

Restructuring Forum
"Adaptation of SMEs to change"
26 - 27 November 2007

BACKGROUND DOCUMENT

Structural change, company restructuring
and anticipation of change in the
European small and medium-sized
enterprise sector

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Hamburg/Brussels, November 2007

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INTRODUCTION

Not a day goes by without announcement in the daily economic press of cases of corporate and company restructuring – firm closures, relocations, privatisation projects, mergers and acquisitions – often resulting in the downsizing of workforces. This negative connotation associated with restructuring in the public debate is quite understandable as we all know that "bad news are good news". But it is also masking the fact that restructuring and structural change is a permanent feature of economic life, that there is a need for companies to constantly adapt and innovate in order to remain competitive in today's economic environment. Furthermore, it must be reminded that structural change in the European economy has resulted in an overall million fold increase in employment. Between 2000 and 2005 the overall net increase in employment in the whole European economy was nearly 7 million which makes around a net increase of nearly 1.4 million each year.¹

A characteristic of public debates is that they are overwhelmingly referring to cases and developments in the large enterprise sector. When it comes to restructuring and change in micro, small and medium-sized companies in Europe, little is found in the press. Compared to the large company sector we still know less about major forms of restructuring processes, their effects and specific characteristics in this group of enterprises despite the fact that SMEs are constituting more than 99% of all private companies in Europe.

Therefore, and not surprisingly, "silent restructuring" has emerged as the dominant term to describe restructuring operations in SMEs and sectors largely shaped by small and medium-sized enterprises like retail, craft, hotels and restaurants, large parts of the construction and transport sectors and of course agriculture.

Against this it is quite natural that a Restructuring Forum of the EU Commission is devoted to the SME sector in order to contribute to a better understanding of restructuring trends in the European SME community and to initiate an exchange of experience, knowledge and of good practices amongst key actors and players in the European SME community.

This background document was drafted by Wilke, Maack and Partner in cooperation with ORSEU (Conseil, Recherche et Formation en Relations Sociales) in order to facilitate the Restructuring Forum by shedding some light on the major elements of restructuring in SMEs.

When analysing and describing major driving forces, trends, patterns and "typical" situations of SMEs with regard to restructuring, i.e. both processes of restructuring *in* the SME sector as well as the effects of structural change and macro-economic restructuring *on* SMEs, one has to deal with a wide internal variety of types of enterprises, corporate cultures, sectoral contexts, national frameworks etc. Moreover, preparing a report like this under the conditions of limited resources in terms of both research personnel and time was a methodological as well as analytical balancing act. In order to present from the outset the best possible way of approaching the complex issue of restructuring and SME development in Europe, we applied a twofold methodological approach which is reflected in the following chapters:

First, a *quantitative analysis* of the current structure of SMEs in Europe (chapter 1) and the major trends of structural change measured in employment developments by different SME size classes, sectors and countries (chapter 2). The figures are mainly based on Eurostat data (Structural Business Statistics) and cover both the entire

¹ See European Commission: Employment in Europe 2006, Brussels, p. 258.

EU-27 as well as a sample of 10 EU countries² in order to carry out an analysis of developments under a certain time period (1998 – 2004).

Secondly and regarding the very theme of restructuring, this report is based on a *qualitative analysis* at two levels: Firstly, the report reflects the relevant documents and research results. But secondly, the parts on driving forces and patterns of restructuring (chapter 3) and experiences and approaches of good practices in anticipating, preparing and managing restructuring (chapter 4) are based principally on interviews with key actors and experts in the field of SME development in Europe. The information gathered and analysed in this context necessarily is selective and sketchy: we had to concentrate on a certain number of countries, mainly the ten countries mentioned above. We also had to be selective in the identification of our interview partners: in order to meet the character of the Restructuring Forum we concentrated our national fieldwork on interviews with representatives of social partner organisations.³ This would not have been possible without the active support of the European Social Partners who gave their support by delivering information on who to contact at the national level.

This background document is not able to deliver a comprehensive and in-depth analysis of the issue of restructuring in European SMEs. The selection of countries, practical experiences at national and sectoral levels and cases of good practice are necessarily based on the subjective impressions of the authors. However, since our analysis is based on a rather broad basis of opinions and observations from various national, sectoral and organisational backgrounds, we think that the snapshots presented in this report are reasonably representative.

As a background document closely aligned to the Restructuring Forum this report should be read as a working document and stimulation for debate at the Forum. The conclusions and messages of the Forum debates will have to complete the picture and will contribute to the general report we will prepare in the aftermath of the Forum.

² Austria, the Czech Republic, Italy, Germany, France, Hungary, Poland, Spain, Sweden and the United Kingdom.

³ National inquiries and expert interviews have been carried with the help of national correspondence partners and experts. In this context our involvement in the Joint European Social Partners' Project on Restructuring in the EU-15 in the context of the Joint Work Programme 2006 – 2008 was very helpful. Our work was supported by the co-ordinator of the joint project on restructuring and some national experts of this project were also involved in the preparation of national inquiries.

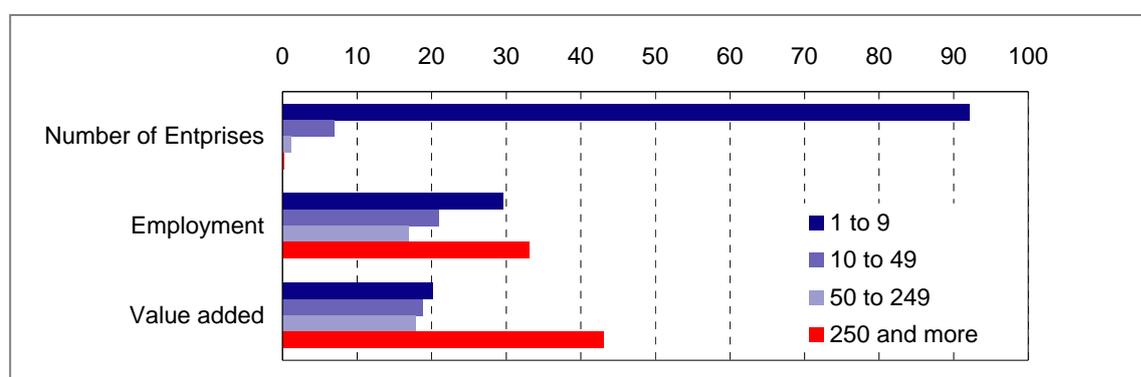
1 SMEs IN EUROPE TODAY

1.1 The role and position of SMEs in the European economy

Small and medium-sized enterprises⁴ constitute the dominant form of business organisation in all countries of the European Union: With some 23 million enterprises, more than 99% of enterprises in the European Union are SMEs.⁵

Within the group of SMEs, the vast majority (over 90%) are *micro enterprises* with less than ten persons and around 30% of the European workforce in private business was employed in micro companies. However, micro companies at the same time accounted only for one fifth of the value added in the EU-27 non-financial business economy.⁶ The second largest SME group is made up of *small enterprises* defined as having 10-49 persons employed. This group in 2004 consisted of about 1.3 million enterprises (excluding agriculture, financial services and public services) employing a workforce of around 26 million throughout Europe, i.e. around 7% of all European enterprises and around one fifth of their workforce. However, the share of small companies in turnover and value added is nearly that of the micro enterprise sector despite the significantly smaller number employed.

Figure 1: Breakdown of the number of enterprises, persons employed and value added by enterprise size class, non-financial business economy (NACE Sections C to I and K), EU-27, 2004 (% share of total)



Source: Based on Eurostat Structural Business Statistics by size class figures

⁴ It should be noted that in this report we are using the EU definition of micro, small and medium-sized enterprises according to which an SME is made up of an enterprise which employs fewer than 250 persons and which has an annual turnover not exceeding 50 million Euro, and/or an annual balance sheet total not exceeding 43 million Euro. See European Commission: The new SME definition, DG Enterprise and Industry, Brussels.

⁵ European Commission, DG Enterprise and Industry: "Putting SMEs First", Brussels 2007, p. 5.

⁶ Methodical note: The figures presented in this report are based on Eurostat's structural business statistics (SBS) which is providing the most updated statistical data on certain indicators according to enterprise size classes. SBS data are referring to the non-financial business economy which is including industry (NACE sections C to E), construction (NACE section F) and non-financial services (NACE sections G to I and K). This means that the figure presented in this report are not including financial services (NACE section J) as well as agriculture and public services. See Eurostat: SMEs and Entrepreneurship in the EU, Statistics in Focus 24/2006.

Only 1.1% of enterprises in the non-financial business economy in 2004 belonged to the *medium-sized company sector* defined as having 50-249 persons. With a workforce of about 21 million people medium-sized companies are the smallest of the four enterprise groups. However, the share in turnover and value added is rather similar to both micro and small enterprises. In spite of their tiny share of 0.2% in the overall number of enterprises, *large companies* (employing 250 or more people) generated the highest amount of turnover and value added (42.5 and 43.0 % in 2004) in the non-financial business economy in Europe and employed about one third of the workforce.

Table 1: Breakdown of main indicators by enterprise size-class, non-financial business economy (NACE Sections C to I and K), EU-27, 2004

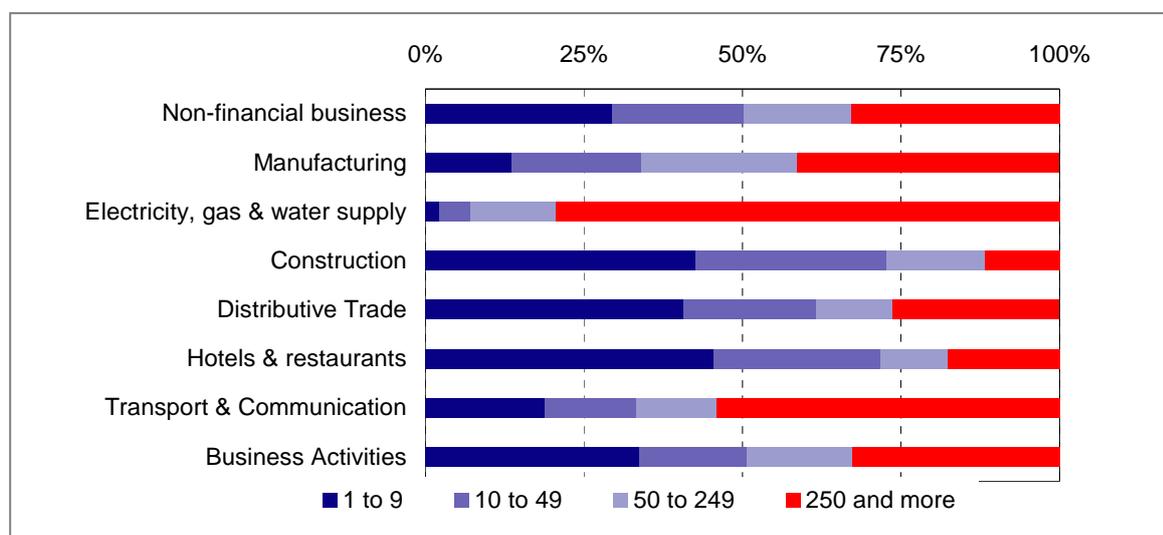
	Micro (1-9)		Small (10-49)		Medium (50-250)		Large (250+)	
	Total	%	Total	%	Total	%	Total	%
Number of enterprises	17.400.000	91.7	1.320.000	7.0	210.000	1.1	41.000	0.2
Persons employed	36.700.000	29.4	26.000.000	20.9	21.000.000	16.8	41.000.000	32.1
Turnover (Mio.)*	3.650.000	18.9	3.750.000	19.4	3.750.000	19.4	8.200.000	42.5
Value added (Mio.)*	1.030.000	20.2	959.000	18.8	912.000	17.9	2.190.000	43.0

Source: Eurostat SBS size class; * = estimations

The role of SMEs is not constant across economic activities (see figure 2): The employment share of SMEs varies between only 18.7% in the energy and water sector to more than 80% in the construction sector and in hotel and restaurant activities. Also distributive trade and business services/activities are sectors where around three quarters of all employees are working in SMEs.

There are also differences of position in the three SME size groups in major industry sectors. For example, nearly three quarters of the European construction workforce are working for companies with less than 50 employees, around 45% of all employees in the hotel and restaurant sector are employed in micro companies. On the contrary, manufacturing, electricity, gas and water supply are sectors where most of the SME workforce is employed by medium-sized companies.

Figure 2: Role of SMEs by sector of industry (NACE Sections C to I and K), EU-27, 2004 (% share of total employment)

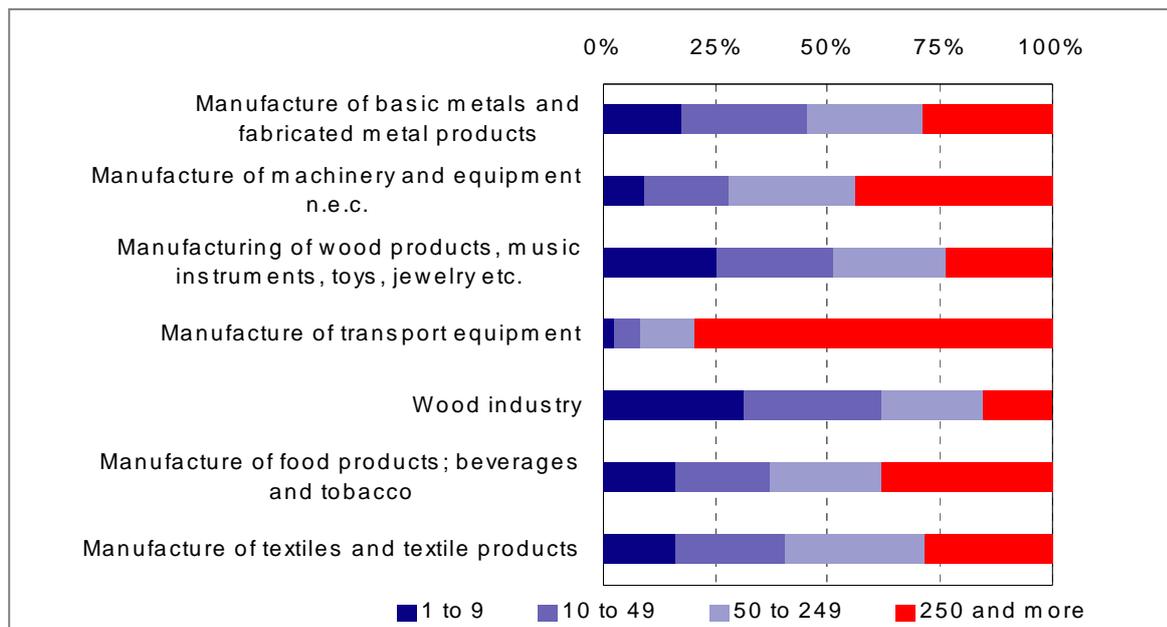


Source: Eurostat SBS size class

A closer look into the manufacturing sector reveals that in labour intensive sub-sectors micro, small and medium-sized enterprises are playing an important role (see figure 3).

Contrarily, the influence of SMEs in sectors like mining and quarrying, transport equipment, communications and media is rather weak. Clearly above the average employment share are sectors such as the wood industry, which is largely dominated by SMEs in addition to sectors like the manufacturing of wood products, toys, jewellery etc.; basic metals and metal products; food processing; textile and clothing.

Figure 3: Role of SMEs in single manufacturing sectors (NACE sections DA, DB, DD, DJ, DK, DM, DN), EU-27, 2004 (% share of total employment)



Source: Eurostat SBS size class

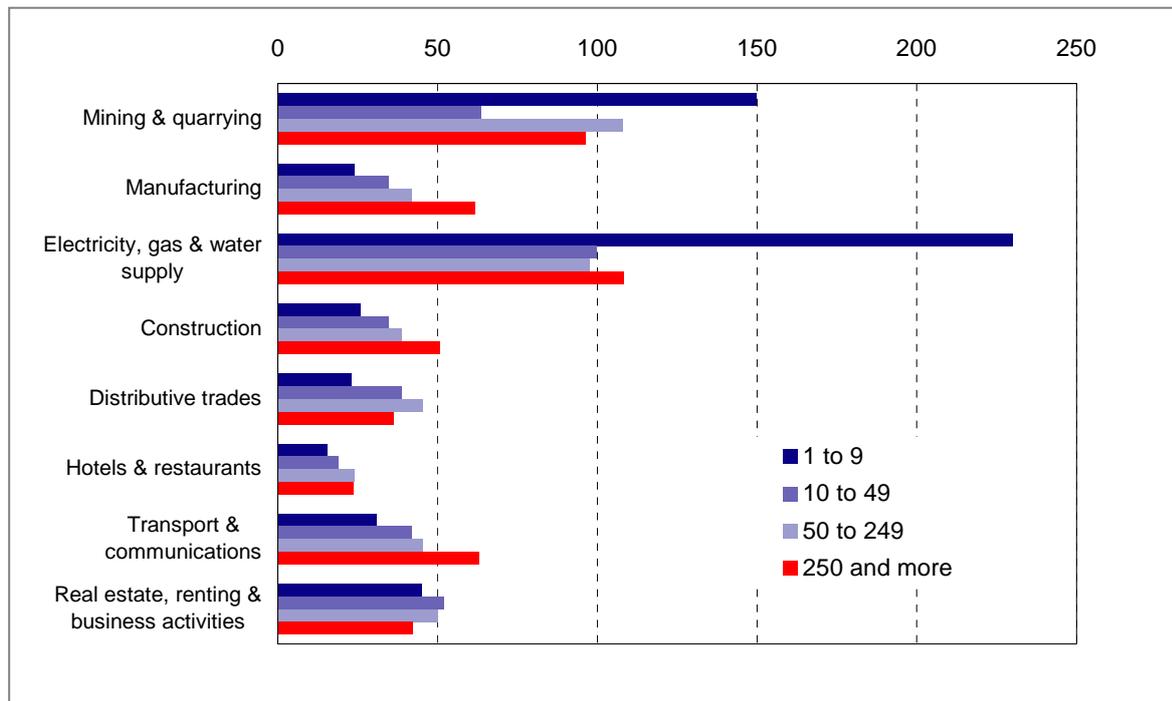
In general, smaller enterprises account for a greater role in labour intensive sectors with a lower labour productivity than their larger counterparts: In 2003⁷, labour productivity in the EU was on average highest in the energy sector and in the mining and quarrying sector – both sector dominated by large companies - while it was lowest for typical SME sectors like hotels and restaurants (see figure 4).

In manufacturing, construction, hotels and restaurants, and transport and communications, there is a pattern of increasing levels of labour productivity with each larger size class across the EU as a whole. In mining and quarrying as well as energy activities, micro-sized enterprises in the EU-25 recorded the highest labour productivity across the respective size classes.⁸ In distributive trades and real estate, renting and other business activities, small and medium-sized enterprises had higher labour productivity levels than large enterprises.

⁷ See Eurostat: SME and Entrepreneurship in the EU, Statistics in Focus, 24/2006.

⁸ It should be added here however, that there are very few micro units operating within the energy and water supply sectors and that their economic weight is limited (accounting for 2.9 % of total employment in this sector). Those micro enterprises include power plants that may generate electricity with very few persons employed, thus resulting in relatively high labour productivity figures.

Figure 4: Apparent labour productivity broken down by enterprise size class, EU-25, 2003 (EUR thousand)*



Source: Eurostat SBS size class; * Information shown may include rounded Eurostat estimates

1.2 National varieties of the SME sector

The geographic variety of SMEs across Europe reflects specific patterns of industrial structures, economic traditions and other framework conditions, in particular the economic and social transformation process in the Central and Eastern European Member States. Within EU member states, the relative importance of a particular size class varies widely (see figure 1 in statistical annex). Very broadly, the following groups of countries might be identified in this context: With regard to the overall importance of SME business organisations for the national economies in Europe there are seven countries where the SME sector is employing more than three quarters of the workforce and which are clearly above the European average (66%): Cyprus (85%), Italy (81%) and Portugal (80.6%) as well as Spain (79.2%), Estonia (76.9%) and Slovenia (75.8).

On the other end, most of the bigger EU countries are amongst a group quite strongly characterised by high employment shares in larger enterprises: Nearly one out of two employees are working in large enterprises in the United Kingdom (47.1%). Finland (40.9%), Germany (40.6%) and France (39.7%) are also characterised by high shares of large enterprise employment. Slovakia, where nearly 52% of all employees are employed in large companies, is an exceptional case.

2 EMPLOYMENT DEVELOPMENT, STRUCTURAL CHANGE AND PERFORMANCE OF THE SMALL AND MEDIUM-SIZED ENTERPRISE SECTOR IN EUROPE

2.1 SMEs and patterns of employment development and structural change in Europe

As mentioned above, employment development in Europe during the last decades is characterised by two major characteristics: First, an overall net increase in employment – in 2005 there were nearly 7 million more jobs than five years ago.⁹ This figure only is indicating a net effect of job creation and job destruction, i.e. much more workplaces are directly affected by restructuring. According to the EU Commission,¹⁰ every year, 10% of European enterprises are set up and destroyed. It is estimated that between 5 000 and 15 000 jobs are created and destroyed every day on average in each of the Member States. Secondly, employment development is characterised by significant shifts from some economic sectors to others: While the service sector is growing, employment in most industrial sectors and agriculture is decreasing.

Small and medium sized enterprises play a major role with regard to both aspects: SMEs are a major source of job creation and they are directly affected by the employment shifts between sectors. For example the primary sectors – agriculture, forestry, fishing, mining and quarrying – which continue to demonstrate a long-term relative decline, are characterised by a particularly high proportion of SMEs. In contrast, employment in business, personal and social services show high and SME driven job growth and contribute significantly to the increase in employment.

The following chapter analyses structural change and employment development for ten EU member states. The countries selected for this analysis represent a mixture of different national SME structures ranging from countries with a very high proportion of employment in micro and small enterprises (Italy, Spain and Poland) to countries with an strong position of large enterprises (UK, Germany, France, Sweden).

2.2 Employment development trends by industry sectors and company size class in ten European countries 1998 – 2004

SMEs and employment development trends by countries and size groups

The notion that SMEs are a driver of employment growth is supported by the analysis of Eurostat employment data on the non-financial business sectors between 1998 and 2004. In this period, micro, small and mediums-sized companies in the ten countries analysed in this study created more than four times as many jobs as large enterprises: While the employment in SMEs increased by more than 4.6 million jobs, large enterprises in the ten countries created only around 1 million jobs. Also with regard to relative changes the SME sector developed significantly better than the large enterprise sector with few exemptions.

⁹ See footnote 1.

¹⁰ Communication from the EU Commission: Restructuring and employment Anticipating and accompanying restructuring in order to develop employment: the role of the European Union, Brussels, 31.3.2005, COM(2005) 120 final.

Behind these overall figures, very different national developments have occurred (see table 2). First, in half of the countries (Austria, Italy, Spain, France, Sweden) the overall employment development is characterised by growth in all size classes including the large enterprise sector. Italy, Spain and France are the only countries which experienced higher growth rates of employment in large enterprises compared with the SME size group. However, it should be noted that all three countries are characterised by a relatively small share of employment in large enterprises.

Other countries have experienced a shrinking employment base in certain size groups, particularly pronounced in Poland, Hungary and the Czech Republic, where there was a significant decline in employment in large enterprises. However, Germany, Hungary and Poland are the only countries experiencing an overall decline regarding the number of job losses.

Table 2: Gains/losses in the number of persons employed, EU-10, 1998 – 2004 (overall change, NACE D-I and K)

	Micro (1-9)	Small (10-49)	Medium (50-249)	SMEs (1-249)	SME % Change	Large (250+)	LSE % Change
Austria	90.926	7.539	3.282	101.747	+7.2	45.269	+ 6.2
Czech Republic	204.266	-34.857	2.353	171.762	+ 7.5	-154.579	- 12.6
Italy	678.806	351.746	243.628	1.274.180	+ 12.0	358.113	+ 15.0
Germany*	-71.913	26.199	-31.386	-77.100	- 0.7	-226.816	- 2.7
Spain*	814.943	538.147	348.018	1.701.108	+ 19.7	463.622	+ 20.7
France	263.395	241.513	281.825	786.733	+ 10.0	721.564	+ 14.9
Hungary**	5.813	30.384	11.265	47.462	+ 2.7	-71.359	- 9.4
Poland	408.626	-44.643	7.962	371.945	+ 7.6	-519.910	- 20.1
Sweden	7.947	65.995	64.172	138.114	+ 9.1	25.507	+ 2.9
United Kingdom	-281.680	285.647	96.220	100.187	+ 1.0	397.795	+ 5.1
Total EU-10	2.121.129	1.467.670	1.027.339	4.616.138	+ 7.7	1.039.206	+ 3.3

Source: Own, based on Eurostat SBS data; * 2000-2004; ** 2002-2004

Regarding employment development in the main size class groups the following trends can be observed:

- In most countries, micro companies were the main sources of net job creation, most strikingly in Austria, the Czech Republic, Poland, Spain and Italy.
- A pronounced decline in employment in micro companies occurred only in Germany and the UK.
- Sweden and the UK are cases with the highest net gains in the small and medium size groups. Also in France the net employment gains of the three size groups are very balanced.
- Poland, the Czech Republic and Hungary are characterised by sharp decreases in employment in large enterprises and a strong growth of employment in micro enterprises.

Employment trends by industry sectors and size groups

The analysis of employment change in certain industry sectors reflects the major trend of a continuous shift from the manufacturing to the service sector, in particular business orientated service activities: Between 1998 and 2004, more than 1.7 million jobs

disappeared in manufacturing (as a total of all enterprise size groups). At the same time, nearly 6.4 million jobs were created in distributive trades, hotels and restaurants, transport and communications and in business activities.

Table 3: Gains/losses in the number of persons employed, EU-10, 1998 – 2004 (overall change, NACE D-I and K)

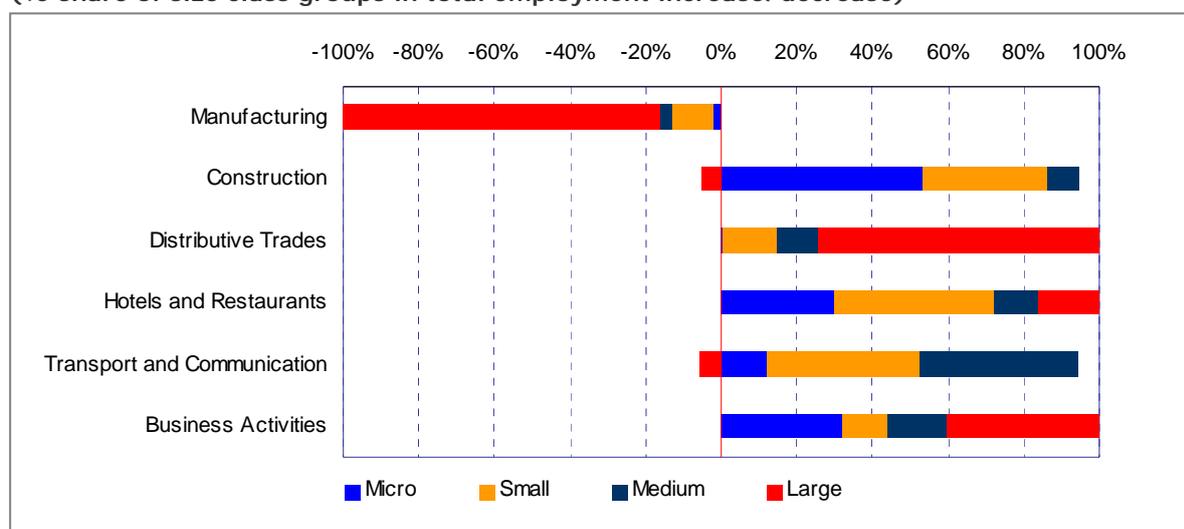
	Overall change	Micro (1-9)	Small (10-49)	Medium (50-249)	SMEs (1-249)	Large (250+)
Manufacturing	-1.749.190	-36.612	-189.465	-59.682	-285.759	-1.463.431
Construction	1.120.823	670.811	415.513	102.438	1.188.762	-67.939
Distributive trades	1.512.401	10.417	213.191	162.379	385.987	1.126.414
Hotels and restaurants	1.101.485	328.035	469.779	126.427	924.241	177.244
Transport and communications	320.384	44.015	147.033	151.227	342.275	-21.891
Business activities	3.425.043	1.101.886	407.113	534.885	2.043.884	1.381.159

Source: Own, based on Eurostat SBS data

There are significant differences regarding the role of size groups in employment trends (see figure 5). In manufacturing, more than 80% of the total employment loss was an effect of decreasing employment in large companies. However, the positive employment trend in distributive trades mainly was also due to employment increases in large companies, which make up around 75% of the overall employment increase.

The share of SMEs in employment development between 1998 and 2004 varies accordingly: in regard of construction and transport/communications, only SMEs demonstrated a rise in employment. Employment in large companies was negative. In the hotel and restaurant sector, more than 80% of employment increase has resulted from SMEs, while in the business activities sector SMEs accounted for "only" around 60% of the rise. A particularly high number of jobs was created by micro companies in the construction, hotels/restaurant and business activities sectors.

Figure 5: Gains/losses in NACE D-I and K, EU-10 sample, 1998 – 2004 (% share of size class groups in total employment increase/decrease)



Source: Own, based on Eurostat SBS data

Employment development by size groups in manufacturing¹¹

The development of employment in manufacturing is characterised in most countries by a significant decrease of employment in large companies, which was much stronger than positive developments in SME size groups. Particularly high job reductions in large companies occurred in Poland (-30% or more than 400 000 jobs), the United Kingdom (-26.6% or 550 000 jobs) and in the Czech Republic (-16.6%). Only Spain indicates a significant increase in manufacturing employment during this period while it was rather stable in Austria and France.

Taking the development of manufacturing employment in the SME groups into consideration reveals a diverse image. General trends are difficult to elucidate. Broadly two groups may be identified: The first group of countries consists of the Czech Republic (24.4%), Poland (24.8%) and Sweden (24.7%) with rather strong employment increases in micro and small companies. The second group is clearly led by Spain, but also Poland and Sweden, where the medium-sized company group developed quite well with high employment increases (between 10 and 20% rates of increase).

In all other cases, employment figures developed quite unevenly throughout the three SME size class groups: there are significant employment reductions in certain countries and size groups (i.e. micro companies in Hungary and Germany with decreasing employment figures of approximately 15%) while employment increased in other groups. In total, the country sample shows the following groups if positive/negative trends in all three SME size groups are taken into account:

- Countries with increasing SME employment in manufacturing: Czech Republic, Spain, Poland, Sweden.
- Countries with a decrease in manufacturing SME employment: Austria, Italy, Germany, France, Hungary, United Kingdom.

There are two countries where the overall picture is clearly different from the others: firstly, the United Kingdom, with significant employment decreases in all size groups, particularly in the large enterprise group. Secondly, France as an exception to all other countries: here, only large companies increased their employment while SMEs lost (in particular the small company size group).

Employment development by size group in construction¹²

In contrast to manufacturing, employment in construction showed a strong increase between 1998 and 2004, which amounts to an overall employment growth of 1.1 million in this country sample. However, employment in large companies decreased slightly while predominantly micro companies demonstrated a strong positive employment increase. Employment development by country indicates a certain diversity which can be summarised as follows:

- Most significantly in Spain, but also in Italy, France and Sweden, all enterprise size groups are characterised by positive employment developments. In particular the micro company size groups show high ratios of positive employment development (i.e. growth of more than 50% in Spain). Another example is Italy. Here, employment in micro, small and medium-sized enterprises increased by 24%, 42% and 39%, respectively. In comparison, the growth rate in large enterprises was only 7.7%.
- The Central and Eastern European countries do not conform to this trend. A positive employment development in the micro company sector is contrasted with not only significant employment decreases in large enterprises but also negative de-

¹¹ See table 1, statistical annex.

¹² Table 2, statistical annex.

velopment in medium-sized companies (Czech Republic: -30%, Poland: 35%, Hungary: -5%) and small companies (Czech Republic: -18%, Poland: -32%).

- Germany, Poland and the Czech Republic are the only countries whose employment figures indicate economic downturns in the construction sector. In particular in Germany and Poland, there were high levels of employment decrease (Germany: -200 000 jobs and Poland: -187 000 jobs).

Employment development by size group in distributive trades and hotels and restaurants¹³

Employment development in distributive trades and hotels and restaurants are characterised by an overall increase in employment by 1.5 and 1.1 million jobs, respectively. This is based on a significant difference regarding the positions of the SME and large enterprise sectors:

In distributive trades, a major trend in all ten countries is that the highest rate of employment increase is in the large enterprise size group. Hungary serves as the only exception. There were growth rates of up to more than 60% (Italy) and the large enterprise group accounts for the highest absolute employment increase figures in nearly all countries, most significantly in the UK, France, Austria and Sweden.

This development confirms a general trend of structural change due to a stronger concentration of ownership and employment decreases in the micro size company group (in particular in the UK with around 230 000 jobs).

A further trend is a major employment reduction in small and medium-sized companies in Poland and the Czech Republic. At the same time, both micro and large companies are increasing their employment. With a strong employment loss in the large company sector amounting up to nearly 50 000 jobs, Hungary is clearly differing from the other countries. In contrast to distributive trades, the overall employment growth is an effect of a stronger increase in the SME size groups. In comparison, employment in large companies only increased significantly in Italy, France, Spain and the UK. Employment in the remaining countries either stagnated or decreased slightly in this size group. Aside from a slight decrease in the micro company group in Germany and a stronger decrease in the UK (-61 000), most of the new jobs were created in micro and small companies in the ten countries sampled.

Employment development by size group in transport and communication¹⁴

The transport and communication sector is characterised by two major trends: first, an overall negative employment development in large enterprises, mainly due to massive job losses during 1998 and 2004 in Poland (-138 000 or 27%) and the Czech Republic (-27 000) in addition to Italy, Germany and Sweden. On the contrary, there was a rise of employment in large companies in France (84 000 or 9%), Spain and most notably the UK (134 000).

Secondly, the transport and communication sector shows certain differences regarding development in the SME sector. Here, the most dynamic size groups are small and medium-sized companies, as illustrated by the highest growth rates. Only the UK is characterised by a strong growth of employment mainly located in large companies. Another special case is Germany, where both the micro and small company groups are marked by negative employment developments and only the medium-sized company group has increased its employment. In all other countries, there was a distinctive employment shift towards the 10 – 240 employee size groups.

¹³ Table 3 and 4, statistical annex.

¹⁴ Table 6, statistical annex.

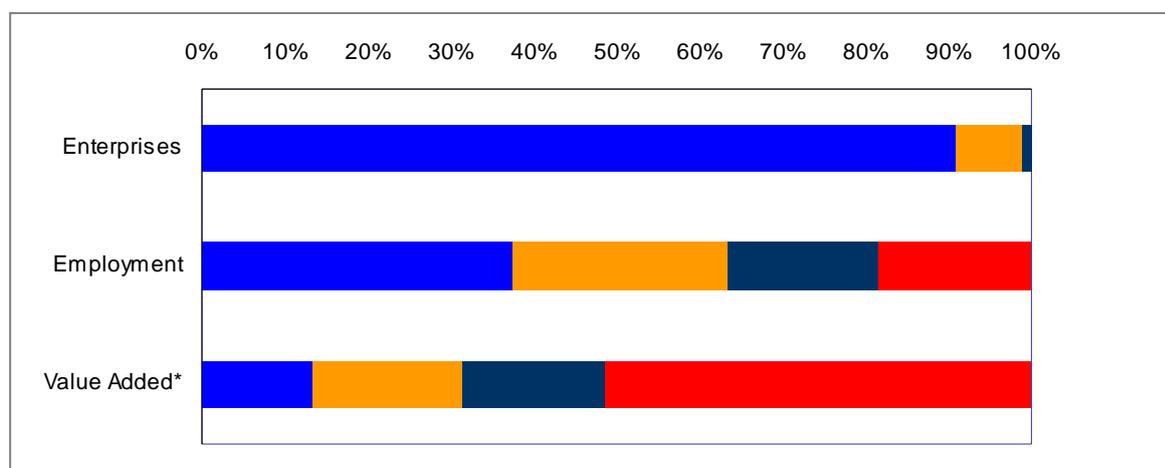
Employment development by size group and country in business services¹⁵

With a net increase of nearly 3.5 million jobs, the business service sector is the most dynamic sector in terms of job creation in the sample of ten countries between 1998 and 2004. With the exception of two countries (employment reduction in the micro and small company groups in Germany and Sweden), every size group in these countries has experienced job growth. However, the business service sector is also illustrating a rather specific growth pattern which differs from the other sectors: the highest growth rates in most countries can be found in the large enterprise sector (most notably in Italy, Hungary, the Czech Republic, France and Sweden with growth rates of more than 30%) and the micro company size groups. Employment growth in the small and medium-sized enterprises segments was remarkably less dynamic. Only Poland, with a growth rate of more than 60%, and the Czech Republic (48%) show strong employment increases in the micro company size groups.

2.3 Changes in the performance of SMEs

As illustrated in the figure below, the contribution of the SME sector to enterprise creation, employment and value-added increase varies significantly: while SMEs contributed to nearly 100% of enterprise creation, their share in total employment creation between 1998 and 2004 was 81.6% while their share in the increase in value added was 48.6%.

Figure 6: Enterprises, employment and value added 1998 – 2004: Breakdown of total numbers and figures (NACE D-I and K, EU-10 sample)



Source: Own, based on Eurostat SBS data; * 2002 – 2004, at factor costs

However, the performance analysis of individual industries and service sectors clearly shows that growth rates of employment and value added development vary significantly across sectors and within single countries:

In manufacturing, the employment performance of SMEs in most cases was positive compared to large enterprises (meaning that the decrease in employment in large enterprises was more pronounced than in SMEs). In regard to the growth rates of SMEs in value-added, all ten countries significantly lag behind those of large enterprises (see table 7 in statistical annex). This is particularly striking for the Central and Eastern European states: while value added in the Czech Republic, Hungary and Poland from 2002 – 2004 in large scale enterprises increased by 22.3%, 26.5% and 19.1%, respectively, the corresponding growth rates in the aggregated SME sectors were significantly lower (Czech Republic 12.9%, Hungary 13.5%, Poland 11.9%). At the same

¹⁵ See table 6, statistical annex.

time, employment rates in large enterprises decreased in Hungary and the Czech Republic. This may lead to the conclusion that there is a faster increase in productivity rates in large enterprises compared with the SME sector.

This difference in performance between SMEs and large enterprises is also characteristic of other sectors, such as distributive trades or business services (see tables 8 and 9, statistical annex). In general and with only a few exceptions (Germany in distributive trades, the Czech Republic and Sweden in business services), the growth rates of the SME sector in value-added increases are clearly below those of the large enterprise sector.

3 RESTRUCTURING IN SMALL AND MEDIUM-SIZED ENTERPRISES

3.1 Introduction

According to a widely accepted perception, the term 'restructuring' takes many forms and is used to cover a wide range of situations. The most significant restructuring situations of course are the setting-up of a new business, closures or change of ownership. The concept of restructuring can also mean internal restructuring and reorganisation processes, or measures resulting in subcontracting activities (outsourcing), moving activities to other sites of the company either within (relocation) or outside the country (offshoring). Finally, also privatisation strategies and market liberalisation in previously state-owned enterprises and/or public utility services have resulted in considerable restructuring. It should be noted that different restructuring situations may overlap and are not mutually exclusive. Furthermore, it is important to bear in mind that restructuring can affect an entire enterprise, a certain establishment of an enterprise, or a small unit affecting only few employees within an enterprise. Equally, it can involve a whole sector (i.e. in the case of changing framework conditions), a relatively large number of small and medium sized companies belonging to a specific industrial sector and/or located within the same region.

To address the issue of restructuring in SMEs, one faces a double dilemma: First, small and medium-sized enterprises represent nearly 100% of all enterprises in Europe. It is quite evident that SMEs are not only omnipresent in business life but also much more diverse and manifold (shaped by country, culture, size and sector) than large enterprises. Therefore, for example, medium-sized enterprises (with a workforce of 50 – 250 employees) might have much more in common with larger enterprises than with micro-sized enterprises in the crafts or artisan businesses. Secondly, and resulting from this diversity, it is obvious that when it comes to restructuring the situation in SMEs is much more complex than in large enterprises. As mentioned before, in analysing and debating restructuring in Europe today, key actors and the research community refer almost exclusively to the experience of large restructuring cases. However, in general these perceptions generally do not address the opportunities and positive effects of restructuring, nor do they reflect the experience of SMEs sufficiently. Here, restructuring processes often take place according to different ratios and patterns.

In the following chapters we are trying to present and summarise an overview of the major patterns and driving forces of restructuring and change in the European SME sector. Again it should be noted that this overview does not aim at presenting a comprehensive and complete catalogue or analytical frame of the whole picture. Since it is mainly based on qualitative methods of information gathering carried out in a number

of EU Member States, it is necessarily limited both in scope and in depth. However, we also think that the picture we present is quite representative of the current situation of SME restructuring in different national, sectoral and size-specific frameworks.

Before starting this exercise the following table can present a first and very broad overview of the scene, helping to assess the relevance of different restructuring situations and forms for the three groups of SMEs as compared with large enterprises. The overview should be read as a catalyst for further discussion and reflection rather than a resolution of the issue.

Table 4: Relevance of different restructuring situations for company size groups

Restructuring situations	Relevance for			
	Large	Micro	Small	Medium
Enterprises				
Business start-up, closure, change of ownership				
• Setting-up new business	Low	High	High	Low
• Closure of enterprises	Low	High	High	Low
• Mergers and Acquisitions	High	Low	Low	High
• Business transfer of ownership enterprises	Low	High	High	High
Internal reorganisation, adaptation of the skills base and training				
• Introduction of new working time and pay systems	High	Low	Low	High
• Increasing the flexibility of labour (part-time work, temporary contracts, agency work)	High	High	High	High
• Reorganisation projects, e.g. merger or split-up of divisions	High	Low	Low	High
• Process business reorganisation	High	Low	Low	High
• New forms of work organisation, e.g. group or team work	High	Low	High	High
• Internal projects focussing on skills and competence development, further training, upgrading of qualifications etc.	High	Low	Low	High
• Measure in the context of adapting to technological progress, implementing new technologies	High	Low	Low	High
• Introduction of new HR tools, knowledge management, communication projects etc.	High	Low	Low	High
• Introduction of new products and product processes	High	Low	High	High
Outsourcing, relocation and offshoring				
• Outsourcing of single functions or whole parts of the company	High	Low	Low	High
• Transnational relocation projects/offshoring	High	Low	Low	High
• Contracting out of services/activities	High	Low	Low	Low
Privatisation and public sector restructuring				
• Privatisation of public industries and services	High	Low	Low	Low
• Public private partnerships	High	Low	Low	Low
• Market liberalisation of public utility services	High	Low	Low	Low

Source: Own

3.2 Silent restructuring

It is common characteristic of restructuring in SMEs that in most cases it is carried out in silence without much public attention. While restructuring, particularly in the context of offshore relocation and outsourcing in large companies, is subject in most EU countries to intense public debate, according to most key actors interviewed in different countries, the effects of both macro- and microeconomic restructuring on SMEs are not present in public discourse. Even in countries like Italy or Spain where SMEs play such an important economic role it is reported that restructuring debate is centred almost exclusively on large companies (see textbox). Micro companies in particular but also many small companies generally can reduce their labour force and restructure more easily than medium-sized and large companies, since they are not covered by legal commitments for dealing with mass redundancies, information and consultation obligations and other forms of regulation in the context of restructuring.

"In the last years, the Italian productive sectors have suffered from a deep economic crisis and, even if a small upswing is currently taking place, some industries are now completely out of the market, such as the electronics industry and the fine chemicals industry. The political debate focused on the negative trends in employment and production in a few large enterprises, thus ignoring the deeper crisis occurring in small enterprises in the textile industry that had to face their problems without any public support. There is a big gap between the importance of SMEs and the attention they receive." (Interview report Italy)

A French interview partner has also highlighted the importance of public perception and frameworks for dealing with restructuring.

"This has resulted in the elaboration of a large legal apparatus to address anticipation, consultation with workers' representatives and accompaniment of workers. However, this apparatus is above all centred on large companies. Because a single announcement of 10,000 job destructions is more striking than 1,000 of ten job redundancies, some commentators have said that the legal apparatus mainly concerns the visible part of the iceberg, ignoring the restructuring processes in small and medium enterprises." (Interview report France)

It should also be noted here, that nearly "silent" restructuring processes are affecting the SME sector which are quite new, e.g. concentration processes and mergers and acquisitions, as the following example from Germany illustrates:

The German craft sector has experienced significant restructuring operations in certain aspects during recent years, for example concentration processes to reduce costs by harnessing synergy effects and thereby improving profitability. One example is the dental technology sector, which is populated primarily by micro companies. Here, new companies have emerged with the backing of financial institutions, bigger companies and in some cases consultants which systematically buy dentistry laboratories. A prominent example is the Flemming Dental AG, a group which at the beginning of this decade started to buy many small and medium-sized companies. The company also has started to establish itself as an integrated full-service provider for dentists (including financial support for business start-ups and investments). In most cases the companies incorporated in the group structure have been the subject of significant restructuring processes which on average resulted in a 30% reduction of the workforce, according to the metalworkers union IG Metall.

While these forms of change are quite hidden, falling outside the public discourse, there are also forms of restructuring which are not addressed and analysed properly because of a lack of empirical data and evidence, as a German expert has highlighted on the issue of foreign investment of SMEs:

"Due to existing thresholds of notification obligations, official statistics are considerably underestimating foreign investment activities of small and medium-sized enterprises. Empirical studies and surveys on bank loans in the context of foreign activities are indicating that German SMEs are investing much more in foreign markets than official figures suggest."

Another feature of "silent restructuring" results from the uncertain nature of employment conditions in certain sectors and the increase in short-term, part-time and seasonal labour contracts, particularly in service sectors (hotels and restaurants, cleaning, facility management, security etc.). Another example which was mentioned in particular by interview partners in Central and Eastern Europe Eastern Europe is the restructuring (read: closing) of many small retailers as a result of the entry of big multinational supermarkets and "megastores".

3.3 What makes the difference – Patterns of restructuring in SMEs

Personal relationships

SMEs differ from large enterprises not only in terms of quantitative aspects like the number of employees or turnover size. There are also qualitative characteristics which might be even more important to understand the differences between SMEs and large enterprises. In a definition of the German "*Mittelstand*" some relevant factors are summarised: a first and crucial characteristic is the *identity between ownership and personal responsibility* for the enterprise activities. In close connection to this, other features are, for example, *personal liability* for the entrepreneur's and the enterprise's financial situation, direct and *personal responsibility* for the success or failure of the business and in most cases the *personal relationship between employer and employees*.¹⁶ The fact that corporate practice in SMEs therefore is much more based on personal relationships with the owner/entrepreneur and much less on institutional settings and interplays has important implications also for the nature and form of restructuring processes in SMEs comparison with large enterprises. According to most interview partners this results both in strengths and weaknesses. As the 2003 SME Observatory stated:

"During downturns, smaller enterprises maintain more employment above the efficient level compared to larger enterprises. Micro companies especially have fewer opportunities to lay off personnel. Moreover, considering stronger personal ties within the enterprise, business owners are probably also less inclined to discharge personnel, even if they have the chance to do so."¹⁷

This observation was confirmed in interviews with key actors in the field of European SME policy. Beside the effects mentioned above, it was noted that often the whole enterprise is oriented towards the personality of the owner and that in many cases there is a certain "*Buddenbroke's Syndrome*"¹⁸, e.g. companies which closely connected to the founder generation which rarely survive the third generation. As a prominent example of this the Italian Prato textile district was mentioned, where Italian entrepreneurs have been replaced by Chinese companies.

Inequality regarding "toolboxes" for dealing with restructuring

While SMEs seem to be less inclined to dismiss their employees, there are also certain barriers to looking for alternatives to downsizing or even closure of the business in periods of economic crisis. Though they seem to be more flexible and able to adapt to changing environments than large enterprises, this flexibility is limited by certain disadvantages in respect of larger enterprises, as UEAPME comments in a statement on restructuring and SMEs:

¹⁶ Institut für Mittelstandsforschung Bonn: SMEs in Germany. Facts and Figures 2004, Bonn 2004, p. 2.

¹⁷ "SMEs in Europe 2003", Observatory of European SMEs 2003, No. 7, p. 44.

¹⁸ Named after the famous novel of Thomas Mann describing the story of a merchant family from the foundation of the business until the disintegration over three generations.

"When it comes to change, SMEs have always proven their constant capacity to face and adapt to change thanks to their high degree of flexibility. When it comes to company restructuring, they face greater difficulties because of their size and the direct financial commitment of the business owner. Moreover, in the case of restructuring of large businesses, SMEs working as subcontractors or suppliers lack external support."¹⁹

According to most interview partners, SMEs are at a clear disadvantage compared to the large enterprises with regard to financial and other instruments for dealing with and managing restructuring situations. Therefore, restructuring often takes the form of dismissals or closures.

"There are significant differences. Larger companies often pursue several kinds of activities and hence they can better adapt to market changes. As for smaller entities, the most typical form of "transformation" is company closure." (Interview report Hungary)

"Most often restructuring results in declining employment; in the case of micro-enterprises it usually results in closing down the business." (Interview report Poland)

There are two main reasons quoted unanimously by key actors for this limitation of alternative options in dealing with change and managing restructuring: first, greater difficulties in receiving loans and financial support from financial institutions (in particular micro companies, enterprises in low-pay sectors and young companies) and shortcomings in public frameworks for dealing with temporary or structural crisis situations, supporting the development of innovation and change projects, activities on foreign markets etc.

The lack of financial resources seems to be a major structural feature of SMEs throughout Europe:

"Large and profitable companies have more resources and better international contacts with clients and customers. They also are able to better manage the risks of starting business on foreign markets, eg. suspension of payments." (Interviews Spain, Germany)

"It is a disadvantage in Hungary that SMEs receive the least bank loans and central funds; they tend to mobilise their family savings instead. Those with sufficient family savings can develop; the rest will stagnate at best." (Interview report Hungary)

The shortcomings in the public framework for dealing with restructuring in SMEs are in particular striking in those countries which have developed quite a comprehensive toolbox for dealing with the social effects of restructuring at corporate level like France and Germany.

In France, for example, as in most other European countries, the regulatory framework is centred around the procedure of collective redundancies. Here, there are so-called "employment saving plans" (*Plans de Sauvegarde de l'Emploi*, PSE)²⁰ to cushion the effects of redundancies. However, the PSE framework only covers companies of more than 50 employees. As a consequence it is reported that this framework only covers around 20% of dismissals for economic reasons. Many other forms of redundancy in the context of restructuring processes are not covered: redundancies below the threshold of collective dismissals, termination of fixed-term or temporary contracts, individualised leaving negotiations, etc.

There are also other instruments for managing restructuring at the corporate level that do not covering micro, small and medium-sized companies: "Redeployment training programmes" (*Congés de reclassement*), which oblige the company in cases of collective redundancies (i.e. dismissal of more than nine employee during a period of

¹⁹ "UEAPME Position on the Communication from the Commission Restructuring and employment", Brussels, 6 July 2005, p. 2.

²⁰ In 2002, PSE has replaced the former "social plans".

30 days) to maintain the labour contract for a fixed-term period (from four to nine months) in order to find a new job, to practice further training courses etc. are only compulsory for companies with more than 1,000 employees. The same situation characterises innovative instruments which have been introduced recently in French labour law (see textbox):

As a consequence, there is a significant difference in the chance for an employee to receive practical support, advice and other resources in the case of redundancy very much depending on whether he/she is working in the SME sector or in a large enterprise.

France: Anticipating change in larger companies

The so-called Law on Social Cohesion introduced a chapter called "Employment and Competences Management: Anticipating the consequences of economic mutations" (*Gestion de l'emploi et des compétences. Prévention des conséquences des mutations économiques, or GPEC as it is usually referred to*²¹) in the Labour Code. The scheme should support and encourage early anticipation. For companies with more than 300 workers (and companies with the obligation to have a European Works Council and having at least 150 workers in France), the employer has to open a negotiation every three years covering (at minimum) the modalities of information and consultation amongst others on the strategy of the company and its foreseeable effects on employment and wages. It can be described as a tool for anticipating employability needs. On this basis, vocational training, individualised guidance, personal assessment, etc. might be developed.

Similar experiences are reported for other countries, e.g. Spain or Germany. In Spain, social plans (*Planes de Acompañamiento Social*) are only requested for companies with more than 50 employees and thus not covering 99% of all firms. In Germany there is a growing concern about the shortcoming of the existing regulatory framework on social plans and so-called transfer companies which are also mainly used by large companies and larger medium-sized companies.

Shortcomings of transfer companies in Germany

So-called transfer-companies have been introduced in Germany in order to cushion the effects of redundancies in the context of restructuring. Initially targeting large scale sectoral crises (i.e. in the shipbuilding sector), transfer-schemes were introduced into social law at the end of the 90s and today cover all economic sectors. Transfer companies aim not only to cushion the effects of collective redundancies with severance payments but also to develop new employment perspectives for the redundant employees by combining social plans with activities for improving their prospects of redeployment. However, as recent studies into the development of transfer schemes show, mainly large companies are using this instrument, although it is also applicable to smaller size groups. Though recent reforms have improved the conditions of small and medium-sized companies to make use of the scheme, the share of SMEs in existing transfer companies and related schemes is marginal. A recent survey on transfer schemes in the region of North-Rhine Westphalia found out that the share of enterprises with less than 21 employees in existing transfer schemes is only 1% and only 10% in enterprises with 21-59 employees. Medium-sized companies (60-249 employees) constitute ca. one third of all cases.

In the context of interviews with the social partners we found hardly any initiatives to address these shortcomings. However, there is some motivation from discussion and reform debate in the Nordic Countries to work on this issue in order to improve the efficiency and operating range of job and employment security schemes (Finland, Sweden) or "flexicurity" concepts (Denmark).

²¹ This practice of anticipation of course pre-existed to this law (and was generally called GPEC), but was not made compulsory and enforced.

Dependence on large companies

In addition, micro, small and medium-sized companies in many respects are affected directly by restructuring operations in large companies as sub-contractors, suppliers, local service providers or labour reserves. Also, the departure of major regional employers often results in severe effects on SME employment and the regional business environment.

As an interview partner in France commented, a growing share of SMEs today are directly affected by the decision of large companies in the context of franchise, sub-contracting or other relationships (see textbox). Also interview partners stressed the dependency issue as many micro and small enterprises depend on one client. There are also similar west-east patterns of direct vulnerability of SMEs in the context of restructuring in large companies:

"40% of French SMEs are affected by subcontracting or franchise or trademark relationships. They are generally concerned with restructuring either directly, when the ordering party takes decisions that impact on the contract and the partnerships, or indirectly, when the decision of a large group weakens an employment area (job losses, diminished access to R&D and new technologies, etc.). The closing of industry units impacts on proximity SMEs, personal service enterprises (restaurants, hairdresser, etc.) and independent workers." (Interview report France)

"If SMEs act as subcontractors, they are totally dependent on their client and tend not to diversify their client portfolio. Therefore, if the client enterprise restructures, SME-subcontractors are directly influenced. An example here would be the closure of many service points such as hairdressers and press kiosks while the shipyard in Gdańsk was partly shut. SMEs usually do not have any "buffer strategies" that would enable them to survive a tougher period, therefore they either operate or close down their business." (Interview Report Poland)

While an increasing dependency of SMEs on large companies or in the context of franchise, subcontracting and contract relationships seems to be a common trend all around Europe, interview partners in Hungary and Poland also stressed an additional dimension: The large company sector is dominated by multinational foreign investors which in general rely on "own", i.e. foreign suppliers:

"The deficiencies in Hungarian supplier capacity also have a negative influence on SMEs. Since domestic SMEs are not adequate partners, the multinationals bring along their supplier network, and instead using the domestic production chain, they squeeze Hungarian SMEs out of the market." (Interview Report Hungary).

In general there is little knowledge and empirical evidence about the direct and indirect effects of large scale restructuring on the SME sector. There are only rare cases where effects on the SME sector have been addressed by serious empirical studies and surveys. The closure of the MG Rover plant in Longbridge/Birmingham is such a case.

When in April 2005 MG Rover in Longbridge/Birmingham went into administration direct job losses amounted to 5 800. However, according to a survey carried out for the "Rover Task Force" there are even larger employment effects in the region and at supplying companies:²² Beside the direct losses the survey estimates a potential loss of automotive supply chain jobs in the region of some 3 900 and job losses at other supply chain firms of up to 1 900 (total supply chain job losses of up to 5 700) and job losses due to an economic downturn in the region amounting to up to 1 400. All in all the Rover closure resulted in a total of 13 000 jobs or 0.6% of total regional employment.

²² MG Rover Task Force: Closure of MG Rover –Economic Impact Assessment, Stage 2 Report, Regeneris Consulting, November 2005.

Competing with the informal labour market

A major challenge for SMEs in the context of structural change and restructuring according to interview partners connected with the increase of a flexible labour force. In particular the growing competition from the "black and grey" economy was noted.

"The existence of the "black and the grey" economy has a major influence on the operation of SMEs. The informal economy today is undermining macro-economic processes and the SME policy of the government" (Interview Report Hungary)

"As a consequence self-employment may be regarded as a cheaper alternative to regular employment – most often self-employed do exactly the same job as if they were full time employees. The only, and the most significant, difference is that they issue invoices and are not on the enterprise's payroll, therefore their wages do not add to the personnel cost."(Interview Report Poland)

"The interviewed employer representative highlights the difficulty to compete on costs in markets based on 'low wages and no proper working day' as well as the tendering procedure for the contracting out of parts of manufacturing in the car industry, metal industry and chemical sectors. Contractor selection is only based on prices, i.e. the provider offering the cheapest service wins the contract: auxiliary SMEs cannot compete with subsidiaries." (Interview report Spain)

Different patterns of social dialogue and employee participation within the SME sector

With regard to company based structures of interest representation and employee participation SMEs are characterised by a large internal variety which often is determined by size-class specificities: Micro and small companies in most cases are not covered by institutional structures of interest representation (see textbox) and employee participation is organised – if at all – in a rather informal way along personal ties.

According to recent surveys in Germany (IAB Betriebspanel) only 11% of all enterprises had a works council. There is a direct correlation between company size and works council structures: while in companies with less than 50 employees only 7% had established an employee interest representation, this share increases strongly in the larger company size groups: 56% of all enterprises with 50-249 employees had a works council and in large companies the share is already nearly 90%.

According to experts and social partners in the Central and Eastern European countries the situation there is even worse:

"The majority of the social partners do not deal with small entrepreneurs. It is a basic structural problem that Hungarian social partners keep lobbying for scarce government funds, which affects their legitimacy, too (80% of entrepreneurs are not members of any employer organisation). At SME workplace level, no collective agreements are concluded due to the absence of trade unions. Consequently, the absence of collective agreements hinders flexible employment, which could be one of the instruments to promote the competitiveness of SMEs. In the absence of collective agreements, employers often achieve the necessary degree of flexibility by violating the relevant legal regulations." (Interview report Hungary)

The Nordic countries differ from this pattern due to a very strong trade union membership base across all company size groups. Only in this region SMEs and large companies are covered by institutional structures of interest representation to a similar degree (see also table 10 in annex for national legal provisions of interest representation).

Medium sized companies differ from these patterns to certain degrees. In general institutional employee interest representation structures are more widespread (also deriving from the legal frameworks). Above that many interview partners in our survey

stated that medium-sized companies and in particular ownership enterprises are characterised in many cases by a corporate culture based on active employee involvement and participation through institutional forms as well as other forms (financial participation, co-ownership etc.). According to the interview partners in Germany for example, the success and remarkable stability of industrial relations of the German "*Mittelstand*" is largely based on a strong social dialogue and partnership both at the company level and beyond.

In particular micro and small companies are facing external and internal barriers of adaptation to change, skills development and training

SMEs, in particular micro and small enterprises are characterised by limited financial and personnel resources in order to anticipate, prepare for and manage change. Above that they do not have the ability to draw resources from other business units or subsidiaries in other countries, not do they have any direct influence on prices, as industry leaders might have. This makes it much more difficult for SMEs to adapt to changing environments, technological progress or increased competition. But there are also personal factors influencing the capacity of adaptation to change, skills development and training: As it was reported in the context of the interviews carried out, HR policy and skills development is very much driven by the owner of the company and therefore very much depends on personal decisions, perceptions and ideas.

Again in this context medium-sized companies seem to display a different pattern: According to interview partners in many of our ten country sample, medium-sized companies are performing better in terms of innovation potentials, economic dynamism and adaptation to change.

Another important message from interviews with key actors is that in particular micro and small companies have problems adapting to change and introducing innovations. For example, according to the interview partners of employers' federations and trade unions in Italy, the Italian medium-sized companies perform better than the smaller and even the larger companies. As a project carried out by the employer federation Confindustria found out, medium-sized companies perform better in terms of innovation, sales and employment performance and in general are better in terms of dynamism and adaptability.

"According to a widespread feeling among the experts interviewed, the Italian medium-sized enterprises perform better than the smaller and larger ones. During the last years, the former have increased their performance in terms of both sales and employment indicators, playing an important role in pushing the Italian market towards higher standards in terms of competitiveness and quality. This development is not homogeneously present throughout the Italian territory and in all sectors, but it must be noticed that dynamism and adaptability are the most important characteristics of this kind of enterprise." (Interview report Italy)

At the same time, the market suffers from the poor performance of small and micro and large companies, for different reasons. According to an interview with French social partners, larger companies often have to face economic and financial crises, due to international events or to national reorganisation and privatisation processes, often producing redundancies and/or financial crises. The problem of possible negative performances of the smaller enterprises is spread throughout all productive sectors and is due to different causes undermining their competitiveness. Because of their reduced size they usually concentrate their activity on the local market, focusing on different possibilities: they can specialise themselves by concentrating in a niche market or they can jointly create local industrial districts or supply chains. Their performance results are directly connected to sector trends and cycles, especially if there is a strong dependency on large enterprises and if they manufacture for the mass market.

According to interview partners in several countries, medium-sized companies are generally more flexible and better prepared to deal with structural change and adapt to new framework conditions. As again an Italian interview partner comments:

"The medium-sized companies present particularly strong positions within the typical manufacturing sectors of the "Made in Italy", such as food and drink, textile and clothing, footwear, leather, wood and furniture. Medium-sized companies are particularly successful in high-quality sectors but also on markets characterised by high competitiveness, such as the cement, building and the iron and steel sectors. The increasing sales and occupational performance of the medium companies does not refer to a single model. The dynamism and the positive reaction to internationalisation and globalisation processes are widespread. The medium enterprises are fundamental for the Italian market because they simultaneously combine the flexibility derived from the company's size and their role in hauling the market. For example, they can activate contract supplies or orders that may strengthen the small and micro enterprises." (Interview Report Italy)

An important message of expert interviews carried out in Poland, Hungary as well as Romania that the medium sized company sector is very weak:

- For Poland it is reported that between 1999 and 2004 employment in micro and small enterprises increased by 13% while the employment in medium-sized enterprises actually decreased by 2.4%.
- Regarding Hungary, there is a broad consensus of experts and key actors that a medium-sized company sector with more than 50 employees hardly exists (more than 80% of SMEs employ less than ten people, only 1% have a workforce of more than 50 employees) and that this has to be regarded as a crucial challenge for industrial and corporate policy.
- Similar observations have been made for other States and also surveys on the SME sector in Romania stress the weak structure of medium-sized enterprises.

3.4 Driving forces of restructuring in SMEs

According to the interviews with representatives of social partner organisations representing SMEs in Europe, the major driving forces of restructuring in SME principally are the same as in the case of large enterprises. The main drivers of business restructuring operations are economic considerations and factors such as:

- Ensuring the survival of the enterprise in situations of serious economic difficulties due to profit losses, increased competition, market liberalisation, new competitive rules, financial constraints etc.
- Reacting to changing and/or shrinking market demands
- Increase profitability in order to satisfy pressures from financial markets, owners and/or shareholders
- Implementing and introduction of new business models, products or services in order to react to changing markets and environments
- Need to restructure resulting from poor management practices and failure, such as short-term strategies, wrong strategic decisions and/or failure to anticipate necessary adaptation measures

While these driving forces in general apply for SMEs and large companies, there are certain specificities with regard to the ability and resources of SMEs to react to these driving forces by anticipation, pro-active measure of preparation and managing restructuring. The following sub-chapters will analyse this from the specific SME angle.

Globalisation, reorganisation of value chains and increasing competition

During the last decades, globalisation and internationalisation have characterised business development in almost all industrial sectors affecting both enterprises with a strong export profile and firms focusing on domestic markets. Main drivers for the increasing internationalisation of enterprises and industry sectors are rooted in political, technological and economic changes. While in the global context, international trade relations have been liberalised continuously, the ongoing enlargement and creation of a single market has led to growing internationalisation of the European economies as well. In this context also new patterns of value creation have emerged: while exporting as the traditional way of becoming an internationalised enterprise still is important, there is also an increasing internationalisation of enterprise processes and modifications in the relationship among partners throughout the "value chain" or "networks of value creation" as stated in a recent opinion of the European Economic and Social Committee:

"Nowadays, value and supply chains are increasingly interwoven and a genuinely global network now exists in many areas. This justifies the use of the term "networks" rather than "chains", the former being undoubtedly more ephemeral than the latter."²³

The transnational reorganisation of supply and value chains has several effects on SMEs which are a part of "pyramid-like" integrated networks of value creation: Nowadays value chains in many industries like textile, furniture or most prominently the automotive industry are based on an integrated structure with the company headquarters functioning as a "general architect" or "integrator" of the whole value chain. At the basis of the pyramid is the bulk of furnishers, and in-between many SMEs (e.g., automotive suppliers). This new organisation implies that a multiple tier of suppliers and subcontractors exists with 1st and 2nd tier suppliers being directly involved not only in production but also increasingly in design, planning and R&D functions.

In the French automobile industry, the constructor remains central in the organisational process, and subcontracting takes a different face. For the CEO of a medium-sized subcontractor in the automobile industry, also member of the principal employers' union (Medef)²⁴, the change occurred during the 80s and 90s with globalisation, when constructors started to have a global strategy. They externalised part of their knowledge towards subcontractors in the equipment market and supported them to invest in R&D and machine tools. They also supported their grouping and merging so as to make them more competitive and innovative. As it now appears however, the biggest companies that were created this way have passed under foreign control. Constructors have also put big pressure on SMEs regarding prices and even asked them to follow them in new countries (Romania, Argentina, etc.). There is currently a permanent requirement for mobility and relocation, now towards India, China, etc.

This illustrates that the position of SMEs with regard to globalisation and internationalisation is far from easy to define since there are rather heterogeneous framework conditions depending on size, sector and character of the respective enterprise.

It is a well known fact: SMEs are, in general, underrepresented in world trade. Still less than 10% of SMEs in Europe are active internationally and most of them in the EU internal market only.²⁵ With regard to the European Union, a recent survey confirms that besides foreign supply relations, export is the most frequent form of SME interna-

²³ EESC 2007: Opinion of the European Economic and Social Committee on the Value and supply chain development in a European and global context (Own-initiative opinion), CCMI/037 Value and supply chain development, Brussels, 25 April 2007, p. 3.

²⁴ J. de Saint-Gilles, CEO of NPL which produces spare parts for cars, was one of the speakers at the seminar "Relocations for subcontracting SMEs: Necessity or opportunity", Ministry of Economy and Ministry of SMEs and Crafts (September 2007).

²⁵ See „Global Europe – Competing in the World: A Contribution to the EUs Growth and Job Strategy“, COM (2006)567.

tionalisation. The study also confirms that SMEs in countries with a small domestic market (like Luxembourg, Ireland, Austria, Denmark) in general are more active on export markets than SMEs in larger countries. While in these smaller countries the share of exporting SMEs is between 30% (Denmark, Austria) and 40% (Luxembourg), Germany is the only larger country with a share of exporting SMEs above 20%.²⁶ While also the share of SMEs in total German exports in 2002 was only 21%, there are also indications of an increased internationalisation of SMEs:²⁷

- While in the larger group of micro companies (turnover from 1 to 2 million Euro) nearly one third of all companies are exporting, the share of export based turnover in total turnover was only 4.5%.
- The share of exporting companies in the small enterprise sector increases up to nearly 60% with export shares in turnover up to nearly 11%.
- In the medium-sized enterprise group around 66% of all companies with an annual turnover between 10 and 25 million Euro are exporting with an export share in turnover around 14% (the respective share of large companies was 23%).

Apart from the need to strengthen export orientations, there are other aspects of globalisation affecting SME development: although in particular for micro and small enterprises a strong local dimension of their business will continue to be the main focus of activity, there clearly is an impact of globalisation, as not only large companies are confronted with growing international competition but also the SME sector. As a study on the effects of globalisation on the crafts sector in Germany²⁸ states, there are various new challenges emerging from globalisation for micro and small companies:

- Increasing competition by foreign suppliers and micro companies outside crafts, customised mass products from large companies, a general trend towards franchising and the emergence of large companies with local subsidiaries in sectors like bakery, opticians, cleaning etc.
- Change in demand structures and markets, e.g. in the context of large enterprises relying increasingly on foreign suppliers, increasing role of environmental issues.
- Changes in the labour market in the context of labour migration, increasing reliance on flexible labour (seasonal work, job agencies, part-time work etc.) and pressure on labour costs.
- Changes in political and other forms of regulation, e.g. decreasing role of local financial institutions like saving banks ("Sparkassen") or co-operative banks and increasing role of institutional investors.

According to SME experts in the Central and Eastern European Member states manufacturing enterprises today are facing an increasing competition from Asia and other low cost countries. In this context it is expected that sectors which are characterised by strong global competition like textiles and leather, footwear, paper, consumer electronics and others are going to disappear or shrink in the coming years and that in particular SMEs will be confronted with many challenges in this context. Most EU member states have put a range of programmes and support structures in place to help smaller firms to tackle foreign markets (see textbox).²⁹

²⁶ Observatory of European SMEs: "Internationalisation of SMEs", 2003, No. 4, p. 16.

²⁷ Institut für Mittelstandsforschung Bonn: SMEs in Germany. Facts and Figures 2004, Bonn 2004, p. 29.

²⁸ Klaus Müller: Strukturwandel in einer globalisierten Welt, „Zukunftsforum Handwerk in Bayern“, Nürnberg, 22.05.2007. See also KfW: „Die Globalisierung des Mittelstandes: Chancen und Risiken“, 2006

²⁹ DG Enterprise and Industry has established a group of experts from all EU states to identify and share details of good practice initiatives in promoting international activities of SMEs. The group is due to produce a report on good practice in early 2008.

One exemplary initiative in this context are joint social partner initiatives in the German Federal State of North-Rhine Westphalia focussing on two manufacturing sectors which are both confronted with globalisation and increasing international competition as well as characterised by a strong SME structure: Furniture and Textiles. The so called "ZIMIT" ("Future Initiative Furniture") and "ZITEX" ("Future Initiative Textile") both aim at improving the capacity of regional enterprises in these two sectors by supporting innovations in products, processes and organisation, exchange of good practice in fields like further qualification and management capacities and also supporting the internationalisation of the enterprises involved in the initiatives. Both sectoral initiatives are joint initiatives of the German metalworkers trade union IG Metall and the main sectoral employers' federations, supported by the regional government and specialised sectoral research institutions.³⁰

Increasing pressure for skills development and training

In particular against the background of intensified competition from foreign countries in the context of EU enlargement and globalisation, SME actors throughout Europe today regard the need to improve their innovation capacity and the upgrading of qualification and skills as a crucial challenge. It is also important that this challenge is faced not only by larger SMEs but also by micro companies and the crafts sector. It became quite clear in the interviews carried out that the capacity of SMEs to innovate requires a complex set of skills, networks and processes. In this context it is also a common view that scientific and educational institutions are playing a crucial role in helping SMEs to use innovation to improve their competitiveness. There seem to be many challenges in the field of improving the collaboration between universities and academic institutions and the SME business community. But not only R&D matters. In addition, it was felt that also educational institutions – from primary level upwards – should pay more attention to address issues like entrepreneurship or the understanding of innovation.

A general message of interviews was that that it is impossible for SMEs in Europe to compete at the price level with low wage countries. Cost competition is currently won by emerging countries, even when taking into account the better productivity of European workers. The solution is to be more competitive in quality and technology.

"In the past, around 80% of all SMEs identified the price as the main factor of the competitiveness of the own business. The quality of the products or services was rather secondary. Less than 1% of all SMEs were reporting innovation activities. Recent surveys show a clear change with regard to these issues: Though the price factor for most SMEs still seems to be the most important aspect of competition (for more than 50%) the quality and innovative character of the product or service is becoming more important now. More and more SMEs are realising that long-term competitiveness could not be build only on cost/price advantages." (Interview report Poland)

"The employer organisation respondent highlights an important change here, with the new generations of entrepreneurs who tend to set up more technical an complex organisational processes from the start, and try to develop new products: 'they know perfectly well that the sector has to ground its competitiveness and productivity in quality, not in cheap products.'" (Interview report Spain)

In this context, the issue of a skilled workforce, educational attainment and access to continuous training is seen by SME experts as an issue which is crucial. It was also noted that SMEs are already carrying out a good deal of vocational training but that at the same time many employees are leaving the SME for a better paid position in a large enterprise, leaving the company to bear the cost of the training, without gaining any corresponding reward.

While the need to invest in innovations, qualified personnel and skills is also increasingly important in the Central and Eastern European States , at the same time experts

³⁰ Further details: www.zimit.de and www.zitex.de.

in these countries stress existing barriers and problems within the SME sector. As interviews in Poland note:

"SMEs are not very keen on investment: In 2005 investment of small and medium size enterprises decreased by 4% in real terms. There was a decrease of 0,5% in case of micro-enterprises, 8,9% in small enterprises and 3,3% in medium-size enterprises. Supply and institutional barriers hinder the SMEs sector's propensity to invest." (Interview report Poland)

Against this, recent surveys have stressed significant gaps in participation rates for employee training by firm size³¹: In general the participation rate in large enterprises are much higher than in smaller companies. At the same time there are strong differences between European countries: Nordic countries having the highest rates while Southern Europe and the Central and Eastern European countries show the lowest participation rates.

"Their reduced financial and management capacities have prevented them from making the necessary technological investments, whereas our respondents insist in this being the key for developing products with higher added value, and therefore for competitiveness and adaptation. Too many unqualified workers and too few specialised professionals have meant that SMEs in sectors such as the metal and chemical industry could not survive the restructuring of hub companies." (Interview report Spain)

Privatisation and public sector restructuring

From very different economic and political backgrounds, privatisation and restructuring processes within the public services have a strong effect on SME development. In the West European EU Member States the reorganisation of the welfare state and privatisation of formerly state-owned and managed services like transport, telecommunications and postal services has led to many SME business creation developments. In contrast to most EU-15 countries where restructuring is closely connected with globalisation, outward relocation and outsourcing processes, there is quite a different perception in the Central and Eastern European Member States. Here restructuring is closely connected with the following types and patterns:

- Privatisation of formerly state-managed industries and services in the 90s: this type of macro-economic restructuring took place at sectoral level and was managed by the state authorities directly, often cushioned by tripartite agreed social pacts (e.g. in Poland). Though there are still some state-owned enterprises left and there still are debates in certain industries (e.g. shipbuilding in Poland³²), this type of restructuring is almost completed. In this context it is reported that many new SMEs have been created as entrepreneurship has been promoted as well as from the privatisation and dissolution of formerly stated-owned enterprises. To some extent, this has mainly been a shift from economic activity in inefficient state-owned enterprises to privately owned firms. The addition to employment and output of these newly created SMEs has, certainly in the first half of the 1990s, been partly offset by output and job losses in the large enterprises. In fact, many new SMEs have been created as 'legalisation' of the unofficial economy that had been active in the 1980s.
- According to many experts, during the second half of the 90s a period of financial consolidation accompanied by corporate and sectoral restructuring took place: it was taken up mainly to adapt to the new rules of the market; this type of struc-

³¹ OECD: SME and entrepreneurship outlook, OECD 2005, p. 80. See also the Report of the Observatory of European SMEs: "Competence development in SMEs", Brussels 2003.

³² See for example: "State aid: Commission welcomes capacity reductions at Szczecin and Gdynia shipyards in Poland, but requires more information on Gdansk shipyard", Press Release of the EU Commission, IP/07/1145, Brussels, 20th July 2007.

turing concerns tangible resources and financial management practices and its ultimate goal is to limit the debts of the company.

- Currently, many industries in Central and Eastern Europe States are experiencing another phase of restructuring which is closely connected to improving the productivity base and the competitiveness of the domestic enterprise structure. This form of restructuring process includes the introduction of new technologies, new management methods, more efficient work organisation, reduction of hierarchies, concentration of core business functions etc. This type of restructuring also caused significant reductions in the labour force.

Challenges due to demographic change

One major challenge many SMEs will face during the next years is the issue of business transfer due to the departure of the owner of the enterprise. As the EU Commission outlined in a recent communication on this issue, according to estimates one third of EU entrepreneurs and mainly those running family business will withdraw from their business within the next then years and up to 690 000 small and medium-sized enterprises and 2.8 million job are affected by business transfer operations every year.³³

In France for example, there are estimates that approx. 600 000 CEOs will retire in the coming ten years, most of them being the head of a SME. If this challenge of business transfer is not solved properly, not only are negative employment effects likely but also regional ones (see textbox).

"As a representative of the French employers' federation stated, the automotive cluster in the region of Champagne-Ardennes is in danger as many changes will occur, in particular the retirement of many CEOs in the ten coming years. Their children are not interested or able to succeed them, a reason being the amount of the necessary investment to upgrade products (*monter en gamme*). The risk which is very probable is that the family owned enterprises will be overtaken by multinationals. Hence the risk of relocations or disappearances of units to the benefit of low wage countries are quite high. The vice-president of the SME federation CGPME recognises this as a tremendous challenge." (Interview report France)

Also in Germany the issue of business transfer is one of the main challenges in the context of managing change in the SME sector and first initiatives both at the national and regional level are addressing this issue. According to estimates by the German "Institute of SME Research"³⁴ more than 70 000 enterprises with nearly 700 000 employees will have to look for a new owner/director during the next five years. Other surveys found out that in 2005 around 16% of all enterprise owners knew that they will retire within the next ten years and a significant share of those had not taken any preparatory actions. From previous research it is known that around 8% of all enterprises in business transfer situations due to the retirement of the owner/director fail because of bad preparation.

According to a survey of "KMU Forschung Austria", between 2001 and 2010 approx. 52 000 small and medium-sized companies in Austria with around 440 000 employees are confronted with the task of organising a smooth business transfer in the context of the retirement of the owner. The figure is quite impressive since nearly one fourth of all domestic companies are affected and approx. 17% of all manufacturing jobs.

In this context, interview partners also raised the need for supportive public programmes and sectoral action. Main objectives should include for example facilitating the transfer of ownership to the younger generation in order to assist new entrants into SMEs. If no easy choice of internal employees or managers is available, support

³³ Communication of the EU Commission: "Implementing the Lisbon Community Programme for Growth and Jobs: Transfer of Businesses – Continuity through a new beginning" , COM(2006) 117 final, p.3.

³⁴ Bundesministerium für Wirtschaft und Technologie: Der Mittelstand in der Bundesrepublik Deutschland. Eine volkswirtschaftliche Bestandsaufnahme, Berlin, 2007, p. 39

for recruitment action is also needed. This also should be supported by improving the image of entrepreneurship given to students throughout Europe during school and university education.

Other issues in connection with demographic change are challenges arising from the changes in the age structure of the European population, the subsequent decrease of the population in working age and the ageing of the company's workforce. While measures like the increase of the employment rates of women and older employees are important in this context, other and more pro-active responses are necessary, e.g. the receiving and better labour market integration of immigrants, seizing the opportunities of older employees and the 'silver economy' and adequate social protection measures.³⁵

It is important to stress that small and medium sized companies are affected by these demographic changes and trends clearly more negatively than larger companies since they in general have bigger problems to attract and retain qualified employees in competition with large enterprises.

"Qualified labour is in short supply to meet the demands of big companies – consequently, they suck away labour, especially young labour, from the small enterprises. As a result, the age of SME employees tends to increase while the age of employees at multinationals tends to decrease. This leads to major disproportions in incomes, to the detriment of the older workers." (Interview Czech Republic)

Here, many challenges are arising from the point of view of SMEs: How to attract young employees and retain them after vocational training? How to improve the image of micro, small and medium sized companies? How to better integrate older employees or migrant workers?

³⁵ See the Communication of the EU Commission on "The demographic future of Europe – from challenge to opportunity", 12 October 2006, COM(2006)571.

4 DEALING WITH RESTRUCTURING: FRAMEWORKS, ACTORS AND GOOD PRACTICE

While the previous chapter has identified certain features of restructuring situations and driving forces of restructuring in SMEs (also in contrast to large companies), this part of our report will focus on the experience of good practice of dealing with restructuring. In this context we have identified certain specificities of restructuring situations in SMEs such as limited internal and external, material as well as immaterial resources of anticipating and managing change, certain problems with regard to skills development and upskilling/further training, dependency on large companies, deficits in the context of internationalisation, effects of demographic changes, etc.

The following pages will therefore concentrate on innovative frameworks and initiatives and examples of a pro-active role of social partners, governments, local and regional public authorities, professional organisations, with regard to identifying and implementing solutions of dealing with these specific challenges of SMEs.

4.1 Anticipating and monitoring change in the SME sector

A better anticipation of drivers of change affecting the SME sector as well as effective systems of monitoring change are a crucial condition for better dealing with restructuring situations. Anticipation also is necessary in order to prepare for adjustments as well as crisis prevention: beside needs in the field of training and skills development against the background of globalisation, market developments and technological change, anticipation and monitoring also have to address issues like the effects of demographic change on business transfers or entrepreneurship development. The information we gathered on good and innovative practices in this context is characterised to a large extent by a strong involvement of social partners' initiatives and pro-active approaches by local and regional public authorities.

Establishing regional and sectoral observatories in Spain

The Spanish social partners in the chemical and textile industries have established an innovative initiative to support sectoral actors and companies anticipate and deal with structural change³⁶: they created observatories to analyse jointly the development of their sectors and advise companies on successful strategies to adapt, with special attention paid to SMEs. The aim of this tripartite agreement is to establish the basis for collaboration and action of the signatory institutions in order to foster the implementation and the modernisation of industrial sectors, through measures such as promotion of productive and export company competence, investment and employment consolidation, technological modernisation and adaptation to new international competition conditions. With this aim six sectoral observatories and two horizontal observatories have been created. The sectoral observatories have been created in the following sectors: Textile-Apparel; Chemicals; Automotive machinery; Automotive; Equipment goods; Electronics. The two horizontal observatories concern the Spanish technological parks and Innovation and Technologies entities. The work of each of these observatories, managed by employers' organisations, trade unions and public institutions, will be based on follow-up reports focused on three different areas: economic foresight and situation of the sector, dealing specifically with the evolution of its competitiveness; employment evolution and growth and future developments in the social field; recent technological development and future technological needs and scenarios.

³⁶ See: Unice/BusinessEurope: "Restructuring. Report on social partners' activities on managing change", Brussels, March 2006, p. 9.

Developing tools of early warning in Italy

The Italian government has recently proposed the setting up of an observatory composed of the Economic Development Ministry, the Labour Ministry and the local Chambers of Commerce³⁷. The aim is to create a strong communication and information network between the national authorities and the territorial bodies in order to anticipate crisis: the Chambers of Commerce inform the Ministries about possible crises of local companies in order to act preventively in supporting their activities and safeguarding employment. Such an informative mechanism needs cooperation to function and the identification of some sharing indicators, not only by the national Ministries and the local chambers, but even by other public and private financial bodies and by the employers. The lack of social security contributions payments to workers, foreclosures or disregarding loans are all important signs of a company crisis, but these data have to be provided by the company itself, by the bank system or by social security bodies to be useful in preventing negative developments. In this context, in particular trade union representatives also stress that a "new culture" is needed in dealing with corporate problems and in particular the need of employers to admit failures and problems which still often are seen as personal failures or status losses.

4.2 Supporting SMEs in preparing for change and managing restructuring

There are several initiatives of good practice which are targeting challenges of globalisation and supporting the capacity of SMEs in this context.

Pi.M.I.NET: Supporting SMEs in global value chains

The economic and competitive scenarios in which companies operate have changed drastically as local economies open up to the global market. As a result, new instruments and innovative methods are needed to support the growth and development of companies, in particular small enterprises. The Pi.M.I.NET centre in Bologna is aiming to help productive systems with a significant presence of SMEs in the Emilia Romagna region to overcome the fragmentation and dwarfism characteristic of such systems. Pi.M.I.NET's approach is not based on the promotion of traditional processes of concentration and verticalisation, but on supporting the construction of horizontal company networks, taking advantage of SMEs' characteristic flexibility. The Pi.M.I.NET Innovation Centre promotes, therefore, the qualification and enhancement of labour in regional society and in the system of industrial relations. Companies can boost their competitive capacity either through internal growth (growth in size) or through the development of integrated networks among autonomous but complementary firms which, acting as a single entity, are able to take advantage of those synergies that the single firm cannot benefit from alone. The centre focuses on supporting firms in the identification of existing but not adequately exploited product, market and technology synergies. Pi.M.I.NET then accompanies those firms in the definition and implementation of the most appropriate organisational and management models for effectively taking advantage of those synergies.

The MIC project: Supporting the management of change in the crafts sector

The MIC project is helping micro and small companies to understand the need and the prospects of systematic anticipation and managing change. It will enable small companies to shape their future themselves and to implement anticipation tools in their daily routine as a basis for successful business management. For two years partners

³⁷ Initially, the proposal had been introduced in the Financial Act of 2007 but then it was removed. It is included in the "Industry 2015" bill as a means of preventing companies' financial and economic crises.

from Spain, the Netherlands, Italy and Germany will develop special strategies for micro and small-sized companies. These companies have between one and 49 employees. Four sectoral projects will develop and test tools to help SMEs in the mechanical engineering, metal and wood industries to anticipate risks and opportunities. They will develop concepts for a better management of restructuring and compile examples of good practice. MIC has the following objectives:

- Develop and test tools for anticipation
- Develop and test concepts and models of good management
- Develop and test concepts and models for successful company restructuring

At the end of the project all tools will be available as do-it-yourself-aid-kits for company owners.

In many countries, accelerated by economic crises in certain industries and the effects of globalisation, new initiatives in the field of industrial policy has been launched recently, for example in the United Kingdom³⁸ and Italy.

The "Industry 2015" initiative in Italy

In Italy, crises of manufacturing in sectors like electronics or the chemicals have contributed to a renewed discussion on industrial policy and how to regain competitiveness, which is now focussing on a recent government initiative, the "Industry 2015" initiative, brought forward by the Ministry of Economic Development. This initiative and the respective government decree also define new instruments and tools to deal with restructuring and increase the competitiveness of the industrial sector by supporting the networking of companies, new financial support programmes (the Competitiveness Fund and Enterprise's Finance Fund), industrial innovation projects and other actions devoted to redefining patents, the industrial ownership's code to avoid companies' crises. All interview partners in Italy supported this initiative and the new tools as they respond to different matters related to restructuring by providing cooperative solutions based on concepts like innovation, quality, companies' networks and collaboration, research and competition. At the same time it is also stressed that there is a strong need for instruments and measures which address the specific needs of SMEs in particular since up to now there are no effective tools and instruments to support small enterprises and to anticipate and/or to avoid structural crises.

4.3 Improving the skills base: Training and competence development in SMEs

Governments and social partners are increasingly aware of the importance of highly qualified and trained management and employees to meet business and SME needs in the context of structural change. There are various approaches in this context: through more flexibility in educational systems; by establishing stronger links between enterprises, research institutions, through lifelong learning programmes, the provision of consultancy and training services and tools web-site based, feasibility assessments or information services. The following examples are illustrating good practice in specifically addressing the needs for SMEs with regard to training and competence development.

³⁸ The UK Government in 2002 has launched a "Manufacturing Strategy" which was followed by an "Action Plan" in 2004 and the establishment of a Manufacturing Forum in the same year.

Innovative solutions to deal with barriers for training in France

Also the issue of further training and SME-specific barriers for upgrading the skills of employees as well as the management is an important issue.³⁹ The difficulty for micro-enterprises or small enterprises is the cost of a training course and the organisational problems in this context since in particular micro and small companies are not able to send senior staff and professional workers to lengthy training courses, although they regard this as important in order to adapt. A solution can be in the development of some existing schemes, like the employer pools or company networks (*groupement d'intérêt économique*) in France. A grouping can be constituted for the development of a particular technology or innovative process, for a limited time. SMEs engage less often in such schemes than large industrial enterprises or public structures. Another idea in this context is also the suggestion of a Report to the French National Assembly report to introduce a tax credit for SMEs that would invest in R&D under such groupings.

Improving management skills in Spain and the United Kingdom

The "Plan España.es" initiative of the Spanish government aims to advance the information society and provides a specific area for SMEs infrastructure, services and training. The programme involves agreements reached with trade associations and large companies contracting out business to SMEs and is supporting the adjustment of the respective SMEs to the new conditions they are facing.

A similar initiative aiming at the skills and competence development of SME management capacities to adapt to change was implemented in the United Kingdom in the context of "The Leadership and Management Programme". This scheme encourages managing directors of enterprises with 20-250 employees to undertake personal development programmes tailored to their specific needs. The aim is to improve leadership and management in SMEs and thereby improve business performance.

"Train to Gain" Initiative in the United Kingdom

Furthermore the UK government under the institutional umbrella of the "Learning and Skills Councils" (LSCs) has developed various schemes to support training activities and upskilling processes in small and medium sized enterprises. The "Train to Gain" programme which was launched in 2006 for example is in particular aiming at supporting SMEs and "hard to reach" enterprises in developing and implementing tailor-made further training courses. Innovative aspects of the scheme includes on-job training measure and reimbursement of wage costs when members of the staff attend training course outside the company. The programme which also includes a skills screening and individual company coaching by "Skills Brokers" is reported as being very successful: During the programme's first 12 months more than 36 000 employers signed contracts on skills improvement schemes.

4.4 Dealing with the challenges of demographic change

As already outlined in the previous chapter, due to a more labour-intensive mode of business, lower productivity and other factors the SME sector is much more affected by demographic change and problems in the context of ageing workforces as large companies are. In particular countries with a significant share of large companies and a labour shortages SMEs already today are facing certain challenges in this context. An increasing number of countries therefore has established schemes and programmes in order to be better prepared and support companies to adapt to the challenges of demographic change.

³⁹ See Observatory of European SMEs: "Competence development in SMEs", Brussels 2003.

Demographic change and smooth business transfer in Germany

According to a recent survey⁴⁰, each year around 40 000 small and medium sized companies have problems in the context of business transfer and finding an adequate successor. Approx. 140 000 jobs are affected by this each year. Against these challenges the German government in 2006 has initiated the "nexxt" programme, a joint initiative with financial and business institutions as well as employers organisations.⁴¹ The aim of the programme is to develop a better environment for business transfer activities in Germany. There are also additional individual initiatives in single federal states, e.g. the Eastern Germany state of Saxony where a web-based support toolbox was established.⁴²

An initiative launched by the Federal Ministry of Labour already some years ago focusing on a better integration of older employees is the "50plus" programme which so far has been implemented in about 60 so-called model-regions which have developed integrated programmes on employment measures, further training courses and company support measures aiming at supporting companies and in particular small and medium sized companies with the development of concepts and company specific measures for older workers.

Older workers as an asset for the automotive sector

The "Knowmove" project which is carried out with support of the European Social Fund by private companies, trade unions and research institutions in several European countries (Belgium, Germany, Italy, Sweden, Bulgaria, the Czech Republic and the United Kingdom) including the European Metalworkers Federation EMF is aiming at encouraging automotive companies to recognise their older workers as a valuable resource. The project is focussing on the development of management tools that can map, organise and store older workers' experiences and examples of good practice. The project also includes the analysis of arrangements and organisational models that make the best use of older workers' skills and knowledge. The "Knowmove" project also includes aspects of competence development, training and innovation policy: An important aim is to encourage and motivate older workers to stay longer in the labour market and focus on knowledge transfer and mentoring functions. This should also foster innovations within the company by encouraging a flow of ideas between older and younger workers. Finally, the project is trying to improve training environments by the search for the best pedagogical models for both delivering training to and transferring knowledge from older workers.

4.5 Initiatives by large companies to support SMEs

An example of an initiative focussing on activities of large companies to support the development of SMEs in the context of globalisation and new tasks in value chain organisation is the recent agreement between the French multinational company TOTAL and three European Trade Union Federations EMCEF, FECCIA and FECER which was signed in March 2007.

TOTAL's Europe-wide agreement on SME support

The framework agreement aims at supporting expanding small and medium-sized enterprises near the Group's main European facilities. The Agreement specifies the types of support that will be available to entrepreneurs as follows:

⁴⁰ DIHK Report zur Unternehmensnachfolge, Berlin 2007.

⁴¹ See <http://www.nexxt.org>.

⁴² See: <http://www.netzwerk-unternehmensnachfolge.eu>.

- Sharing of technological resources and skills.
- Support for exports and international development.
- Financing to create, acquire or expand businesses.

Employee entrepreneurs who would like to create or acquire a business will be given time off work and will have access to advice, resources, technical support and financial aid. The criteria used to determine eligible businesses will be defined during local negotiations with employee representatives. Critical challenges such as safety, compliance with local labour law and sustainable development issues will be taken into account. The agreement will be tested in four employment areas before being extended to all of the Group's host countries in the European Union, with adjustments made for local economic development processes and legislation. The European Works Council will review progress once a year, while Total's senior management and the European federations will conduct a review after 36 months.

There are other examples of large companies paying more attention to SME development in contexts like value chain management and from the angle of corporate social responsibility:

Initiatives led by large companies to support regional employment growth and innovation in Germany

The "Wolfsburg AG" is a public-private-partnership between Volkswagen AG and the City of Wolfsburg which has been established in 1999 while the transformation of the Centre for Business Start-up and Innovation (GIZ) was transformed into the Wolfsburg AG. The Volkswagen AG, other enterprises, public authorities and further network partners have initiated this project in order to better encourage and support business start-ups, generate business ideas, extend the service sector through project development as well as offer comprehensive solutions in terms of personnel recruitment. The Wolfsburg AG is run by a management board and a supervisory board with equal representation of shareholders and employee representatives. The success of the initiative is quite impressive: According to the Wolfsburg AG for the time from the start of the initiative until 2007 an overall number of more than 9000 jobs have been created.

The success of the Wolfsburg AG has stimulated similar initiatives in other regions and sectors in Germany. One example is the Bayer Chemical Park in the Rhine-Ruhr industrial area which was established at various locations in order to support start-ups and business development, R&D initiatives in the chemical industry.

4.6 The role of public authorities, professional organisations and social partners

Already the examples of good practice mentioned throughout the report underline the important role of social dialogue and co-operation of public authorities, professional organisations and social partners in developing effective programmes and schemes of addressing structural change and restructuring in SMEs. But there is also a further dimension raised by many interview partners:

While SMEs have been quite successful in the past, there are also new challenges in the context of globalisation, growing competition and macro-economic and social change that could not be addressed by SMEs alone. In this context, most social partner representatives interviewed regard a stronger cooperation, more pro-active approaches of public authorities and other actors (e.g. the financial system) as very important to better anticipate and deal with structural changes and crises of SMEs.

Preventive agreements involving social partners, local authorities, professional organisations and the financial sector concerning the SMEs of a specific local area are re-

garded as fundamental here, because they may favour innovation projects involving all actors and defining reciprocal responsibilities and competences: the bank system finances the projects, the public authorities and professional organisations provide the necessary infrastructure, the trade unions accept and manage collective agreements and organisational flexibility and the employers invest their equity.

An efficient general strategic policy is also needed to support the SMEs' development and to anticipate and accompany structural changes and restructuring. The role of public authorities in supporting SMEs vary: e.g. by reducing bureaucratic practices, encouraging local and sectorial solutions by taking into account specific territorial needs and shortening the gap between large and small enterprises at different levels. In this context, the Italian concept of "territorial crisis" seems to be an effective way for addressing in particular the needs for micro and small companies in crisis situations which employ more than 15 employees: According to the Italian legal system, only the enterprises which employ more than 15 workers are entitled to ask social security cushions in case of redundancies or lay-offs. The "Territorial crisis" procedure makes social security cushions available for all enterprises facing crisis within a specific area and sector. The territorial dimension allows action at the right moment and takes into account the local and enterprise's particular conditions.

The important role of social dialogue for dealing with the social effects of restructuring in the Central and Eastern European States

Trade union representatives in the Central and Eastern European countries are stressing the importance of social dialogue and sectoral "social pacts" for large scale restructuring operations in order to avoid social conflicts and applying the best possible supporting measures for redundant employees (severance payments, early retirement schemes, qualification etc.).

In this context it is exemplary that in September 2005 the Polish trade union federation NSZZ Solidarność initiated an amendment to an opinion of the European Economic and Social Committee on social dialogue and employee participation in the context of anticipation and managing change. According to this amendment the final version of the opinion included a reference to the importance of promoting social dialogue as an effective instrument in developing appropriate social packages in the context of restructuring processes.⁴³

In contrast to this, restructuring processes in the privatised business sector are characterised by rather weak social dialogue and employee involvement at the company or sector level. When looking at concrete cases of both large scale macroeconomic sectoral restructuring as well as cases in the private business sector, two distinguished features emerge:

- Restructuring programmes in the context of macroeconomic sectoral restructuring are characterised by rather intensive trade union involvement and social dialogue. In this context, generous social pacts have been concluded which include relatively high severance payments and training provisions.
- In contrast to public sector restructuring, restructuring processes in the private business sector very much depend on whether or not there exists a collective agreement and strong trade union structure as the most important factor of positive social measures accompanying restructuring operations.

⁴³ See "Opinion of the European Economic and Social Committee on Social dialogue and employee participation - Essential for anticipating and managing industrial change" (2006/C 24/17).

The Textile Sector Agreement in Spain

The Spanish government, employers and trade unions in July 2007⁴⁴ reached a sector based agreement focussing on supporting companies affected by restructuring in the textile and shoe industry. The agreement seeks to promote the re-industrialisation and technological innovations of the sector through a series of economic and employment support measures such as the creation of new industrial activities in local areas (in particular in Cataluña), support for the technological clustering of innovative enterprises and for business-creation in emerging sectors. The agreement also provides for reintegration policies to alleviate the negative effects on employment. Measure, targeted to employment retention are in particular focussing on:

- Support for continuous training in companies and special incentives for companies retaining workers aged more than 55 amongst their staff;
- Support for the reskilling and employability of workers made redundant as a consequence of restructuring in the sector;
- Additional special social benefits (i.e. pension supplement) to aged workers who have spent most of their working life in the sector.
- Provision of special social benefits to workers who have lost their job, whilst they remain unemployed.

Employee driven innovation in Denmark

While the Danish trade unions acknowledge the activities of governments in the field of innovation, they also point out certain shortcomings, in particular regarding innovation activities in the SME sector and regional disparities regarding the exploitation of innovation and R&D potentials. Against this LO Denmark states:

"So a stronger and more holistic policy is needed to enhance innovation. Because Denmark does have fine conditions for becoming one of the world's most innovative societies. But it requires far more targeted and ambitious initiatives – and a common understanding of the "soft strengths" that offer Denmark special global advantages. The potential of employee-driven innovation must be exploited, but this calls for active and systematic involvement of all employees." (LO Denmark: Danish Labour News, No. 2, 2007, p. 7)

This approach is also reflected in recent collective bargaining agreements: the 2007 agreement between social partners in industry which will affect about 250 000 employees and covers a three-year period contains a number of significant changes with regard to these issues, in particular regarding further and stronger access to continuing training. This is seen as a crucial instrument to develop the competitiveness of companies. The agreement provides for the establishment of a "Competence Development Fund of Industry" to which the employer will pay 35 Euro per employee each week, increasing to 70 Euro over the agreement period. These funds will be used to finance the employees' wages while they are on two weeks of continuing training.⁴⁵

⁴⁴ See EIRO-Online, 9.7.2007.

⁴⁵ See: <http://www.eurofound.europa.eu/eiro/2007/03/articles/dk0703019i.htm>.

5 PRELIMINARY FINDINGS

At this stage the following conclusions and messages can be derived from the analyses of patterns, trends and framework conditions of restructuring in the context of European SME development.

I. There is a need to increase the knowledge on restructuring in SMEs

As already outlined in the Communication from the European Commission on a modern SME policy⁴⁶ in 2005, there is a need to improve the knowledge about and the analysis of European SME performance in order to anticipate change and be able to take action to reinforce their competitiveness. In particular the Commission is suggesting improving the ability of existing tools such as the "Observatory of European SMEs" to analyse economic data and SMEs' perception with a view to obtaining a more comprehensive understanding of their performance without adding any further administrative burden on SMEs. Beside a need to learn more about and analyse SME performance, our background study reveals that – compared to large scale restructuring processes and large enterprises – there still is a significant knowledge gap in the field of structural change and SME specific restructuring processes. In this context it should be considered how to improve the coverage of SMEs in existing European institutions dealing with change and restructuring.

A further result of our study is that a more structured exchange of good practice and gathering of information with regard to innovative approaches at company, sector level as well as various territorial levels might be very helpful to support a better preparation and management of restructuring processes in the European SME sector.

II. SME-specific tools and integrated strategies with managing change are necessary

In the context of the background analyses a clear message is that most of the existing instruments and tools aiming to cushion the social effects of restructuring and redundancy (re-training, job transfer, employment security) do not cover the SME sector sufficiently. At the same time our report shows that there is large variety of local projects as well as national initiatives and cases of good practice to target these constraints.

An exchange of practice and innovative concepts of addressing micro, small and medium-sized enterprises would be a good starting point for the further development of restructuring "toolboxes" for micro, small and medium sized companies.

Exchange of experience and learning from this would also contribute to an integration of rather dispersed instruments and developing integrated concepts for SME support which already have been established in some EU countries.

III. Training and competence development is becoming more and more vital for SMEs in all sectors and size-groups

In the context of identifying major challenges the SME sector is facing already today but will face even more, the issue of skills development and further/lifelong training and learning has been pointed out as the most urgent task unanimously by interview partners regardless their specific SME background, geographical or sectoral origins: The growing need to invest more in competence development, skills and in general an upgrade of qualification standards and innovation capacities is also resulting from an

⁴⁶ Commission of the European Communities: Implementing the Community Lisbon Programme: Modern SME Policy for Growth and Employment, Brussels 10.11.2005 COM(2005)551 final.

increased competition. Against the background of relatively high wages European companies and in particular SMEs which often are based on labour-intensive modes of production and service provision are not able to compete on the level of prices but have to outperform competitors in fields such as innovative products, services and/or quality standards. However, by addressing these challenges, SMEs and in particular the smallest ones, suffer from a number of barriers both internal and external: the dominance of short-term business orientation, attitudes of owners/entrepreneurs, limited financial and personnel resources and last but not least a lack of tailor-made solutions to diagnose and address effectively competence needs.

According to expert opinion there is in particular a need for:

- Analysing and disseminating good practice and exchange of experiences in the field of programmes, frameworks, sectoral and regional networks of competence development, further training and lifelong education which are specifically addressing the needs of SMEs.
- Developing programmes for qualification upskilling and continuous training which are "easy to access", for example by on the job training, wage compensation programmes etc.
- Programmes which are specifically targeting "hard to reach" SME groups, in particular micro companies and enterprises with a high share of precarious and low paid employees since as we have seen, these are especially vulnerable enterprise groups.

IV. More attention should be paid to specific patterns and needs of the medium sized company sector

Our study has shown that there are significant differences in restructuring processes and situations between the micro company sector and larger SMEs in terms of capacities and experiences of dealing with change and managing restructuring.

Many experts are regarding the EU definition of SMEs as too restricted: also larger companies with more than 250 employees are characterised by SME-specific features regarding factors such as dependency on large companies as suppliers, ownership, conditions to manage restructuring and support innovation, growth and internationalisation.

Against the background of the crucial role of the medium-sized company sector for innovation, creation of highly skilled jobs etc. more attention should be paid in particular to this group of larger medium-sized companies.

V. SMEs are much more affected by the challenges of demographic change, ageing of the workforce and increasing lack of skilled labour

Already today, demographic changes is an important driver of restructuring in SMEs: As our study shows, SMEs to a much stronger degree than large enterprises are affected by demographic trends like the ageing of the population or the emigration of young people in the new member states and structural disadvantaged regions in the old member states. Against this already today there are regions, sectors and occupations where SMEs find it difficult to attract and retain a qualified workforce. It is quite clear that SMEs often are competing with large enterprises for qualified employees. According to many interview partners challenges in the context of attracting and retaining the workforce will increase in the future due to the demographic trends in Europe and enterprises will have to invest more in HR development, ongoing qualification, lifelong-learning, management skills etc.

Today, there is already a broad European concern about the issue of business transfer in the context of demographic change⁴⁷ which is affecting in particular the family owned SME enterprise sector. There are various tasks and innovative approaches of dealing with the challenge of business transfer and the support of entrepreneurial spirit, skills and transfer-related needs of the SME sector. In this context in particular the following fields have been identified for further action and mutual learning

- Identifying sectors, occupational areas and regions which will face severe effects in the context of demographic change.
- Important fields of action: schemes to support and coach business transfer, skills development, further training and making SMEs more attractive for qualified workers.
- Another important field of action regards elderly employees which should be regarded as a positive competition factor in SMEs more clearly. According to our survey there is a need for more SME specific initiatives and programmes to support and actively integrate older workers in production processes and business organisations, including measures on occupational health and safety, age-friendly work organisation etc.

VI. The new role of SMEs in value chains and the increased dependency of SMEs has to be addressed better

Globalisation, EU enlargement and opening up of markets along with new technologies and an increasing transnational reorganisation of value chains is resulting in corporate restructuring processes both at the company level as well as in individual sectors. This not only is resulting in an upsurge in restructuring operations such as offshoring, relocation and subcontracting but also affecting the role of SMEs in value chain networks. As the experience shows, globalisation and the changing relationship with large companies and SME suppliers includes both opportunities for SMEs and risks. Today there are many "hidden champions" from the SME sector which successfully have adapted to new framework conditions in the context of globalisation and the re-organisation of value chain management.

Against the background of many success stories and win-win situations of large and SME enterprise networks further learning processes should be initiated focussing on:

- Learning from good practices of large companies in value chain management and supporting SMEs in their new role in value creation networks.
- Good practice and innovative approaches of continuous exchange of information and consultation between large companies and their suppliers/local SMEs.

VII. SMEs involved in partnerships, cooperation and networking are performing better

A clear message of our study is that those SMEs who are actively involved in cooperation and networking (with large companies as well as other SMEs but also with public institutions, R&D bodies, social partner organisations and professional organisations) are performing better than others.

Also micro and small companies including the crafts sector today is experiencing major changes in the context of globalisation and increasing competition, change of market frameworks, demands etc. which are resulting in new opportunities but also risks which should be addressed more by research and social dialogue.

⁴⁷ Cf. The Communication of the European Commission on "Transfer of Business – Continuity through a new beginning", Brussels, 14.03.2006, COM(2006) 117 final.

The specific features and development conditions of micro and small companies might be addressed more efficiently, according to most people interviewed, if small companies created networks, chains or districts focusing on strategic objectives. By creating a network, the SMEs acquire more bargaining power towards third bodies (i.e. banks, suppliers, clients, financial bodies etc) and can afford more consistent investments in research, training, innovation and technology, developing competitiveness and business skills.

In this context representatives of cooperating SMEs, social partner organisations and professional institutions also stressed that cooperation and networking for many SMEs preconditions a "change of mentality" of the entrepreneur. This in particular seem to be a great challenge in the Central and Eastern European countries.

VIII. The issue of restructuring in the SME sector in the Central and Eastern European Member states has not been addressed properly yet

Our survey confirms that there is quite a different perception of restructuring in the Central and Eastern European countries analysed here.⁴⁸

There is a general consensus about the significant role of SMEs for establishing competitive and efficient economic structures and also dynamic employment developments in the new member states. All countries studied in the context of our study have recently established SME specific economic programmes, support frameworks for business creation etc. At the same time our study has identified certain special features of the SME sector in the new member states such as large diversity regarding the role of micro and small enterprises for the national economies, negative influence of the informal economy, gaps in productivity, performance and quality standards, weakness of medium sized enterprises or precarious labour relations.

At the same time the issue of restructuring of the SME sector has rarely and only recently in some countries been addressed in public debate and social dialogue – there is a strong need for an exchange of experience on innovative integrated policies for SME development, support of export activities, financial support programmes, R&D support etc.

There is a general observation that EU membership has a positive impact on the SME sector in Central and Eastern Europe in principle. But this potential is not yet exploited because of significant shortcomings in the framework of SME development.

IX. Structures and Frameworks of social dialogue and employee participation in SMEs restructuring should be evaluated and developed further

Many examples of good practice and innovative projects at regional and local level, in individual sectors and in different national frameworks illustrate a clear added-value of social dialogue and active employee participation in SME restructuring and adaptation to change. Good practice can be found in all types of SMEs without regard to size or sector or territory.

In particular the experience of medium sized SMEs confirms the assumption that active social partner involvement seems to be an important factor with regard to sustainable solutions, stability and long-term growth perspectives in the context of managing change in SMEs.

However, there is by far too little knowledge about certain backgrounds, supportive environmental factors and the role of different actors (employees, employers, trade unions, chambers of commerce, external experts etc.) and a strong need for starting a

⁴⁸ This is also confirmed by the results of the 1st stage of the Joint EU Social Partners' project on restructuring. See: "Study on Restructuring in the New Member States", Final Report, prepared by Aritake-Wild in the context of the Joint Project of the European Social Partner Organisations, July 2006.

more systematic exchange of information and experience on employee participation and social dialogue in the SME sector.

X. Public authorities and professional organisations play an important role in supporting SMEs in managing of change and adaptation of SMEs to change

Our study shows that public authorities and professional organisations play a crucial role in the context of supporting SMEs in adaptation to change, i.e. in fields such as business creation, support of cooperation and networking, delivering resources and support frameworks for competence development, research and development, organisational support etc. In this context it became quite clear that there is a need to better integrate existing programmes and measures addressing different needs/challenges (financial support, start-up, training, export orientation etc.) as well as to better co-ordinate activities of public authorities at different territorial levels (local, regional, national, European).

Against this, according to many interview partners the European policy orientation of "Think Small" which also includes the integration of different strands of SME policy might serve as a valuable blueprint for the further improvement of national frameworks of SME development.

Linking preliminary findings and the Restructuring Forum

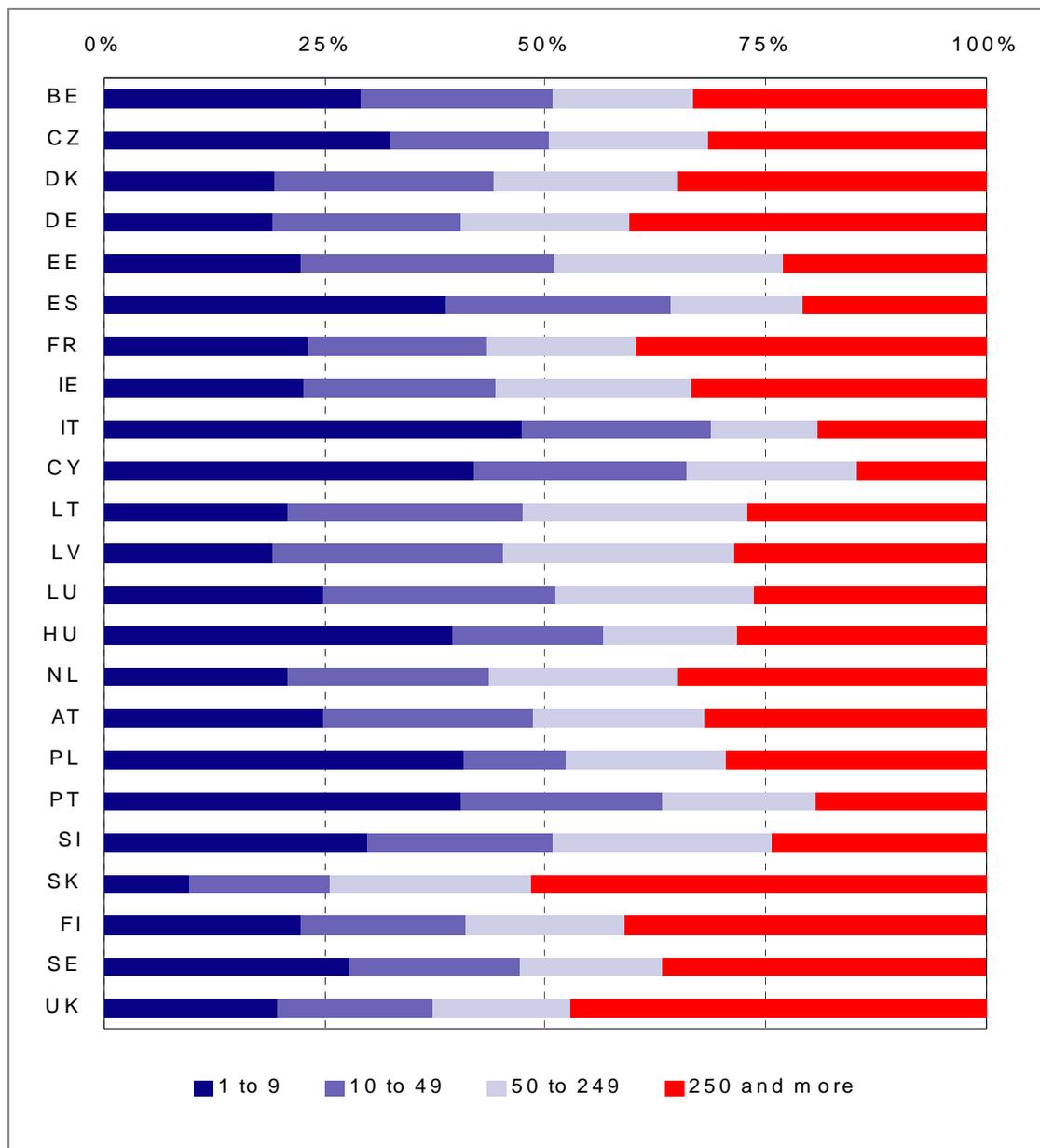
Preliminary findings should be further discussed and elaborated in the context of the workshop discussions at the SME Forum. The following table is presenting an overview of these findings and their linkages to the respective Forum workshops.

Preliminary findings and the Restructuring Forum Workshops

		Workshop 1: Opportunities and Threats for SMEs in the value chain	Workshop 2: Anticipation and preparation for change in SMEs	Workshop 3: Managing change and intelligent restructuring in SMEs
I	There is a need to increase the knowledge on restructuring in SMEs	X	X	X
II	SME-specific tools and integrated strategies for managing change are necessary			X
III	Training and competence development is becoming more and more vital for SMEs in all sectors and size-groups		X	X
IV	More attention should be paid to specific patterns and needs of the medium sized company sector	X	X	X
V	SMEs are much more affected by the challenges of demographic change, ageing of the workforce and increasing lack of skilled labour		X	X
VI	The new role of SMEs in value chains and the increased dependency of SMEs has to be addressed better	X		
VII	SMEs involved in partnerships, cooperation and networking are performing better	X	X	X
VIII	The issue of restructuring in the SME sector in the Central and Eastern European Member states has not been addressed properly yet	X	X	X
IX	Structures and Frameworks of social dialogue and employee participation in SME restructuring should be evaluated and developed further		X	X
X	Public authorities play an important role in supporting SMEs in managing of change and adaptation of SMEs to change			X

STATISTICAL ANNEX

Figure 1: Number of employees in the non-financial business economy broken down by enterprise size class in EU member states 2003 (%)



Source: Eurostat: Key figures on European Business with a special feature section on SMEs, 2006, p. 45

Table 1 : Changes in manufacturing (NACE D), EU-10 sample, 1998 – 2004

	Micro (1-9)		Small (10-49)		Medium (50-249)		Large (250+)		All (1-250+)
	Total	%	Total	%	Total	%	Total	%	Total
Austria	+754	1,1	-10.714	-8,5	-6.783	-3,9	+412	0,2	-16.331
Czech Republic	+39.100	24,4	-2.774	-1,3	+14.936	4,3	-116.908	-16,6	-65.646
Italy	-23.766	-2,0	-61.498	-4,0	+5.182	0,5	-109.975	-9,6	-190.057
Germany *	-68.256	-12,5	+71.691	6,5	-41.965	-2,4	-284.533	-6,8	-323.063
Spain	+29.616	6,4	+2.027	0,3	+98.527	19,7	+44.099	6,9	+174.269
France	-20.425	-4,1	-56.944	-7,2	-25.605	-2,9	+11.755	0,6	-91.219
Hungary **	-25.428	-17,8	-1.708	-1,2	+45	0	-26.085	-6,6	-53.176
Poland	+99.849	24,8	-7.421	-2,2	+58.843	9,0	-407.807	-30,3	-256.536
Sweden	+21.030	24,7	+7.103	6,0	+16.853	10,2	-27.451	-6,5	+17.535
United Kingdom	-89.086	-19,1	-129.227	-16,5	-179.715	-17,1	-546.938	-26,6	-944.966

Source: Own, based on Eurostat SBS data, * 2000-2004; ** 2002-2004

Table 2 : Changes in construction (NACE F), EU-10 sample, 1998 – 2004

	Micro (1-9)		Small (10-49)		Medium (50-249)		Large (250+)		All (1-250+)
	Total	%	Total	%	Total	%	Total	%	Total
Austria **	+6.319	11,6	-3.437	-3,5	-2.526	-4,5	+1.515	3,6	+1.871
Czech Republic	+47.822	36,5	-22.496	-18,1	-28.936	-30,1	-31.926	-40,6	-35.536
Italy	+216.492	24,0	+134.790	41,6	+32.968	39,0	+3.666	7,7	+387.916
Germany **	-18.770	-3,1	-95.947	-12,9	-49.721	-15,8	-35.925	-23,4	-200.363
Spain *	+344.105	53,3	+281.151	43,5	+114.144	47,0	+20.422	12,7	+759.822
France	+81.834	13,6	+57.766	14,0	+30.142	17,8	+12.299	6,8	+182.041
Hungary **	+13.452	12,3	+7.036	11,5	-1.814	-5,1	-1.989	-12,8	+16.685
Poland	+12.433	4,0	-41.370	-31,7	-69.088	-35,1	-89.626	-53,9	-187.651
Sweden	+8.573	10,2	+11.769	22,2	+5.028	24,4	+71	0,1	+25.441
United Kingdom	-41.449	-7,9	+86.251	33,9	+72.241	56,9	+53.554	19,8	+170.597

Source: Own, based on Eurostat SBS data, * 2000-2004; ** 2002-2004

Table 3 : Changes in distributive trades (NACE G), EU-10 sample, 1998 – 2004

	Micro (1-9)		Small (10-49)		Medium (50-249)		Large (250+)		All (1-250+)
	Total	%	Total	%	Total	%	Total	%	Total
Austria	+18.284	11,8	+4.888	3,5	-4.356	-4,6	+31.369	19,8	+50.212
Czech Republic	+11.344	3,4	-22.744	-12,6	-3.050	-3,2	+18.589	20,2	+4.139
Italy	-13.069	-0,6	+79.838	17,1	+71.066	46,6	+136.509	63,3	+274.344
Germany *	+32.746	2,9	+21.943	2,0	-43.632	-6,3	+45.218	3,0	+56.275
Spain *	+108.453	7,2	+75.336	12,2	+44.336	15,7	+187.996	48,9	+416.121
France	+29.599	2,9	+35.863	4,9	+90.085	21,4	+256.012	38,2	+411.559
Hungary **	-2.836	-1,0	+6.933	5,6	+3.307	4,4	-49.979	-71,1	-42.575
Poland	+69.131	5,5	-5.750	-2,0	-1.018	-0,4	+84.050	46,3	+146.413
Sweden	-10.288	-5,0	+7.449	5,8	+9.052	11,0	+32.455	28,0	+38.668
United Kingdom	-232.947	-17,9	+9.435	1,3	-3.411	-0,7	+384.168	16,7	+157.245

Source: Own, based on Eurostat SBS data, * 2000-2004; ** 2002-2004

Table 4: Changes in hotels and restaurants (NACE H), EU-10 sample, 1998 – 2004

	Micro (1-9)		Small (10-49)		Medium (50-249)		Large (250+)		All (1-250+)
	Total	%	Total	%	Total	%	Total	%	Total
Austria *	+19.653	19,8	-6.847	-9,2	+2.288	8,7	-188	-1,7	+14.906
Czech Republic	+14.908	17,0	-6.250	-14,0	+2.227	14,4	-707	-4,9	+10.178
Italy	+129.724	24,7	+77.469	56,9	+12.350	28,7	+41.040	57,5	+260.583
Germany *	-7.394	-1,6	+78.274	22,6	+30.861	27,0	+497	0,4	+102.283
Spain	+103.545	19,9	+59.729	29,5	+20.556	17,1	+34.582	35,1	+218.412
France	+79.697	22,0	+65.529	42,5	+16.351	32,5	+43.417	38,5	+204.994
Hungary **	+3.401	5,2	+4.463	16,9	-583	-4,3	-116	-0,9	+7.165
Poland	+31.265	29,6	+2.743	10,7	+2.535	17,8	+265	0,9	+36.808
Sweden	+14.733	39,6	+8.317	29,2	-1.226	-9,1	-1.642	-8,5	+20.182
United Kingdom	-61.497	-12,1	+186.352	52,4	+41.068	25,8	+60.096	8,9	+226.019

Source: Own, based on Eurostat SBS data, * 2000-2004; ** 2002-2004

Table 5 : Changes in transport and communication (NACE I), EU-10 sample, 1998 – 2004

	Micro (1-9)		Small (10-49)		Medium (50-249)		Large (250+)		All (1-250+)
	Total	%	Total	%	Total	%	Total	%	Total
Austria *	+5.234	18,9	+5.108	13,2	+2.907	9,7	-9.639	-6,4	+3.610
Czech Republic	+14.248	26,3	+14.633	51,8	+10.835	47,8	-26.911	-11,6	+12.805
Italy	+16.919	6,3	+50.289	36,3	+44.088	39,9	-24.559	-4,2	+86.737
Germany **	-9.733	-4,4	-16.256	-4,5	+17.043	6,2	-23.382	-2,3	-32.328
Spain *	+20.107	5,8	+40.380	27,1	+12.714	13,1	+7.316	2,3	+80.517
France	+7.016	4,9	+26.150	13,9	+25.661	14,3	+84.318	9,2	+143.145
Hungary **	-1.170	-1,9	+3.754	15,4	+2.634	15,4	-6.701	-3,8	-1.483
Poland	+13.035	5,6	+1.357	3,7	+12.403	20,3	-138.094	-26,9	-111.299
Sweden	+4.921	9,0	+7.154	18,0	+12.717	45,6	-18.254	-10,9	+6.538
United Kingdom	-26.562	-12,5	+14.464	8,3	+10.225	6,8	+134.015	14,4	+132.142

Source: Own, based on Eurostat SBS data, * 2000-2004; ** 2002-2004

Table 6 : Changes in business services (NACE K), EU-10 sample, 1998 – 2004

	Micro (1-9)		Small (10-49)		Medium (50-249)		Large (250+)		All (1-250+)
	Total	%	Total	%	Total	%	Total	%	Total
Austria *	+40.371	41,7	+18.980	29,3	+11.752	22,2	+21.773	35,7	+92.876
Czech Republic	+76.367	47,9	+3.575	4,0	+4.759	6,4	+22.536	55,1	+107.237
Italy	+351.493	32,8	+69.329	28,4	+74.924	39,2	+353.532	188,8	+849.278
Germany **	-413	0	-33.690	-4,0	+54.476	7,3	+74.332	5,9	+94.705
Spain *	+206.890	30,2	+78.362	27,0	+55.025	19,4	+174.792	31,2	+515.069
France	+85.496	17,5	+114.233	27,8	+144.202	36,5	+316.342	33,3	+660.273
Hungary **	+18.473	7,8	+9.637	15,7	+7.328	14,4	+18.223	44,4	+53.661
Poland	+183.107	62,3	+4.658	5,7	+5.066	3,7	+44.037	27,7	+236.868
Sweden	-30.832	-15,4	+23.455	28,7	+21.879	29,9	+35.839	36,3	+50.341
United Kingdom	+170.934	16,0	+118.574	19,1	+155.474	26,2	+319.753	21,6	+764.735

Source: Own, based on Eurostat SBS data, * 2000-2004; ** 2002-2004

**Table 7 : Change in value added and employment in manufacturing (NACE D)
2002 – 2004 (%)**

	Value added		Employment	
	SME	LSE	SME	LSE
Austria	2.9	6.6	- 1.8	- 1.4
Czech Republic	12.9	22.3	- 1.0	- 3.0
Italy	1.1	4.8	- 1.4	- 5.4
Germany	6.9	5.9	1.9	- 4.3
Spain	6.4	10.7	- 1.8	- 1.6
France	- 1.8	2.9	- 4.8	- 2.5
Hungary	13.5	26.5	- 5.5	- 6.4
Poland	11.9*	19.1*	n.a.	2.2
Sweden	15.8	18.0	12.3	- 6.9
United Kingdom	- 5.4	- 3.0	- 10.0	- 8.6

Source: Own, based on Eurostat SBS data, * 2003-2004

**Table 8 : Change in value added and employment in distributive trades (NACE G)
2002 – 2004 (%)**

	Value added		Employment	
	SME	LSE	SME	LSE
Austria	2.8	14.5	0.0	4.7
Czech Republic	8.6	18.9	- 4.6	6.2
Italy	6.3	29.3	1.1	17.9
Germany	18.9	10.0	7.2	5.9
Spain	17.4	26.8	6.1	19.8
France	4.1*	5.7	2.9**	17.2**
Hungary	6.1	-43.4	1.5	- 71.1
Poland	3.7	25.1	- 1.7	15.0
Sweden	12.0	23.0	2.8	8.2
United Kingdom	2.2	4.7	- 3.6	6.4

Source: Own, based on Eurostat SBS data, * 2000-2004; ** 2002-2004

**Table 9 : Change in value added and employment in business services (NACE K)
2002 – 2004 (%)**

	Value added		Employment	
	SME	LSE	SME	LSE
Austria	5.0	13.2	9.4	14.5
Czech Republic	32.5	19.5	0.9	16.3
Italy	10.2	12.0	6.8	14.0
Germany	- 8.1	11.4	0.7	5.9
Spain	23.5	19.9	15.7	15.6
France	13.3	10.6	6.5	1.3
Hungary	19.0	30.2	10.2	44.4
Poland	22.0	28.7	4.0	10.5
Sweden	11.1	2.2	- 17.5	- 11.7
United Kingdom	6.0	13.0	24.8	10.5

Source: Own, based on Eurostat SBS data, * 2000-2004; ** 2002-2004

Table 10: Legal provisions on employee representation in 10 EU member states

Country	Basic Body	Set-up criteria	Small companies coverage (1 – 49 employees)
Austria	Works Council	In establishments with at least 5 salaried staff	> 5
Czech Republic	Trade Union Delegation Works Council possible when no union structure exists	Trade Union delegation in establishments with at least 3 union members Works Council in establishments with at least 25 employees	> 25
Italy	Combined union body or RSU (Rappresentanze Sindacali Unitarie)	RSU are mandatory in all production units of the private and the public sector with over 15 employees. For agriculture companies the threshold is 5 employees	> 15 > 5 (agriculture)
Germany	Works Council	In all establishments with at least 5 permanent employees	> 5
Spain	Works Council (Comité de Empresa)	In all establishments with 50 employees or more	> 50
France	Comité d'entreprise	Mandatory in companies with 50 or more employees In smaller companies employees management may decide to establish staff delegates	> 11 (staff delegation) > 50 (works council)
Hungary	Works Council and Trade Union representation	In establishments with at least 15 employees (one employee delegate) Works councils in establishments with at least 50 employees	> 15 (one staff delegate) > 50 (works council)
Poland	Trade union representation Works Councils in state-owned companies New Employee Councils Regulation 2006	Based on collective agreements New law will introduce employee councils in establishments with more than 50 employees from 2008 onwards	> 50 (from 2008)
Sweden	Union Delegation (Förtroendeman)	No employee number threshold. Interest representation agreed between trade unions and enterprise management	> 0
United Kingdom	Shop Steward body / Joint Consultative Body	Trade Union and Labour Relations (Consolidation) Act of 1992 Purely based on negotiations between unions and management New law on Information and Consultation of Employee Regulation 2004 The new regulation will establish information and consultation rights according to the EU Directive in all undertakings with at least 50 employees from 6 April 2008	> 50 (from 2008)

Source: European Commission: *Industrial Relations in Europe 2006*, p. 61-64