of the self employed that criticised the bureaucracy of wage administration as a significant barrier for employment was not able to say which of the duties were most difficult and why.

The different perception towards administrative burdens was mainly explained by the fact that the self employed tend to exaggerate certain barriers because they are not familiar with recruitment related issues. By contrast, employers who have already gained familiarity with the relevant regulations and procedures seem to have a more realistic opinion of the extent of administrative burdens. As self employed tend to overestimate the extent of administrative burdens in their individual case they are discouraged from recruiting staff.

So, the main point for employment creation is not whether the administrative burdens are correctly assessed or not, but rather, what the entrepreneurs' perception of administrative burdens is because it is his perception that influences his decision to recruit employees.

A French study confirms this result. It shows that many enterprise starters do not recruit the first employee because of the administrative complexity and the pay management.³¹

One of the major impediments encountered by Dutch entrepreneurs when recruiting employees is the enterprise owners' lack of familiarity with the relevant legislation.³² A poll among SMEs revealed that entrepreneurs feel dis-

28 Better Regulation Task Force, *Helping Small Firms Cope with Regulation - Exemptions and other Approaches*, London, 2000.

29 Mäki, K., and T. Pukkinen, *Työnantajaksi ryhtymisen kynnykset (Barriers to employment among Finnish self employed.)*, Studies and Reports, Ministry of Trade and Industry, Helsinki, 2000. - This study examines barriers to growth and employment for self employed, as well as ways of lowering the barriers. The authors utilised a model, which considers an enterprises' and entrepreneurs' ability and need for growth, as well as possibilities for growth in the business environment. The results of the study are based on a synthesis of expert and entrepreneur interviews (together 45 persons), a survey of entrepreneurs (total 591 entrepreneurs) as well as case-studies concerning demand for increase in an enterprise's turnover when employing in different fields (six cases).

30 Nevertheless, it might also be the case that those enterprise owners for whom burdens are (considered to be) relatively important will not recruit staff, thus, reversing the causality effect.

31 Bockel, J.-M., *Rapport sur la simplification de la creation d'entreprise, de la vie des créateurs, et de la gestion de leurs entreprises (Report on the simplification of business creation, of the creators' life, and of their companies management)*, Report to the Prime Minister, Lionel Jospin, 2001.

couraged to recruit staff because of too many applicable regulations. Again, enterprises without staff regard these reasons as much more burdensome than firms that employ staff.

Swedish first-time employers face considerable difficulties when recruiting employees because they are suddenly confronted with a large number of employment regulations which they had not to deal with before.³³ The most important barrier is the recruitment of the first employee. After having had the opportunity to become familiar with the applicable legislation and to learn from the first recruitment, any additional recruitment causes significantly less administrative burdens on Swedish employers.

Similar results were generated by a Danish study focussing on female entrepreneurs and their primary reasons for not employing staff.³⁴ The recruitment of employees is mainly avoided because of the entrepreneurs' scepticism with regard to the administrative hassle they presume they will get involved in. After having recruited the first employee, female employers say that administrative burdens are reduced to a great degree as far as additional recruitments are concerned.

To conclude, the obscurity and complexity of employment legislation already represents a considerable barrier for experienced employers. But administrative burdens are perceived to be especially high by potential, first-time employers. Simplifying regulations and providing specific information to first-time employers seem to be appropriate measures in order to reduce barriers and to facilitate the initial recruitment of staff.

2.4.2. Personal characteristics

The perception of administrative burdens does not only depend on whether an enterprise owner is experienced with the employment regulation or not. The entrepreneur's perception may also be influenced by his own personal characteristics. In a Dutch study it is concluded that primarily the age and the educational background of the entrepreneur himself are important factors if he encounters difficulties when recruiting staff.³⁵

Two German studies³⁶ emphasise the high importance of business owners' active participation and co-operation. So, complications and delays in administrative procedures may not have their origin in ineffective public administration alone. There is evidence that problems often have their origin in poorly informed business owners submitting incomplete documents. In general, the more business owners make use of available information sources, the less administrative burdens arise.

A British study has revealed a high level of ignorance among business owners regarding the details of the employment legislation. There was, however, a noticeable tendency among entrepreneurs to make use of professional consultants to review and revise employment contracts and other policy and practice documents.³⁷ Another study from the United Kingdom investigated the extent to which smaller firms are burdened by new employment legislation either at the hands of government or their own lack of application, i.e. own inactivity, ignorance or deliberate avoidance.³⁸ Concentrating on dismissal cases being brought to Employment Tribunal, it was noted that the majority of unfair dismissal cases came from smaller firms employing between one and 49 employees. A lack of professional human resources management staff was mentioned to be the most important reason, so labour management issues were handled incorrectly by the entrepreneurs.

32 Niehof, J., and E. van Straten, Belemmeringen voor het in dienst nemen van personeel in het MKB (Impediments to staff recruitment in SMEs), EIM, Zoetermeer, 1998. Other significant factors include: wage costs, employee protection from dismissal (fear of long and costly dismissal procedures), privatisation of the Sickness Benefit Act (Zw) (financial risks of illness or incapacity to work), limited management capacities of entrepreneurs, socio-normative criteria as regards recruitment and selection.

33 Edin, P.-A., and B. Holmlund, Effekter av anställningsskydd, Bilaga till 1992 års arbetsrättskommittés betänkande, SOU1993:32, Stockholm, 1993.

34 Danish Agency for Trade and Industry, (The conditions of the female entrepreneur), 2000. (in Danish).

35 Niehof, J., and E. van Straten, Belemmeringen voor het in dienst nemen van personeel in het MKB (Impediments to staff recruitment in SMEs), EIM, Zoetermeer, 1998.

36 Schröder, E., and M. Holz, Verwaltungsbedingter Zeitaufwand für die Umsetzung von Gründungsvorhaben (Administrative time requirement for the realisation of start ups), published by IfM Bonn in: IfM-Materialien No. 144, Bonn, 2000. - Friedrich, W., H. Krantz and M. Schorn, Abbau bürokratischer Hemmnisse bei Existenzgründungen und -übernahmen (Reduction of administrative burdens on enterprise start ups and take-overs), in: Studien der WSF Wirtschafts- und Sozialforschung, Heft 24, Kerpen, 2000.

37 Marlow, S., and A. Strange, Small Firm Labour - A Valued Asset but Neglected Resource?, Research Report to the Leicestershire Centre for Enterprise, 2000. (Academic study of employment regulation based on interviews with 44 manufacturing firm owners and 72 employees.)

38 Winters, J., and C. Nolan, Does new employment legislation cause small firms to fail?, paper to the British Universities Industrial Relations Conference, University of Warwick, 2000. (Conference paper based on interviews with employment tribunal members, and case studies of 6 smaller firms in the service sector.)

Chapter 3

The nature of administrative burdens

In this section the origin and nature of administrative burdens is investigated in detail. In Section 3.1 the number and nature of administrative procedures as a possible source of administrative burdens are analysed. In Section 3.2 the complexity and obscurity of employment regulations as another possible source for administrative burdens are investigated because they have an influence on the degree of the necessary preparatory work an entrepreneur has to do for the recruitment of employees.

3.1. Administrative procedures in the recruitment process

Administrative burdens placed on small and medium-sized enterprises may arise from the number and nature of administrative procedures which have to be gone through when recruiting employees. Thus, they refer to the first part of the definition of administrative burdens.

The term administrative procedure includes all obligatory contacts an employer has to make with the respective authorities in the recruitment process.³⁹ Only those administrative procedures that are obligatory for all kinds of employers and that are directly related to the recruitment process itself are recorded. In order to have a more objective indicator for the actual administrative burden resulting from the obligatory procedures, the analysis focuses on the total number of administrative procedures an entrepreneur has to go through in the recruitment process. The calculation of an aggregated time requirement for the complete recruitment process would only be possible if personal characteristics of the entrepreneurs such as their educational and professional background as well as their familiarity with the relevant legislation would be included. As these personal characteristics vary between entrepreneurs they are excluded.

Evidence provided by the ENSR-Partner Institutions shows that in all countries of Europe-19, each administrative procedure requires only a very limited amount of time. Once the obligatory information has been collected and generated, it usually takes between five minutes and an hour to complete all obligatory forms.⁴⁰

Administrative procedures in the recruitment process generally entail only one-off registrations or notifications to the relevant authorities. They can be fulfilled in one working step only. After having made the required notification, the procedure does not entail any additional work for the employer. Importantly, the recruitment process is not delayed by any kind of lengthy permissions. So, firms do not have to wait for any permission before they can continue to go through the recruitment process.⁴¹

Figure 3.1 illustrates the total number of obligatory administrative procedures by country. Two distinctions have been made. First, in some countries some of the administrative procedures have to be terminated before the start

39 In case one particular institution has to be addressed twice for different procedures, this incident is considered to comprise two administrative steps.

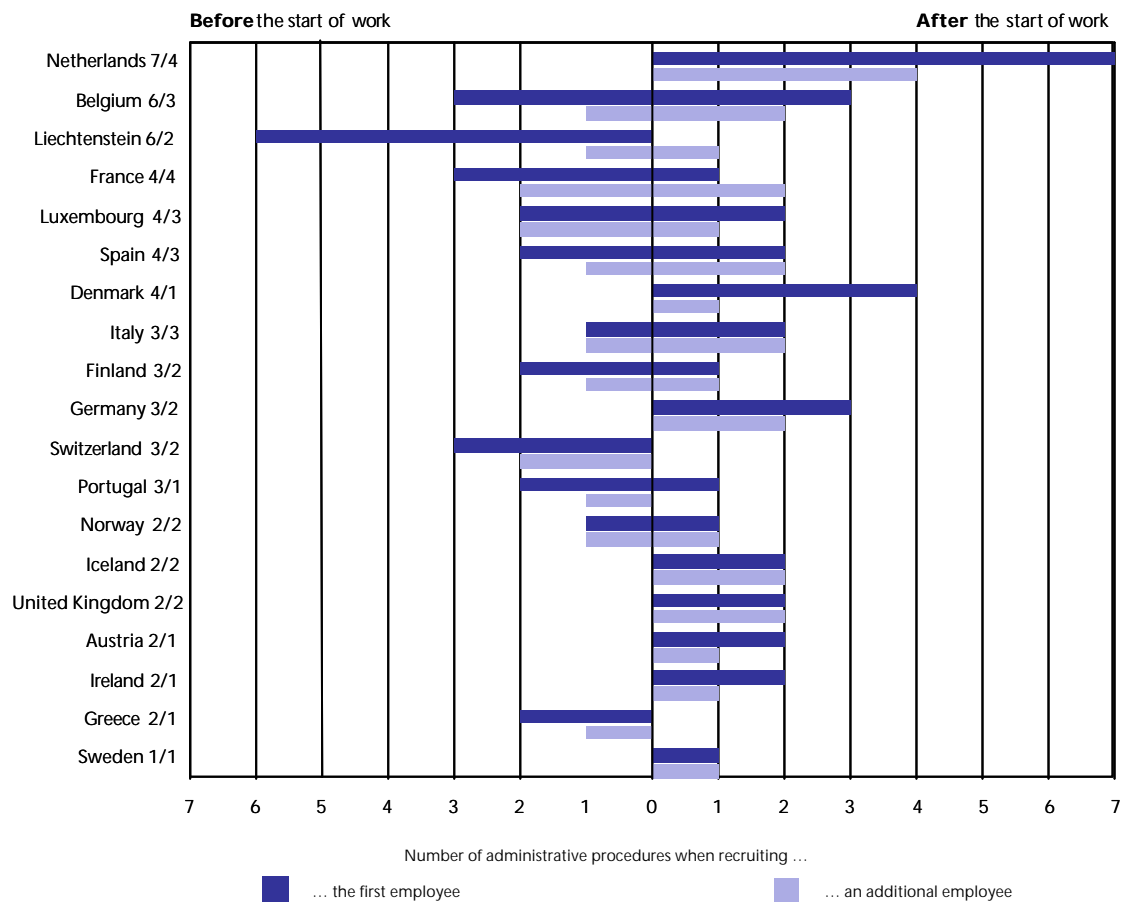
40 The indicated time requirements do *not* include the time spent on preparatory work such as selecting and familiarising oneself with the relevant laws and regulations but only the technical steps that have to be undertaken in terms of administrative procedures referring to the first part of the definition of administrative burdens. Preparatory work constitutes a substantial burden especially for first-time employers who are not yet familiar with the relevant legal regulations. This kind of administrative burden is dealt with in Sections 3.2. and 3.3 which present empirical evidence from the 2001 ENSR Survey on SMEs as well as from European studies on enterprise owners' perception of administrative burdens resulting from complexity and intransparency of employment regulation making preparatory work more difficult.

41 Thus, administrative procedures in the recruitment process are substantially different from some of the procedures, which have to be undergone when starting-up a new (incorporated) business and which might delay the progress of the entire start-up project. See, for example, Schröder, E., and M. Holz, *Verwaltungsbedingter Zeitaufwand für die Umsetzung von Gründungsvorhaben (Administrative time requirement for the realisation of start ups)*, published by IfM Bonn Inc.: IfM-Materialien No. 144, Bonn, 2000.

of work of the newly recruited employee,⁴² while other steps have to be gone through after the employee has started to work.

Second, a distinction has been made between procedures related to the recruitment of the first employee and procedures related to the recruitment of a subsequent employee. As there are registrations that have to be done only once, i.e. when recruiting the first employee, the number of obligatory steps can differ between these two cases.

Figure 3.1: Number of administrative procedures when recruiting the first and an additional employee, are recorded



Source: Analysed by IfM Bonn on the basis of ENSR-partner contributions.

In ten out of the investigated 19 countries, employers have to go through administrative procedures either before or after the start of work of the newly recruited employee. In the other nine countries (Belgium, Finland, France, Italy, Luxembourg, partly Portugal, Spain, Norway and partly Liechtenstein) the recruitment process covers both time periods. As far as the recruitment of the first employee is concerned, administrative procedures tend to last slightly longer in these countries than in the other countries.

In Europe-19, on average, 3.3 administrative procedures have to be gone through when recruiting the first employee. In sixteen out of the nineteen countries, employers have to deal with two to four administrative procedures. An exemption is Sweden, where enterprise owners only have to report themselves as employers to the National Tax Board by filling in one form (one procedure with approx. 10 minutes time requirement).

42 By definition, those administrative steps which have to terminate on the actual starting day of work are considered as belonging to the phase 'before the start of work'.

By contrast, Belgium, Liechtenstein and the Netherlands have the largest number of administrative procedures in the recruitment process. In Belgium⁴³ and Liechtenstein⁴⁴ employers are requested to pass through six procedures, while Dutch⁴⁵ enterprise owners are confronted with seven administrative steps.⁴⁶

There are some specific steps that can only be found in some countries. Enterprise owners in Luxembourg, for example, are obliged to publish job offers at the employment office. In the Netherlands, first-time employers have to enter into a contract with a certified Working Conditions Service ('Arbodienst').⁴⁷ Meanwhile, Spanish employers are legally required to register employment contracts in written form - complying with official formal provisions - with the local Employment Office (INEM).

Case Study: Licensed Employers' Social-Accounting Secretariats in Belgium

In Belgium, administrative procedures are rather complex. Apart from the six steps obligatory for all first-time employers, there is a considerable number of additional procedures that apply only to certain groups of employers, e.g. those employing manual workers or those operating in specific economic sectors.⁴⁸ In order to cope more easily with employment-related administrative obligations, most Belgian SMEs have joined a licensed Employers' Social-Accounting Secretariat. These private non-profit organisations execute the complete wage and personnel management for their member enterprises (e.g. administrative procedures in the recruitment process, calculation of wages and social security contributions, withholding taxes on wages, undertaking the respective (monthly, quarterly or yearly) declarations etc.).

The use of specialised services provided by these Social-Accounting Secretariats is so widespread in Belgium that very few SMEs do this job themselves. So, Belgian employers are significantly relieved from performing these complex administrative tasks themselves, however, they have to bear the costs of outsourcing them.⁴⁹

Source: Small Business Research Institute K.U. Brussels.

In general, costs associated with the outsourcing of administrative tasks might be partly avoided, if the administrative obligations were designed in such a way that they were more easy to comply with by the enterprises' themselves. Thus, reducing the legislative pressure and simplifying the administrative obligations appear to be reasonable measures in order to allow a larger number of enterprises to perform administrative tasks in-house without having to resort to external help.

In order to recruit a subsequent employee an entrepreneur on average has to go through 2.1 administrative procedures in the countries of Europe-19 (see Figure 3.1). Entrepreneurs in Austria, Denmark, Greece, Ireland, Portugal and Sweden face only one procedure, while enterprise owners in France and the Netherlands have to deal with four obligatory steps.

On average, employers have to deal with 1.2 steps less when they recruit a subsequent employee compared to the recruitment of the first employee. In 14 countries, enterprises face either the same number of steps for the recruitment of the first and a subsequent employee or they save at most one procedure when they recruit a subsequent employee. In general, these countries already foresee a below-average number of obligatory procedures

43 (1) Preparing an internal work rules declaration, handing it over to the employee and sending it to the District Labour Inspection Service, (2) Registering as employer with the National Office for Social Security, (3) Registering the employee in the company personnel register and for some employers with the National Office for Social Security, (4) Affiliating with a Child Allowance Fund, (5) Affiliating with a Prevention and Safety Service, (6) Taking out a work accident insurance contract with a licensed Work Accident Insurance Company.

44 (1) Registering the first employee for old age and surviving dependents' insurance/disability insurance/family allowances (AHV/IV/FAK), (2) Registering for unemployment insurance, (3) Taking out accident insurance, (4) Registering for an occupational benefit scheme, (5) Taking out a daily allowance insurance and (6) Registering with the tax authorities.

45 (1) Reporting as employer at the Social Security Enforcement Agency (Uvi), (2) Registering the new employee with the Social Security Enforcement Agency, (3) Reporting as employer to the Tax Authority, (4) Registering the employee and determination of tax tariff bracket at the Tax Authority, (5) Submitting completed Personal Income Tax (P.A.Y.E.) Card to the Tax Authority, (6) Registering the employee with the Insurance Company for National Health Service and (7) The new employer entering into a contract with a certified Working Conditions Service.

46 Since the current task division causes too much red tape, the Netherlands' Cabinet already plans to re-assess the tasks assumed by employers and the institutions involved in the recruitment process - in particular the Social Security Enforcement Agencies (Uvi's) and the Working Conditions Services.

47 Thereby, mandatory services that have to be contracted include the following: - central registry of absenteeism, - coaching of ill employees, - drafting of reintegration blueprints if an employee is ill for a longer period, - medical check-up of employees by an industrial medical officer, - risk assessment by the Working Conditions Service, comprising a general evaluating check on working conditions, while systematically assessing risk factors as regards safety, health and welfare of employees.

48 Since this report focuses on administrative procedures, which are obligatory for all kinds of employers, these sector-specific obligations are not presented in detail. They are referred to in order to elucidate that the already rather large number of regular steps is still considerably enlarged for enterprises operating in specific economic sectors.

49 Other research showed that the Belgian system of Employers' Social-Accounting Secretariats entails relatively low costs for the first employee. For subsequent employees, however, the costs are relatively high, as a similar fee has to be paid for each additional employee. In other countries, by contrast, the marginal costs for employment related administrative tasks decrease substantially when more workers are recruited. This holds under the precondition that these enterprises have established an in-house system to cope with the administrative obligations. Understandably, the initial costs for establishing such a system (e.g. familiarising oneself with the legal framework and installing an adequately equipped administrative unit) are relatively high if assigned only to one employee (see H.E. Hulshoff, A.F.M. Nijssen and H.C. Visee, International comparison of administrative charges on hiring personnel; an international comparison in 8 countries, OSA The Hague, 1997).

for the recruitment of the first employee. By contrast, countries with a rather large number of obligatory procedures for the recruitment of the first employee, significantly relieve employers when they recruit a subsequent employee. Indeed, Belgian, Danish and Dutch firms save three steps in the recruitment of a subsequent employee. Their counterparts in Liechtenstein have to deal with four procedures less.

In all countries, the differences between the number of obligatory administrative procedures for the recruitment of the first and a subsequent employee can be explained by two factors. The first and most important one is the obligation of enterprise owners to register as first-time employers with the social security offices, tax authorities and/or employment offices. These registrations occur only once upon recruiting the first employee. The second major factor results from the obligation to acquire different kinds of insurance protection upon recruiting the first employee. In some countries, subsequently recruited employees do not have to be reported immediately to these agencies but only by way of periodic (e.g. yearly) declarations.

3.1.1. Institutions to be contacted in the recruitment process

This section illustrates which institutions have to be contacted in the recruitment process. Although there are some differences in the countries, some general points can be made. Table 3.1 provides an overview of the kind of institutions employers have to address when recruiting the first employee.

Table 3.1: Obligatory institutions to contact when recruiting the first employee

Country	Social Insurance Office	Tax Authority	Employment Office	Accident Insurance	Pension Scheme	Other
Austria	X					
Belgium	X			X		X X X
Denmark		X		X		X
Finland		X		X	X	
France	X		X		X	X
Germany	X		X	X		
Greece	X		X			
Ireland		X				
Italy	X		X	X		
Luxembourg	X		X			X
Netherlands	X	X				X X
Portugal	X			X		
Spain	X		X			X
Sweden		X				
United Kingdom		X				X
Iceland		X		X		
Liechtenstein	X	X		X	X	X X
Norway	X			X		
Switzerland	X			X	X	

Source: Analysed by IfM Bonn on the basis of ENSR-partner contributions.

In all countries of Europe-19, the social insurance offices and/or the tax authorities represent the key institutions in the recruitment process. At least one of these two institutions has to be contacted by every first-time employer in the countries of Europe-19. Furthermore, they often perform an important co-ordinating function within the recruitment process.

In many countries the employment office and/or institutions dealing with accident insurance or pension schemes have also to be contacted by many first-time employers.

In a large number of countries social security institutions or tax authorities act de facto as one-stop-shops as far as social security matters are concerned. A good example is France's URSSAFF - Union de Recouvrement de Sécurité Sociale et d'Allocations Familiales - an institution which is in charge of collecting the social security and family allowances contributions among other tasks.

Case Study: URSSAFF - a French Social Security Institution

Since June 1998, French employers have to complete just one single document (Déclaration Unique d'Embauche, (DUE), Single Recruitment Declaration) with a time requirement of approximately ten minutes. This Single Recruitment Declaration has to be sent to the URSSAF institution within the week before the newly recruited employee starts to work.

The URSSAF collects all obligatory information and then submits the relevant documents to the other institutions that are involved. Thereby, up to nine formalities can be carried out in one single step, thus, significantly reducing administrative burdens on employers.⁵⁰ In addition, the registration process is simplified by the use of e-government. The form for the Single Recruiting Declaration can be downloaded (<http://www.due.fr>) and returned via the Internet or alternatively sent via MINITEL, by fax or by registered letter.

Source: Association pour la Promotion et le Développement Industriel (APRODI).

Similar approaches have been established in other countries as well. Austrian entrepreneurs have to contact just one official institution - the social insurance office, which automatically transfers all relevant information to other concerned public authorities.⁵¹ In Germany, meanwhile the health insurance fund offices have been established as one-stop-shops for all notifications to social security institutions.⁵²

In Luxembourg, information exchange about social security formalities is carried out by the 'Centre d'affiliation et de perception commun aux institutions de sécurité sociale', a one-stop-shop for all social security issues. This agency automatically transfers the necessary information to the relevant institutions in charge of medical care, legal pension scheme, accident insurance etc.

Norwegian employers solely have to register with the Social Security Office of the municipality, which exchanges information with the Tax Collectors Office as well as with the Medical Insurance Register. In Sweden enterprise owners only have to report themselves as employers to the National Tax Board. Then the tax authorities submit the necessary information to other institutions involved in the recruitment process, e.g. Pension Fund, Survivors Fund, Health Insurance, Industrial Insurance and Parents Insurance. Finally, in the United Kingdom employers are requested to complete one form, which satisfies the needs of the Inland Revenue Office as well as of the Department of Social Security.

Whereas the above approaches foresee that entrepreneurs have to contact just one official institution - the social insurance office - which automatically transfers all relevant information to other concerned public authorities, other countries have established centralised social security institutions which deal with a number of different social security issues within one single authority, thus, avoiding information exchange with other external bodies altogether.

Such a model has been established in Liechtenstein where Old Age and Survivors' Insurance, Disability Insurance and the Family Allowance Scheme have been merged into one single institution. In the Netherlands, employers are required to register and levy contributions for Sickness Benefit Insurance, Disablement Insurance, Unemployment Insurance and Medical Insurance to one single authority, i.e. to the relevant Social Security Enforcement Agency (UVI).

In Portugal, in 2001 a network of Social Security and Solidarity Shops was established. In these offices all the procedures related to social security obligations can be carried out centrally, including the relevant obligations for the recruitment of employees. At present, there are several Social Security and Solidarity Shops in the Alentejo and Algarve regions, but a full national coverage is intended.

50 However, the Single Recruitment Declaration does not encompass all obligatory procedures. For recruiting a first employee, the employer himself must also inform the Work Inspection and register with a complementary pension fund. Furthermore, the initial job offer has to be published at the employment office.

51 Other relevant institutions include the Public Employment Service ('Arbeitsmarktservice') and - depending on the kind of employment - the Retirement Pension Insurance as well as the Health and Accident Insurance Fund.

52 The health insurance office informs the institutions in charge of old age pension, unemployment and nursing care insurance without the employer being involved in the process. Notifications from employers to the health insurance fund offices have also been simplified to a great extent by introducing standardised forms, which can be used for all different health insurance funds and for all different types of notifications.

Case Study: Ausgleichskasse - The Swiss centralised Social Security Institution

In Switzerland, the Old-Age and Survivors' Insurance, the Disability Insurance, the Income Substitution System, the Unemployment Insurance and the Family Allowance Scheme have all been centralised within one single authority, the so-called compensation office ('Ausgleichskasse').

The advantage of this centralised institution is that there is no multiple registration for the different schemes and that exchange of information is guaranteed. Therefore, the aforementioned insurance schemes have been merged into a centralised social security office. This centralisation, however, does not include all administrative procedures in the recruitment process. Accident insurance and the pension scheme still have to be procured separately.

Source: Observa St. Gallen - Geneva.

3.1.2. Conclusions

Based on the results from the 2001 ENSR Survey on SMEs and on the analysis of administrative procedures in the recruitment process some general conclusions can be drawn.

The analysis of the obligatory administrative procedures in the recruitment process has revealed that in a large number of countries the procedures themselves do not create substantial administrative burdens. If administrative burdens were mainly resulting from the obligatory administrative procedures, the country ranking in Figure 3.1 would have to be more or less the same as the country ranking with respect to the impact of administrative burdens on SMEs recruitment decisions (see Figure 2.3). A comparison of both figures reveals that there are few similarities between the two country rankings.

Between 40 % and 52 % of SMEs in Greece, Belgium, Austria and Spain say that their recruitment decisions are substantially influenced by administrative burdens (see Figure 2.3). By contrast, the country ranking on the total number of administrative procedures shows that Greece and Austria are among the countries with the lowest number of administrative procedures (see Figure 3.1). Therefore, administrative burdens in these countries do not stem mainly from the obligatory administrative procedures in the recruitment process.

The same holds for Portugal, Finland and Germany where a large share of SMEs complain about administrative burdens related to the recruitment of employees, although they face only a relatively small number of administrative procedures. On the other hand, SMEs in the Netherlands and Liechtenstein have to go through the highest number of administrative procedures in Europe-19,⁵³ nevertheless, compared to firms in other countries, their recruitment decisions are less affected by administrative burdens.

Similarities in both country rankings can only be found with respect to Belgium. While many enterprises in Belgium say that their recruitment decisions are influenced by administrative burdens related to the recruitment of employees, at the same time these enterprises face a large number of administrative procedures. So, in Belgium the obligatory administrative procedures seem to be an important source of administrative burdens related to recruitment.

The above analysis suggests that in the majority of the countries administrative burdens related to the recruitment process do not stem primarily from the technical aspects of the procedures, i.e. from the number and nature of obligatory administrative steps such as obligatory contacts with authorities, 'form filling' and delivery of the requested information to the relevant authorities. However, as reported in Section 2, almost one third of European SMEs state that administrative burdens resulting from the recruitment process considerably influence their recruitment decisions. Therefore, in the following section employment regulations, as another source of possible administrative burdens, are investigated.

3.2. Complexity and obscurity of employment regulations

In this section an investigation is made into what extent the complexity and obscurity of different fields of employment regulations place significant administrative burdens on SMEs. The complexity and obscurity, which

⁵³ All administrative procedures represent separate work steps, which entrepreneurs have to go through by themselves. These work steps cannot be taken over by one-stop shops, thus, partly relieving the employer from administrative burdens.

refer to the second aspect of the definition of administrative burdens, have an influence on the level of an entrepreneur's preparatory work for the recruitment process.

In the course of the 2001 ENSR Survey on SMEs, enterprise owners were asked to identify one single field of employment regulation which entails the highest administrative burdens on them (see Table 3.2).

Table 3.2: Fields of employment regulation with highest administrative burden, by enterprise size, Europe-19, 2001

	Number of employees					Total
	0	1	2-9	10-49	50-249	
Health & safety protection for workers	12 %	22 %	34 %	38 %	40 %	30 %
Social security & pension requirements	13 %	14 %	15 %	10 %	9 %	14 %
Employment related taxes	10 %	10 %	13 %	14 %	11 %	12 %
Restriction on working hours	2 %	5 %	7 %	7 %	6 %	6 %
Sector-specific requirements	5 %	5 %	5 %	7 %	4 %	5 %
Dismissal law	0 %	2 %	4 %	6 %	7 %	4 %
Employment contracts	2 %	2 %	4 %	3 %	4 %	3 %
Collective bargaining	1 %	1 %	2 %	2 %	3 %	2 %
Worker participation law	1 %	1 %	1 %	1 %	3 %	1 %
Don't know/no answer	54 %	38 %	15 %	12 %	13 %	23 %
Total	100 %	100 %	100 %	100 %	100 %	100 %

Source: The 2001 ENSR Survey on SMEs.

The results show that enterprises - in particular those employing two and more employees - mainly cite health and safety regulations as the most important field. By contrast, enterprises without employees or with just one employee regard health and safety regulations as significantly less burdensome. This result is plausible because the majority of these regulations only apply to enterprises actually employing staff. A major part of these very small enterprises claim to face high burdens in the fields of social security and pension requirements as well as in employment related taxes.

The fact that with increasing enterprise size dismissal law is cited more often, may reflect the complexity of dismissal procedures in many countries and the introduction of threshold levels in this field of regulation, thus, exempting smaller sized businesses.

A very interesting result of the 2001 ENSR Survey on SMEs is the large number of very small firms which cannot name a single regulatory field that poses the highest administrative burdens on them ('don't know/no answer'). Indeed, more than half of the enterprises without employees and well above a third of enterprises with just one employee are not able to identify a single field.

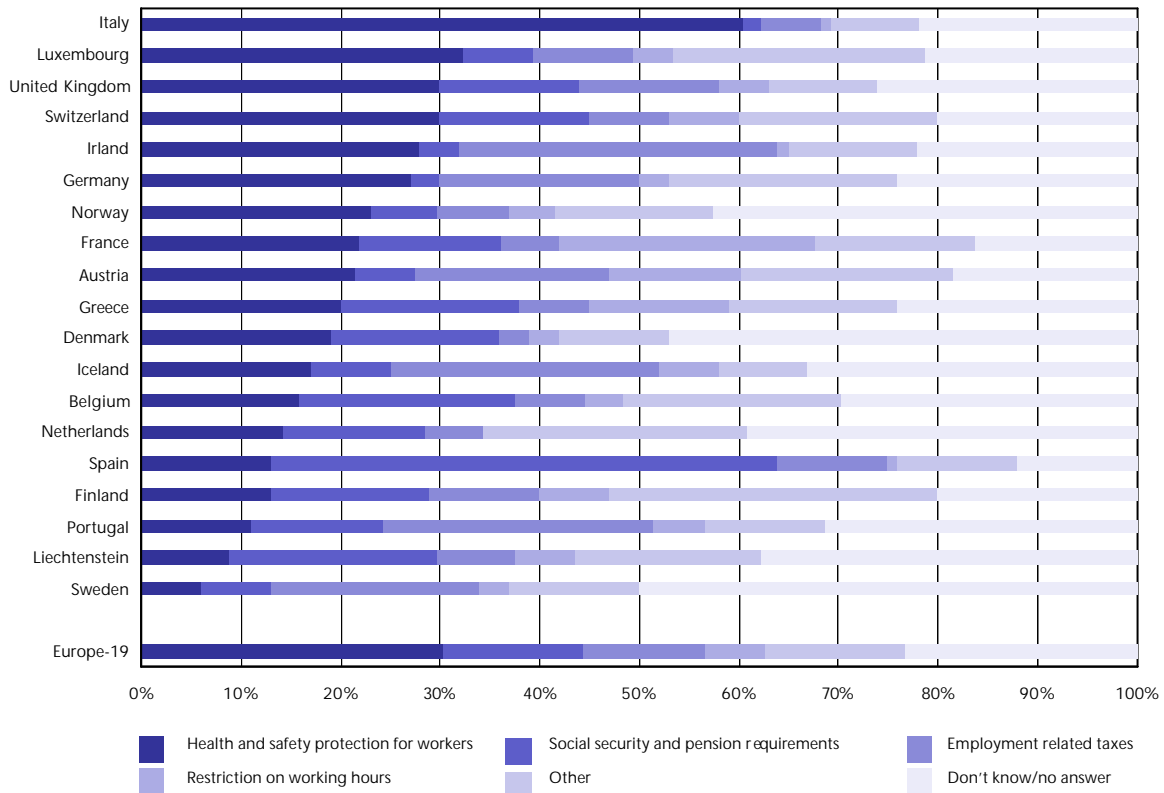
Interestingly, also those enterprises employing two and more employees face serious difficulties in identifying one single regulatory field entailing the highest administrative burdens. The option 'don't know/no answer' usually ranks second in importance after health and safety regulations.⁵⁴

The analysis by economic sectors shows that firms in manufacturing (42 %) and construction (43 %) cite health and safety regulations considerably more often than service firms (24 %-33 %). This result is understandable because enterprises operating in manufacturing and construction are much more affected by health and safety regulations than enterprises in other economic sectors. Firms in the field of transport and commerce indicate social security and pension requirements (21 %) and restrictions on working hours (7 %) more often than their counterparts in other sectors.

The analysis by country shows much more pronounced differences. Indeed, there are great differences with regard to the different fields of employment legislation SMEs complain about (see Figure 3.2).

54 Only firms employing 10-49 employees cite employment related taxes (14 %) more often than providing no specific answer (12 %).

Figure 3.2: Fields of employment regulation with the highest administrative burden, by country, Europe-19, 2001*



* Figure 3.2 presents only the four fields of employment regulations mentioned most often by the inquired SMEs. The remaining five regulatory fields are combined and shown under the category 'other'.

Source: Analysed by IfM Bonn on the basis of ENSR-partner contributions.

It is interesting to notice that in all countries of Europe-19, SMEs again have difficulties in singling out one specific regulatory field that causes the highest administrative burden. In ten out of the 19 countries, the 'don't know/no answer' - category is the option chosen most often. In five countries it ranks on the second position (after health and safety) and in another four in the third position. Across Europe-19, on average almost every fourth enterprise is not able to identify one particular regulatory field.⁵⁵

One explanation for this result is that across Europe-19 administrative burdens result from a large number of different employment regulations, that is to say from the employment legislation in its entirety. Administrative burdens are caused by several laws and their interplay, making it difficult for SMEs to single out just one particular regulatory field. A direct effect of this overall complexity and obscurity is that the preparatory work for recruitment becomes more difficult and time consuming for entrepreneurs. So, it can be assumed, the more complex and difficult the preparatory work for an entrepreneur is, the less likely he is willing to recruit employees.

This explanation is backed up by evidence from various national studies, which are presented in the following paragraph.

3.2.1. Evidence of the impact of employment legislation in its entirety

A number of national studies show that the largest burden on SMEs does not result from individual regulations but from the entirety of employment related legislation. For instance, more than half (57 %) of German SMEs

⁵⁵ This holds in particular for SMEs in Sweden (50 %), Denmark (47 %), Norway (46 %), the Netherlands (41 %) and Liechtenstein (38 %).

contacted declared that the biggest bottleneck to their business development results from the labour law in its entirety and not from a single law or regulation.⁵⁶

A similar result was generated by a Swedish study, which shows that the low degree of employment creation is caused, to a great extent, by rules and regulations in general which in addition are particularly disadvantageous to small companies.⁵⁷ Another Swedish study evaluating the basic problems for employers revealed that companies have difficulties to interpret correctly the various employment regulations they have to observe. They demand better service from the authorities and would also prefer less complex rules leaving more room for responsibility to themselves.⁵⁸ With regard to administrative burdens, entrepreneurs often have trouble to understand the various legislative norms and the consequences of these regulations.⁵⁹

A recent British investigation of regulatory burdens conducted by the Better Regulation Task Force (BRTF) concluded that firm owners were distracted from running and growing their businesses by a culmination of burdens including taxation, employment related legislation, public protection and environmental regulation.⁶⁰ Moreover, it was recognised that the level of expertise necessary to deal with such regulation was more likely to be available in larger firms. Thus, the entirety of regulations which have to be observed is much more burdensome for smaller firms.

In the course of the German Federal Ministry of Economics and Technology's initiative 'Dismantling of administrative burdens', enterprise owners were invited to identify administrative obstacles and to make proposals for remedial actions to be taken.⁶¹ The analysis of the proposals and comments received sheds some light on the perception of administrative burdens from the enterprises' point of view.⁶² A large part of the business community did not think the solution was to amend single regulations or procedures. In fact, 38 % of the contributions express a general discontent. Usually, these opinions reflect the sum of unfavourable experiences made in the past, without the enterprise owners being able to specify in detail what exactly caused this feeling of discontent. The report concludes that the topic of administrative burdens is of a rather complex and sometimes diffuse nature.

These results suggest that administrative burdens cannot be reduced significantly by concentrating just on one or on a small number of regulations. In order to relieve SMEs from administrative burdens and, thus, facilitating additional recruitments, it seems that this would require a more thorough, holistic reform of employment legislation. This result is backed up by national studies.

In a German study, for instance, it is concluded that the problem of administrative burdens could be significantly reduced only by a bundle of measures and not by isolated modifications of single regulations or procedures. A concerted effort is recommended in order to achieve a significant reduction of administrative burdens and a positive impact on employment dynamics.⁶³

Relatively small amendments in German employment law (dismissal protection, temporary agency work, statutory sick pay and work councils) generated only limited effects as far as job creation is concerned.⁶⁴ This is largely because the changes taken in isolation were only rather modest. The largest positive impact, though still relatively small, was created by amendments, which introduced greater flexibility into employment legislation.⁶⁵ Again, this study suggests a thorough reform of the labour legislation in its entirety that is not confined to minor modifications of single laws.

A study from Luxembourg also states a certain ineffectiveness of current policies, which intend to simplify the administrative environment. In the last years single measures have been undertaken, which, however, show only a minor impact. Instead, the development of an overall strategy that aims at a general reduction of administrative burdens is recommended.⁶⁶ A similar conclusion is drawn by an international study on employment protection in

56 Oechsler, W.A., and T. Peuntner, *Arbeitsrecht als Mittel der Beschäftigungspolitik (Labour law as an instrument of employment creation policies)*, in: Personalführung, No. 3/2000, p. 50-59, Düsseldorf, 2000.

57 M. Henreksson, *Institutionella förutsättningar för entreprenörskap och företagartillväxt, Tillväxt: svensk forskning om företags expansion*, 2001.

58 Normgruppen, *förenklad reglering gentemot näringslivet*, 1985.

59 Expert interview with an official from 'Startlinjen' (the Starting Line).

60 Better Regulation Task Force, *Helping Small Firms Cope with Regulation - Exemptions and other Approaches*, London, 2000. (Report based on information from 41 relevant organisations, an unspecified number of telephone interviews and questionnaires across all sectors.)

61 Bundesministerium für Wirtschaft und Technologie, *Bericht über den Stand der Initiative Abbau bürokratischer Hemmnisse des Bundesministeriums für Wirtschaft und Technologie (Report on the status of the initiative 'Dismantling of administrative burdens' of the Federal Ministry of Economics and Technology)*, Berlin, 2001.

62 The proposals do not exclusively focus on bureaucracy in the field of labour and social legislation but this area is clearly of considerable concern for employers.

63 Bundesministerium für Wirtschaft und Technologie, *Bericht über den Stand der Initiative Abbau bürokratischer Hemmnisse des Bundesministeriums für Wirtschaft und Technologie (Report on the status of the initiative 'Dismantling of administrative burdens' of the Federal Ministry of Economics and Technology)*, Berlin, 2001.

64 Oechsler, W.A., and T. Peuntner, *Arbeitsrecht als Mittel der Beschäftigungspolitik (Labour law as an instrument of employment creation policies)*, in: Personalführung, No. 3/2000, p. 50-59, Düsseldorf, 2000.

65 The deregulation of fixed term employment contracts as well as of temporary agency work allowed SMEs a more flexible response to unforeseeable changes in demand.

66 Study on administrative burdens in the SMEs of the skilled craft sector in Luxembourg. (see www.cdm.lu section 'Services' and subsection 'charges administratives'.)

industrialised countries. It also advocates broad-scale reforms that reflect the increasing complexity of legal provisions in this area and in particular their interactions.⁶⁷

The current employment regulations in Portugal, directly or indirectly related to the recruitment of employees, are also widely dispersed. This causes considerable problems for enterprises that have to apply these laws. In order to improve the situation, a Commission for the Analysis and Systematisation of the Portuguese Labour Law has been established at the beginning of the year 2000. The Commission's task is to initiate broad reforms, which will make the applicable legal regimes more accessible, better suited to their objectives and more efficient.

3.2.2. Law enforcement and legal certainty

A recent international study shows that law enforcement plays a crucial role for the functioning of the labour market.⁶⁸ In fact, jurisprudence appears to be very important and not only the strictness of regulations per se. Rather vague legal definitions of e.g. unfair dismissals give the courts room to interpret regulations. This is supposed to be an important reason for the huge number of cases brought forward to courts in France, Germany and Spain.

The likelihood of a favourable decision of a court appears to play an important role in the decision of an employee to take legal action in labour disputes. Furthermore, the outcome of court rulings does not seem to be fully independent of external factors such as the cyclical and regional labour market situation or the degree of unionisation of the workforce. Empirical data from Germany and Spain suggest that judges protect employees far more against dismissals during cyclical downturns than in booming labour market conditions.⁶⁹

Employers, however, consider unforeseeable outcomes of court decisions as a great barrier, which might impede the recruitment of permanent employees. Evidence from Italy shows that major problems result from the application and interpretation of dismissal laws in court proceedings. Thus, these difficulties are not primarily related to the strictness of dismissal laws per se but rather to their enforcement in labour disputes.

A Portuguese study highlighted the impact of employment regulation on the process of job creation. One of the main conclusions was that Portuguese firms do not significantly adapt their labour force to temporary changes in demand. Flexible reactions to temporary changes (e.g. through short-term recruitment and dismissal of employees) are rendered difficult by the high adjustment costs induced by the dismissal process. These costs are caused by high financial compensation fees and, more importantly, by the imposition of a complex and lengthy set of court procedures in the dismissal process.⁷⁰

Danish SMEs consider frequent law amendments as a significant administrative burden. This holds especially for small companies. Relatively small or non-existent personnel administration departments make it much harder for these firms to react to newly introduced or modified regulations. The smaller businesses' behaviour is normally characterised by routine, so that frequent amendments represent a special burden.⁷¹

3.2.2. Conclusions

To conclude, the results gained from the analysis of administrative procedures, from the 2001 ENSR Survey on SMEs as well as from national studies suggest that administrative burdens mainly result from the complexity and obscurity of the entire employment legislation. In the large majority of countries administrative procedures themselves are not particularly burdensome. Instead, the process of collecting and generating the obligatory information in this complex and obscure regulatory environment seems to place the highest administrative burdens on SMEs. Entrepreneurs have to find out in this obscure regulatory environment which specific regulations are relevant for their individual case, they have to understand these norms and work out which precise actions are demanded from them.

67 Bertola, G., T. Boeri and S. Cazes, Employment in industrialized countries: The case for new indicators; in: *International Labour Review*, Vol. 139, No. 1, p. 57-72, Geneva, 2000.

68 Bertola, G., T. Boeri and S. Cazes, Employment in industrialized countries: The case for new indicators; in: *International Labour Review*, Vol. 139, No. 1, p. 57-72, Geneva, 2000.

69 Bertola, G., T. Boeri and S. Cazes, Employment in industrialized countries: The case for new indicators; in: *International Labour Review*, Vol. 139, No. 1, p. 57-72, Geneva, 2000.

70 Portugal, P., Job volatility, job protection and unemployment protection, *Quarterly Economic Report of the Portuguese Central Bank*, December, Lisbon, 1999, pp. 51-63.

71 Teknologisk Institut for Erhvervs- og Selskabsstyrelsen, (administrative acts: consequences for different types of businesses), 1998. (in Danish).

Chapter 4

Administrative burdens and actual recruitment behaviour

In this section the investigation looks at the extent to which administrative burdens resulting from employment regulations have an influence on the actual recruitment behaviour of SMEs. First, it is analysed if those enterprises that have said that their recruitment decision is substantially influenced by administrative burdens related to employment regulation do indeed recruit less employees than those enterprises that do not complain about administrative burdens. Secondly, evidence is presented to what extent SMEs use alternative forms of employment in order to avoid administrative burdens resulting from employment regulations they would otherwise have to deal with if they would recruit regular employees.

4.1. Administrative burdens and the recruitment of regular employees

Data presented in Section 2.2 showed that administrative burdens related to employment regulation have a substantial influence on SMEs' decisions to recruit employees. Recruitment decisions, however, are usually influenced by a large number of different factors; administrative burdens being only one factor among many others (see Figure 2.1). Therefore, it is interesting to see whether administrative burdens have a decisive impact on the actual employment growth of SMEs.

On the basis of the 2001 ENSR Survey on SMEs, the influence of administrative burdens on European SMEs' actual employment growth has been investigated. With regression techniques it was possible to identify the kind of correlation between the impact of administrative burdens resulting from employment regulations perceived by entrepreneurs and the actual employment growth in these enterprises.

Two groups of enterprises have been selected. The first group consists of the 31 % of European SMEs that say that their recruitment decisions are substantially affected by administrative burdens in the field of employment regulations. The second group includes those enterprises that say that their recruitment decisions are not at all or only to a small extent influenced by administrative burdens related to employment regulations.

A factor differentiating both groups is included in our regression model as a potential determinant of actual employment growth. Controlling for various other potential factors explaining actual employment growth, its effect still appears to be significant. European SMEs that say that administrative burdens substantially affect their recruitment decisions are associated with smaller employment growth during the period 1999 to 2000 (acknowledging the effects of other determinants of employment growth).⁷²

Thus, the survey results suggest that in the absence of administrative burdens related to employment regulations, employment growth would have been higher in these enterprises.

72 The regression analyses (testing significance at a 5 % level) have been carried out using an adjusted Birch (employment) growth rate as dependent variable: $(\text{number of employees in 2000} - \text{number of employees in 1999})^{1/4} \cdot ((\text{number of employees in 2000} - \text{number of employees in 1999}) / \text{number of employees in 1999})$. For more details on the concept of the Birch growth rate, see: European Commission, Observatory of European SMEs; Highlights from the 2001 Survey; Report submitted to the Enterprise Directorate General by KPMG Special Services, EIM Business & Policy Research, and ENSR; Brussels, 2002. The same results also emerged when applying the standard (employment) growth rate (i.e. without correction factor) as dependent variable.

However, the regression coefficients in absolute terms are rather low.⁷³ Despite the fact that there indeed is a systematic difference with respect to the employment growth in both groups of enterprises, the actual effect of administrative burdens on employment growth is rather limited.

The same restriction holds for the analysis of the impact of administrative burdens on employment growth by country, economic sector and legal form. At the country level the regression analysis reveals a corresponding negative correlation for Italy and the United Kingdom (statistically significant at a 5 % level) as well as for Germany (statistically significant at a 10 % level). For Belgium, France, Greece and Spain no statistically significant correlation between perceived impact of administrative burdens related to employment regulations and actual employment growth could be detected.⁷⁴ With regard to economic sectors and legal forms, a statistically significant negative correlation emerged for the business services sector as well as for private limited companies.

To conclude, the above results indicate that administrative burdens related to employment regulations do have a significant influence on SMEs' actual employment growth. However, the difference in absolute terms is rather limited. In addition, administrative burdens are not the only factor influencing SMEs' recruitment decisions. Current and future market opportunities, i.e. the favourable development of demand for products and/or services, also play an important role for entrepreneurs' recruitment decisions.⁷⁵ Furthermore, evidence from a number of studies suggests that labour costs and social security outlays also have a strong influence on the recruitment behaviour.⁷⁶

4.2. The strategic use of temporary agency labour and outsourcing

A strategy of firms to avoid administrative burdens that result from the employment of regular employees might be to make use of temporary agency labour or to outsource work instead of recruiting regular employees. Thus, the basic idea of such a strategy would be to avoid administrative burdens resulting from 'normal' employment relationships. On the basis of the 2001 ENSR Survey on SMEs some insight could be gained on this issue.

The empirical results illustrate that, by and large, both the use of temporary agency labour and outsourcing only play a minor role in the enterprises' considerations to avoid administrative burdens resulting from regular employment (see Tables 4.1 and 4.2).

The analysis by enterprise size shows that in fact, 87 % of all enterprises say that their decision to make use of temporary agency labour is not influenced at all or only a little by the intention to avoid administrative burdens resulting from the recruitment of regular employees (see Table 4.1). However, larger SMEs with ten or more employees more often follow this strategy and use temporary agency labour in order to avoid administrative burdens they would otherwise face if they would employ regular employees. In fact, 12 % to 13 % of these enterprises say that such considerations are of considerable, or great importance.

Table 4.1: Use of temporary agency work as a strategy to avoid administrative burdens resulting from the recruitment of regular employees, by enterprise size, Europe-19, 2001

	Number of employees					
	0	1	2-9	10-49	50-249	Total
Not at all/a little	78 %	82 %	88 %	84 %	85 %	87 %
Considerably/very much	7 %	9 %	7 %	12 %	13 %	7 %
Don't know/no answer	15 %	9 %	5 %	4 %	2 %	6 %
Total	100 %	100 %	100 %	100 %	100 %	100 %

Source: The 2001 ENSR Survey on SMEs.

73 For details see Annex II.

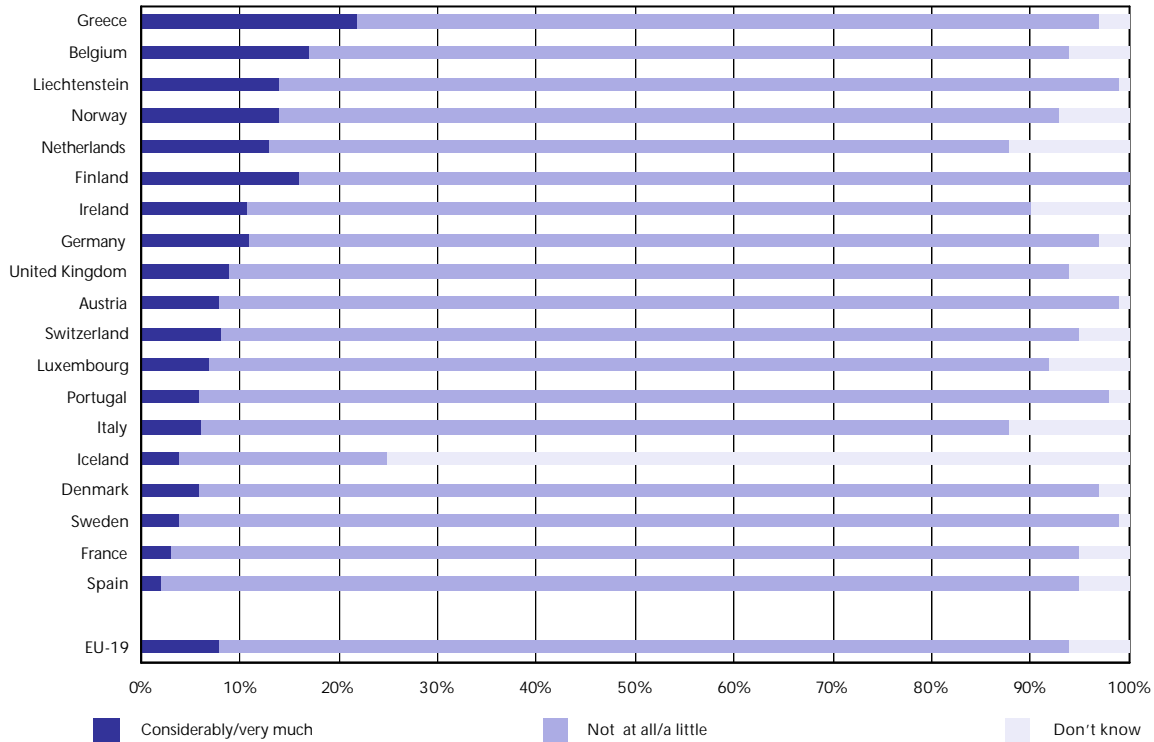
74 For the remaining twelve countries the regression analyses could not be carried out separately due to an insufficient number of observations.

75 Mäki, K., and T. Pukkinen, Työnantajaksi ryhtymisen kynnykset (Barriers to employment among Finnish self employed.), Studies and Reports, Ministry of Trade and Industry, Helsinki, 2000. - Whelan, B.J., R. Breen, T. Callan and B. Nolan, A Study of the Employment Possibilities of the Long Term Unemployed, Study carried out for the Department of Labour, The Economic and Social Research Institute, Dublin, 1991. - NUTEK, Förbättra för nyföretagaren- NUTEKs erfarenheter från Startlinjen, Info 071-1999, 1999.

76 Oechsler, W.A., and T. Peuntner, Arbeitsrecht als Mittel der Beschäftigungspolitik (Labour law as instrument of employment creation policies), in: Personalführung, No. 3/2000, p. 50-59, Düsseldorf, 2000. - Department of Labour, Employers' Perceptions of the Effect of Labour Legislation, Study carried out by the Economic and Social Research Institute on behalf of the Department of Labour, Dublin, 1986. - Niehof, J., and E. van Straten, Belemmeringen voor het in dienst nemen van personeel in het MKB (Impediments to staff recruitment in SMEs), EIM, Zoetermeer, 1998. - Mäki, K., and T. Pukkinen, Työnantajaksi ryhtymisen kynnykset. (Barriers to Employment among Finnish Self employed.) Studies and Reports, Ministry of Trade and Industry, Helsinki, 2000.

By contrast, only 7 % to 9% of SMEs with zero or just one employee follow this strategy. Table 4.1 also suggests, that especially the smallest enterprises with zero or just one employee have a difficulty to say if their use of temporary agency labour is influenced by such a consideration in order to avoid administrative burdens from regular employment (don't know/no answer).

Figure 4.1: Use of temporary labour as a strategy to avoid administrative burdens resulting from the employment of regular employees, by country, Europe-19, 2001



Source: The 2001 ENSR Survey on SMEs.

Looking at the situation in the individual country, the low shares suggest that this atypical form of labour is hardly used as a strategic tool in order to avoid administrative burdens that otherwise would have to be dealt with when recruiting regular employees. Greece and Belgium might be exceptions. The analysis by economic sectors does not reveal significant differences with regard to the use of temporary agency work.

Similar results can be found when looking at the impact of administrative burdens on enterprises' decision to outsource work (see Table 4.2).

Table 4.2: Outsourcing as a strategy to avoid administrative burdens resulting from the recruitment of regular employees, by enterprise size, Europe-19, 2001

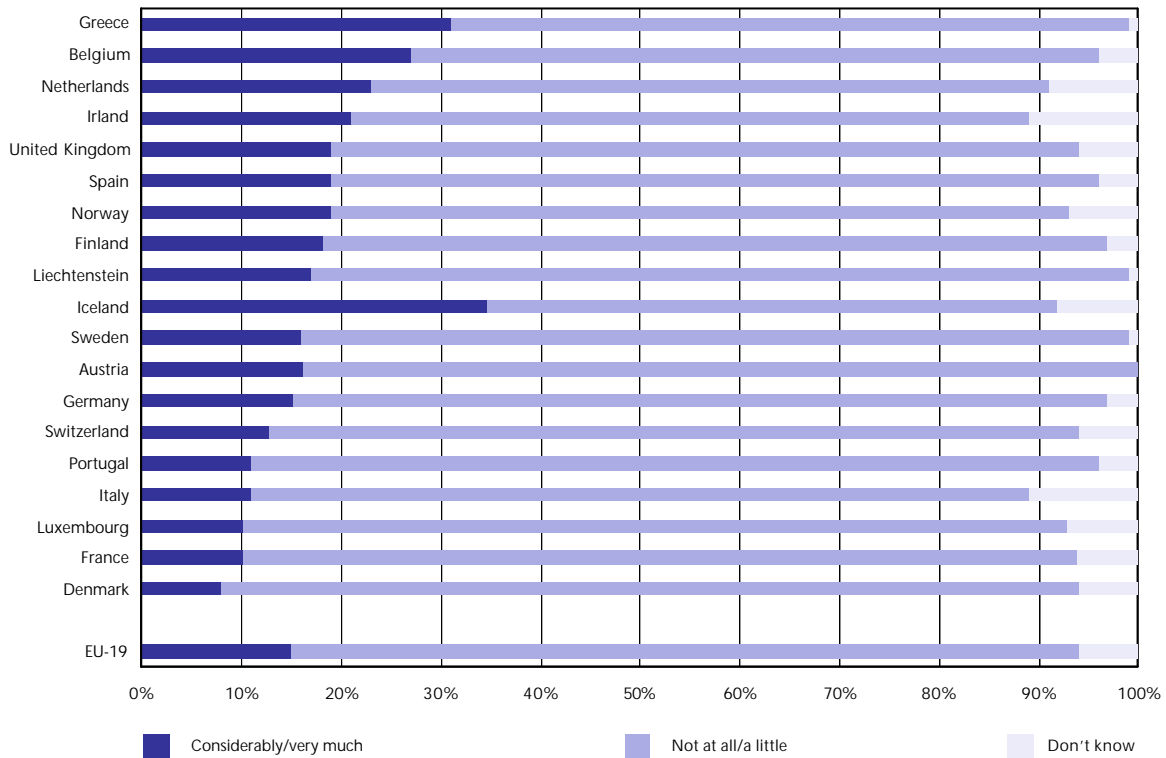
	Number of employees					Total
	0	1	2-9	10-49	50-249	
Not at all/a little	71 %	76 %	81 %	80 %	79 %	79 %
Considerably/very much	14 %	16 %	15 %	16 %	17 %	15 %
Don't know/no answer	15 %	8 %	4 %	4 %	4 %	6 %
Total	100 %	100 %	100 %	100 %	100 %	100 %

Source: The 2001 ENSR Survey on SMEs.

For 79 % of all firms, administrative burdens resulting from regular employment are no reason to outsource some of their business activities at all or just a little. However, all in all, 15 % of enterprises admit that their decision, to outsource work is substantially affected by the intention to avoid administrative burdens that they would face if they would recruit regular employees. This is true, by and large, for all enterprise-size classes. Strong differences

can be found between the smallest and the other SMEs with regard to the share of firms that cannot say something concrete about outsourcing work as a strategy to avoid administrative burdens resulting from regular employment. One explanation is that the outsourcing potential is rather limited in very small enterprises.

Figure 4.2: Outsourcing work as a strategy to avoid administrative burdens resulting from the employment of regular employees, by country, Europe-19, 2001



Source: The 2001 ENSR Survey on SMEs.

The analysis by country suggests that apart from Greece, Belgium, the Netherlands and Ireland there does not seem to be evidence for systematic outsourcing strategies in order to avoid administrative burdens resulting from regular employment. The analysis by economic sectors reveals no systematic differences with respect to outsourcing work.

All in all, there is no clear evidence that outsourcing and the use of temporary agency labour are used as strategic tools to avoid administrative burdens resulting from regular employment. These findings are backed up by national studies. A number of studies confirm that temporary agency work and outsourcing are mostly applied in the context of adjustment considerations and not as a strategy to avoid regular employment and the related administrative burdens.

To conclude, administrative burdens resulting from the recruitment of regular employees do not play a predominant role in the enterprise owners' decision to make use of temporary agency labour and outsourcing. Nevertheless, some weight is attributed to these issues at least by relatively large SMEs which make more frequently use of these strategies.

Chapter 5

Government initiatives

The European Council meeting in Luxembourg in 1997 - known as the Luxembourg Jobs Summit - endorsed an ambitious European employment strategy. It encompasses the co-ordination of the Member States' employment policies on the basis of commonly agreed Employment Guidelines in the framework of the so-called Luxembourg process. The Member States have committed themselves to bring their policies into line with the objectives of these Employment Guidelines and they have started to implement the policy reforms and initiatives outlined in their National Action Plans. One explicitly announced aim is to review and simplify the administrative burdens posed on SMEs when recruiting employees.

The first BEST⁷⁷ Implementation Report⁷⁸ and the Joint Employment Report⁷⁹ have provided extensive information on the various national measures and initiatives undertaken to reduce the regulatory and administrative burden on enterprises. The main issues were the improvement of enterprises' electronic access to information on administrative requirements, the implementation of one-stop-shops or similar initiatives in order to provide enterprises with a single contact point for administrative procedures and the development of better targeted support services for small enterprises. Initiatives in the countries of Europe-19 are presented below which should foster employment growth.

5.1. Electronic government

This section analyses to what degree administrative authorities provide enterprises with the possibility to make use of electronic data transmission in the recruitment process. In addition, employers' awareness of opportunities to communicate online with these institutions are also shown.

Generally speaking, in almost all countries of Europe-19, institutions, which have to be contacted in the course of the recruitment process, offer some basic information and advice on the Internet. In some cases the downloading of forms is also possible. However, even if the provision of information on the Internet is a good service it does not necessarily contribute to the simplification of administrative procedures and related administrative burdens.

In order to simplify administrative procedures it is important to investigate whether entrepreneurs can carry out the relevant administrative procedures by making use of electronic data transmission - online communication -, i.e. by submitting information on the Internet or by sending it via e-mail to the respective authorities. Hence, such procedures would make paper documents unnecessary and could save employers time.

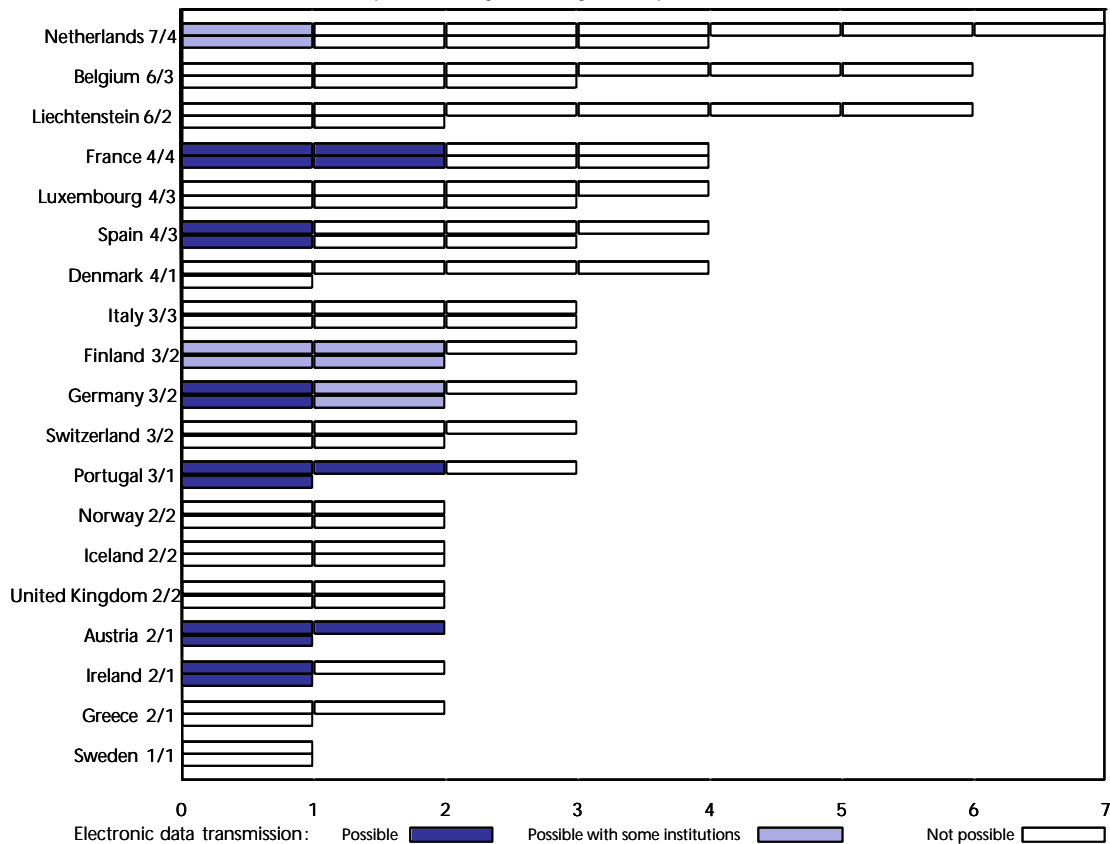
However, as shown in Figure 5.1, in Europe-19 currently only a small number of administrative procedures can be carried out online. Figure 5.1 shows the total number of obligatory administrative steps that have to be gone through when the first and a subsequent employee are recruited in the countries of Europe-19. It further indicates how many of these procedures can be carried out by making use of electronic data transmission.

77 In the European Union it is the Business Environment Simplification Task Force (BEST) that is charged with simplifying and converging the business environment for small firms in Europe.

78 Report on the Implementation of the Action Plan to promote Entrepreneurship and Competitiveness, SEC (2000) 1825, 2000.

79 Joint Employment Report, COM (2000) 551, 2000.

Figure 5.1: Number of administrative procedures that can be carried out via electronic data transmission in the recruitment process, by country, Europe-19, 2001



The first bar for each country indicates the number of procedures for the first employee.
The second bar indicates the number of procedures for additional employees.

Source: Analysed by IfM Bonn on the basis of ENSR-partner contributions.

In those countries that are already offering opportunities for electronic data transmission in the recruitment process, it is generally the social security offices or tax authorities that have introduced the possibility of online communication for firms.

Austria is the most advanced country as far as the introduction of electronic government in the recruitment process is concerned. Indeed, Austrian employers are actually obliged to carry out the necessary registrations with the Social insurance office online on the Internet or by e-mail or fax. This obligation is effective since July 1997 and it applies to all employers as long as they are able to do so, i.e. depending on the employer having the respective hardware.

Some other countries such as Greece, Luxembourg, partly the Netherlands and Norway do not offer opportunities for electronic government in the recruitment process itself. Nevertheless, periodic declarations or notifications of changes in the status of an employee can be transmitted electronically.⁸⁰ In this context it is also interesting to point out that Portugal introduces an obligation for enterprises to send their (periodic) workers' remuneration sheets to the Social Security offices by digital or electronic means. Since June 2001, this duty applies to enterprises with more than 100 employees. In April 2002, it was extended to all firms with more than 20 employees and from July 2002 also enterprises employing ten to 20 workers are addressed.

Eventually, other countries such as Belgium, Liechtenstein, Sweden and Switzerland are still in the planning stages for establishing electronic government in the recruitment process. For instance, in the context of the modernisation of its social security system, Belgium plans the introduction of an electronic declaration system that should

⁸⁰ The analysis of administrative procedures focuses on obligations that are directly related to the recruitment process itself, thus, excluding periodic declarations. However, with regard to the implementation of electronic government in the recruitment process, this reference was made in order to point to other (initial) efforts being made regarding the implementation of electronic data transmission.

lead to a full removal of all paper documents. The aim is to simplify the administrative formalities, reduce the number of social documents and increase the centralisation of all social information into one database, which will then be used by all organisations belonging to the social security system.

With respect to the provision of electronic government in the recruitment process it can be concluded that electronic data transmission with administrative authorities is not particularly widespread in the countries of Europe-19 (see Figure 5.1). Therefore it is not surprising that electronic government has not raised much attention among employers. The 2001 ENSR Survey on SMEs reveals that almost four out of five enterprise owners (79 %) do not know anything or do not know details about initiatives to simplify and to speed up the recruitment process by electronic data transmission as a means to relieve them from administrative burdens. But it cannot be concluded that there is a deficit in electronic government provision in general.⁸¹ In Sweden for example there seems to be no need at all to implement electronic data transmission because the administrative obligations in the recruitment process are very simple organised so that no help and guidance has to be provided for firms.

In addition, e-government may facilitate the access to certain information, but it would also be sensible to simplify the documents that are put online and to reduce and simplify the information requirements to really reduce the administrative burdens for SMEs in practice.

5.2. Threshold levels in employment related legislation

Another possibility to relieve SMEs from administrative burdens related to employment regulations is to introduce threshold levels in legislation. Therefore, certain regulations only apply if an enterprise exceeds a specific threshold. Smaller sized enterprises are then exempted from certain legal obligations as long as the number of their employees stays below the defined threshold.

Countries applying thresholds as a means to exempt small and medium-sized enterprises from certain regulations, most often do so in the fields of worker representation (works councils), health and safety, dismissal protection and in the field of the disability law. Table 5.1 provides an overview of the application of threshold levels in the countries of Europe-19. It shows that threshold levels are not equally distributed across the countries.

Table 5.1: Thresholds in employment related legislation, Europe-19, 2001

Country	Worker representation	Health and safety	Dismissal protection	Disability law
Austria	X	X	-	X
Belgium	X	-	-	-
Denmark	-	X	-	-
Finland	X	X	-	-
France	X	X	X	X
Germany	X	X	X	X
Greece	-	-	X	-
Ireland	-	-	-	-
Italy	X	-	-	X
Luxembourg	X	-	X	-
Netherlands	-	-	-	-
Portugal	-	-	X	-
Spain	X	X	-	X
Sweden	-	X	X	-
United Kingdom	X	X	X	X
Iceland	-	X	X	-
Liechtenstein	-	-	-	-
Norway	-	-	-	-
Switzerland	-	-	-	-

Source: Analysed by IfM Bonn on the basis of ENSR-partner contributions.

⁸¹ In Germany, for example, the registering of employees with the trade associations can be easily made by e-mail, fax, telephone or by regular post. Although the employment office issuing the company identification number cannot be contacted online, only a short telephone call is required when recruiting the first employee.

Employment related legislation in countries such as Austria, Germany, France and Spain is marked by a high prevalence of threshold values. In Germany, for example, there are more than 100 different threshold values for SMEs in the field of labour and social legislation.⁸²

In Germany, there is evidence that with increasing enterprises size, firms claim to be burdened much more by administrative matters related to employment regulations, whereas micro enterprises employing up to ten employees are less burdened.⁸³ With growing enterprise size more and more thresholds are exceeded, thus, inducing additional administrative burdens related to employment regulations on the firms.

Seen from an historical perspective, threshold levels are almost always the result of political compromise. There does not seem to be an efficiency-driven way of determining the exact value of the respective thresholds. This is also reflected by the different threshold levels applied by European countries in the same field of regulation. Disability laws, for instance, foresee different quota systems for the employment of handicapped people. Austrian enterprises, for example, have to employ at least 4% handicapped persons. In case of non-compliance, firms are obliged to pay a monthly fee of approximately 150 Euro per handicapped person that otherwise would have to be employed.

Meanwhile, the revised German disability law requires employers to employ at least 5 % of their staff with handicapped people, implying the first threshold by 20 employees. 6,3 % of all enterprises in Germany have to comply with this regulation.⁸⁴ In case enterprises do not meet these obligations, they have to pay a monthly fee, which varies with the degree to which they fail to fulfill their obligations.⁸⁵ French disability law also prescribes employers to recruit at least one handicapped person if the establishment employs more than 20 workers. The Spanish disability law, by contrast, has set a much higher threshold, requiring only those employers with more than 50 employees to take on at least one handicapped person. Finally, Italy and the United Kingdom exempt employers with less than 15 employees from the obligation to employ handicapped people.

5.2.1. Impact of thresholds on the recruitment decision

Seen from a dynamic perspective, threshold levels might act as a barrier for growth. SMEs that exceed these thresholds are suddenly confronted with additional administrative burdens related to employment regulations imposed on them. So, the question is if thresholds influence the recruitment decision of enterprises in the way that enterprises reconsider the recruitment of new employees in order to stay below the threshold level and/or if they resort to alternative strategies.

Empirical evidence on this issue is rather limited in Europe-19. However, a study performed in the United Kingdom shows little evidence that threshold levels act as a barrier for growth, with the possible exception of the VAT-turnover-threshold where firms might prefer cash payments in order to avoid the burden of registration.⁸⁶

Because of the multitude of threshold levels in employment related legislation, in Germany some research has been performed on the impact of thresholds on firms' recruitment decisions. An analysis of enterprise and employment data from the social security statistics does not show evidence that threshold levels have a significant influence on employment dynamics, i.e. on the size-distribution of enterprises.⁸⁷ Another study laid its focus on the impact of thresholds in Dismissal Protection law on the employment behaviour of small firms. Once again there is no evidence that thresholds have a significant impact on small firms' recruitment decisions.⁸⁸

82 Friedrich, W., and H. Hägele, *Ökonomische Konsequenzen von Schwellenwerten im Arbeits- und Sozialrecht sowie die Auswirkungen dieser Regelungen - Endbericht 1997 - Untersuchung im Auftrag des Bundesministeriums für Wirtschaft (Economic Consequences of Threshold Values in the Labour and Social Legislation and the Impact of these Rules - Final Report 1997 - Study on Behalf of the Federal Ministry of Economics)*, Cologne, 1997.

83 Friedrich, W., and H. Hägele, *Ökonomische Konsequenzen von Schwellenwerten im Arbeits- und Sozialrecht sowie die Auswirkungen dieser Regelungen - Endbericht 1997 - Untersuchung im Auftrag des Bundesministeriums für Wirtschaft (Economic Consequences of Threshold Values in the Labour and Social Legislation and the Impact of these Rules - Final Report 1997 - Study on Behalf of the Federal Ministry of Economics)*, Cologne, 1997, p. 126-130.

84 The former regulation - valid until December 2000 - foresaw a quota of 6 % and a corresponding threshold of 16 employees. Employers not fulfilling these quotas had to pay a fixed monthly compensation of approx. 100 Euro for every (required) vacancy not occupied by a handicapped person.

85 For instance, an enterprise with 60 employees is generally obliged to employ at least three handicapped people. In case it does not employ any handicapped persons at all, the enterprise then has to pay a total penalty of approx. 750 Euro (instead of 300 Euro under the former legislation). If it actually employs one handicapped person, the penalty is reduced to 500 Euro. - By this, the government aims to create 50 000 additional jobs for handicapped people. If this goal is not reached by October 2002, the quota will be increased to 6 % once again.

86 Better Regulation Task Force, *Helping Small Firms Cope with Regulation - Exemptions and other Approaches*, London, 2000.

87 Friedrich, W., and H. Hägele, *Ökonomische Konsequenzen von Schwellenwerten im Arbeits- und Sozialrecht sowie die Auswirkungen dieser Regelungen - Endbericht 1997 - Untersuchung im Auftrag des Bundesministeriums für Wirtschaft (Economic Consequences of Threshold Values in the Labour and Social Legislation and the Impact of these Rules - Final Report 1997 - Study on Behalf of the Federal Ministry of Economics)*, Cologne, 1997, p. 15-19. - The results are confirmed by another study by Wagner, J., C. Schnabel and A. Kölling, *Wirken Schwellenwerte im deutschen Arbeitsrecht als Bremse für die Arbeitsplatzbeschaffung in Kleinbetrieben? (Do threshold values in the German labour law act as a break on employment creation in small businesses?)*, in: Universität Lüneburg (ed.): *Arbeitsbericht No. 240*, Lüneburg, 2001, p. 7-8.

88 Wagner, J., C. Schnabel and A. Kölling, *Wirken Schwellenwerte im deutschen Arbeitsrecht als Bremse für die Arbeitsplatzbeschaffung in Kleinbetrieben? (Do threshold values in the German labour law act as a break on employment creation in small businesses?)*, in: Universität Lüneburg (ed.): *Arbeitsbericht No. 240*, Lüneburg, 2001.

It can be concluded that threshold levels can relieve small firms from administrative burdens and can therefore be a good instrument. What seems to be most important is to find a good balance, i.e. an appropriate number of threshold levels sufficient to relieve SMEs from administrative burdens related to employment regulations that does not lead to confusion.

5.3. Government initiatives related to the recruitment process

There are different ways to support employers when recruiting employees. One approach could be to address the recruitment process itself and to distinguish the recruitment of the first and a subsequent employee. Such an approach could take into account that a first time employer is not familiar with the recruitment process and the relevant legislation and therefore special support could be given to him.

Table 5.2 provides information about the different government initiatives related to the recruitment process. The intention is not to assess the different measures in the countries but to provide an overview of the different ways the recruitment of employees can be supported.

Table 5.2: Initiatives by country related to the recruitment process

Country	Specific initiatives/relief when recruiting the first employee ¹	Initiatives/relief when recruiting subsequent employees ¹	Simplification/deregulation of obligations	Availability of support measures/organisations	Application or planning of electronic government
Austria			X	X	X
Belgium	X	X	X	X	X
Denmark			X	X	X
Finland			X	X	X
France	X	X	X ²	X	X
Germany			X	X	X
Greece		X	X	X	X
Iceland					X
Ireland				X	X
Italy		X	X	X	
Liechtenstein				X	X
Luxembourg			X	X	X ³
Netherlands			X ⁴	X	X
Norway				X	
Portugal		X	X	X	X
Spain			X	X	X
Sweden			X	X	X
Switzerland			X	X	X
United Kingdom			X	X	X

1 Irrespective of support for specific social groups such as (long-term) unemployed or disabled people.

2 Building sector and hostel-/restaurant sector.

3 E-government will be implemented during the next two years. For social security monthly declarations, forms can already be submitted through electronic files.

4 From the 1st of January 2002 onwards, all Social Security Enforcement Agencies are combined into a single organisation, the 'Employee Insurance Enforcement Agency'.

Source: Analysed by IfM Bonn on the basis of ENSR-partner contributions.

The country analysis with respect to the different approaches to support the recruitment of employees shows similarities among the countries. The most applied approaches are the simplification and deregulation of obligations, the availability of general support and supporting institutions and the application or planning of electronic government. Annex III gives details of changes and developments since 1997. With respect to the provision of specific help for first time employers and with regard to the recruitment of subsequent employees, the applied approaches are presented below.

5.3.1. Initiatives or relief when recruiting the first employee

Apart from initiatives in order to integrate specific social groups such as apprentices, young or older people, (long term) unemployed and disabled people into the labour market, there does not seem to be a common approach

in the countries of Europe-19 to address the recruitment process directly. Table 5.2 suggests that there are hardly any such initiatives in the countries of Europe-19. Especially with respect to the recruitment of the first employee, support is more the exception than the rule. Only in Belgium and France is there evidence that especially first time employers are supported.

In Belgium, for example, in the framework of the so called 'plan plus 1', the employers' social security contributions are reduced when SMEs recruit the first employee. In France, the creation of a first job in very small companies is supported since 2001.⁸⁹ This is because there is evidence that 1.2 million companies in France have no employees while at the same time there is the assumption that 500 000 jobs could be created if administrative burdens would be reduced.⁹⁰ Simplifications of social and tax matters have been proposed to make the recruitment of the first employee in very small companies easier. Furthermore, there is an exemption of the employer's social security contributions in order to ease the cost for a firm when the first employee is recruited.⁹¹

5.3.2. Initiatives or relief when recruiting a subsequent employee

Support for the recruitment of a subsequent employee is more wide spread in the countries of Europe-19 compared to the support for first time employers (see Table 5.2). The existing relief is mainly related to the reduction or exemption of the social security contributions, the availability of grants and tax incentives. In addition, the employment of some target-groups that have a greater risk to get unemployed is promoted.

In Portugal, Belgium, Finland and France, for example, employers are partly relieved from social security payments in order to support employment. In Belgium there are the so called 'plan plus 2' and 'plan plus 3', the suffixes saying that a reduction of employer's social security contributions is granted when an employer recruits the second and the third employee.

In Portugal there is a reduction of the social security contributions for small and medium-sized enterprises that have gained awards in the framework of the Safe Job Programme.⁹² Firms awarded with the 'Total Safety' prize benefit from a reduction of 50 % of the social security contributions of its employees with permanent contracts. Enterprises awarded with the 'Sectoral Safety' prize benefit from a reduction of 20 % of the social security contributions of the employees that have a permanent contract.⁹³

In Finland there is a relief in social security payments in order to support employment in labour-intensive firms.⁹⁴ Furthermore, in order to support employment in small enterprises, the employers' share of the employee unemployment insurance which in principle is 3.1 % is only 0.8 % for the first 840 939 Euro paid salaries.

In France for employers with less than 50 employees in rural revitalisation zones or in urban revitalisation zones there is an exemption from the employer's Social Security subscription. In order to be granted this exemption an employer is obliged not to have dismissed an employee during the past twelve months for any reason. Employees must have a contract for twelve months or more and must be subject to the unemployment insurance regime.⁹⁵

In Greece and Portugal there are small investment initiatives on a local level that are supported when these entities recruit employees. In Portugal, they can get a non-reimbursable grant, amounting to 18 times the minimum wage for each job created if they fulfil the preconditions.⁹⁶ In Greece grants are given for new investments depending on the number of new employees that are employed. In order to get a grant for a new investment a firm has to employ at least twenty new employees.

In general it can be concluded that the provision of a simplified regulatory environment would be the most important help for all enterprises and in particular for SMEs in order to foster employment. So, the most important approach would be to reduce complexity and obscurity with respect to employment regulations, so that it is eas-

89 Commission pour les Simplifications Administratives (COSA), Simplify to undertake - 5 axes of administrative simplifications for companies and professionals, Meeting of the Commission in charge of the Administrative Simplifications, 2001/04/17.

90 Bockel, J.-M., Rapport sur la simplification de la création d'entreprise, de la vie des créateurs, et de la gestion de leurs entreprises (Report on the simplification of company creation, of the creators' life, and of their companies' management), Report to the Prime Minister, Lionel Jospin, 2001.

91 http://www.anpe.fr/employeur/aide/empl_aide_1salarie.jsp.

92 This Programme aims to recognise good practises in the field of safety, hygiene and health in the work place and consists of two kinds of reward: one, entitled 'Sectoral Safety', which distinguishes the best enterprises in manufacturing, construction and services; the other, 'Total Safety', which selects the enterprises from those awarded with the 'Sectoral Safety' prize that show a continued and successful effort in these matters.

93 This reduction lasts for twelve months.

94 Employer's social security payments are divided into three categories: I. Depreciation of fixed assets subject to wear and tear under 50 456 Euro or under 10 % of wages -> 3.6 %; II. Depreciation over 50 456 Euro and 10-30 % of wages -> 5.6 and III. Depreciation over 50 456 Euro and over 30 % of wages -> 6.5 %.

95 This exemption cannot be added to another exemption for the same employee.

96 Among others at least 50 % of the promoters have to be young people looking for their first job or long-term unemployed. The entity must have less than 20 workers and the total amount of investment does not exceed 30 million PTE.

ier for enterprises to understand the norms and to work out what specific regulations apply to their individual case.

When thinking of special support initiatives, it would make sense to pay attention to the special situation of first time employers. In this respect there is room for improvement in the countries of Europe-19. So far only two countries provide specific initiatives or relief for first time employers. The analysis presented is not meant to propose concrete approaches that could be applied in the countries, but it draws some attention to the special case of first time employers. In order to foster employment it might be a good approach to reflect on the growth potential in these very small firms as suggested by the French example.

5.4. Use of government support

The 2001 ENSR Survey on SMEs reveals that the total share of firms that have received government support in the recruitment process is 9 % (see Table 5.3). One explanation for this low share is that support directly addressed to the recruitment process is not a common approach in most of the countries of Europe-19.

The kind of government support received, mainly concentrates on subsidies (48 %), tax reduction (33 %) and some training (12 %). The share of firms actually having received government support increases with enterprise size.⁹⁷ So, it might be that especially very small firms are not well informed about this kind of support. One explanation for this could be that the enterprise owners are too much involved in day to day business and find no time to get acquainted with possible support measures and therefore do not make use of them. Another explanation might be that this kind of support perhaps is not clear enough or not well communicated to the enterprises.

Table 5.3: Government support received to cope with administrative obligations when recruiting employees since 1997, Europe-19

	Number of employees					Total
	0	1	2-9	10-49	50-249	
Yes	3 %	7 %	10 %	13 %	16 %	9 %
No	97 %	93 %	90 %	87 %	84 %	91 %
Total	100 %	100 %	100 %	100 %	100 %	100 %

Source: The 2001 ENSR Survey on SMEs.

Empirical evidence in Finland suggests that smaller enterprises do not have the intention to grow in general and therefore do not need any support in the recruitment process. One third of the self employed do not want to grow their business under any circumstances. They prefer to provide a meaningful job for themselves.⁹⁸

Another aspect which could be relevant is that the entrepreneur himself has to be active in order to inform himself about what is available, so, there are person-related factors such as personal education and the willingness to deal with these things, that have an influence on the use of support measures too. Therefore it has to be taken into consideration, that although there might still be room for improvement from the provision side, the decision to really take-up the provided support cannot be fully influenced by the provider alone. There also has to be an awareness on the side of the entrepreneur to deal with it. So, even if government support would be perfectly provided and communicated, this would not necessarily be a guarantee that more enterprises would make use of it.

⁹⁷ According to the Chi-square test the relation between enterprise size and the reception of government support in order to cope with administrative obligations when recruiting employees in the last three years is statistically significant.

⁹⁸ Mäki, K., and T. Pukkinen, *Työnantajaksi ryhtymisen kynnykset (Barriers to employment among Finnish self employed.)*, Studies and Reports, Ministry of Trade and Industry, Helsinki, 2000.

Chapter 6

Conclusions and recommendations for further action

A comparison of administrative regulations, performed in a broad sense with other possible business constraints for SMEs, shows that for 10 % of SMEs in Europe-19 administrative regulations in general represent the most important business constraint. Only lack of skilled labour (21 %) and access to finance (15 %) are cited more often.

The majority of business owners in Europe-19 - almost two thirds (64 %) - say that administrative burdens in the field of employment regulations have increased since 1997. This finding suggests that there has not been sufficient progress in Europe-19 according to the goal set out at the Luxembourg Jobs Summit to review and to simplify administrative burdens placed on SMEs when recruiting employees.

Two potential sources of administrative burdens related to the recruitment of employees have been investigated: First, the number and nature of the obligatory administrative procedures in the recruitment process and second, employment regulations as another potential source for administrative burdens. The findings show that administrative burdens do not primarily stem from the number and nature of the obligatory administrative procedures in the recruitment process itself. In most countries the administrative procedures do not pose substantial administrative burdens on employers. On average, 3.3 (2.1) obligatory administrative procedures have to be gone through when recruiting the first (a subsequent) employee.

From SMEs' point of view it seems to be the cumulative effect of various norms and the complexity and obscurity of employment regulations that place administrative burdens on them. An individual regulatory measure may impose only a small administrative burden on SMEs but a (large) number of different, obscure regulations create a major problem. The smallest enterprises particularly have difficulty to single out one regulatory measure that places the highest burden on them. Instead they express a general feeling of being burdened by the overall employment regulation. In order to relieve SMEs from administrative burdens and thus, foster employment, a more thorough, holistic approach to deregulation and more transparency would be required.

31 % of European SMEs, i.e. in total approximately six million enterprises, say that their recruitment decisions are substantially affected by administrative burdens related to employment regulations. These SMEs show a statistically significant smaller employment growth compared to SMEs that say that administrative burdens have no impact on their recruitment decision (controlled for several other characteristics). Thus, in the absence of administrative burdens, employment growth might have been higher in the first group of enterprises. However, the regression coefficients indicate that in absolute terms the effect of administrative burdens on employment growth is rather limited.

Strategic tools to avoid administrative burdens related to regular employment could be the use of outsourcing and temporary agency labour. However, evidence suggests, that the large majority of SMEs do not follow such a strategy. Nevertheless, some weight is attributed to this strategy at least by larger SMEs that make use of outsourcing and temporary agency labour more frequently.

Two different government initiatives to foster and to simplify the recruitment of employees - electronic data transmission and threshold levels in employment regulation - have been investigated. So far, electronic data transmission to the respective authorities is not particularly widespread in the countries of Europe-19. But as administrative procedures in the recruitment process do not place remarkable administrative burdens on SMEs in most of the countries, electronic data transmission would not contribute much to relieve SMEs from administra-

tive burdens. In a number of countries threshold levels have been introduced in employment regulation. Evidence shows that these can be good instruments to relieve SMEs from administrative burdens.

There are hardly any government initiatives in the countries of Europe-19 that directly address the recruitment process in general and the recruitment of the first employee in particular. Such initiatives are not a common approach in the countries of Europe-19. Only in Belgium and in France is there evidence that first time employers are especially supported.

To sum up, a more simplified and transparent regulatory environment would be the most important form of help for enterprises of all sizes and in particular for smaller scaled businesses. While on the one hand side support initiatives could be better targeted and communicated to SMEs, enterprise owners themselves also have to search for information actively and to take up the support offered by the respective institutions.

Furthermore, with respect to the introduction of new employment legislation, a regulatory impact assessment can be a useful tool to identify, early in the process, likely positive and negative effects of legislative proposals, including possible disproportionate administrative burdens on enterprises in general and SMEs in particular. Such an assessment, which normally includes consultations with stakeholders, could raise the attention of policy-makers towards possible administrative burdens that could result from new employment regulation. Existing legislation could be modified so that administrative burdens could be avoided or significantly reduced. Regulatory impact assessment is specifically mentioned in the EU Employment Guidelines and it is already used by most countries of Europe-19 for the analysis of new legislation in selected regulatory fields.

References

- Bertola, G., T. Boeri and S. Cazes, Employment in industrialized countries: The case for new indicators; in: *International Labour Review*, Vol. 139, No. 1, p. 57-72, Geneva, 2000.
- Better Regulation Task Force, *Helping Small Firms Cope with Regulation - Exemptions and other Approaches*, London, 2000.
- Bockel, J.-M., *Rapport sur la simplification de la création d'entreprise, de la vie des créateurs, et de la gestion de leurs entreprises* (Report on the simplification of company creation, of the creators' life, and of their companies management), Report to the Prime Minister Lionel Jospin, 2001.
- Boockmann, B. and T. Hagen, The Use of Flexible Working Contracts in West Germany. Evidence from an Establishment Panel, in: *ZEW Discussion Papers*, No. 01-33, Mannheim, 2001.
- Brunetti, A., G. Kisunko and B. Weder, *How Businesses See Government - Responses from Private Sector Surveys in 69 Countries*, World Bank Paper, Washington DC, 1997.
- Brunetti, A., N. Wallert, A.A. de Chambirer, B. Rigassi and H.-R. Früh., Administrative relieve Deregulation (different articles), in: *Die Volkswirtschaft* 8/2000, Bern, 2000.
- Bundesministerium für Wirtschaft und Technologie, *Bericht über den Stand der Initiative Abbau bürokratischer Hemmnisse des Bundesministeriums für Wirtschaft und Technologie* (Report on the status of the initiative 'Dismantling of administrative burdens' of the Federal Ministry of Economics and Technology'), Berlin, 2001.
- Centeno, L. and SANTANA (co-ordination), *Forms of work: Temporary agency work; Subcontracting, Employment and Vocational Training Observatory*, Lisbon, 2000.
- Charzat, M., *Report to the Prime Minister on the attractiveness of the French territory*, July 2001.
- Clemenz, G., D. Grünwald and S. Mikinovic, *Ökonomische und soziale Aspekte der Personalbereitstellung* (Economic and social aspects of temporary agency workers), Vienna, 1986.
- Commission pour les Simplifications Administratives (COSA), *Simplify to undertake - 5 axes of administrative simplifications for companies and professionals*, Meeting of the Commission in charge of the Administrative Simplifications, 2001/04/17, under the presidency of François Patriat, State Secretary in charge of SMEs, Business, Craft, and Consumption.
- Danish Agency for Trade and Industry, *The conditions of the female entrepreneur*, 2000.
- Department of Labour, *Employers' Perceptions of the Effect of Labour Legislation*. Study carried out by the Economic and Social Research Institute on behalf of the Department of Labour, Dublin, 1986.
- Edin, P.-A. and B. Holmlund, *Effekter av anställningsskydd, Bilaga till 1992 års arbetsrättskommittés betänkande*, SOU1993:32, Stockholm, 1993.
- European Commission, Observatory of European SMEs, 2002/No. 1; *Highlights from the 2001 Survey; Report* submitted to the Enterprise Directorate General by KPMG Special Services, EIM Business & Policy Research, and ENSR; Brussels, 2002.
- European Commission, Observatory of European SMEs; 2002/No. 2; *SMEs in Europe, including a first glance at EU Candidate Countries; Report* submitted to the Enterprise Directorate General by KPMG Special Services, EIM Business & Policy Research, and ENSR, Brussels, 2002.

Eurostat, *Yearbook 2001*, 2001.

Finnish governments regulation data bank in the Internet <http://www.finlex.fi> (situation on 22 October 2001).

Friedrich, W. and H. Hägele, *Ökonomische Konsequenzen von Schwellenwerten im Arbeits- und Sozialrecht sowie die Auswirkungen dieser Regelungen - Endbericht 1997*. Untersuchung im Auftrag des Bundesministeriums für Wirtschaft (Economic Consequences of Threshold Values in the Labour and Social Legislation and the Impact of these Rules - Final Report 1997. Study on Behalf of the Federal Ministry of Economics), Cologne, 1997.

Friedrich, W., H. Krantz and M. Schorn, *Abbau bürokratischer Hemmnisse bei Existenzgründungen und -übernahmen (Cut back of administrative burdens on enterprise start ups and take-overs)*, in: *Studien der WSF Wirtschafts- und Sozialforschung*, Heft 24, Kerpen, 2000.

Henreksson, M., *Institutionella förutsättningar för entreprenörskap och företagartillväxt*, Tillväxt: svensk forskning om företags expansion, 2001.

Holzinger, E., *Atypische Beschäftigung in Österreich (Atypical Employment in Austria)*, Public Employment Service (AMS), Vienna, 2001.

http://www.anpe.fr/employeur/aide/empl_aide_1salarie.jsp.

IKEI, *Spanish National Report on Temporary Agency Work*, report for the European Foundation for the Improvement of Living and Working Conditions, Dublin, 2001.

Joint Employment Report, COM (2000) 551, 2000.

Mäki, K. and T. Pukkinen, *Työnantajaksi ryhtymisen kynnykset. (Barriers to employment among Finnish self-employed.)* Studies and Reports, Ministry of Trade and Industry, Helsinki, 2000.

Marlow, S. and A. Strange, *Small Firm Labour - A Valued Asset but Neglected Resource?*, Research Report to the Leicestershire Centre for Enterprise, 2000.

Nicoletti, G, S. Scarpetta and O. Boylaud, Summary Indicators of Product Market Regulation with an Extension to Employment Protection Legislation, in: OECD (ed.), *Economics Department Working Papers*, No. 226, Paris, 2000.

Niehof, J. and E. van Straten, *Belemmeringen voor het in dienst nemen van personeel in het MKB (Impediments to staff recruitment in SMEs)*. EIM, Zoetermeer, 1998.

Nijssen A., H.E. Hulshoff and H.C. Visee, *Administratieve lasten in dienst nemen werknemers: een internationale vergelijking in 8 landen (Administrative burdens related to recruiting employees: an international comparison of 8 countries)*, OSA, The Hague, 1997.

Normgruppen, *förenklad reglering gentemot näringslivet*, 1985.

NUTEK, *Förbättra för nyföretagaren - NUTEKs erfarenheter från Startlinjen*, Info 071-1999, 1999.

OECD, *Regulatory Reform for Smaller Firms*, Science Technology Industry, Paris, 1999.

OECD, *Reducing the Risk of Policy Failure. Challenges for Regulatory Compliance*, Paris, 2000.

OECD, *Businesses' Views on Red Tape, Administrative and Regulatory Burdens on Small and Medium-Sized Enterprises*, Paris, 2001.

OECD Public Management Committee, *Regulatory Policies in OECD Countries. From Intervention to Regulatory Governance*, Paris, 2001.

Oechsler, W.A. and T. Peuntner, *Arbeitsrecht als Mittel der Beschäftigungspolitik (Labour law as instrument of employment creation policies)*, in: *Personalführung*, No. 3/2000, p. 50-59, Düsseldorf, 2000.

Paris Chamber of Commerce and Industry, and Mediamétrie Institute, *20th opinion survey on the present economic situation*, 2001.

Portugal, P., *Job volatility, job protection and unemployment protection*, *Quarterly Economic Report of the Portuguese Central Bank*, December, Lisbon, 1999.

Report on the Implementation of the Action Plan to promote Entrepreneurship and Competitiveness, SEC (2000) 1825, 2000.

Schröer, E. and M. Holz, Verwaltungsbedingter Zeitaufwand für die Umsetzung von Gründungsvorhaben (Administrative time requirement for the realisation of start ups), published by the IfM Bonn in: *IfM-Materialien*, No. 144, Bonn, 2000.

Sexton, J.J. and P.J. O'Connell (editors), *Labour Market Studies: Ireland*, study for DG V, Commission of the European Union, Luxembourg, 1996.

Study on administrative burdens in the SMEs of the skilled craft sector in Luxembourg: (see www.cdm.lu section 'Services' and subsection 'charges administratives').

Teknologisk Institut, *Administrative barriers for businesses upon employment of persons with wage contribution*, 2000.

Teknologisk Institut for Erhvervs- og Selskabsstyrelsen, *The administrative acts: consequences for different types of businesses*, 1998.

Unie van de erkende sociale secretariaten van werkgevers, *Het erkend sociaal secretariaat* (The licensed Employers' Social-Accounting Secretariat), Brussels, 2001.

Wagner, J., C. Schnabel and A. Kölling, Threshold values in German labour law and job dynamics in small firms: the case of the disability law, in: Universität Lüneburg (ed.), *Arbeitsbericht No. 233*, Lüneburg, 2001.

Wagner, J., C. Schnabel and A. Kölling, Wirken Schwellenwerte im deutschen Arbeitsrecht als Bremse für die Arbeitsplatzbeschaffung in Kleinbetrieben? (Do threshold values in the German labour law act as a brake on employment creation in small businesses?), in: Universität Lüneburg (ed.), *Arbeitsbericht No. 240*, Lüneburg, 2001.

Whelan, B.J., R. Breen, T. Callan and B. Nolan, *A Study of the Employment Possibilities for the Long Term Unemployed*, Study carried out for the Department of Labour, The Economic and Social Research Institute, Dublin 1991.

Winters, J. and C. Nolan, *Does new employment legislation cause small firms to fail?* Paper to the British Universities Industrial Relations Conference, July, University of Warwick, 2000.

Annex I

Concepts of administrative burdens

This annex serves to clarify some concepts on administrative burdens. Administrative burdens in general result from the requirements imposed on firms by law, regulations and administrative procedures. The main sources of these requirements are the typical types of regulation presented in Table I.1. One of the main sources of administrative burdens is employment regulation with a variety of different legal norms that have to be regarded when employing staff.⁹⁹

Table I.1: Policy areas as sources of administrative burdens

Policy areas
Start-up regulation
Environmental regulation
General statistical information regulation
Commercial law
General taxation
Employment regulation
- Health and safety
- Working hours
- Sector specific requirements
- Dismissal law
- Employment contracts
- Employment related taxes
- Worker participation law
- Collective bargaining
- Social security and pensions

There are different regulatory cost concepts that can be applied in order to analyse the impact of regulations and administrative burdens on businesses. Direct costs and indirect costs have to be distinguished in this respect. Direct costs directly result from dealing with the regulation posed on businesses. Indirect costs relate to changes in companies' behaviour. The following is a compilation of the different cost elements is presented (See Table I.2).

99 Brunetti, A., Kisunko, G. and Weder, B., How Businesses See Government - Responses from Private Sector Surveys in 69 Countries, World Bank Paper, Washington DC, 1997.

Table I.2: Regulatory cost concepts

Direct costs	
Compliance costs	One-off costs needed to comply with regulation, such as investments in new production processes, technology, equipment, labour, training of personnel, infrastructure, and organisational systems
Operating costs	Recurring costs arising from the proposed measure, such as increased costs for raw material and labour, other recurring production costs, licence fees, and periodic inspections
Administrative costs	Related to time and/or money (internally and/or through the purchase of external advice) spent on understanding a law, collect, plan, process, report, retain data, fill in and deliver forms required by the government
Increase	In levies of taxes, premiums, etc.
Decrease	In transfer payments
Indirect costs	
Negative effects on	Companies' decisions to invest and trade (in the EU and outside)
Negative effects on	Companies' decisions to innovate (e.g. R&D investments; product, process, organisational innovation)
Negative effects on	Companies' ability to compete (e.g. to adjust to change, to enter a market, distortional effects on the competitive environment for certain business groups, for example SMEs, compared with others)

The only element of regulatory costs to businesses on which this report focuses are the administrative burdens as presented in Table I.3. What is most important about this approach is that there are two different potential sources that can pose administrative burdens on businesses in the recruitment process: First, there are technical aspects such as the number and nature of the administrative procedures in the recruitment process and how the procedures are organised. Second, the regulatory framework, e.g. employment regulation, and its complexity and obscurity, which influences the degree of preparatory work an employer has to do to deal with when recruiting employees.

Table I.3: Elements of administrative burdens related to the recruitment of employees

Technical aspects related to the recruitment process
Number of administrative procedures
Nature of administrative procedures (how the process is organised) such as:
- Contacts with authorities
- Form filling
- Delivery of the requested information
- Time requirement (waiting for decisions that might delay the recruitment process)
Employment regulation and preparatory work by the entrepreneur
Information collection
Understand the specific regulations that are relevant for the individual case
Work out which precise actions are demanded from the individual entrepreneur

Technical aspects related to the recruitment process:

The number and nature of administrative procedures in the recruitment process and the way the procedures are organised can present a bottleneck for employment creation especially in SMEs. Administrative burdens in this respect might result from the number of obligatory contacts with the relevant authorities, the number of forms that have to be completed and delivered, the time requirement of the administrative procedures in each individual case and the degree of complexity and obscurity of the different administrative steps.

Furthermore, firms may face significant administrative burdens that result from waiting for answers from public authorities (which may actually affect seriously at least temporarily the timing of investments, production capacity etc.).

Employment regulation and preparatory work by the entrepreneur:

An entrepreneur first has to search for and collect all relevant information he needs in order to carry out the obligatory administrative procedures in the recruitment process. As a special case, first time employers are not well experienced in this respect and therefore often require more time to gather and process all the requested information than experienced employers.

Second, entrepreneurs have to understand the relevant norms and work out which precise actions are demanded from them. This is likely to be a substantial part of the administrative burdens as it requires identification and contacting of relevant authorities, specialised knowledge including legal advice depending on the individual case as well as regularly updating of information (as new laws and regulations are introduced and as the number and complexity of the regulatory measures that firms have to face is increasing).

Annex II

Statistical data on regression results

The regression results presented in Section 4.1 reveal that there is a systematic difference in actual employment growth between those SMEs that say that their recruitment decisions are substantially influenced by administrative burdens and those that say that their recruitment decision are only marginally affected. In fact, the first group of SMEs did show a significantly smaller employment growth during the period 1999-2000 in Europe-19. The same result holds for the analysis of specific countries, economic sectors and legal forms (see Table II.1).

Table II.1: Correlation between the perception of administrative burdens and actual employment growth, 2001

Independent variables	Coefficient	Significance level
All European SMEs saying that their recruitment decisions are substantially affected by administrative burdens	-0.02	0.035
<i>Analysis by country</i>		
United Kingdom	-0.10	0.002
Italy	-0.06	0.000
Germany	-0.03	0.083
<i>Analysis by economic sector</i>		
Business Services	-0.09	0.000
<i>Analysis by legal form</i>		
Private Limited Companies	-0.04	0.020

Source: Calculations by EIM based on results from the 2001 ENSR Survey on SMEs.*

In Table II.1 the results of the regression analyses are presented, indicating the exact size of the regression coefficients and the respective level of significance. If differences in the perception of administrative burdens between the two groups of enterprises would not explain systematic differences in actual employment growth, the regression coefficient would have the value 0.0.

The absolute levels of the regression coefficients shown in Table II.1 are indeed rather low, varying between -0.02 and -0.10. This implies that although the two groups of SMEs show systematic differences in employment growth, the actual size of the effect on employment growth is quite limited, measured in absolute terms.

The above-mentioned significant correlation between perceived administrative burdens and actual employment growth is valid, independent of differences between the two groups of enterprises with respect to other enterprise characteristics (e.g. economic sector, legal form etc.). So, although there might be differences between the two groups of enterprises with respect to these other enterprise characteristics, the outcome of the regression analysis is still significant regardless of these differences.

Nevertheless, it is interesting to analyse whether the two groups of European SMEs do indeed differ significantly with regard to these other enterprise characteristics. A Chi-square test reveals that the two groups of enterprises also differ with regard to the variables: country, economic sector, legal form and age of enterprise and employment size (see Table II.2). Nevertheless, due to the characteristics of the regression analysis these differences in enterprise characteristics have no influence on the above presented regression results.

Table II.2: Significant differences between the two groups of SMEs with respect to other enterprise characteristics, Europe-19, 2001

<i>Enterprise characteristics:</i>	<i>Significance level</i>
- Country	0.000
- Economic sector	0.000
- Legal form	0.000
- Age of enterprise	0.002
- Five categories (0, 1, 2-9, 10-49, 50-249 employees)	0.000

Source: Calculations by EIM based on results from the 2001 ENSR Survey on SMEs.

To conclude, with regression techniques the kind of correlation between the impact of administrative burdens resulting from employment regulations perceived by entrepreneurs and the actual employment growth in these enterprises could be specified. Although the regression results show a significant difference in employment growth between the two investigated groups, seen in absolute terms the actual effect of administrative burdens on employment growth is rather limited.

Annex III

Initiatives in the countries

III.1. Simplification of administrative obligations

Whereas the focus of thinking in Section 5 was to add some additional support for employers when recruiting the first or an additional employee, in the following an overview is given about simplification measures in the countries in order to simplify existing administrative obligations when recruiting employees in order to avoid administrative burdens.

Belgium: The most prominent measure in Belgium to simplify administrative obligations that are relevant for the hiring process is the modernisation of the social security system. It will be moved to an electronic registration system, with a full removal of the use of paper documents in order to simplify the administrative formalities, to reduce the number of social documents and to remove the use of paper and to increase the centralisation of all social information into one database which will then be used by all organisations of the social security system.¹⁰⁰

Denmark: The approach to ease the administrative burdens posed on firms in Denmark works in such a way that measures are targeted at different specific groups such as firms that handle administrative obligations themselves; this particularly applies to large firms. Firms that would like to handle administrative obligations themselves, but need knowledge about how to do so and firms that do not want to handle administrative obligations themselves. These are primarily small companies.¹⁰¹

Finland: Ways in order to simplify employer obligations have been investigated by the Ministry of Social Affairs and Health, the Ministry of Finance and the Ministry of Trade and Industry. There has been a proposal on simplifying employer obligations in July 2001.¹⁰²

France: In a broader approach, 17 measures have been applied by the Ministry in charge of Economy, Finance and Industry in 1997 and 1998 in order to simplify administrative obligations for SMEs with respect to various procedures included in the Finance Law Project.¹⁰³

Furthermore, in France there will be a management centre created in the building sector to help firms in administrative employment matters. Thus, the 122 000 firms in the building sector will have to spend less time to complete the hiring formalities, to manage the social subscriptions and pay sheets, and they will not risk being punished for not having declared a wage-earner.

Germany: Since 1999 there is a project group for 'dismantling administrative burdens' ('Projektgruppe Abbau von Bürokratie') established by the Federal Ministry of Economics and Technology, which in co-operation with the business community tries to identify and dismantle unnecessary administrative burdens on enterprises. An initial result of their work is the agreement concluded with health insurance funds to standardise the forms in order to relieve firms from a considerable burden.¹⁰⁴

On behalf of the Deutsche Ausgleichsbank (DtA) - the main German public support bank and provider of business support services - the Bureaucracy Info Tool ('Bürokratie Info Tool B.I.T.') is currently developed as a user-friendly

¹⁰⁰ The system will be modernised in three steps: the electronic declaration of employment (DIMONA), the multifunctional SS declaration (DMF) and the electronic declaration of social risks (DRS and ADRS). For more information see Section III.3.

¹⁰¹ The solutions include development of IT-based administration and the establishment of a certified network of business service suppliers where companies with up to ten employees may outsource their administrative duties. The arrangement is not permanent, as it has elements of support as the companies may receive financial incentives to invest in IT-based administration and registration tools.

¹⁰² The proposal includes a portal for carrying out employer obligations in very small enterprises. The system would enable insurance, calculation as well as payment for wages, taxes and other employer payments and would take care of monthly and yearly announcements for tax office and insurance companies. The other aspect of the proposal is a change in the tax accounting system, which would combine different payments so that the number of different transactions would decrease.

¹⁰³ Charzat, M., Report to the First Minister on the attractiveness of the French territory, July 2001.

¹⁰⁴ Examples of further successes are the removal of obligations to submit statistics, the use of new technologies, the model project to use new technologies for administrative purposes, the transfer of official tasks to tax consultants and simpler procedures to check the appropriate use of ERP loans.

internet-databank for regulations and procedures which have to be observed by firms encompassing, among others, information on labour and social law related issues such as health and safety, social security as well as wage taxes. The B.I.T. will be accessible via the Internet¹⁰⁵ and will start to operate in 2002.¹⁰⁶

Ireland: The Irish Government introduced a programme of regulatory reform measures that aims to achieve administrative simplification in July 1999. The measures, which are designed in particular to ease the administrative burden on small business, are not specifically and narrowly focused on legal issues when hiring employees, but they address a broader set of concerns.

Netherlands: All social security enforcement agencies will be combined in January 2002 into a single organisation, the Employee Insurance Enforcement Agency.¹⁰⁷ Details so far are not known but changes for employers and administrative offices that submit data of employees are expected.

Portugal: Several measures have been adopted in order to simplify the legal obligations in the hiring process. With respect to the employee's registration with Social Security, an employer can download all relevant forms and send them online to the public authority. Another important simplifying measure that has been introduced in 2001 is, that firms have to report the employees' remuneration sheets to Social Security by digital or electronic means.¹⁰⁸ In addition, a network of social security and solidarity shops has been introduced in order to cover the entire country by these services. The aim is to be locally available for entrepreneurs and thus, facilitating their relation with public authorities as far as social security issues are concerned with respect to availability of information, support and advice.

Spain: As a result of the legal changes in Spain, a new web site has been launched in September 2001¹⁰⁹, which integrates services and contents from different departments. Users can already download up to 100 forms and carry out as many as 49 procedures related to social security, income tax payment and others. This web site will function as a one-stop shop where citizens and enterprises can carry out up to 150 administrative procedures online, avoiding the hassle of having to go to different institutions in person. As far as the hiring of employees is concerned, information on different job contracts and administrative procedures is provided.

Sweden: Over the next three years administrative burdens caused by regulations will be dealt with. A special unit in the Ministry of Industry, the Simplex Division was established in 1998 to promote better regulation and to screen and monitor all new regulations.¹¹⁰ Another important task is the co-operation with the authorities on how to simplify existing regulations and for the first time there is a formal regulation for public authorities to follow. No authority or central agency is allowed to initiate a new regulation without doing a calculation of the costs resulting for SMEs.

Switzerland: The national project 'Administrative Relief for SMEs' is supposed to reduce the firms' burden with respect to the administrative obligations posed by the authorities. Generally, Swiss authorities not only try to reduce the existing administrative burdens, but they also try to prevent the imposition of additional burdens, employment related issues being part of it.¹¹¹

III.2. Availability of support measures or organisations

It has to be recognised that support measures chosen in the individual countries depend on the priorities defined in each country. These priorities of course represent the individual situation in the countries and the range of policies and measures set out in the National Action Plans. Below, support measures are presented as far as they have been put in place after the Luxembourg Jobs Summit in order to give some support to enterprises when recruiting employees.

105 The enterprise starter, an administrative officer or a consultant delivers information on the main characteristics of the future enterprise (e.g. type of enterprise activities, legal form, number and kinds of employees, premises, machines and equipment) as input for the inquiry.

106 Among other things the B.I.T. will provide information on: (1) those regulations which are *relevant* for the specific case, (2) competent administrative offices and other institutions, (3) required forms and documents which have to be submitted, (4) possible discretionary rights for the administration which have to be kept in mind and (5) contact partners for further information.

107 Uitvoeringsinstituut Werknemersverzekeringen (UWV).

108 This measure has been gradually introduced, being at the moment only obligatory for enterprises with more than 100 employees; in April 2002 it will be obligatory for enterprises with more than 20 and in July 2002 for those who employ 10 to 20 workers.

109 www.administracion.es.

110 The legal base for this is the Simplex regulation (SFS 1998:1820). Once a year the Simplex Group writes a report to Parliament on how the regulation is being implemented at different central agencies. The idea is also to make similar calculations for laws instituted by the different ministries.

111 Brunetti, A., N. Wallert, A.A. de Chambirer, B. Rigassi, H-R. Früh et al., Administrative relief Deregulation (different articles), in: Die Volkswirtschaft 8/2000, Bern, 2000.

In general, there are numerous organisations like Chambers of Commerce and Craft, Federation of Entrepreneurs, Employment and Business Centres, Occupational Safety and Health Inspectorates and Tax Offices etc. that provide firms with information about recruitment issues. The intention of this section is to give an overview of the initiatives, which are worth mentioning, in the countries.

Austria: The Social Insurance provides information about all employment related issues on its website.¹¹² The registration of employees - who has to be registered, deadlines, basis for contributions, changes in relevant laws, etc. - are covered. The information is rather substantial and user-oriented.

The Austrian Public Employment Service (AMS) has established a so-called 'Job Room' for entrepreneurs on its homepage¹¹³ where they can place job advertisements on the Internet and look for suitable applicants already registered with the AMS. Furthermore, the homepage provides a wide range of links to recruiters, training institutes, different lobbies, ministries and other organisations that might be relevant when hiring an employee. The AMS also informs entrepreneurs about benefits they might be able to get when they employ older persons, apprentices, etc.

Belgium: Support measures in Belgium have been completely taken over by the 'Licensed Social Secretariats'. These are private non-profit sector organisations that do the complete wage and personnel management services for the firms.¹¹⁴ Historically these organisations are an offshoot of the services that employer unions provided to their members. These personnel administration service departments of the employer unions have become independent non-profit organisations that take over an ever-increasing part of the national personnel and wage administration obligations of the firms. Most of the SMEs cannot deal with the administrative obligations themselves anymore because they are too complex and obligations are even increasing.¹¹⁵ It is only the larger SMEs that still handle their own administration frequently using updated costly software packages and of course the very large firms that have an internal personnel department.¹¹⁶

The number of members in the social secretariats is still rising. The Social Secretariats are thus in the middle of the triangle between the employer, the employee and the government organisations and most of the wage and personnel administration is handed over to them and there is a transfer of responsibility with respect to the correctness of the transactions with both the government and the employee. The Licensed Social Secretariats in fact facilitate an extremely difficult system.

Denmark: The establishment of virtual regional contact points for entrepreneurs using the one-stop-shop concept where all relevant public authorities are represented is the most recent kind of support in Denmark. These contact points provide a support service for firms in general and in the hiring process too.

Finland: The Service Centre provides a counselling service and help with respect to employment related issues for employers with less than ten employees.¹¹⁷ An employer may also ask/appoint the Service Centre to take care of all the paper work.¹¹⁸ Numerous lobbying organisations, Central Pension Security Institute, Employment and Business Centres (Ministry of Employment and Ministry of Trade and Industry), Occupational Safety and Health Inspectorates and Tax Offices also provide employment information for free.¹¹⁹ Finnish Government will publish generally binding collective bargaining agreements on the Internet where they will be readable and printable by the end of 2002.¹²⁰

France: There are two websites - one by a network and the other being a portal site of the French administration placed on the Internet, both having been created so as to treat rapidly the firms' requests in any domain they may have questions.¹²¹ A firm may send an e-mail and then receives rapidly the requested information. The network first was a pilot project in two French regions with 13 departments starting in 2001 and is now going to be available throughout the country, free of charge. The portal site of the French administration provides all administrative forms dealing with business related matters. Information about the support for the recruitment process as

112 www.wgkk.at and www.sozvers.at.

113 www.ams.or.at.

114 Very few SMEs do their own personnel administration with respect to the administrative obligations for their employees, for the calculations of the wages, the Social security contributions and the withholding tax on wages and for the respective monthly or quarterly declarations.

115 Note that accountants no longer do the wage and personnel management due to its complexity.

116 Unie van de erkende sociale secretariaten van werkgevers, Het erkend sociaal secretariaat (The Licensed Social Secretariat), Brussels, 2001.

117 Telephone counselling (8h - 16.15h) costs 1 Euro/minute + local call fee.

118 In 2001, costs for the service (regular full-time employment) amounted to 43,73 Euro.

119 For example the Federation of Finnish Entrepreneurs has a portal (Reference: <http://www.yrittajat.fi>) including 'Employers ABC' which provides information on generally binding collective bargaining agreements, calendar for employment related issues for the year and information about wages.

120 Finnish governments regulation data bank on the Internet <http://www.finlex.fi>, read 22nd October 2001.

121 <http://www.mininfo.minefi.gouv.fr> and <http://www.service-public.fr>.

well as a guide to recruitment is provided by the National Employment Agency ('Agence Nationale Pour l'Emploi').¹²²

Germany: The Federal Ministry of Labour offers a compilation of the most important laws in the fields of labour legislation, health and safety as well as social security and a large variety of information brochures on labour and social legislation issues that can be downloaded. In order to provide more individual information and advice for case-specific inquiries, several help-lines ('Bürgertelefon') have been established. There are seven separate help-lines that focus each on a single topic.¹²³

All the relevant institutions, which have to be contacted by employers during the hiring process, also offer information and advice on the Internet. Their information services are free of charge for the employers. However, all given information is usually restricted to the scope of duties of the respective institutions.

Health and safety regulations present the most complex and obscure legal fields in Germany. Even for experts it is at times difficult to determine which regulations have to be applied in an individual case. In order to tackle this problem an employer can get consultancy by health and safety experts that he has to pay for or he participates once a year in two seminars - the so called employer model ('Unternehmermodell') - in order to get acquainted with the subject himself.

The private Internet service 'labour legislation for free' ('Arbeitsrecht 4 free') offers more than 15 000 pages of structured specialised information on labour legislation issues.¹²⁴ The service includes an updated databank of labour laws, approx. 200 model contracts, approx. 450 commented labour court decisions and approx. 30 partly interactive checklists as well as recent expert analyses and hints.¹²⁵

Netherlands: There are Working Conditions Services (Arbodiensten) in the Netherlands where enterprises employing staff are obliged to accept the assistance of a certified Working Conditions Service to comply with the obligations stipulated by the Working Conditions Act. Working Conditions Services are commercial enterprises, and employers have to pay fees for their services.

Entrepreneurs do not have to contact various institutions such as Municipality, Social Security Enforcement Agencies (UVIs), Tax Authority, Chamber(s) of Commerce, they may either physically or virtually contact the Business Desk which is a single one-stop-shop. At the moment there are three pilot one-stop-shops.¹²⁶

In addition, there is the Government Desk 2000¹²⁷ with a compilation of information via a single website that functions as a virtual one-stop-shop. The front office reveals the information route between private enterprise and the government, while the back-office caters for streamlining.¹²⁸ The intention is to provide a nation wide net of one-stop-shops that covers the entire service package of the government. This future government one-stop-shop may be accessed both physically and online.¹²⁹

Portugal: There are several offices, agencies and help-lines that offer information, support and advice to entrepreneurs, some of them being specialised in labour issues.¹³⁰ In addition there is a service for Portuguese employers - the Businesses Formalities Centres Network, a one-stop-shop especially designed for enterprise creation. Employers can obtain information about hiring issues there or by a help-line.

Furthermore, regional employment networks have been designed that have had full territorial coverage since 2000. These networks consist of local bodies¹³¹ in order to identify problems and set goals for action designed to promote local employment.¹³²

122 <http://www.anpe.fr>.

123 (1) old age pension, (2) jobs for handicapped people, (3) part-time and 'marginal' part-time employment, bogus self employment, (4) unemployment benefits, hiring subsidies, (5) tax benefits for officially employing housekeepers, (6) asset formation by employees and (7) the programme '100 000 jobs for young people'.

124 <http://www.arbeitsrecht4free.de>.

125 In the first year after its start in May 2000, more than 725 000 users visited the service's website, accessing in total more than three million pages. So far, more than 1 000 users have subscribed to the service's newsletter.

126 On behalf of the Business Desk, pilot projects in Groningen, Drenthe and Noordwest Noord-Holland were initiated. The pilots entail partnerships between the Netherlands Ministry of Economic Affairs, the Programmabureau Overheidsloket 2000, the Association of Netherlands Municipalities (Vereniging van Nederlandse Gemeenten) (VNG), the Association of Chambers of Commerce, the Tax Authority and the Administrative Compliance Cost Commission (Commissie Administratieve Lasten).

127 (Overheidsloket 2000) (OL 2000).

128 Ultimately, OL 2000 aims at the integration of public services, implying that huge numbers of public service providers have to collaborate.

129 The application of ICT affects OL 2000 in three ways: i.e. in supporting the counter officer, in the data interchange between collaborating public services, and in the online access to public services. Rather than being either an organisational project or an ICT project, OL 2000 symbolises a combination of both. Collaboration with other governmental one-stop-shop projects is effected, as, for instance with the Joint Info Counter.

130 This is the case of the Ministry of Labour and Solidarity help-line that offers general information on these issues. But also of this ministry web page, containing useful information about all the ministry's services and links to the web sites of those services. A special focus on social security web site, where Portuguese employers can obtain more detailed information about their duties and rights on what concerns hiring items, as, for instance, relevant legislation, all procedures and deadlines to be followed, a social security contributor guide (version on-line and for download) and the forms needed in the relation between employers and social security services.

131 Public service agencies, companies, municipalities, regional development associations, non-governmental associations and the social partners.

Spain: The one-stop shop for firms ('Ventanilla Única Empresarial'), a joint initiative by the Public Administration and the Chambers of Commerce, was created as a result of the National Plan for Administrative Simplification and its main target group are SMEs. It offers information on different administrative procedures, existing contracts and legal obligations when hiring employees. It is possible to carry out all the different administrative procedures in the one-stop shops and the services are being provided free. At the moment these one-stop shops are located in several regions, but it is expected that they will cover the whole of Spain in the near future.

Sweden: The Business Guide (Företagsguiden) was started October 2001 and provides an information service for firms. The Business Guide is supposed to function as a one-stop-shop for enquiries regarding all business related issues. Employment related issues being part of it. The Business Guide is developed and maintained in co-operation with 22 authorities all available through one web site. It is intended that the companies can go to this web site and get the answer to a wide range of questions without having to know which authority handles a particular question.

United Kingdom: A regular newsletter sent out by the Inland Revenue and Customs and Excise provides a large number of businesses with information on regulations. Firms can be included on a mailing list free of charge by request.¹³³

Business Link, a government support agency for firms, offers a wealth of information regarding guides to every facet of employment issues including European regulation. One particular guide is entitled 'Check list for first time employers' which highlights a further 21 fact sheets containing information for the first time employer.¹³⁴

The Small Business Service is linked to the Business Link and helps small firms deal with regulations and it ensures small firms' interests are properly considered in future regulations. One of the key tasks of the SBS is to help minimise the burden of regulation on small businesses. The Health and Safety Executive provides dedicated advice to the first time employer regarding the statutory requirements in this field.¹³⁵ In addition there are a number of private sector advice providers, which offer targeted advice for those considering expansion.¹³⁶

The Better Regulation Task Force investigates the administrative burdens of regulations that might inhibit expansion by existing or would be entrepreneurs whilst also imposing disproportionate costs on smaller firms compared to their larger counterparts. The government is obliged to respond to issues raised through this channel.

Moreover, new regulations require departments to record whether there will be a significant burden on SMEs through a Regulatory Impact Assessment (RIA) published for all new legislation. So any consultation paper referring to regulatory provision that imposes a cost on business must include a 'small firms litmus test'. This test requires discussions to be held with small firms regarding the impact of any new provisions suggested.

III.3. Evidence of applied modern technology - electronic government

In the following section, a summary is given of electronic data transmission examples in the countries with respect to recruitment related issues.

Austria: All necessary forms for hiring employees can be easily downloaded in Austria. In fact, since July 1997 entrepreneurs in general are obliged to register with the Social Insurance via electronic data transmission. Since April 2001 the Federal Ministry of Finance offers the possibility to pay taxes and other fees - including wage-related taxes - via the Internet.¹³⁷

Belgium: In Belgium the way of handling the social security obligations is currently being modernised in three steps: First, the electronic declaration of employment (DIMONA) has been introduced to simplify the administrative formalities, to reduce the number of social documents and to reduce the use of paper as well as to increase

132 Within this scope some legislation was produced to create incentives for the creation of new jobs in these areas, as the Decree 601/99 of August that establishes, in the scope of the Regional Plan for Alentejo, the implementation (until 2003) of an additional financial support to attribute to employers who, in that specific region, hire young people looking for their first job, long-term unemployed and handicapped people.

133 Upon employing the first employee, the IR will forward a complete pack to explain how to administer the UK employment taxation system and how to make appropriate National Insurance Contributions (NICs).

134 There is a small cost incurred for the information that might be an impediment for gaining this information.

135 The booklet, entitled 'Health and Safety in Small Firms' outlines the rationale for H&S provision and describes the exact requirements for all firms - dependent upon their sector of operation.

136 For example, IRPC is a private consultancy operating in the Midlands area specialising particularly in employment law related advice. Project North East has produced 371 Business Opportunity Profiles and 335 Business Information Fact Sheets. This advice and information is available at differing cost according to the nature and depth of support required.

137 www.bezahlen.at.

the centralisation of all social information into one database, which can be used by all organisations of the social security system.¹³⁸ Second, the multifunctional Social Security declaration (DMF) will be introduced. It involves the reduction of paper declarations of all information with respect to the calculation of the social security contributions and benefits. This system will be installed at the beginning of 2003. Third, the electronic declaration of social risks (DRS and ADRS) will be introduced at the beginning of 2003 in stages, with the aim to create a central Social Security databank that will serve all different social security organisations and to reduce the repeated submission of the same information by both the employer and the employee. It deals with the declarations that must be made when a worker is sick, has a work accident, retires or is fired. A one-stop-electronic window will serve all the different public organisations involved.

Finland: Basically all authorities and other institutions related to employment provide forms and relevant instructions, as well as information about employment related issues on the Internet. In 1996, the Ministry of Finance launched a programme 'Information flow from enterprises to authorities' which developed a service now enabling most of the employment related transfers of information electronically.¹³⁹

Germany: E-government has recently been introduced for all notifications to the health insurance funds, thus, rendering it possible for employers to submit requested information to the 'one-stop-shops for social security' by e-mail.

Liechtenstein: In Liechtenstein a standardised Internet platform is planned that will bring all relevant offices together at the beginning of 2002.¹⁴⁰ So far, the various offices' websites have mostly been created at these offices' own initiative. It is intended to include the electronic data interchange with the authorities for social security.

Netherlands: Electronic data transfer to the Tax Authority and the Social Security Enforcement Agency (UVI) is already possible.¹⁴¹ In future, all forms linked to legislation will be placed on a single website.

Portugal: The government has been implementing e-government in several fields in the last years in order to simplify and facilitate contacts by citizens and firms with national public authorities. One of the areas where on-line connection with authorities reveals major development, concerns the submission of tax declarations and payments and social contribution for employees. In the Portuguese e-government portal one can find links to all on-line services of Portuguese public authorities.

Spain: Social Security allows employers to register hired employees through the Electronic Data Sending System ('Remisión Electrónica de Datos', RED). Firms must be authorised by the Treasurer's Office of the Social Security to use it. The implementation of ICTs is one of the guidelines suggested by the White Paper on the Improvement of Public Services¹⁴² for an increased efficiency of public administration. In this sense, several measures are planned to be taken in the near future. A Service guide was introduced in 2001 with all relevant information about administrative procedures on the Internet.

Sweden: The Swedish Tax Board has recently started a test phase for entrepreneurs to do their tax declaration on-line through the Internet. In the very beginning it allowed a maximum of 15 000 enterprises to handle their tax declaration on-line through the website of the Swedish Tax Board. It started in March 2001 and has been very successful from the point of view of the users. There are plans to make this a permanent service for all enterprises and now there no longer is a limit for the number of enterprises that can make use of it.

Switzerland: At the moment e-government is introduced in the way that there is an SME portal established in Switzerland, which is supposed to contain among other things help for start-ups and information on employment issues.

United Kingdom: E-government is established through a general government website¹⁴³ with each government department having their own dedicated website with discrete sections referring to smaller firms.

138 This system was introduced at the beginning of 1999 first as a pilot exercise for the building sector, transport of people and temporary agency workers. Since October 2001 employers from other economic sectors are allowed to join the DIMONA system and from January 2002 on all employers will have to enter this system.

139 <http://tyvi.elma.fi>.

140 <http://www.liechtenstein.li>.

141 Upon an employer's request, the Social Security Enforcement Agency (Uvi) will in most cases grant exemption from the obligations to make use of the Payroll Register and the Annual Statement Card. The exemption is linked to prerequisites that may be obtained from the Social Security Enforcement Agency (Uvi). Data of the Annual Statements may also be submitted in other ways, e.g. on tape or diskette.

142 Op. cit.

143 www.open.gov.uk.

III.4. Development in the Employment Related Regulations

In the following part, some developments in employment related regulations are presented by country. This compilation consists of regulations that have been changed after the Luxembourg Jobs Summit. It does not encompass all the changes in all countries but it does reflect the variety of measures that have been undertaken as far as employment related regulations are concerned.

III.4.1. Forms of employment

Germany: In Germany, part time employees with a regular weekly working time of 20 or less hours are now uniformly treated as far as the calculation of firms' enterprise size is concerned.¹⁴⁴ Since January 1st, 1999 all these part-timers now enter the calculation with a value of 0.5.¹⁴⁵ Other things being equal, the amendment sets disincentives for the recruitment of part-time workers with less than 20 hours per week as threshold values are now reached earlier. Furthermore, since January 1st 2001 an employee in a firm with more than fifteen workers has the right to opt for part-time work even if the employer does not agree.¹⁴⁶

In addition, fixed term contracts can be terminated without the employer having to denounce a specific reason for the termination. Such a contract may be concluded for two years at most and it can be extended up to three times within this period. With respect to employees surpassing the age of 58 years, there are no limitations as far as the termination of such contracts is concerned.

A considerably more restrictive regulation was applied in Germany in January 1999 for so-called 'bogus self employed' ('Scheinselbständige').¹⁴⁷ These people appear to be working as self employed - no social security contributions have to be paid for them and thus, they are less costly for the client/employer - but de facto they rely mostly on one particular client, e.g. the former employer outsourced the job. These people are now treated as employees and certain preconditions must be fulfilled so that the (single) client, as de facto employer, has to pay social security contributions for the 'employee'. The aim of this regulation is to prevent employers from not paying social security contributions and not allowing them to be freed from other labour legislation just by outsourcing jobs.

In Germany there is one particular, very popular relief for enterprises making use of 'marginal' employment ('Geringfügige Beschäftigungsverhältnisse'). This very significant measure favours 'marginal' employment.¹⁴⁸ Enterprises directly benefit from the measure because they can save wage tax and social security payments and therefore have lower labour costs. The 'marginal' employees themselves benefit from higher net wages. It can be assumed that otherwise part of the wage tax and social security payments would result in lower net wages.¹⁴⁹ The tax privileged 'marginal' employment is of particular importance for SMEs as it enables smaller enterprises to respond to market changes very quickly without having to build up a huge bulk of fixed labour costs.

Ireland: In Ireland, legislation was introduced to implement the EU Directive on Part-Time Work and the Directive on Fixed-Term Work in 2000 and 2001.

Portugal: Since July 1999 there has been new legislation on part-time work.¹⁵⁰ The aim is to encourage part-time employment by setting incentives and granting financial support. The employer's social security contributions are reduced by 25 %, 50 % or even 100 % exemption is granted depending on if it is a fixed-term or permanent contract, the situation of the employee in question¹⁵¹ and if new jobs are created or if existing ones are divided. Furthermore, the non-reimbursable grant equals twelve times the national minimum wage when the enterprise has no more than 50 workers.

144 This holds for the calculation of threshold values within Dismissal protection law, Job preservation law, Working conditions law and Health and Safety law.

145 Previously, there was a further distinction as part-timers with ten or fewer hours per week were counted as 0.25 jobs only.

146 This rule applies as long as there are no firm related reasons not to do so.

147 The law was later amended and clarified on December 20th, 1999, thereby exerting a retroactive effect for the time since January 1st, 1999.

148 Under certain pre-conditions, an enterprise is allowed to employ an employee without paying wage tax at all and with paying only reduced social security contributions. Such a 'marginal' part-time employment is given if: the employee works less than 15 hours per week and if the wage does not exceed 322 Euro per month. In order to determine if the time and wage-limits are met in one particular month, all employment contracts of the employee in question have to be considered (in case he/she has a primary full-time job or an additional part-time job). The employee has to prove to the employer that he/she does not have any other income exceeding the limit, by producing an exemption-certificate ('Freistellungsbescheinigung') issued by the tax administration. In case the time and wage-limits are met, the employer only pays a lump sum contribution to 'old age pension' (12 % of the wage) and in certain cases also to 'health care' (10 % of the wage).

149 'Marginal' part-time employment favours (especially service sector) enterprises that offer flexible part-time jobs. In case, regular wage tax would have to be paid, these jobs would not be very attractive for part-timers and consequently it would be rather difficult for enterprises to attract employees who can be employed in such a flexible way.

150 Law 103/99.

151 Young people looking for their first job, long-term unemployed or others.

In addition, there is a new law¹⁵² on temporary agency work since 1999 that has brought a significant change to the previous legal framework from 1989.¹⁵³ The system of penalties for infringements has been substantially altered and fines for violations were substantially increased.

In July 2001 fixed-term contracts were regulated anew¹⁵⁴ in order to promote the creation of permanent jobs and combat its irregular use. One of the most important features of the new law is that it requires the employer to state clearly the facts and circumstances why he concludes a fixed-term contract.

Since May 1999 self-employed workers in Portugal are obliged to have an insurance against accidents and illnesses in order to improve the protection of these workers and to make camouflaged sub-contracting relations less probable.¹⁵⁵

Spain: The focus of the latest labour market reforms has been laid on employment stability, the support of part-time employment and on an increase in the share of women in the labour market. Among others there has been an increase in social protection for part-time workers.¹⁵⁶ Retrospectively, all measures have proved to be beneficial because both the number of permanent and part-time contracts have risen. However, new reforms are planned in order to provide more stability and quality of the newly created employment.¹⁵⁷

III.4.2. Social security and pension requirements

Austria: With respect to taxation and social insurance issues, 'normal' and 'marginal' employees ('Geringfügige Beschäftigungsverhältnisse') are distinguished since January 1998. Marginal employees are persons who are subject to only a part of the social insurance and taxation regulation as they are not working full-time and as their earning is below a certain threshold (for 2001: Euro 296.21 monthly or Euro 22.75 daily if the duration of employment is shorter than one month). However, the duties and rights of the entrepreneur and the employee are the same as if the employee would be working full-time.

Belgium: In Belgium the Social Security system was reformed and transferred into an electronic data system with a full reduction of the use of paper documents and a simplification of administrative formalities and centralisation (see Section 4.3).

Germany: In Germany the provisions regarding wage-tax- and social-security-privileged 'marginal' employment ('Geringfügige Beschäftigungsverhältnisse') have been modified in April 1999.¹⁵⁸ The employer is still exempted from wage tax but nowadays has to pay a lump sum to the public systems of old age pension and in certain cases also to health care (thus, immediately contributing to financing the public social security system). There has been a significant shift from 'marginal' employment in the form of additional employment (to another job) to exclusive 'marginal' employment. The reason for this shift is that after the reform additional 'marginal' employment is no longer wage tax free.

Greece: There has been a decrease in the social security contribution of a minimum wage earner, which amounts up to 8 % of his disposable income. This measure - in-work benefits - is a means to make work pay and is introduced for the first time in Greece.

Portugal: The reform of the social security system¹⁵⁹ among other things has set an incentive for workers and for employers to discourage early retirement by reducing the social security contributions for both. The new legislation¹⁶⁰ on social security from August 2000 furthermore introduces a number of reforms in order to improve the system's operation and to ensure its future finance.

152 Law 146/99.

153 The most important aspect with respect to the hiring of these workers is the broadening of the potential use of temporary agency labour beyond its 'traditional' use in seasonal or irregular cycle activities and the more complex set of requirements that the user enterprise must follow.

154 Law 18/2001.

155 Decree-Law 159/99.

156 Royal Decree 15/1998.

157 This is the purpose of the Royal Decree 5/2001, which modifies several aspects.

158 The employer is still exempted from wage tax but nowadays has to pay a lump sum amount to the public systems of old age pension and in certain cases also to health care as contribution to the financing of the public social security system.

159 Some measures related to this reform were implemented through the application of the Decree-Law 199/99, which foresaw the reduction of the employer's contribution to social security as a way to promote the employment of certain groups with a low demand in the labour market: handicapped people, young people looking for their first job and long-term unemployed.

160 Law 17/2000.

III.4.3. Dismissal law

Germany: Since January 1999 the threshold for the application of the Dismissal protection law has been decreased from ten to five employees. Thus, micro enterprises with six to ten workers¹⁶¹ are covered once again by this law. In 1996, the threshold had been increased from five to ten employees in order to set an incentive for these firms to hire additional employees.

Sweden: Since January 2001 employers with less than ten employees can, when there is a shortage of work, leave out two employees from the rule 'last in first out' that generally is applied so that two employees that normally would fall under this rule can be excluded from it.

Greece: Compensation to employees in case of dismissal has been introduced. The amount of compensation is a function of the time the employee has worked for the same employer.¹⁶²

III.4.4. Working time

Austria: Since 31st December 2001, Austria had to alter the regulations concerning night-work. The former law said that female employees are not allowed to work at night (with few exemptions such as waitresses, nurses or doctors). Amendments had to be made, as this is not in conformity with the regulations of the European Union.¹⁶³

Greece: Overtime work has been made more costly for the entrepreneur with the effect that this change in regulation sets an incentive for the employer to hire new employees. On the other side the entrepreneur has the right to arrange the yearly working time of an employee so that certain flexibility is guaranteed.

Ireland: The Working Time Act came into operation on a phased basis in September 1997. Since March 1998 it is fully applied. With this Act more limited maximum working hours, entitlements to minimum rest periods, and increased minimum holiday entitlements have been introduced.

Portugal: In March 1999, new legislation for night-time work was introduced¹⁶⁴ that provides a more narrow definition of night work. It is based on law and achieved through collective bargaining, which was considered to be the most appropriate way to adapt the legal regime to the needs and demands of each sector. This new legislation is applicable to both men and women. Previous legislation prohibited women from working at night.

III.4.5 Legislation for specific social groups

Germany: Since January 2001 enterprises with 20 and more employees have been obliged to employ at least 5 % disabled people. The former regulation foresaw a threshold of 16 employees and a corresponding quota of 6 %.¹⁶⁵

Ireland: The Carers' Leave Act came into effect in 2001 and allows employees to take temporary leave from their employment for a period of up to 15 months for the purpose of providing full-time care for older people or people with disabilities in need of full-time care and attention.

Italy: The changes in legislation after the Luxembourg Jobs Summit mainly addressed the matching between labour supply and demand.¹⁶⁶ In this context special target groups of the potential labour force have been stipulated.¹⁶⁷

Netherlands: In the Netherlands the Disablement Insurance and the Disabled Reintegration Act were introduced. The aim is mainly to stimulate staff recruitment among the specific social group of disabled people.

Spain: In 1997 a new type of contract has been introduced in order to foster permanent hiring especially among social groups with difficulties to enter the job market.¹⁶⁸

161 In Germany these firms represent in total about two million employees.

162 Dismissal laws (L. 2112/20 and law degree 16/18.7.2000).

163 Art. 5 of 76/207/EWG.

164 Decree-law 96/99.

165 Previously, employers had to pay a monthly compensation fee for every vacant working place by disabled people, the new rule now considers more strongly the degree to which employer fulfil their obligation. The government intends to create 50 000 additional jobs for handicapped people. In case this aim should not be reached until October 2002, the quota will be increased to 6 % once again.

166 Law Decree 181/2000: 'Dispositions in order to facilitate the matching between demand and supply'.

167 All other employment related regulation, for example, safety and health protection, dismissal law and the regulation of working time have been altered already before the Luxembourg jobs summit. Since then, no further changes have occurred.

168 Law 63/1997.

III.4.6. Health and safety regulation

Austria: Since January 2000, entrepreneurs employing at least ten employees have had to appoint a confidant for security matters ('Sicherheitsvertrauensperson') and to provide occupational medicine.¹⁶⁹

Furthermore, in 2000 an amendment to the Labour Law, the so-called 'Arbeitsrechtsänderungsgesetz 2000', brought an equalisation of blue- and white-collar workers. Most important in this respect is the extension of the period for continuing wage payment in case of sickness, an entitlement to be compensated in case there is also a termination of employment.

Germany: Since January 1999, employees once again receive 100 % continuing wage payment in case of sickness. Before 1999 the remuneration was limited to 80 % of the wage payment.

Sweden: In Sweden there are proposals that employers should pay a larger amount of sick leave, this will be compensated by lower payroll tax. The idea is that employers should take over an increased responsibility for their employees by ensuring good working conditions for them and to take increased responsibility for their rehabilitation.

¹⁶⁹ § 10 of the 'ArbeitnehmerInnenschutzgesetz' (Labour Protection Law).

Annex IV

Names and addresses of the consortium partners

Organisation	Address	Telephone Telefax	Contact person
KPMG Special Services	PO Box 74500 1070 DB AMSTERDAM The Netherlands http://www.kpmg.nl	31 20 6567890 31 20 6567700	Michael Veltman veltman.michael@kpmg.nl
EIM Business & Policy Research	PO Box 7001 2701 AA ZOETERMEER The Netherlands, and: Avenue des Arts 41, box 4 1040 BRUSSELS Belgium http://www.eim.nl	31 79 3413634 31 79 3415024 32 2 5100884 32 2 5100885	Rob van der Horst rvh@eim.nl
Intomart	PO Box 10004 1201 DA HILVERSUM The Netherlands http://www.intomart.nl	31 35 6258411 31 35 6246532	Atty Smit atty.smit@intomart.nl
ENSR - European Network for SME Research			
Austria			
Austrian Institute for Small Business Research (IfGH)	Gusshausstrasse 8 1040 VIENNA http://www.ifgh.ac.at	43 1 5059761 43 1 5034660	Thomas Oberholzner t.oberholzner@ifgh.ac.at
Belgium			
Small Business Research Institute, K.U. Brussel	Vrijheidslaan 17 1081 BRUSSELS http://www.kubrusse.ac.be/index2.html	32 2 4124211 32 2 4124200	Professor Johan Lambrecht johan.lambrecht@prof.ehsal.be
Denmark			
Danish Technological Institute (DTI)	PO Box 141 2630 Taastrup COPENHAGEN http://www.uk.teknologisk.dk	45 7220 2000 45 7220 2707	Frank Skov Kristensen frank.skov.kristensen@teknologisk.dk
Finland			
Small Business Institute, Turku School of Economics and Business Administration	PO Box 110 20521 TURKU http://www.tukkk.fi/sbi	358 2 3383548 358 2 3383393	Ulla Hytti ulla.hytti@tukkk.fi
France			
Association pour la Promotion et le Développement Industriel (APRODI)	Boîte Postale 151.16 75764 PARIS Cedex 16 http://www.aprodi.com	33 1 47275149 33 1 47275150	Jean-François Papin devpmi@aprodi.com
Germany			
Institut für Mittelstands- forschung (IfM)	Maximilianstrasse 20 53111 BONN 1 http://www.ifm-bonn.org	49 228 729970 49 228 7299734	Dr. Sanita Schröer schroer@ifm-bonn.org
Greece			
University of Piraeus	Ipsilantou 130 PIRAEUS 185 32 http://www.unipi.gr	30 1 4142280 30 1 4142629	Professor Petros Livas kepp@unipi.gr
Iceland			
National Economic Institute of Iceland (NEI)	Kalkofnsvegi 1 150 REYKJAVIK http://www.ths.is/eng/natec/index.htm	354 569 9500 354 562 6540	Sigurður Guðmundsson sigurdur.gudmundsson@ths.is

Recruitment of employees: administrative burdens on SMEs in Europe

Organisation	Address	Telephone Telefax	Contact person
Ireland The Economic and Social Research Institute (ESRI)	4, Burlington Road DUBLIN 4 http://www.esri.ie	353 1 6671525 353 1 6686231	Dr. Eoin O'Malley eoin.o'malley@esri.ie
Italy CREA 'Furio Cicogna' Università Bocconi	Viale Filippetti 9 20122 MILAN http://www.uni-bocconi.it/eng/res_center.html	39 02 58363709 39 02 58363792	Professor Giuliano Mussati cscicogna@uni-bocconi.it giuliano.mussati@uni-bocconi.it
Italy Istituto Guglielmo Tagliacarne	Via Appia Pignatelli 62 00178 ROME http://www.tagliacarne.it	39 06 780521 39 06 7842136	Paolo Cortese p.cortese@tagliacarne.it
Liechtenstein Schweizerisches Institut für gewerbliche Wirtschaft an der Universität St. Gallen (IGW)	Kirchlistrasse 44 9010 St. GALLEN http://www.igw.unisg.ch	41 71 2430700 41 71 2430701	Walter Weber walter.weber@unisg.ch
Luxembourg Chambre des Métiers du Grand-Duché de Luxembourg	Boîte Postale 1604 1016 LUXEMBOURG http://www.cdm.lu	352 4267671 352 426787	Marc Gross marc.gross@chambre-des-metiers.lu
The Netherlands EIM Business & Policy Research	PO Box 7001 2701 AA ZOETERMEER http://www.eim.nl/	31 79 3413634 31 79 3425786	Koos van Elk kve@eim.nl
Norway AGDER Research Foundation (ARF)	Serviceboks 415 Gimlemoen 4604 KRISTIANSAND http://www.agderforskning.no/english/index.htm	47 381 42200 47 381 42201	Dr. Per-Anders Havnes per_a_havnes@agderforskning.no
Portugal Instituto de Apoio às Pequenas e Médias Empresas e ao Investimento (IAPMEI)	Rua Rodrigo da Fonseca, 73-2º 1296-158 LISBON http://www.iapmei.pt	351 21 3836000 351 21 3836234	José Luis Santos jose.luis@iapmei.pt
Spain Instituto Vasco de Estudios e Investigación (IKEI)	Parque Empresarial Zuatzu Edificio Urumea Planta 1º Zubiberri Bidea nº 31 E20018 DONOSTIA-SAN SEBASTIAN http://www.ikei.es	34 943 426610 34 943 423501	Iñigo Isusi iisusi@ikei.es
Sweden Swedish National Board for Industrial and Technical Development (NUTEK)	117 86 STOCKHOLM http://www.nutek.se	46 8 6819100 46 8 6819118	Henrik Levin henrik.levin@nutek.se
Switzerland Schweizerisches Institut für gewerbliche Wirtschaft an der Universität St. Gallen (IGW); Observa St. Gallen	Kirchlistrasse 44 9010 St. GALLEN http://www.igw.unisg.ch	41 71 2430700 41 71 2430701	Margrit Habersaat margrit.habersaat@unisg.ch
Switzerland EcoDiagnostic; Observa Geneva	32, Rue de l'Athénée 1206 GENEVA http://www.ecodiagnostic.ch (under construction)	41 22 7891422 41 22 7891460	Dr. Alain Schoenenberger schoenenberger@ecodiagnostic.ch
United Kingdom Centre for Small and Medium Sized Enterprises, University of Warwick	COVENTRY CV4 7AL http://users.wbs.warwick.ac.uk/csme	44 24 76523692 44 24 76523747	Professor David Storey smeds@razor.wbs.warwick.ac.uk
United Kingdom Centre for European and International Consultancy, Leicester Business School, De Montfort University	The Gateway LE1 9BH LEICESTER http://www.dmu.ac.uk/Faculties/bl/CEIC.html	44 1162 506293 44 1162 577264	Julian Hancock jmhbus@dmu.ac.uk

