



Joint ETUC – UEAPME Project:

Cooperation between SMEs and trade unions in Europe on common economic and social concerns

Expert report

prepared by

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PREFACE

As European enterprises and employees are seriously affected by the current financial and economic crisis, the search for the best policy-mix to master these crises and turmoil as well as to support economic recovery and labour market stabilisation is a joint interest of European social partners. And having in mind the dominant role small and medium sized enterprises play in Europe's economy and their important contribution for employment, it is evident that SME have a crucial role in this recovery.

It is a common view of the European Institutions and the Social Partners that though SMEs are regarded as a key player in job creation, innovation and economic as well as social progress in Europe there still are many challenges in the context of unlocking business constraints, improving business environments, working methods and processes and/or working conditions and fostering high quality employment and in micro, small and medium sized enterprises. Therefore the EU Commission has initiated a number of activities in order to support SMEs, including the adoption of the "Small Business Act" in June 2008 in order to improve the competitiveness of these companies.

It is against this background that UEAPME and the ETUC have initiated a joint project on "Cooperation between SMEs and trade unions in Europe on common economic and social concerns". This joint project is not the first joint initiative of the two organisations: In recent years, UEAPME and the ETUC have undertaken a number of bilateral and multilateral activities with the other two European employers' organisations through joint work programmes and projects thereby documenting their joint responsibilities in the context of economic and social change. These initiatives have made the partnership between UEAPME and ETUC into one of the constituent elements of European Social Dialogue. Three initiatives which have been developed by UEAPME and the ETUC or where both have been actively involved in should be mentioned in particular here:

- A joint declaration on recognition of "Social dialogue as an instrument for meeting the economic and social challenges faced by small enterprises" published 2001.
- A joint project undertaken by the ETUC and the UEAPME with a view to enlargement, focusing on the social *acquis*, social dialogue and SMEs in the new member states in Central and Eastern Europe.
- Finally, within the framework of their joint work programmes, the European social partners have also organised a number of seminars on the development capacity of their respective members in the new member states and on restructuring. These joint experiences, evaluated positively by employers and unions alike, also emphasised the interest of debating the role, common interests and shared responsibilities of the social partners, whether European or national.

Above that, the participation of UEAPME and the ETUC (along with the other European social partner organisations) in the European Commission's "Restructuring Forum" on the theme of "Adaptation of SMEs to change" in November 2007, also constituted encouragement for the further development of joint research and initiatives in thematic

fields such as training, demographic challenges, the need to anticipate change, and social relations in SMEs.¹

Against this background and also in the light of accelerated structural economic, social and political changes that occurred in Europe throughout the last decade, the ETUC and UEAPME in 2008 have started a joint project in order to revise, adjust and update their partnership.

The purpose of this expert report is to support this process by delivering information and evidence of practical experiences regarding areas of common interests and shared responsibilities of employer organisations and trade union organisations in Europe with regard to SME development. The topics this report is focussed on have been identified by both organisations as important – though of course not exhaustively – fields of joint interest.

While still to be regarded as an “independent” expert report the following chapters not only illustrate results of analyses carried out between the end of 2008 and May 2009 but also summarise the outcomes and many information provided by national ETUC and UEAPME member organisations in the context of two transnational seminars in Warsaw (9-10 March 2009) and Rome (24-25 March 2009).

Therefore, a big thank you of the author of this report is sent to the participants of these seminars for their comments and suggestions which contributed much to the outcome of this report and the overall success of this project.

¹ In the context of the Background Report to the SME Restructuring Forum prepared for the European Commission ten key themes have been identified, amongst them those referred to in the second part of this report. See: „Structural change, company restructuring and anticipation of change in the European small and medium-sized enterprise sector“, Background document, p. 39-43.

PART I: CONTEXT AND BACKGROUND – THE CHALLENGES

The role of SMEs in Europe today

Micro, small and medium-sized enterprises (as defined by employing 1-249 persons²) constitute the dominant form of business organisation in all countries of the European Union: Though no official figures exist at the EU level about the total number of SMEs and their employees, it is a well known fact that more than 99% of enterprises in the European Union are SMEs.³

The relative importance of SMEs is, however, lower in terms of their contribution to providing jobs and wealth: In 2005, 67.1% of the non-financial business economy (NACE Sections C to I and K) workforce in the EU-27 was employed in an SME, while 57.6% of the non-financial business economy's value added was generated by SMEs.

Key indicators for enterprises in the non-financial business economy, EU-27, 2005

	Total	SMEs	Micro	Small	Medium	Large
		1 - 249	1 - 9	10 - 49	50 - 249	> 250
Number of enterprises (millions)	19.65	19.60	18.04	1.35	0.21	0.04
Share in total (%)	100.0	99.8	91.8	6.9	1.1	0.2
Persons employed (millions)	126.7	85.0	37.5	26.1	21.3	41.7
Share in total (%)	100.0	67.1	29.6	20.6	16.8	32.9
Value added (EUR billion)	5.360	3.090	1.120	1.011	954	2.270
Share in total (%)	100.0	57.6	20.9	18.9	17.8	42.4

Source: Eurostat 2008

Within the group of SMEs, the vast majority (over 90%) are *micro enterprises* with less than ten persons. Micro companies employed more than one third of the European workforce but at the same time accounted only for one fifth of the value added in the EU-27 non-financial business economy. The second largest SME group is made up of *small enterprises* defined as having 10-49 persons employed. This group in 2005 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 of persons employed.

² 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.

³ SME data at the European level are available only in the context of the Eurostat's structural business statistics (SBS) providing the most updated statistical data on certain indicators according to enterprise size classes. However, SBS data are not covering the whole European business economy but only the so-called "non-financial business" 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 sector such as financial services or agriculture are not included. See Eurostat: Enterprise by size class – overview of SMEs in the EU, Statistics in Focus 31/2008.

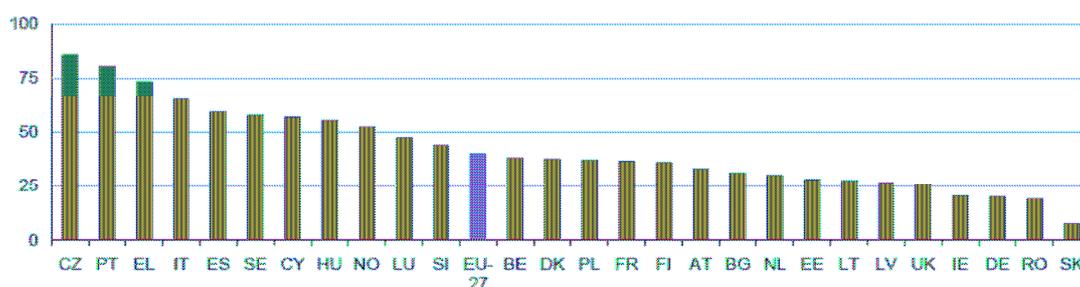
Only 1.1% of enterprises in the non-financial business economy in 2005 belonged to the *medium-sized company sector* defined as having 50-249 persons. With a workforce of about 21 million people medium-sized companies are the smallest of the four enterprise groups. However, the share in turnover and 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* (with 250 or more people) generated the highest amount of value added (42.4% in 2005) in the non-financial business economy in Europe and employed nearly one third of the workforce in the EU-27.

National varieties of SMEs across Europe

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 varied widely in 2005 (see table on the following page). 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 (67%): Cyprus (84%), Portugal and Greece (82%), Italy (81%) as well as Spain (79%) and Estonia (78%). 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 and Slovakia (46%). Finland (41.5%), Germany and France (39%) are also characterised by high shares of large enterprise employment.

Density of SMEs: Number of SMEs per 1,000 inhabitants, non-financial business economy, 2005



Source: Eurostat 2008

In the EU-27 there was an average of 39.3 SMEs within the non-financial business economy per 1,000 inhabitants in 2005. The highest densities of SMEs were recorded in the Czech Republic (86.0) and Portugal (80.5), followed by the three Mediterranean countries of Greece, Italy and Spain. At the other end of the range, Romania and Slovakia recorded the lowest density of SMEs per 1,000 inhabitants (18.9 and 7.7 respectively).

Key indicators on SMEs in the EU-27 non-financial business economy, 2005

	Number of enterprises	Number of persons employed	Value added	Number of enterprises	Number of persons employed	Value added
	1,000	1,000	EUR billion	%	%	%
EU-27	19,602	85,000	3,090	99.8	67.1	57.6
Belgium	395	1,602	83	99.8	66.6	57.8
Bulgaria	240	1,318	5	99.7	72.6	53.2
Czech Republic	878	2,461	30	99.8	68.9	56.7
Denmark	202	1,129	67	99.7	66.0	64.8
Germany	1,654	12,357	553	99.5	60.6	53.2
Estonia	38	305	4	99.6	78.1	75.1
Ireland	85	654	53	99.5	67.5	58.2
Greece	820	2,031	44	99.9	81.9	69.6
Spain	2,542	10,538	339	99.9	78.7	68.5
France	2,274	8,834	412	99.8	61.4	54.2
Italy	3,919	12,182	420	99.9	81.3	70.9
Cyprus	43	174	5	99.9	84.3	80.0
Latvia	62	469	5	99.7	75.6	71.1
Lithuania	93	619	5	99.7	72.9	58.5
Luxembourg	21	120	7	99.6	70.8	58.5
Hungary	556	1,783	20	99.8	70.9	50.2
Malta	:	:	:	:	:	:
Netherlands	492	3,146	146	99.7	67.6	61.5
Austria	272	1,589	76	99.7	67.4	60.0
Poland	1,405	5,289	59	99.8	69.8	48.4
Portugal	848	2,676	47	99.9	82.0	67.8
Romania	410	2,463	13	99.5	60.8	48.4
Slovenia	88	371	8	99.7	66.4	60.6
Slovakia	42	501	7	99.8	54.0	44.5
Finland	187	717	40	99.7	58.5	53.9
Sweden	523	1,667	83	99.8	63.2	55.6
United Kingdom	1,535	9,636	501	99.6	54.0	51.0

Note: Data only covering the "non-financial business economy" according to the definition of Eurostat. See footnote 3 for more details. Source: Eurostat 2008

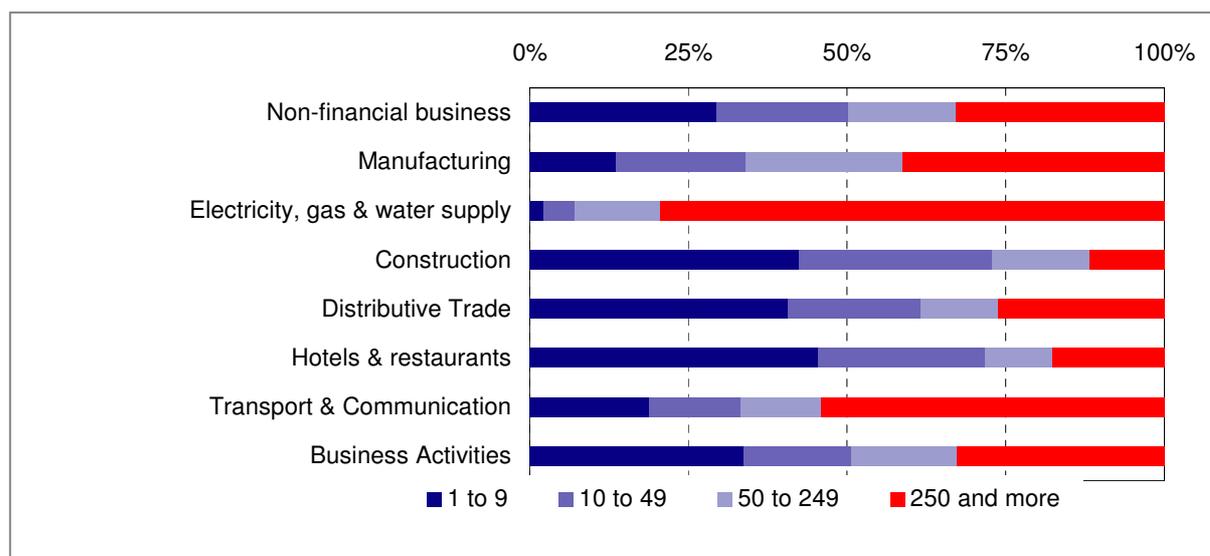
A closer look at the three different size groups of SMEs in the EU countries also reveals some interesting characteristics: In 2005, there were eight countries with a particularly high share of employment in micro enterprises: In Greece more than 55% of all employees were working in micro companies and in Italy, Portugal and Cyprus micro companies had a share of more than 40% in total employment followed by Poland, Spain and Hungary with nearly 40%. While the share of small companies is more evenly spread across the EU-27 (with an average employment share of 20%), there again are significant differences with regard to medium sized companies: The contribution of this size group ranged from 26.6% in Estonia and Lithuania and more than 20% shares also in Luxembourg, Latvia, Ireland, Slovakia, Romania, Bulgaria and Denmark down to only 12.4% in Italy and 9.7% in Greece. Also the UK and Spain are characterised by rather low employment shares of this size group.

Sectoral varieties of SMEs across Europe

Also across economic activities the role of SMEs is characterised by significant varieties: The employment share of SMEs varies between under 20% in the energy and water sector to more than 80% in the construction sector and in hotel and restaurant activities. Also distribute 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. Sectors which are particularly dominated by micro enterprises (as a share in total employment) are real estate (55.8%), hotels & restaurants (44.8%), motor trade (42.9%), retail trade & repair (42.6%) and construction (42.6%).⁴ In contrast to this, small enterprises strongly contribute to the workforce in sectors such as metal products, machinery and equipment (34.1%), construction (30.5%), wood and wood products (30.3%) and motor trade (29.2). Finally, medium sized enterprises are strong employers in manufacturing sectors, in particular in rubber and plastics products (34,8%), textiles (32.5%), pulp, paper and paper products (31.3%) and wearing apparel and dressing (29.0%). The following figures are illustrating the distribution of the four enterprise size classes in different economic sectors as of 2004.

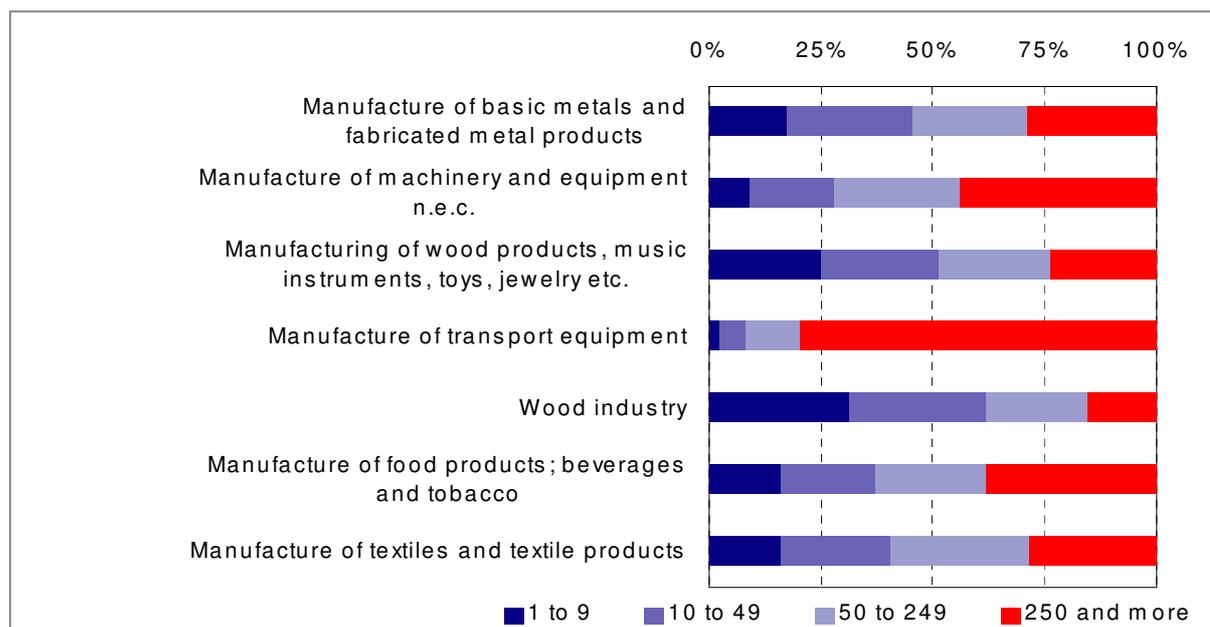
Role of SMEs by sector of industry, EU-27, 2004 (% share of total employment)



The figures illustrate 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. Contrarily, the influence of SMEs in sectors like mining and quarrying, transport equipment, communications and media is rather weak.

⁴ Figures for 2005 taken from Eurostat: Enterprises by size class – overview of SMEs in the EU, Statistics in Focus 31/2008.

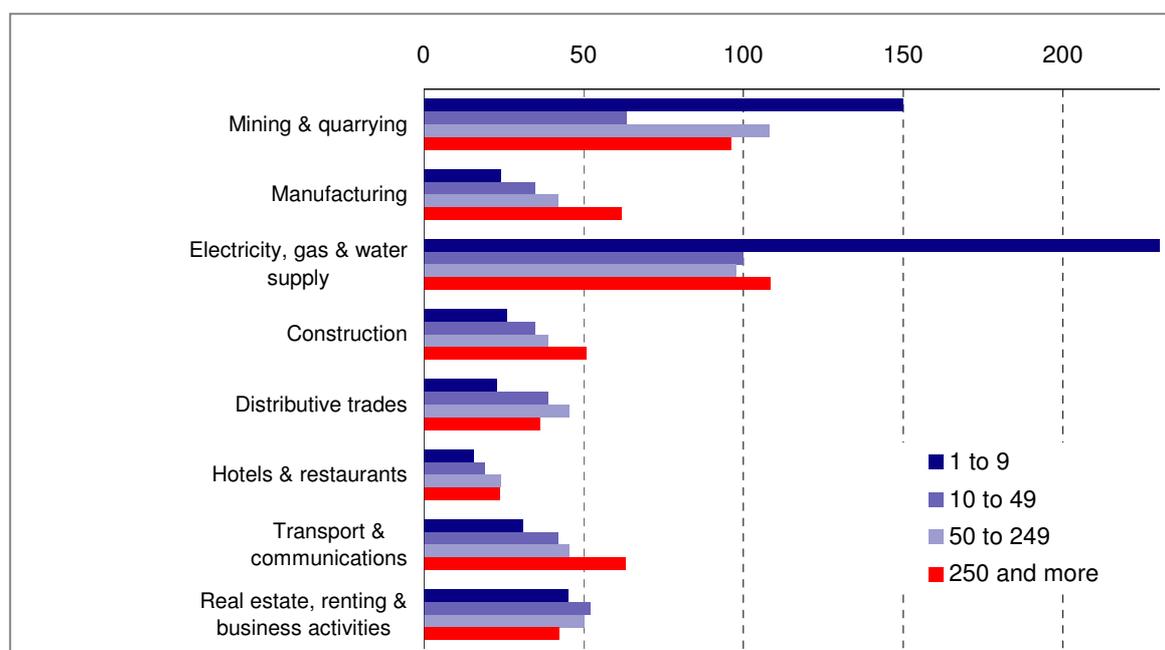
Role of SMEs by sector of industry, EU-27, 2004 (% share of total employment)



Source: Eurostat.

In general, smaller enterprises account for a greater role in labour intensive sectors with a lower labour productivity than their larger counterparts: In 2003⁵, 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 below).

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.

⁵ See Eurostat: SME and Entrepreneurship in the EU, Statistics in Focus, 24/2006.

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.⁶ In distributive trades and real estate, renting and other business activities, small and medium-sized enterprises had higher labour productivity levels than large enterprises.

Patterns and driving forces of structural change in SMEs

SMEs have always proven their constant capacity to face and adapt to change thanks to a higher degree of flexibility in decision making and the implementation of changes. In this context it is important to stress an important difference between SMEs and large companies, in particular 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*.⁷ 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.”⁸

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.
- Need to mention the current financial crisis and its repercussions on the real economy, notably SMEs
- Reacting to changing and/or shrinking market demands
- Increase profitability in order to satisfy pressures from financial markets, owners and/or shareholders

⁶ 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.

⁷ Institut für Mittelstandsforschung Bonn: SMEs in Germany. Facts and Figures 2004, Bonn 2004, p. 2.

⁸ “SMEs in Europe 2003”, Observatory of European SMEs 2003, No. 7, p. 44.

- 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. SME-specific features and patterns of structural change and restructuring are in particular related to the following aspects:

- *Corporate culture and personal relationships*: Identity of ownership and personal responsibility, personal liability of the owner, personal relationship between employer and employees
- *Dependency on local markets*: In particular micro and small enterprises depend on local markets, less than 10% of European SMEs are active internationally
- *Dependency on the large enterprise sector*: Not only as suppliers – there is a growing role of subcontracting, franchise or trademark relationships with large companies, SME also are involved in business orientated services.

It is quite a common characteristic of structural change 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.⁹ 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.

Micro, small and medium-sized companies in many respects are affected directly by restructuring operations in large companies as sub-contractors, suppliers, franchisers, 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 which often are not an issue of public attention.

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 as compared with larger enterprises, as UEAPME comments in a statement on restructuring and SMEs:

⁹ In this chapter we are only partly addressing the general issue of restructuring in European SMEs. This issue has been the focus of a “Restructuring Forum” of the European Commission, specially dedicated to SMEs which took place in November 2007. See „Structural Change, company restructuring and anticipation of change in the European small and medium-sized enterprise sector. Background document to the Restructuring Forum “Adaptation of SMEs to Change”, Brussels, 26-27 November 2007, p. 17ff.

“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.”¹⁰

The reasons for this limitation of alternative options in dealing with change and managing restructuring seem to be quite clear as key actors quite unanimously stress: 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.

“Silent restructuring once again”: The position of SMEs in the current economic crisis

The steep economic downturn by which the European economies are hit with increasing speed since summer 2008 has resulted in severe cuts in production and output, with the jobs of tens of thousands of European workers suddenly at stake. Initially caused by the failure of the financial sector to perform their basic function of financing the economy, investments are blocked and consumption has collapsed in fields in which credit financing is playing an important role.

Economic outlook according to the EU Commission’s Economic Forecast as of Spring 2009 Gross domestic product, volume (percentage change on preceding year, 1992-2010*)

	5-year averages				2008			2009			2010		
	1992-96	1997-01	2002-06	2007	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009
Belgium	1.5	2.6	2.1	2.8	1.4	1.3	1.2	0.1	-1.9	-3.5	0.9	0.3	-0.2
Germany	1.4	2.1	0.9	2.5	1.7	1.3	1.3	0.0	-2.3	-5.4	1.0	0.7	0.3
Ireland	6.1	9.1	5.5	6.0	-1.6	-2.0	-2.3	-0.9	-5.0	-9.0	2.4	0.0	-2.6
Greece	1.1	3.8	4.3	4.0	3.1	2.9	2.9	2.5	0.2	-0.9	2.6	0.7	0.1
Spain	1.5	4.4	3.3	3.7	1.3	1.2	1.2	-0.2	-2.0	-3.2	0.5	-0.2	-1.0
France	1.2	3.0	1.7	2.2	0.9	0.7	0.7	0.0	-1.8	-3.0	0.8	0.4	-0.2
Italy	1.2	2.0	0.9	1.6	0.0	-0.6	-1.0	0.0	-2.0	-4.4	0.6	0.3	0.1
Cyprus	5.5	4.2	3.3	4.4	3.7	3.6	3.7	2.9	1.1	0.3	3.2	2.0	0.7
Luxembourg	2.6	6.3	4.4	5.2	2.5	1.0	-0.9	1.2	-0.9	-3.0	2.3	1.4	0.1
Malta	5.0	3.4	2.1	3.6	2.4	2.1	1.6	2.0	0.7	-0.9	2.2	1.3	0.2
Netherlands	2.5	3.7	1.6	3.5	2.3	1.9	2.1	0.4	-2.0	-3.5	0.9	0.2	-0.4
Austria	1.8	2.6	2.2	3.1	1.9	1.7	1.8	0.6	-1.2	-4.0	1.3	0.6	-0.1
Portugal	1.6	3.8	0.7	1.9	0.5	0.2	0.0	0.1	-1.6	-3.7	0.7	-0.2	-0.8
Slovenia	2.0	4.2	4.3	6.8	4.4	4.0	3.5	2.9	0.6	-3.4	3.7	2.3	0.7
Slovakia	-	2.7	5.9	10.4	7.0	7.1	6.4	4.9	2.7	-2.6	5.5	3.1	0.7
Finland	1.3	4.6	2.9	4.2	2.4	1.5	0.9	1.3	-1.2	-4.7	2.0	1.2	0.2
Euro area	1.5	2.8	1.7	2.7	1.2	0.9	0.8	0.1	-1.9	-4.0	0.9	0.4	-0.1
Bulgaria	-2.8	2.0	5.7	6.2	6.5	6.4	6.0	4.5	1.8	-1.6	4.7	2.5	-0.1
Czech Republic	2.3	1.2	4.6	6.0	4.4	4.2	3.2	3.6	1.7	-2.7	3.9	2.3	0.3
Denmark	2.6	2.4	1.8	1.6	0.7	-0.6	-1.1	0.1	-1.0	-3.3	0.9	0.6	0.3
Estonia	-	6.6	8.4	6.3	-1.3	-2.4	-3.6	-1.2	-4.7	-10.3	2.0	1.7	-0.8
Latvia	-8.8	6.3	9.0	10.0	-0.8	-2.3	-4.6	-2.7	-6.9	-13.1	1.0	-2.4	-3.2
Lithuania	-8.4	5.0	8.0	8.9	3.8	3.4	3.0	0.0	-4.0	-11.0	-1.1	-2.6	-4.7
Hungary	0.6	4.6	4.3	1.1	1.7	0.9	0.5	0.7	-1.6	-6.3	1.8	1.0	-0.3
Poland	4.9	4.4	4.1	6.6	5.4	5.0	4.8	3.8	2.0	-1.4	4.2	2.4	0.8
Romania	1.4	-0.9	6.2	6.2	8.5	7.8	7.1	4.7	1.8	-4.0	5.0	2.5	0.0
Sweden	1.2	3.3	3.2	2.6	1.0	0.5	-0.2	-0.2	-1.4	-4.0	1.6	1.2	0.8
United Kingdom	2.5	3.4	2.5	3.0	0.9	0.7	0.7	-1.0	-2.8	-3.8	0.4	0.2	0.1
EU	1.4	2.9	2.0	2.9	1.4	1.0	0.9	0.2	-1.8	-4.0	1.1	0.5	-0.1
USA	3.3	3.5	2.7	2.0	1.5	1.2	1.1	-0.5	-1.6	-2.9	1.0	1.7	0.9
Japan	1.4	0.5	1.7	2.4	0.4	-0.1	-0.7	-0.4	-2.4	-5.3	0.6	-0.2	0.1

*For 2008, 2009 and 2010 the current forecast (IV-2009) is compared with the autumn 2008 (X-2008) and the January 2009 interim forecast (I-2009).

Source: EU Commission, Spring 2009, Brussels 22.4.2009.

¹⁰ “UEAPME Position on the Communication from the Commission Restructuring and employment”, Brussels, 6 July 2005, p. 2.

All this has resulted in a sudden demand-shock, affecting exports, investment goods and private consumption alike in Europe. However as the figure in the tables above are showing, European economies are not hit by the economic crisis evenly. The downswing is expected to be broad-based across countries, although sizeable differences persist: some countries already have experienced a stronger downturn than other, depending on their exposure to the financial crisis, the global manufacturing cycle, a substantial housing-market correction or other country-specific factors.

**Economic outlook according to the EU Commission's Economic Forecast as of Spring 2009:
Number of unemployed (as a percentage of total labour force, 1992-2010)**

	5-year averages				2008			2009			2010		
	1992-96	1997-01	2002-06	2007	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009	X-2008	I-2009	IV-2009
Belgium	8.9	8.1	8.2	7.5	7.1	6.9	7.0	8.0	8.0	8.5	8.7	9.2	10.3
Germany	7.8	8.4	9.6	8.4	7.3	7.1	7.3	7.5	7.7	8.6	7.4	8.1	10.4
Ireland	13.9	6.3	4.5	4.6	6.1	6.5	6.3	7.6	9.7	13.3	7.4	10.7	16.0
Greece	8.8	10.9	9.9	8.3	9.0	8.3	7.7	9.2	9.0	9.1	9.3	9.4	9.7
Spain	17.8	13.1	10.1	8.3	10.8	11.3	11.3	13.8	16.1	17.3	13.5	18.7	20.5
France	11.0	10.0	9.1	8.3	8.0	7.8	7.8	9.0	9.8	9.6	9.3	10.6	10.7
Italy	10.3	10.6	7.9	6.1	6.8	6.7	6.8	7.1	8.2	8.8	7.3	8.7	9.4
Cyprus	:	3.9	4.5	4.0	3.9	3.9	3.8	3.8	3.1	4.7	3.7	3.5	6.0
Luxembourg	2.7	2.4	4.1	4.2	4.0	4.1	4.9	4.3	4.9	5.9	4.7	5.8	7.0
Malta	5.2	6.8	7.4	6.4	5.9	6.5	5.9	6.2	7.4	7.1	6.4	7.9	7.6
Netherlands	6.2	3.4	3.9	3.2	3.0	2.9	2.8	3.4	4.1	3.9	3.7	3.5	6.2
Austria	3.9	4.0	4.7	4.4	3.9	4.1	3.8	4.2	5.1	6.0	4.5	6.1	7.1
Portugal	6.2	4.9	6.7	8.1	7.7	7.8	7.7	7.9	8.8	9.1	7.9	9.1	9.8
Slovenia	:	6.9	6.4	4.9	4.5	4.5	4.4	4.8	5.2	6.6	4.7	5.2	7.4
Slovakia	:	15.8	16.8	11.1	9.9	9.8	9.5	9.8	10.6	12.0	9.6	10.5	12.1
Finland	14.9	10.6	8.6	6.9	6.3	6.4	6.4	6.5	7.8	8.9	6.4	8.0	9.3
Euro area	10.2	9.3	8.7	7.5	7.6	7.5	7.5	8.4	9.3	9.9	8.7	10.2	11.5
Bulgaria	14.1	16.4	12.6	6.9	6.0	6.0	5.6	5.8	6.3	7.3	3.7	6.4	7.8
Czech Republic	:	7.3	7.7	5.3	5.0	5.0	4.4	5.0	5.7	6.1	3.2	6.6	7.4
Denmark	7.8	4.8	4.8	3.8	3.1	3.5	3.3	3.5	4.5	5.2	4.3	5.6	6.6
Estonia	:	11.1	8.8	4.7	5.0	5.1	5.5	6.7	8.8	11.3	7.7	9.7	14.1
Latvia	13.8	14.0	9.8	6.0	6.5	6.5	7.5	9.2	10.4	15.7	9.6	11.4	16.0
Lithuania	5.0	13.3	10.3	4.3	4.9	5.4	5.8	7.1	8.8	13.8	8.4	10.2	15.9
Hungary	10.3	7.3	6.5	7.4	8.1	7.7	7.8	8.6	8.8	9.5	8.5	9.1	11.2
Poland	13.4	13.8	18.1	9.6	7.3	7.4	7.1	7.3	8.4	9.9	7.8	9.6	12.1
Romania	5.8	6.4	7.6	6.4	6.1	6.2	5.8	6.4	7.0	8.0	6.1	6.9	7.7
Sweden	8.5	7.1	6.2	6.1	6.0	6.2	6.2	6.8	7.9	8.4	7.3	8.7	10.4
United Kingdom	9.1	5.8	5.0	5.3	5.7	5.7	5.6	7.1	8.2	8.2	6.9	8.1	9.4
EU	9.8	8.8	8.8	7.1	7.0	7.0	7.0	7.8	8.7	9.4	8.1	9.5	10.9
USA	6.3	4.5	5.4	4.6	5.7	:	5.8	7.5	:	8.9	8.1	:	10.2
Japan	2.8	4.4	4.8	3.9	4.1	:	3.9	4.7	:	5.8	4.6	:	6.3

Source: EU Commission, Spring 2009, Brussels 22.4.2009.

Countries particularly hit by the crisis are the UK, Ireland and Spain which during the last decade have been very much relied on private consumption not being based on real wage development but fuelled by the credit market and asset bubbles. Also the new member states were especially vulnerable to the economic crisis despite their impressive growth rates during the last decade. However, in most of the region growth was driven by foreign direct investments and to large degree credit financed consumption.

There also is a strong bias towards the financial sector and large and multinational companies in the public debates around Europe with regard to the effects of the crisis and the discussion of economic recovery measures. This is quite understandable since the financial sector and in particular the automotive industry has been most severely affected by the crisis. Against this, the effects on other economic sectors and company groups, in particular developments in various types of SMEs – often integrated in the production value chains as suppliers and contractors – are much less visible and tend to be systematically eluded in public debates of governments and social partners.

Analysing responses and plant-level developments as a reaction to the economic crisis throughout Europe, a recent survey of the ETUI in Brussels states that:

“There is a clear divide between large enterprises and SMEs, both in Western Europe and – in particular – in the new member states. Large enterprises with more resources and internal flexibility are in general better equipped to fend off sudden external shocks, while SMEs are more likely to implement redundancies.”¹¹

While large companies – often backed by active involvement of social partners, workers interest representation and collective agreements between social partners – are able to respond to sudden crisis situations by work organisation measures and negotiated ways of managing the situation (though even in these cases dismissals take place, mostly involving those in temporary and/or agency employment), the situation is much more difficult at SMEs, which do not have the resources, institutional or otherwise, to cushion the effects of the crisis. This is quite exemplarily illustrated by the massive utilization of short-work schemes as a major respond in order to avoid permanent lay-offs in countries where this instrument exists (e.g. German “*Kurzarbeit*”, French “*chômage partiel*” or the Finnish “*temporary unemployment*” schemes”). Since these schemes are not applicable for small enterprises, in the case of SMEs and suppliers, contractors or service providers, dismissals were, from the beginning, the major instrument of adjustment.

A further feature of particularly difficulties of SMEs in regard to coping with the effects of the financially driven crisis is money: Though with significant country-specific variations throughout Europe, SMEs suffer from the contraction of the financial market and in particular from more cautious banks and rising interest rates. At the same time small companies don’t have the strength of large companies to negotiate favourable credit terms with banks and suppliers, so they are not able to cut prices profitably. Against this a growing number of EU countries have established financial programmes in particularly targeting the SME sector and improve their access to finance. This also is supported by new EU wide framework on temporary state aid concluded in December 2008.

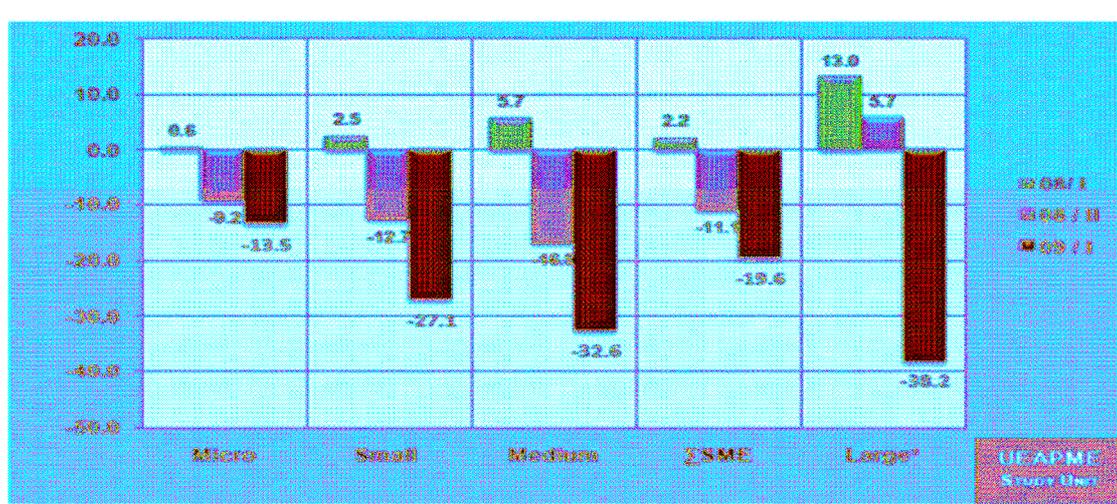
An initial screening of SME specific measures included in the national recovery plans carried out in February 2009 by UEAPME is interesting in this context: The evaluation reveals a striking bias towards financial measures such as increased volumes of guarantees for credits and loans, additional loans and credits, new financing instruments, cut of employers’ social contributions, moratoriums for the repayment of loans etc.¹²

In contrast to this, dealing with the negative effects on employment, cushioning the social effects both on employees made redundant and employers (against the background of demographic trends and the scarcity of qualified labour in many occupational fields) are hardly to discover in this context.

In particular against this bias towards larger companies with regard to measures of cushioning the social costs of dealing with the current economic crisis it is quite astonishing that also in the current economic situation, SMEs seem to be more firm in terms of employment stability than larger companies as the following graph on employment expectations as of February 2009 illustrates.

¹¹ B. Galgoczi et. al. 2009: Plant level responses to the economic crisis in Europe, ETUI Brussels, Working Paper 2009.01, p. 31

¹² UEAPME 2009: National Recovery plans from an SME perspective. Brussels, 13 February.

UEAPME Craft and SME Barometer 2009: Employment Expectations as of February 2009

The role of social dialogue

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: In many countries micro and small companies in most cases are not covered by institutional structures of interest representation and employee participation is organised in a mostly informal way along personal ties.¹³

The Nordic countries differ from this pattern due to a very strong trade union membership base across all company size groups. Only here, SMEs and large companies are covered by institutional structures of interest representation to a similar degree.

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 social 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.

A particular challenge with regard to social dialogue and the organisation of SME specific collective interests both on the employers and employee side has been the strong increase in self-employment and ownership enterprises (i.e. the owner being also the only employee) in Europe.¹⁴

¹³ See also the results of the European project "SMALL – Representation and Voice in Small and Medium Sized Enterprises", www.unions-in-small-firms.net. Results are also presented in the special issue of TRANSFER, Vol. 13, No. 1, Spring 2007.

¹⁴ These trends have been reported as being particularly pronounced in the Northern European countries and also in Austria and Germany as participants in the joint seminars carried out in the context of the ETUC-UEAPME project reported.

Against the reality of a less developed formal social dialogue at the enterprise level, social dialogue practice and experience at other levels (at the level of region and sector as well as at national and European level) is becoming more and more important.

The examples of good and innovative practice in addressing major challenges in the context of structural change and restructuring in European SMEs presented in the second part of this report illustrate the important role of social dialogue at different levels – local, regional, sectoral and national. Also the European level of social dialogue has become more and more important since its institutionalization more than two decades ago in the context of the Maastricht and Amsterdam treaties (see textbox).

20 years of European Social Dialogue

Consultation and cooperation between the social partners began in the 60s and 70s within the advisory committees, the standing committee on employment and the tripartite conferences on economic and social questions. However, it was in 1985, with the launch of a bipartite social dialogue on the initiative of the then President of the Commission, Jacques Delors, that the dialogue really began to evolve into a forum for negotiation on a European level. When we retrace the evolution of the cross-industry social dialogue in Europe since then, we can see three distinct stages: During the **first period** (1985-1991), the bipartite activities mainly led to the adoption of resolutions, declarations and joint opinions without any binding power.

The signing, on 31 October 1991, of an agreement between the social partners, which was later incorporated into the Protocol on Social Policy, itself annexed to the Maastricht Treaty (1993), marked the beginning of the **second period**. After this, agreements negotiated by the European social partners could, if they so desired, be given legal force through a decision by the Council, which would then be transposed into the legislation of each Member State. The agreement of 31 October 1991 was integrated into Articles 138 and 139 of the Treaty of Amsterdam, and led to the implementation of three agreements through Council directives (parental leave in 1995, part-time work in 1997 and fixed-term contracts in 1999).

The **third period** was inaugurated in December 2001, when the European interprofessional social partners presented a '*joint contribution*' to the Laeken European Council. This phase is characterised by the growth in independence and autonomy of the European social dialogue. The foundations of this new era were bolstered the following year at the Social Dialogue Summit in Genval on 28 November 2002 when the social partners adopted their first joint multiannual work programme for 2003-2005.

This more autonomous social dialogue can also be seen in the second method chosen by the social partners for implementing the negotiated European agreements in Article 139(2), namely 'in accordance with the procedures and practices specific to management and labour and the Member States'. This method was chosen for the 'autonomous' agreements concluded on telework (2002) and work-related stress (2004). In both cases, the social partners committed to directly implementing them at a national level through their member organisations. They also provide for monitoring procedures, notably through implementation reports. The Commission has provided support and assistance throughout this evolution, in accordance with the role assigned to it by Article 138 of the Treaty.

Source: European Commission: Industrial Relations in Europe, Brussels, p. 91

As mentioned already in the introduction to this report, UEAPME and the ETUC have undertaken a number of activities through joint work programmes and projects thereby documenting their joint responsibilities in the context of economic and social change with regard to SME development. Particularly interesting in the context here of course is the UEAPME/ETUC joint declaration on recognition of "Social dialogue as an instrument for meeting the economic and social challenges faced by small enterprises" where nine specific recommendations have been described (see textbox on the following page)

This progress of social dialogue, however, should not lead us to overlook the problems, particularly as regards the inclusion of the position of SMEs and their employees by all the bodies where social dialogue takes place. This has been clarified also by research studies and stock-taking measures carried out by the ETUC in the past.¹⁵ Also, the

¹⁵ See: "Trade unions and SMEs. A report of ETUC activities to improve working conditions in small and medium-size enterprises, Brussels 2001.

sectoral social dialogue committees have often encountered similar difficulties when tackling questions which pose problems for SMEs, e.g. on working time issues. However, 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.

Joint ETUC/UEAPME Declaration on Small Companies May 2001

“Social dialogue as a tool to meet the economic and social challenges of Small Enterprises”

- (1) The ETUC and UEAPME declare their full support for the objectives of the Lisbon European summit to strengthen the co-ordination and synergies between the Luxembourg, Cardiff and Cologne processes in order to improve growth and create full employment via well-coordinated economic policies and improvements in the operation of the labour market.
- (2) The Lisbon Summit emphasised the role of SMEs in the new European Union drive for employment and for a competitive economic area based on innovation, knowledge, social cohesion and regional development. Referring to this role, the Charter for Small Enterprises ", included in the conclusions of the European Summit in Santa Maria da Feira, points out the specific needs of small enterprises.
- (3) The ETUC and UEAPME call upon the public authorities and policy decision-makers at all levels to establish and maintain an administrative, fiscal, social and economic environment, which supports the creation, maintenance and growth of small enterprises and employment.
- (4) The ETUC and UEAPME are ready to contribute to the success of these objectives within their own areas of responsibility, and stress the importance of social dialogue between employers and representative trade unions as an essential factor in the new context of Lisbon and in the follow up of the Charter. This dialogue must be considered as a precondition for balancing the need of flexibility, which is necessary for job creation and economic growth, with the need for security in a good working environment and in organising the necessary changes.
- (5) UEAPME and the ETUC stress the need to take into account the specific characteristics of, and particular situation in which, craft and small enterprises are working and developing in order to identify appropriate ways of establishing good employment conditions particularly as regards professional training, qualifications, health and safety in the workplace, and the organisation of work ensuring conditions of adaptability for both, workers and businesses.
- (6) Social dialogue can provide tailor-made answers for small enterprises. The economic, educational and social development of small enterprises can be promoted by further developments of networks, co-operations and joint measures, for example those for flexibility and adaptability as well as for professional training and health and safety organised at inter-sectoral, sectoral, branch and regional/local level, or within an enterprise.
- (7) Therefore, the ETUC and UEAPME underline the role and the benefits of social dialogue between employers and workers and their representative organisations at all levels on modernising the organisation of work. The UEAPME and ETUC jointly recognise the specificity and quality of the working environment and working relations in the small enterprises, and recognise the consequences of these characteristics for the organisation and structure of staff representation.
- (8) As well as their shared readiness to contribute to the quality of the social dialogue between UNICE/UEAPME, CEEP and the ETUC, the two organisations hope to bring added value through developing the dialogue on specific issues concerning small enterprises and their workers as it has been initiated through the UEAPME Futurisme Project and the ETUC's initiatives. The results of these efforts show that co-operation and joint actions on different levels can improve the adaptability of working conditions in small enterprises, including the responds to the challenges of enlargement.
- (9) The ETUC and UEAPME invite their members to improve and develop such co-operations in their national context.

PART II: FACTSHEETS ON COMMON ECONOMIC AND SOCIAL CONCERNS

Introductory note

The main purpose of this part of the report is to provide facts, information and examples of practical experience with regard to major areas of common economic and social concerns of social partners representing SMEs in Europe. It should be stressed, that the following chapters of course *do not* cover all topics and issues regarded as common in this context but should be rather seen as priority fields of action in the context of this specific project. Also the examples and initiatives documented here are necessarily a limited selection of information available to the authors of this report. It should also be mentioned here, that many practical examples presented on the following pages have been documented and analysed in the context of the preparation of the EU Commissions' Forum on Restructuring in November 2007 which was particularly dedicated to the issue of SMEs. Further examples and information has been provided by the participants at the two seminars with national ETUC and UEAPME member organisations in Warsaw and Rome in Spring 2009.

1 The territorial dimension: Local and regional development

SMEs form part of employment areas characterised by specific social and economic realities. Within this framework, co-operation with various local and regional structures, including the public authorities, is a key aspect. There is also a strong territorial dimension in the context of forward-looking jobs and skills management, the financing of infrastructures or the development of centres of competitiveness grouping players in the same sector (researchers, companies, unions, etc.).

The European Social Partners have stressed the territorial dimension also in the context of economic change and restructuring in Europe:

The Territorial dimension

When economic and social changes have serious repercussions for an entire region or territory, complementarity and synergies between the actions of the various actors (employers, trade unions and territorial public authorities) assumes particular importance. The importance of this partnership to foster new job-creating economic activities, manage reassignments and improve the operation of the local labour market was highlighted in the experience of regions changing economic activity but also of some companies. In this context the social partners recall the importance of the role played by EC structural funds and territorial infrastructures to maintain social cohesion, ensure redevelopment initiatives and economic development.

UNICE/UEAPME/ETUC/CEEP: "Orientations for reference in managing change and its social consequences", Brussels 16 October 2003

There is also a strong territorial dimension in the context of job creation and the best possible management of the current economic crisis in Europe as underlined in the European Economic Recovery Plan: Here, the EU Commission sees a strong need to improve the monitoring and matching of skills both in the short and longer term in order to address the employment impact of the crisis, facilitate matching with existing

vacancies and helping people return to the labour market. This objective clearly has a local and regional dimension. This territorial dimension also characterises the objectives defined in the context of the recent “New Skills for New Jobs” initiative of the EU Commission, namely the aim to make sure that European labour markets anticipate future needs, to improve the long-term job prospects on the workforce and to exploit opportunities for growth and jobs.

Not only crisis management, prevention and anticipation have a strong territorial dimensions: Also concrete needs in the field of training and skills development against the background of globalisation, market developments and technological change as well as issues such as the effects of demographic change on business transfers or entrepreneurship development seems to be best monitored and anticipated at the local and regional level. The information 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.

Also a clear message deriving from the background study in the context of the EU Commissions' SME Restructuring Forum in 2007 was 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.¹⁶

In particular, 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.

Sustainable development and employment growth in a region are strongly correlated with the development of entrepreneurship and of SMEs. Among the main factors that reduce the likelihood of the creation and growth of SMEs are the lack of or difficult access to financial resources, an inadequate regulatory framework, an inefficient institutional environment and insufficient investment in innovation, poor infrastructures. As a consequence, restructuring can also be seen as the opportunity for regions to reshape their policy in these fields and to overcome traditional and inefficient policy strategies.

Making a Change a Chance in the Tampere Region of Finland

This project focus on developing the readiness and flexibility of SMEs to respond to changes in the regional economy of the Tampere Region through innovative and comprehensive approaches. Three sub projects “*Learn, Adapt and Renew*”, “*Work Capability*” and “*Contact*” have been designed to give an all-embracing service to SMEs facing structural change. They aim to improve the adaptability of firms by raising the skills and “readiness for change” of their most vulnerable workers.¹⁷

¹⁶ See: Structural change, company restructuring and anticipation of change in the European small and medium-sized enterprise sector, Background Document, SME Restructuring Forum, Brussels, 26/27 November 2007-

¹⁷ “How dynamic regions face restructuring - The role of the European Social Fund and of the other Structural Funds”, Background Paper, RESTRUCTURING FORUM, Brussels, 4/5 December 2006, p. 9/10.

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. In this context there are many practical experiences in particular at the local and regional level of developing a more pro-active and systematic approach of anticipating change, implementing innovations and improving the framework conditions of SME development, in particular micro and small enterprises as the following examples from Germany and Spain illustrate.

Innovative approaches to the management of change in small and micro enterprises

The MIC project which is coordinated by the regional craft chamber in North Rhine-Westphalia 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 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 in the context of anticipation and good company management.

www.mic-project.org

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 change: 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.

Unice/BusinessEurope: “Restructuring. Report on social partners' activities on managing change”, Brussels, 2006, p. 9.

The territorial dimension also is reinforced in the context of cluster policy throughout Europe: Many Member States have proposed to support competitiveness poles and clusters. These poles bring together several dimensions – regional, industrial and innovation – and may be a good tool to anticipate structural changes.¹⁸

Competitiveness poles target industrial clusters in specific sectors. This is the case in Belgium or France where they propose the creation of “*pôles de compétitivité*”

¹⁸ See for example: Innovation Clusters in Europe. A statistical analysis and overview of current policy support, Europe Innova / PRO INNO Europe paper N°5, DG Enterprise and Industry, Brussels 2007.

specialized in some sectors. In France, 66 “*pôles de compétitivité*” have been selected, among which six are entitled “world class” (health, aerospace, nanotechnology...). The second approach is more horizontal and promotes clusters in general as such, for example grouping of SMEs with other partners (universities...). Albeit their specific nature, clusters are an interesting example of the ways to manage structural change and foster innovation and job creation by linking private and public organisations and optimise synergies between them. Clusters also put emphasis on the link between large firms and SMEs, and promote research and innovation measures. They also help to promote the attractiveness of regions.

Finally, the regional level also seems to be crucial in order to overcome the disadvantages of SMEs in the context of instruments in managing concrete restructuring situations and redeployment activities as the following example illustrates.

Establishing regional redeployment instruments for SMEs

In the West-Midlands based MEIRG project (“East Midlands Pan Business Redeployment Project”) in the UK, the innovation was that it transferred the redeployment agency model used by big enterprises to SMEs. Unlike their larger counterparts, SMEs lack the capacity and resources to offer services and options to their employees in restructuring situations, services such as careers guidance and new job training, and options such as relocation to another location or flexible working. A key success factor in MEIRG’s model was that it went beyond the usual package of support. It made the most of SMEs working together, such that a new set of re-conversion options and services could be offered to SME employees; for example, SMEs could pool together vacancy information or collaborate in seconding their staff. Secondly, the redeployment unit itself was mobile - essentially a fully resourced and satellite-linked vehicle known as ‘ERIC’ - and therefore able to respond quickly and flexibly to need.

See: www.meirg.org.uk and <http://pbrem-cweb.wincon.co.uk>

2 Management of demographic challenges and the role of training in SMEs

Facts and challenges in the context of demographic change

SMEs are directly concerned by the challenges resulting from demographic changes, the ageing and scarcity of the workforce and the growing shortage of qualified labour. In fact, due to the generally more labour-intensive mode of business, lower productivity and other factors (such as the attractiveness of SMEs as workplaces) the SME sector is more affected by demographic change and problems in the context as large companies are. In particular countries with a significant share of large companies and labour shortages smaller companies are facing certain challenges in this context. Amongst them also the issue of how to attract more younger and skilled people to work in SMEs.

SMEs affected stronger by demographic challenges

“Qualified labour in the Czech Republic 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.”

Source: Background Report for the EU Commission’s SME Restructuring Forum, November 2007

Against this, also the EU Commission in its recent "New Skills for New Jobs" initiative has identified the demographic factor as a key challenge: "Too little is [being] done to increase and adapt the skills of an ageing workforce," the Commission states.¹⁹

One major specific 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.²⁰ According to a survey of "KMU Forschung Austria", between 2001 and 2010 approx. 52,000 small and medium-sized companies in Austria with around 440000 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. Also in Germany the issue of business transfer is one of the main challenges for SME development. According to estimates by the German "Institute of SME Research"²¹ more than 70000 enterprises with nearly 700,000 employees will have to look for a new owner/director during the next five years.

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 as the EU Commission has described in a respective Communication in 2006.²²

Facts and challenges in the field of training

According to recent studies, there are around 100 million workers who are at risk due to their level of qualifications, and 20 million unemployed. At the same time 80 million people are considered low-skilled. Europe's population is ageing and companies face more and more skills shortages. To be fit for future jobs, workers need higher skill levels, and up-to-date and adaptable competences. Also in the context of the development of Europe towards a more services-oriented economy focused on ICT and 'green' technologies, its workforce needs to adapt to new requirements and develop new skills: Around 20 million new jobs could be created in the EU 25 by 2020, according to a study presented by the EU Commission in December 2008.. Almost three quarters of these will be in the services sector, the study forecasts. As the EU shifts towards a knowledge-based economy, the number of jobs requiring a high level of education will rise from 25% to 31%, forecasts the study compiled by CEDEFOP.

¹⁹ Communication of the EU Commission: New Skills for New Jobs Anticipating and matching labour market and skills needs, Brussels, COM(2008) 868/3.

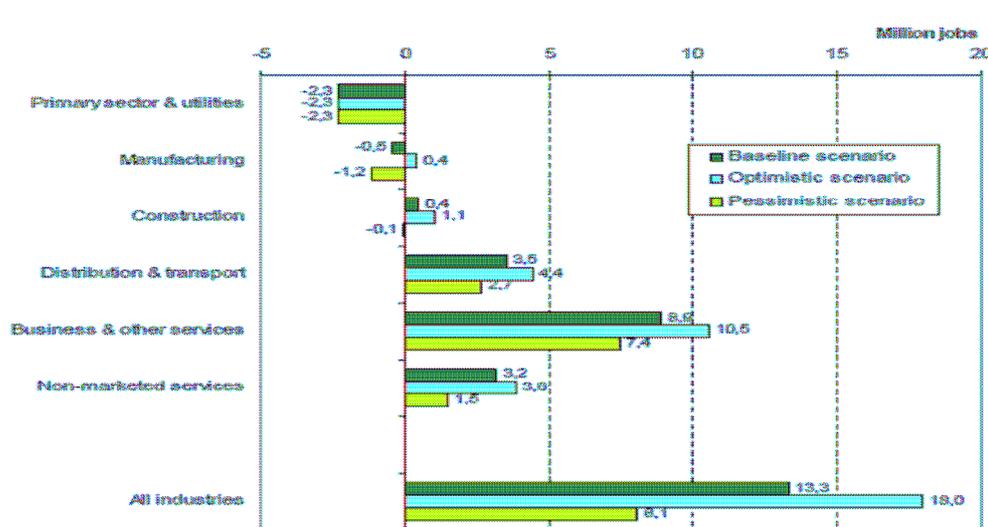
²⁰ Communication of the EU Commission: "Implementing the Lisbon Community Programme for Growth and Jobs: Transfer of Businesses – Continuity through a new beginning", COM(2006) 117 final, p.3.

²¹ Bundesministerium für Wirtschaft und Technologie: Der Mittelstand in der Bundesrepublik Deutschland. Eine volkswirtschaftliche Bestandsaufnahme, Berlin, 2007, p. 39

²² See the Communication of the EU Commission on "The demographic future of Europe – from challenge to opportunity", 12 October 2006, COM(2006)571.

All things considered, over 19.6 million additional jobs are expected to be created between 2006 and 2020 in the EU-25 in the baseline scenario considered in the study.²³ However, the actual number of jobs created will depend on the global economic environment. The current financial crisis and its impact on the real economy make the pessimistic scenario more probable. The more pessimistic scenario projects the generation of fewer jobs in the service sector, but still growth. (see figure). In this scenario, the employment decline of manufacturing will be stronger.

Employment trends by broad sectors according to different scenarios, change in 000s (2005- 2015)



Source: CEDEFOP 2008.

The present crisis may accelerate the foreseen restructuring in these sectors. However, even in the pessimistic scenario, the manufacturing sector should still account for more than 33 million jobs in 2015: this sector would still correspond to an important part of jobs in some European regions. In addition, some regions would experience positive trends in manufacturing as a result of the transfer of jobs from older to newer Member States. Lastly, in some industries (for example engineering), demand will outstrip productivity gains and create new jobs. The primary sector and utilities are expected to decline significantly in all cases.

Against this the issues of training, adaptation of qualifications and skills are a priority of politics both at the European level and below at national, regional and local government levels. The European Commission in the context of the "Education and Training 2010"²⁴ work programme which - in the context of the Lisbon Strategy - established for the first time a solid framework for European cooperation in the field of education and training, based on common objectives and aimed primarily at supporting the improvement of national education and training systems through the development of complementary EU-level tools, mutual learning and the exchange of good practice via the open method of coordination.

Basic objectives and tasks of European cooperation in education and training for the period up to 2020 were defined recently in Conclusions of the European Council.²⁵

²³ CEDEFOP: Future skill needs in Europe. Focus on 2020, Thessalonica 2008.

²⁴ See also the recent document of the EU Commission on "An updated strategic framework for EU cooperation in education and training" with new targets COM (2008) 865 final from 16/12/08.

²⁵ "Council Conclusions on a strategic framework for European Cooperation in education and training" ("ET 2020"), Brussels, 12 May 2009.

According to the European Council, lifelong learning should be regarded as a fundamental principle underpinning the entire framework, which is designed to cover learning in all contexts - whether formal, non-formal or informal - and at all levels: from early childhood education and schools through to higher education, vocational education and training and adult learning.

Specifically, the framework of action until 2020 should address the following four strategic objectives:

- Making lifelong learning and mobility a reality;
- Improving the quality and efficiency of education and training;
- Promoting equality, social cohesion and active citizenship;
- Enhancing creativity and innovation, including entrepreneurship, at all levels of education and training.

The periodic monitoring of progress towards a set objective provides an essential contribution towards evidence-based policy making. The strategic objectives outlined above should accordingly be accompanied during the period 2010 - 2020 by indicators and by reference levels for European average performance ("European benchmarks").

In December 2008, the Commission also launched the "New skills for new jobs"²⁶ initiative in order to ensure a better match between the skills that workers have and the jobs that are available. The initiative also will take into account the growing importance of soft skills, such as problem-solving, analytical, self-management and communication skills, but also language skills, digital competences and the ability to work in a team will become more important, according to the Commission. In the context of the new initiative the Commission plans to regularly assess the labour market's long-term supply and demand until 2020. For this purpose the Commission has commissioned a number of sectoral studies using a common foresight methodology to identify emerging competences and changes.

SME specific challenges and needs

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. In particular the capacity of SMEs to innovate requires a complex set of skills, networks and processes.

Here, it also has been stressed that the strategy of SMEs in Europe to compete at the price level with low wage countries is no real alternative. 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 as the following interview carried out in the context of the 2007 SME Restructuring Forum illustrate.

²⁶ Communication of the EU Commission: New Skills for New Jobs Anticipating and matching labour market and skills needs, Brussels, COM(2008) 868/3.

Quality orientation becomes more and more important

“In the past, around 80% of all SMEs in *Poland* 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.”

“The *Spanish* employer organisation respondent highlights an important change here, with the new generations of entrepreneurs who tend to set up more technical and 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.’ “

Source: Background Report for the EU Commission’s SME Restructuring Forum, November 2007

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. Here, it is 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.

Since also against the background of demographic changes and – in many EU member states an increasing scarcity of qualified labour – preconditions competitiveness and growth in small and medium sized companies, the following challenges are arising in particular from the point of view of SMEs in Europe:

- Retaining qualified workers and making SMEs more attractive
- Development of appropriate and tailor made concepts, methods and support for training and skills development
- Recognition and validation of soft skills and informal qualifications
- Supporting training and skills development in SMEs financially
- Change in mindsets both of workers and managers in micro and small enterprises

Recent surveys have stressed significant gaps in participation rates for employee training by firm size²⁷: In general the participation rates 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.

There also is a direct correlation between the lack of respective resources for training and competence development and the adaptability of employers and employees in the SME sector as the following quote from an interview with a Spanish employers’ federation representative illustrates:

²⁷ 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.

The need of a qualified workforce

“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.”

Source: Background Report for the EU Commission’s SME Restructuring Forum, November 2007

But in this context it must be also mentioned that the official statistics on training and further qualification rates are only partly presenting the reality of training in SMEs since in particular in the small enterprise sector training often is taking place in the form of informal competence and skills development and on the job training which are not taken into account in official statistics.

Finally, and again in particular for smaller enterprises, there also is a problem with existing training offers and programmes because they normally are designed and organised from the point of view of larger companies and they simply don’t fit into the organisational needs of smaller companies. There clearly is a need for tailor-made solutions.²⁸

As the recent European SME Observatory Survey illustrates, the lack of skilled labour is a problem for more than one third of all SMEs in the EU with significant varieties: While it seems that the problem is least widespread in countries like the Netherlands or Germany (reported only by 20-25% of the managers interviewed), it is an eminent concern for almost three quarter of managers in other countries (72% in Lithuania, 50% in Estonia and Turkey, more than 50% in Greece, Romania and Finland).

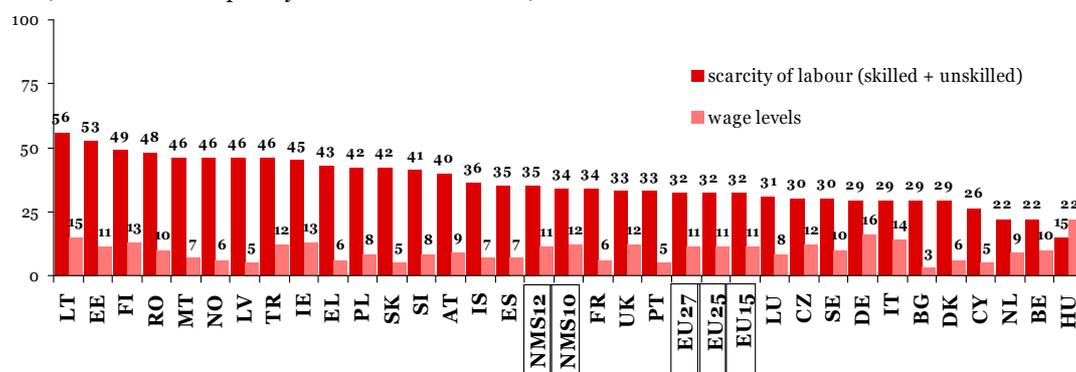
Looking at SMEs having problems filling their job vacancies, the survey stresses that these SMEs are primarily complaining about the scarce availability of a *skilled* workforce. 28% of SMEs in the EU indicate that this is their primary concern in recruiting. If the problem of the limited availability of *unskilled* labour (5%) is added, it becomes clear that one third of European SMEs are struggling with finding the necessary human resources. Though SME managers also are mentioning that high wage levels expected by candidates are a serious problem for recruiting, the scarcity of skilled and non-skilled labour is the most important barrier. As the graph below indicates, in all but one European economy, the scarcity of labour is a more significant problem than high wages.

²⁸ See: DG Employment, Social Affairs and Equal Opportunities: Guide for Training in SMEs, Brussels 2009 (forthcoming)

European SME Observatory 2007

Main recruiting problem

(the two most frequently mentioned difficulties)



Q63. What is your main recruiting problem?

Base: SMEs, % by country, question was not asked from 1-person firms

Role of social dialogue and good practice experience

Training, skills and competences

Since 1986, the European Social Dialogue has produced a series of “Common Opinions” or joint statements on policy, many of which have dealt with education and training. Moreover in 2002 the ETUC, UNICE/UEAPME and CEEP adopted their “Framework of Actions for the lifelong development of competencies and qualifications”. The Framework of Actions represents a significant intervention by the social partners in the field of lifelong learning. It commits the social partners, at national and European levels, to work together on the development of competences and the acquisition of qualifications, as major aspects of lifelong learning. The Framework identifies four priorities and fields of joint responsibility between the social partners:

Common responsibilities of the EU Social Partners with regard to Lifelong Learning

- Identification and anticipation of needs in terms of skills and qualifications, both at enterprise and at national/sectoral level
- Recognition and validation of skills and qualifications, including provision of a system of transferable qualifications and identification of links and complementarities between recognised diplomas
- Information, support and advice to employees and businesses
- Mobilisation of all the available resources for the lifelong development of competences by all parties (enterprises, public authorities and social partners), together with the effective management of funding resources, particularly the European Social Fund.

ETUC/ UNICE/UEAPME and CEEP: “Framework of Actions for the lifelong development of competencies and qualifications”, 2002

The European Social Partners have monitored the progress annually and conducted a comprehensive evaluation of this work in 2006. The report analysed the impact of more than 350 selected social partners’ initiatives. Among the initiatives analysed, over 70

concern companies' good practice examples and 280 comprise social partners' initiatives at sectoral or national levels.²⁹

Also at national, regional and local level as well as in the context of specific economic sectors, 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.

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.³⁰ 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.

In order to increase the participation of micro, small and medium sized companies in Italy, the social partners at national level came to quite a remarkable joint initiative: In 2004/2005 they established training funds in order to foster lifelong learning which are coordinated at the sectoral level and financed by a 0.3% wage deduction. Beside a fund for larger companies, there is a fund focussing on the Italian crafts enterprises and a further one for small and medium sized companies.

The Relanz@ project in Spain

The project Relanz@ in Spain which was supported by the European Equal programme until 2007, created three "Communal Centres of Resources" for local micro companies (predominantly family run craft business) in the province of Cuenca. The project offered training for the companies and facilitated the introduction of new technologies. The Communal Centres of Resources were set up in order to concentrate capacities under cost-sufficient conditions and to provide training for SMEs in remote areas. The project has developed two advisors supporting the concept of lifelong training, the enterprise tutor and the socio-corporate mediator. Relanz@ was implemented jointly by the provincial government and local administration in close cooperation with the social partners' organisations such as the regional employer's organisations, chamber of commerce and trade unions.

Source: EU Commission, DG Employment: SME Training Guide, forthcoming.

Trade unions are also directly involved in the issue of supporting employees in SMEs to adapt their skills and qualifications as the "Unionlearn" initiative of the TUC illustrates.

²⁹ See ETUC/ UNICE/UEAPME and CEEP: "Framework of actions for the lifelong development of competencies and qualifications, Evaluation report 2006, Brussels.

³⁰ See Observatory of European SMEs: "Competence development in SMEs", Brussels 2003.

The “*unionlearn*” Initiative of the British TUC

In Britain, for example, the TUC has established *unionlearn* to help unions open more learning opportunities to their members, particularly those disadvantaged in the labour market, and to promote collective action to increase learning in the workplace. Since 2002, around 20,000 Union Learning Representatives have been trained to encourage and support learning activities for employees.

A key priority for *unionlearn* is assisting unions to secure employer engagement and ongoing commitment through the signing of learning agreements. In 2007/2008, more than 130 formal learning agreements, more than 200 learning agreements with facilities for ULRs/unions were signed and nearly 700 learning agreements with time off for learners were signed between trade union learning representatives and single employers.

Source: www.unionlearn.org.uk

Finally, it should not be forgotten, that social partners are also playing a crucial role in the field of initial vocational education and training, i.e. the major schemes of apprenticeship: Here, many initiatives, programmes and reform projects have been initiated by the social partners throughout Europe who also play a crucial role in the implementation addressing specific national challenges such as increasing the number of apprenticeships and training activities in SMEs (here, the German “Training Pact”, “*Ausbildungspakt*”) or supporting SMEs with are lagging the resources to establish own training facilities (e.g. the joint social partners run “construction training sites” “*Lehrbauhöfe*” in Austria).

Also at the European level, the social partners recently have called for increased activities in the context of vocational training and apprenticeship places as a reaction to the current economic crisis. In order to foster apprenticeship and training activities the European social partners also recommend an active use of ESF funding.³¹

Demographic challenges

From the point of SMEs, many challenges and questions are arising in this context: How to better integrate older employees or migrant workers? How to attract young employees and retain them after vocational training? How to attract more women? How to improve the image of micro, small and medium sized companies?

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.

“50plus” - Addressing the greying of the workforce in Germany

An initiative launched by the Federal Ministry of Labour already some years ago focussing 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.

Further information: www.perspektive50plus.de

³¹ “Joint recommendations on the support to economic recovery by the European Social Fund”, ETUC, BusinessEurope, UEAPME and CEEP, Brussels, 7 May 2009

There are also practical experiences of social partners at sectoral level directly engaged in addressing demographic challenges and developing practical solutions at the following sector agreement shows.

The Textile Sector Agreement in Spain on CVT and retaining older workers

The Spanish government, employers and trade unions in July 2007³² reached a sector based agreement focussing on supporting companies affected by restructuring in the textile and shoe industry. Beside a series of activities in the context of promoting re-industrialisation and technological innovations, economic and employment support measures, 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. These also include measures, targeted to employment retention are in particular focussing on the support for continuous training in companies and special incentives for companies retaining workers aged more than 55 amongst their staff.

Source: Background Report for the EU Commission's SME Restructuring Forum, November 2007

The important role played by national social partners and social dialogue as well the emergence of joint interests in the field of dealing with the demographic challenge is illustrated by many initiatives and projects, for instance the following two examples from Austria and Denmark.

Improving the integration of older workers in Austria and Denmark

The Austrian **WAGE** (*Winning age, Getting Future*) is a joint initiative of the two main Social Partners in Upper Austria, the Chamber of labour (as the coordinator) and the Chamber of Economy focussing on successful management of demographic change. The initiative was launched in 2007 and is also supported by the regional government and professional organisations. As a platform of exchange for business, politics, research, it serves as a driving force for innovation and offers workshops, knowledge sharing and information, participation and involvement in pilot projects. Another focus is to support respectfulness and appreciation between generations and to raise the awareness for the challenges of demographic change.

The **SAW** ("*Senior Advisors at Work*") project by Danish trade union organisations (3F, SIPTU and LO) together with trade unions and employers' organisations in further countries (Italy, Ireland, Spain and Poland) was an international initiative supported by the ESF Art. 6 funding programme. SAW offered an analysis in all partner countries on current practise at the labour market and served as a platform of exchange of information and experiences between the partners. SAW promoted an awareness campaign for a sensitive approach to problems and opportunities for seniors. A key innovative element of SAW was the definition of a curriculum for Senior Advisors at Work (SAWs) or so-called Good Will Ambassadors.

Source: *Fagligt Internationalt Centre (FIC)*

Also at the European level, key actors have initiated programmes and projects in this context as the following example illustrates:

Practical experience: 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

³² See EIRO-Online, 9.7.2007.

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.

Further information: http://ec.europa.eu/employment_social/events/2006/demog/programme_de.pdf

3 Innovation and Quality

Facts and challenges

SMEs in the EU observe that competition in their markets has increased over the past two years. According to the 2007 European SME Observatory Survey, 60% of managers stated that competition has recently intensified.³³ Major drivers for this intensification are globalisation and internationalisation which have characterised business development in almost all industrial sectors and sizes affecting both enterprises with a strong export profile and firms focusing on domestic markets. 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”.³⁴ 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. At the same time it is a well known fact that 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.³⁵ With regard to the European Union, a recent survey confirms that besides foreign supply relations, export is the most frequent form of SME internationalisation. 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%.³⁶

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

³³ European Commission: Observatory of European SMEs, Analytical report, Flash Eurobarometer B Series No. 196, Conducted by Gallup Organization Hungary, 2007.

³⁴ 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.

³⁵ See „Global Europe – Competing in the World: A Contribution to the EUs Growth and Job Strategy”, COM (2006)567.

³⁶ Observatory of European SMEs: “Internationalisation of SMEs“, 2003, No. 4, p. 16.

on the effects of globalisation on the crafts sector in Germany³⁷ 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.³⁸

In response to tighter competition, the primary strategy of SMEs in the EU is to put more effort into the quality of products and marketing as the recent European SME Observatory Survey illustrates:³⁹ 64% would improve their product (or service) quality, 62% would increase product differentiation, and 61% would increase marketing efforts in response to increased competition. In this context, cutting costs is only the fourth most popular strategy adopted by SMEs keeping an effort to keep up with tighter competition.

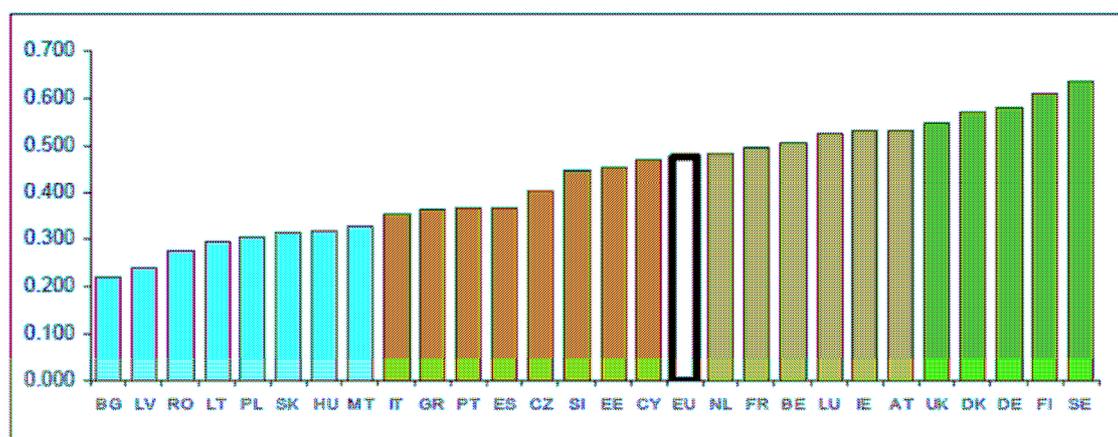
In this context, the capacity of enterprises to innovative and the unlocking of innovation potential is becoming more and more important. Here, the European Innovation Scoreboard (EIS) provides some evidence with regard to the innovation performance of EU member States, under the EU Lisbon Strategy. The most recent EIS report shows a large variety amongst EU member states with regard to their innovation performance (see table).

³⁷ 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

³⁸ 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.

³⁹ European Commission: Observatory of European SMEs, Analytical report, Flash Eurobarometer B Series No. 196, Conducted by Gallup Organization Hungary, 2007.

Summary innovation performance in EU Member States according to the European Innovation Scoreboard (EIS)



Note: The Summary Innovation Index (SII) is a composite of 29 indicators going from a lowest possible performance of 0 to a maximum possible performance of 1.

Source: European Innovation Scoreboard 2008. Pro Inno Europe and Inno Metrics, January 2009.

With regard to SMEs, it should be noted here also that the EIS only to a limited extent is taking into account specific indicators: The EIS is using seven dimensions clustered in three main blocks in order to measure innovation.⁴⁰ Out of 30 indicators, there are only 5 SME specific indicators measuring the innovation capacity of SMEs:

- Innovating in-house
- Innovative SMEs collaborating with others
- Firm renewal (SMEs entries plus exits)
- SMEs introducing process innovations
- SMEs introducing market or organisational innovations

The 2007 European SME Observatory Survey disclosed very clearly that there still is a lack of innovation activities in SMEs - the larger an enterprise, the more likely it is to capitalize on innovation: Only about every tenth Euro spent with European SMEs is spent on a new or significantly improved product or service. Almost four out of ten SMEs in Europe say that they do not have new products or that they do not have income from new products. While nearly 40% of micro firms (and 37% of SMEs in general) can *not* report any turnover from improved products or services, the similar proportion among large enterprises was 24%. This lack of innovation – at least on the product level – is the highest in the transport sector (46%) and in construction (42%).⁴¹

However, the most prominent finding of the survey of course is that a large proportion of SMEs just *do not plan* to introduce innovations to their products or technology – again nearly 40%. Beyond that, there is no single most important constraint on

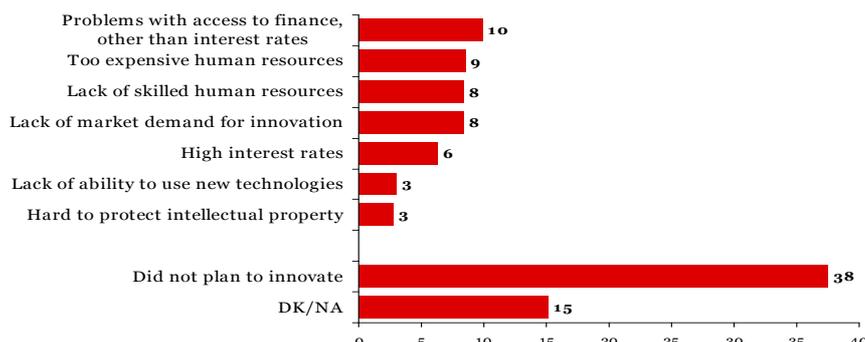
⁴⁰ *External “enablers”* capturing main drivers of innovation: Human resources, financial resources and support (e.g. projects and programmes, government activities; *firm activities*: Firm investments to generate innovations, linkage and entrepreneurship (collaboration between enterprises and public sector) and throughputs (IPR – intellectual property rights); and the *output of firm activities*: Innovators (share of firms that have introduced innovations) and economic effects (with regard to employment, exports and sales).

⁴¹ It is of course hard to interpret this question for the trade sector, as most retailers sell new or significantly improved products without any innovative activity (if the products have been improved by the manufacturers or if retailers have broadened their sales portfolio, then there will clearly be sales income from improved products). Accordingly, besides the manufacturing sector trade is where we find the fewest managers claiming that they have no income from innovative products (both 31%).

innovation at the EU level. On average, SMEs regard four factors as being about equally important: Almost one in 10 managers in the EU says that problematic access to finance (10%), scarcity of skilled labour (9%) the lack of market demand (8%) and expensive human resources (8%), are the key challenges to their innovation plans. Overall, human resources seem to be the more important. 17% complain either about the scarcity or the cost of labour, while a little less (16%) are troubled by high interest rates and other problems with access to finance.

European SME Observatory 2007

Main constraint for innovation activities



Q52. What was the main constraint for your innovation activities in the last two years? Please consider constraints of innovation regarding products and services as well as production technology?
Base : SMEs, %, EU-27

Regarding the main obstacle to innovation, there is only slight variation across various industries as well. Differences remain very modest, but in the transport and hospitality sectors, access to finance seems to be slightly more important than elsewhere. The lack and cost of manpower is the main obstacle in the construction sector.

At the same time it is important to stress, that many SMEs are very well prepared to address new challenges because often they are more flexible and better prepared to deal with structural change and adapt to new framework conditions as both larger companies and smaller ones. According to the interview partners of employers' federations and trade unions in Italy, the Italian medium-sized companies in general 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 do better in terms of innovation, sales and employment performance.

Innovation performance of medium sized companies in Italy

"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. 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."

Source: Background Report for the EU Commission's SME Restructuring Forum, November 2007

Against the background of the major trend in large companies, to outsource and offshore production activities and/or business related services to subcontractors and cooperation partners, an increasingly important aspect regarding innovation is the issue of innovation-transfer and joint activities in the context of innovation, research and development between large companies and the SME sector.

However, it is also important to understand other differences between small enterprises and large companies with regard to innovation: As UEAPME has stressed in a position paper on European Innovation Policy, innovation processes in crafts and SMEs are “characterised more by on-going permanent processes and less by linear technical-driven inventions.” Therefore, in order to exploit the innovation potential of SMEs, there should be a more all-encompassing approach towards innovation in Europe, including not only high level research and technology but also issues such as the supply of qualified labour, improvement of the regulatory environment as UEAPME concluded:

Ratios of innovation in SMEs

So far, innovation policy in Europe has been focussing nearly exclusively on R&D and the High-Tech sector and missed the reality of the majority of innovative SMEs. For them, innovation is a permanent process and they are not engaged in research as officially defined.”

Source: UEAPME: “European Innovation Policy: Take SMEs on board too”, Brussels, 31.10.2006

The role of social dialogue

Many examples in the context of reacting to growing competition illustrate the important role of social dialogue and co-operation of public authorities, professional organisations and social partners in developing innovative solutions in SMEs. Practical experience shows that growing competition and macro-economic and social change can be addressed much better on the basis of stronger cooperation, more pro-active approaches of public authorities and other actors (e.g. the financial system).

Preventive agreements involving social partners, local authorities, professional organisations and the financial sector concerning the SMEs of a specific local area are regarded 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 employers’ organisations and trade unions negotiate and manage collective agreements and organisational flexibility and the employers invest their equity.

Sectoral innovation approaches in North Rhine-Westphalia

Exemplary initiatives of joint social partner initiatives in the German Federal State of North-Rhine Westphalia focussing on two manufacturing sectors which are both confronted with increasing international competition as well as characterised by a strong SME structure are 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.

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

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 sectoral solutions by taking into account specific territorial needs and shortening the gap between large and small enterprises at different levels.

There are other national and sectoral approaches here, for example the concept of "employee driven innovation in Denmark.

"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."

Source: LO Denmark, Danish Labour News, No. 2, 2007, p. 7

This approach is also reflected in recent collective bargaining agreements in Denmark: 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.⁴²

There are also examples of good practice from Central and Eastern Europe to foster innovations in the SME sector such as IPOSZ in Hungary:

Fostering innovation and adaptability in Hungarian crafts and micro enterprises

The Hungarian Association of Craftsmen's Corporation IPOSZ is an umbrella organisation representing around 280 legally independent craftsmen's corporations which employ around 200,000 persons. IPOSZ promotes and raises awareness on the importance of training among small and micro enterprises and represents the interests of its members as employers in regard to collective sectoral agreements and towards politics, ministries and public institutions. As in other countries, micro enterprises and family-run businesses in Hungary rarely participate in training activities. Their financial sources are very limited and most of the company owners are not very familiar with the possibilities of lifelong learning and the availability of support sources. At the same time, technological change is of high importance for them to remain competitive. Micro enterprises can easily react to changing demands of their customers and society due to their size and flexibility, but need to be able to professionally assess their own economic assets, of their environment and to manage their enterprise. Against this IPOSZ is focussing its activities in particular on providing counselling and advise with regard to training and other forms of adapting to economic changes.

Further details: www.ipoz.hu

⁴² See: <http://www.eurofound.europa.eu/eiro/2007/03/articles/dk0703019i.htm>.

Finally it must be mentioned here, that the issue of technological innovation in particular regarding small enterprises and the crafts sector is increasingly acknowledged by social partners and public authorities. Here, a number of positive examples in particularly with regard to the cooperation between academic and scientific institutions and SME professional organisations exist.⁴³

4 Undeclared work

Facts and challenges

There is quite a large variety of undeclared work throughout Europe. Recent surveys (Eurobarometer, EF Dublin Report) differentiate the following forms of undeclared work:

- *Undeclared work within a formal enterprise*, or what might be termed undeclared waged employment. This can be either wholly undeclared where all one's wages are paid off-the-books, or partially undeclared where a portion of the wage from one's formal employer is paid officially and a portion off-the-books ('envelope wages');
- *Own-account undeclared work*, for a formal enterprise or another client such as a household, conducted under social relations akin to self-employment; and
- more socially embedded own-account undeclared work delivering goods and services directly to consumers who are neighbours, kin, friends or acquaintances.

SMEs, particularly those active in labour-intensive services, suffer from unfair competition resulting from undeclared work. The following quotes taken from interviews in the context of the EU Commission's Restructuring Forum on SMEs are describing the complex phenomenon of the "black and grey" economy and its effects on the SME sector.

Perception of undeclared work by SME representatives

"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" (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." (Poland)

"Undeclared work is the cancer of our societies" (Czech Republic)

"Undeclared work is a social bomb" (Spain)

Sources: Background Report for the EU Commission's SME Restructuring Forum, November 2007. Quote from the joint UEAPME-ETUC seminar in Warsaw, 9-10 March 2009.

Estimates of the size of the informal economy are necessarily imprecise. An Eurobarometer Survey put of 2007, A report of the EU Commission in 2004 on

⁴³ Profiles of cases of good practice exemplifying this approach are documented in the sample of 50 cases of good practice in the "Guide for Training in SMEs", DG Employment, Social Affairs and Equal Opportunities (2009). See for example the cases from Greece (GR01 and GR02), France (FR04), Italy (IT02) focusing on micro and small companies in traditional sectors such as leather, textile or furniture. Also the Irish Skillsnet Initiative (IE01) is illustrating this approach.

undeclared work⁴⁴ put the informal economy at somewhere under 5% of European GDP. It estimated that the level of undeclared working was particularly high in Greece (over 20% of GDP).⁴⁵ It was also common in Italy (16%) and several accession countries (Poland, 14%; Slovakia, 13%-15%; Slovenia, 17%). It was rarest in Austria, the Netherlands and the UK (all 2% or less).

Major driving forces for undeclared work according to the EU Commission are in particular:

- the growing demand for household and care services as a result of socio-demographic changes, possibly in combination with working time reduction;
- the trend towards smaller and less hierarchical working relationships with more flexible pay systems or time accounting;
- self-employment (including false self-employment) and sub-contracting and, more generally, flexible contracts and on-call work, when they are misused for nondeclaration of part of the revenue;
- the growing ease of setting up cross-border groupings of enterprises, which require efficient international cooperation between monitoring and enforcement bodies and/or systems.

A recent stocktaking by experts of the European Employment Observatory network indicates that undeclared work is still on the rise in several Member States (see table on the following page).

Undeclared work obstructs growth-oriented economic, budgetary and social policies, runs against the principles of flexicurity and interferes with immigration policies. From a microeconomic perspective, undeclared work tends to distort fair competition among firms, paving the way for social dumping. Moreover, undeclared work tends to be associated with poor working conditions for individuals and subsequent risks to workers' health, low prospects for career progress and insufficient social protection coverage. It also causes productive inefficiencies, as informal businesses typically avoid access to formal services and inputs (e.g. credit) and prefer to stay small.

The issue of 'undeclared work' therefore has been receiving increasing attention as part of the European employment strategy, and since 2003 the EU employment guidelines have included a specific guideline entitled 'transform undeclared work into regular employment'. This provides that Member States should develop and implement broad actions and measures to eliminate undeclared work, which combine simplification of the business environment, removing disincentives and providing appropriate incentives in the tax and benefits system, improved law enforcement and the application of sanctions. They should undertake the necessary efforts at national and EU level to measure the extent of the problem and progress achieved at national level.

⁴⁴ EU Commission: Undeclared work in an enlarged Union. An analysis of undeclared work: An in-depth study of specific items, Brussels, Employment and Social Affairs DG, 2004.

⁴⁵ Given the nature of undeclared work – i.e. it is neither observed nor registered - it is naturally extremely difficult to assess its extent and structure. The study draws on information from statistical offices in several countries and results from a study covering five European countries. A European wide survey based on direct methods, i.e. interviews was carried out in 2007. See: EU Commission: Undeclared Work in the European Union, Special Eurobarometer Report 2007.

Changes in the prevalence of undeclared work 2004 - 2007

Country	Comments
Decreases in the prevalence of undeclared work	
Denmark	A regular survey shows continued, moderate decreases since 2001 (from a peak of 3.8% of GDP in 2001, to 3.0% in 2005). There is some evidence that this overall decrease may be hiding an increase of prevalence amongst women (primarily as a result of the strong controls exercised in the male-dominated construction sector).
Estonia	There is evidence that the prevalence of undeclared work has decreased slightly (to around 7-8% of GDP, from 8-9% in 2001). It is still high in relation to the EU-15 but low in comparison with other new Member States.
Italy	Estimates of prevalence, based on national accounts, show a reduction from 7.6% of GDP in 2000 to 6.4% in 2006. However, this reduction has to be seen in the context of an amnesty in 2002 for illegal migrant workers (almost 650,000 workers).
Lithuania	Undeclared work has decreased from about 8% to 6% of the total employed. This appears to be linked to shortages of labour (as a result of economic growth and emigration since 2003/4).
Poland	The prevalence is currently regarded as being around 12-15% of GDP. This is a decrease from previous estimates (in 2003) of 14-25%; figures for the percentage of the population engaged in undeclared work show similar decreases.
Slovakia	Moderate decreases in the prevalence.
Increases in the prevalence of undeclared work	
Bulgaria	There are no data based on national accounts, but survey data indicate that the grey economy has been increasing markedly since 2004. It is concluded therefore, that undeclared work itself is likely to have been increasing.
Germany	Data show that undeclared work was declining until 2006, but it is expected to increase by 1%. This is a result of changes in taxation.
Spain	Figures show an increase from 2003 to 2006 (measured by number of workers undertaking undeclared work, up from 11.6% to 12.3%). However, there appears to have been a decrease in the prevalence in construction and agriculture, as a result of the regularisation of immigrant workers' status in 2005.
Malta	Undeclared work is regarded as increasing over the last few years. However, figures relate to undeclared work and illegal work (the underground economy is the focus of concern in Malta, rather than undeclared work per se).
Sweden	The prevalence has increased in the past decade. A study in 2006 showed it to be 5% of GDP, up from about 3% in 1997. Also, 11% of workers undertook some form of undeclared work in 1997; in 2006, the figure was 13%.
No evidence of change in the prevalence of undeclared work	
Austria, Cyprus, Czech Republic, Finland, Hungary, Ireland, Latvia, the Netherlands, Portugal, Slovenia, UK. • No new specific data, and no indications (e.g. from indirect evidence) of any changes in prevalence.	
Belgium	Same range of figures as in 2004. A study since 2004 (for the construction sector) has identified regional differences, with higher prevalence in regions of persistently high unemployment.
Greece	No new data, but it is understood that the prevalence continues at the same, high level. Bringing the shadow economy into GDP figures has led to Greece's GDP for 2001-06 being revised upwards by over 25% (the revised GDP data are currently being validated by Eurostat).
France	No overall change. However, there appears to have been an increase in the construction, hotels and catering and commerce sectors, with a decrease in 'other' service sectors – as measured by breaches of the law.
Luxembourg	There are no data on undeclared work (as in 2004). However, there has been an increase in the use of undeclared temporary workers (attributed to the strictness of rules regarding use of temporary contracts).
Romania	Current estimates of undeclared work put it at 16-21% of GDP with no apparent change in the prevalence of undeclared work.

Source: European Employment Observatory, *Special Review on Undeclared work, Spring 2007, p. 7.*

In 2007, the Commission issued a Communication on undeclared work⁴⁶ which aims to take stock of the actions undertaken in the Member States, and to illustrate the scope for mutual learning about successful practices.

In view of the complexity and heterogeneity of undeclared work, there is no simple solution to combating it.

The European Commission's Employment Guideline no. 9 on undeclared work, adopted in 22 July 2003, was quite explicit concerning the approach that should be adopted:

⁴⁶ Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions: Stepping up the fight against undeclared work, Brussels, 24.10.2007, COM(2007) 628 final.

“Member states should develop and implement broad actions and measures to eliminate undeclared work, which combine simplification of the business environment, removing disincentives and providing appropriate incentives in the tax and benefits system, improved law enforcement and the application of sanctions.”

European Employment Guideline No. 9

A further aspect of counteracting to undeclared work was mentioned in the 2007 Communication on Undeclared Work, i.e. measures that facilitate greater commitment to tax morality. In general, tackling undeclared work requires not only the punishment of non-compliance in the form of ‘improved law enforcement and the application of sanctions’ but also a range of enabling initiatives to facilitate compliance. The recommendation therefore is that EU member states should combine *deterrence and penalties’ measures* with *preventative and curative measures* that enable compliance and foster *commitment to declared work*.

Measures used to tackle undeclared work in EU Member States, 2005

Approach	Method	Measures
Deterrence	Improve detection	Data matching and sharing Joining-up strategy Joining-up operations
	Penalties	Increase penalties for evasion
Enabling compliance	Preventative	Simplification of compliance Direct & indirect tax incentives Smooth transition into self-employment Introducing new categories of work Micro-enterprise development
	Curative	<i>Purchaser incentives</i> : service vouchers, targeted direct and indirect taxes, <i>Supplier incentives</i> : society-wide amnesties; voluntary disclosure, business advisory & support services
	Fostering commitment	Promoting benefits of declared work Education Peer-to-peer surveillance Tax fairness Procedural justice Redistributive justice

Source: European Foundation for the Improvement of Living and Working Conditions *Measures to combat undeclared work in 27 European Union Member States and Norway: Overview Report, Dublin, March 2009, p.12.*

A balanced policy approach consisting of measures to curb or prevent its occurrence and their enforcement, involving the social partners, is needed. Such an approach was set out in the 2003 Council resolution on transforming undeclared work into regular employment, which called for

- reducing the financial attractiveness of undeclared work stemming from the design of tax and benefit systems, and the permissiveness of the social protection system with regard to the performing of undeclared work;
- administrative reform and simplification, with a view to reducing the cost of compliance with regulations;
- strengthening the surveillance and sanction mechanisms, with the involvement of labour inspectorates, tax offices and social partners;
- trans-national cooperation between Member States, and
- awareness raising activities.

One concrete measure in the context of counteracting to undeclared work recently has been re-introduced in the European discussion on measures in the context of the economic recovery plan: the recommendation of the European Commission to the Council to adopt the proposed directive on a permanent reduction of VAT rates for labour-intensive services.⁴⁷

Role of social partners and practical experiences

Social partners are playing an important role in combating undeclared work and transforming undeclared work into regular work relationships. Therefore, the EU level social partners have envisaged a joint analysis of undeclared work in the framework of their 2006–2008 work programme.⁴⁸

Depending on the specific national legal and economic as well as sectoral framework conditions social partners have developed initiatives in all areas listed above in order to combat undeclared work and its negative effects on working conditions and competition. Some examples:

Together with labour taxation, the administrative burden, notably for atypical and seasonal work, appears to be the strongest driver of undeclared work. Therefore, for example in *Spain*, where regional comparisons reveal a correlation between the incidence of temporary contracts and undeclared work, the Social Partner agreement concluded in 2005, aiming at reducing temporary employment, may be regarded as a promising step towards the regularisation of undeclared work as well.

There is considerable scope for sector-specific solutions to control and regularise undeclared work with the involvement of the social partners. Sector specific agreements of social Partners have been concluded in many countries, notably in the construction sector, e.g. in Germany, Finland, Italy, Belgium. As in the case of Sweden (see textbox below) an approach to improve the detection of undeclared work is the introduction of identity cards which have also been introduced in Italy, Norway or the Czech Republic for instance.

There are many other initiatives tackling undeclared work or the problems it causes both form national economies as well as employees, were social partner are playing a crucial role:

- In Italy, in 2007 the Ministry of Labour, in cooperation with the social partners, have introduced a normative system to estimate actual numbers of hours worked ("*indici di congruità*").
- In Portugal, the social partners organisations in 2008 came together to discuss and launch joint initiatives in the context of tackling undeclared work.
- Finally, social partners also play a key role with regard to increasing awareness among the public on the risks linked to undeclared work. Several successful awareness campaigns have been conducted with active involvement of social partners, such as the "*fair play*" campaign in Denmark or similar campaigns of social partners in Austria or Germany.

⁴⁷ See: EC Recovery Plan – COM (2008) 800 p.10

⁴⁸ Work Programme of the European Social Partners 2006 – 2008.

The ID06 project in Sweden

The construction sector in Sweden is challenged by widespread undeclared work and tax evasion. Undeclared work is not only illegal, but usually leads to a more insecure workplace and personal safety risks. In order to prevent obligatory staff registration being imposed by the state, the construction industry in Sweden has introduced a voluntarily system using identity cards, namely the ID06 project initiated in 2007 by the social partner organisations (seven business organisations and five trade unions) within the construction sector. The head organisation is the Swedish Construction Federation (Sveriges Byggindustrier, BI). The ID06 project in the construction sector has proven to be an effective control measure aiming to tackle undeclared work in the construction sector by requiring all workers at construction sites to be registered and carry proper identity (ID) cards.

The project consists of the following measures:

- A requirement that everyone who attends a construction site must carry valid ID06 identification.
- The sub contractor is obliged to register the employees in advance with the head contractor.
- Daily registration of authorized employees at the workplace.
- The daily registration must be saved for two years and be available at the site in case of a control visit from the National Tax Agency.
- The head contractor has the right to remove anyone from the construction site who is not authorized. The head contractor has the right to demand a fine of 500 SEK (€50) per day and person if an employee can not show the required identification.

The success of the social partners' initiative has also led other sector to apply similar approaches, e.g. the restaurants and hairdressers sectors.

Source: EIRO Network article, 2 April 2009.

Another strategy to tackle undeclared work are measure of wage realignment in order to reduce the tax and social contribution burden which should help to encourage greater compliance and less tax evasion. There are many examples in Europe of this type of measure, for instance the German "mini" or "mid" jobs established by the Government in the late 1990.

Incentives for declared work also is fostered by service cheque schemes which are carried out in many European countries and various measure to support business-start ups in order to promote entrepreneurship in a declared manner as the "First Business Programme" in Poland illustrates (see textbox below).

With regard to the increasing trend of self-employment and 1-person enterprises (literally the German "Ich-AG" scheme as an employment policy measure is illustrating this trend also) it was stressed by discussions with SME representatives that this trend also has an impact on social dialogue and the organisation of collective interest representation in the SME sector since more and more business entities are not covered by social dialogue and the respective social partners organisations.

Against this, the approaches of some national social partner organisations to open their doors to people running their own business are important steps of responding to changes in the labour market and the rise of self-employed without personnel. Examples from the trade union side are for instance the Federation Dutch Labour Movement FNV (*FNF Zelfstandige Bondgenoten*), the Swedish Union for Technical and Clerical Employees SIF or the Finnish Confederation of Unions for Professional and Managerial Staff AKAVA. Also employers organisations have undertaken measures to better integrate these ownership companies, for example UNIZO in Belgium, CNA in

Italy or the Spanish organisation only dedicated to “los autonomos”, the *Federación Española de Autónomos* (CEAT).

First Business Programme, Poland

Since the turn of the millennium, youth entrepreneurship has moved up the public policy agenda in Poland as it has become evident that the expected 5 percent growth of the national economy will be unable to absorb all of the unemployed and baby boom cohort into the labour market. In 2005 the government initiated the ‘First Business’ programme as a supplement to the ‘First Job’ programme. Where ‘First Job’ was designed to boost youth employment, ‘First Business’ focuses on nurturing entrepreneurship and self-employment amongst the younger generations. The First Business Programme aims to promote entrepreneurship among young persons (high school graduates younger than 25 and university graduates younger than 27) and to help them create and run their own business or start working as a self-employed person. The programme provides theoretical courses on setting up and running an enterprise, gives practical training in matters related to entrepreneurship, and provides loans and subsidies from the Labour Fund (*Fundusz Pracy*) and from the Bank of Domestic Economy (*Bank Gospodarstwa Krajowego*). The main focus of the programme is to offer young entrepreneurs real assistance in setting and conducting business and not just to give them financial aid. No evaluations have been conducted of whether participants in this scheme are less likely to engage in undeclared working practices than those who have not benefited from it.

Source: European Foundation for the Improvement of Living and Working Conditions Measures to combat undeclared work in 27 European Union Member States and Norway: Overview Report, Dublin, March 2009, p.28.

However, it is important to stress a certain trend in many EU member states with regard to the rise of self-employment in the context of structural changes in the labour market: On the one hand the number of self-employment is rising due to the outsourcing of staff resulting in self-employed persons with only one or two contracts, very often with the former company. This group in many countries (e.g. Germany or the Netherlands) is referred to as “*Selbständige Arbeitnehmer*” (“self-employed workers”) which have to be distinguished from other types of one-person entrepreneurs such as freelancers, high skilled professionals and one-person businesses in crafts or retail. While employer organisations traditionally are organising the latter group, the orientation towards the former group is rather unclear since they occupy a position in between dependent employees and self-employed.

PART III: CONCLUSIONS

Arising from the analyses documented in this expert report but also from the open-minded and constructive discussions and exchange in the context of the two seminars with national member organisations of the ETUC and UEAPME in Warsaw and Rome, some key messages are arising with regard to common economic and social concerns, interests as well as roles and responsibilities of social partners in the context of SME development which are summarized hereafter.

Challenges in the context of the current economic situation

- SMEs are affected by the current economic recession both directly as well as indirectly: As part of local business communities they are affected by downturns in domestic demands and slumps in export markets. At the same time they are affected as suppliers, sub-contractors and service providers of large enterprises struggling with economic problems.
- A screening of the various instruments and packages introduced by national government in order to tackle the recession, reveals that the SME dimension is a “blank spot”. Taken into account the large dependency on larger companies it becomes clear that SMEs are directly affected by cyclical and structural economic upheavals without having access to suitable toolboxes of crisis care and prevention.
- In this context it should also be noted, that there are some interesting examples of adjusting labour market and other schemes in the field of dealing with restructuring and improving “Flexicurity” to the needs of SMEs and making the national toolboxes more suitable for micro, small and medium sized enterprises (e.g. Belgium, Netherlands, Italy, Portugal). These experiences should be analysed in more detail at the European level.
- Against this background it is quite astonishing that SMEs with regard to employment prospects and expectations of employees becoming redundant in the current situation are showing a remarkable resilience.

Regional and local development and its impact on support for SMEs

- SMEs play a crucial role in particular in rural areas and structural disadvantaged regions throughout Europe – in many localities they are not only the most important but the sole employer.
- As many examples in the context of regional development show, the regional dimension seems to be crucial for innovation, managing change, and creating employment and wealth throughout Europe. Research and many cases of good practice also show that those SMEs which actively are involved in local and regional networks are doing better than others.
- Examples of good practice in regional development throughout Europe illustrate a clear added value of social dialogue, active trade union involvement and even local bargaining for improving regional economic conditions and employment development. At the same time - in particular with regard to small companies not meeting the thresholds of institutionalised and formal employee representation, information and consultation – social dialogue and employee participation in SMEs is different from larger companies.

The management of demographic challenges and the role of training in SMEs

- Though the “greying of the workforce” is not a uniform challenge in all European member states (some are more affected by the challenge of ageing than others) it is important to stress, that demographic challenges pose important questions not only for SMEs but also for economic and social policy today. As for example, ageing is resulting in particular in rural areas throughout Europe in increasing problems for labour recruitment. On the other hand, SMEs should be regarded as the most important factor of keeping younger people in rural areas.
- SMEs are more affected by negative demographic trends. Against the background of various aspects (working conditions, image, workloads etc.) SMEs are in a significant weaker position than large companies. Resulting from this, there not only is a need to work on the issue of ownership transfer due to age, to improve the image of the craft sector or small companies – much more has to be done to make SMEs “fit for the future”.
- As good practice examples throughout Europe illustrate, the development of concepts in order to improve the situation of older workers at the workplace, keep them longer in working-life and enable them to pass their experience to younger workers is a particularly strong common interest of both employers organisations and trade unions.
- The role of training (initial and continuous vocational education as well as lifelong learning) is becoming more and more vital for the capacity of an enterprise to survive and grow in a sustainable way.
- With regard to training, skills and competence development SMEs feature some peculiarities both with regard to the existing skills base (in particular in micro enterprises non-formal qualifications and occupational experience is a crucial factor) as well as with regard to HR development and further training activities where SMEs usually don't have the capacities to act as larger companies (lack of financial and personnel resources etc.). These specificities have to be respected by policy makers in the field of training and labour market development.
- Training, skills and competence development and lifelong learning is a core topic of social dialogue at European as well as national and regional levels. In this context, social partners play a crucial role: Employers organisations are able to work on the improvement of the national legal framework of training, competence development and the overall image of SMEs.
- Against the background of the large internal variety of SMEs with regard to size, sector and qualifications, micro, small and medium sized companies are much more in need of tailor-made solutions in the field of training and competence development as larger companies are. And also in order to identify, plan and implement the most suitable form of training, social partners are the most important actors.

Innovation in SMEs and the role of social partners

- The large variety of SMEs with regard to sector, size and business orientation is also mirrored with regard to innovation: The SME population is representing a broad universe of business comprising tradition craft activities as well as high-tech start-ups. Against this, the common notion of ‘innovation’ focussing on technological processes, organisational excellence etc. is very much based on the experience of large companies and suitable for SMEs only to a limited scale. Therefore, other forms of innovation (for instance “incremental innovation”) are often more important for SMEs.

- There is a need to better implement the “Think Small” principle in EU funding: As SME representatives in several EU member states report, there seems to be a need to improve the underlying notion of innovation in European funding programmes in order to better cover and include the SME dimension and make it easier for SMEs to become eligible for financial support in the context of European innovation policy.
- Given the increase of competition in the context of the European internal market, accelerated globalisation and internationalisation and the fact that competing on prices is becoming more and more difficult, quality and innovation are crucial factors of economic success for SMEs of all size groups.
- Surveys on SMEs with regard to innovation (both process and product innovation) reveal a somewhat contradictory picture: On the one hand there seems to be a “iron law” according to which the larger an enterprise, the more likely it is to capitalize on innovation resulting in a clear lack of innovation activities in SMEs. On the other hand research results are indicating that in particular medium sized SMEs often are functioning as “hidden” drivers of change and innovation.
- As good practice throughout Europe illustrates, innovation very often is achieved by networking, cooperation with Universities and the working together of different actors – often including the social partners. On the other hand, the isolation of SMEs with regard to networking and cooperation might be regarded as a major barrier for innovation.
- With regard to social dialogue and social partnership there is a clear gap between the European, national, sectoral or regional/local level on the one hand, where trade unions, employers organisations and other actors very effectively cooperate, consult and jointly develop on innovation, quality improvement etc. and on the other hand the enterprise sector where social dialogue, employee and/or trade union involvement is hardly taking place at all in SMEs.

Undeclared work as a factor of unfair competition for SMEs and the role of the social partners

- There are very different types and facets of undeclared work and also significant varieties of the problem within the European Union. Also, undeclared work is not evenly spread through all economic sectors (e.g. agriculture, construction, household services) and there are significant differences with regard to certain forms of undeclared work between economic sectors.
- While undeclared work from the perspective of the enterprises is regarded as a source of unfair competition, it is a form of “multiple exploitation” from the perspective of employees: they lack any forms of social security, have to work in precarious working conditions and are totally unprotected against employers’ disposals. Therefore, effectively tackling unemployment is a strong common interest of both employers and employee organisations in Europe.
- A reason for undeclared work being a significant problem in certain industries and service sectors also is resulting from the weakness of coverage by social partner organisations and collective bargaining.
- In this context, initiatives and activities of both employers’ organisations as well as trade unions to foster collective organisation in the micro-company sector and amongst self-employed persons are important attempts to respond to changes in national labour markets.

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