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2002 / No 5

Business demography in Europe



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Commission

Observatory of European SMEs
2002, No. 5

Business Demography in Europe

This report has been prepared from information provided by all partners of the European Network for SME Research ENSR (see Annex I) and was coordinated by Mr. Domenico Mauriello from Istituto Guglielmo Tagliacarne, Italian ENSR partner.

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

OBSERVATORY OF EUROPEAN SMEs

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

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

in co-operation with:

European Network for SME Research (ENSR), and Intomart

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

Previous Observatory Reports

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

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

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

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

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

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

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

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Preface

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

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

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

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

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

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

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

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

Summary

- New enterprise formation, their growth and survival, as well as volatility of the enterprise population are essential for the adaptation of structures, the improvement of competitiveness, and the generation of employment.
- Developments towards a more entrepreneurial economy in the EU cannot be effectively measured because definitions, as well as rules and regulations concerning entry and exit, differ from one country to another. Strong differences appear in both birth and death rates, most probably due to the definitions used and not only to economic factors. Regularly updated and harmonised data, which will be available in future, will allow better monitoring of entrepreneurial dynamics.
- Methodological problems also affect the data for Candidate countries. The transition period from planned economy to market economy and privatisation processes led to the reorganisation of enterprises and, consequently, of the business registers. Nevertheless, the statistical significance of administrative registers is currently improving, in some cases as a result of efforts to adapt to EU standards.
- Firm creation processes and chances of survival after the start-up phase strongly depend on the 'profile' of the entrepreneur. The average age of new entrepreneurs is about 35 years, but the proportion of over 35 years old creators has decreased from the mid-Nineties. This shows that the decision to found one's own business is frequently taken some years after completing education and acquisition of some specific know-how (as employee, manager or entrepreneur). Some differences are related to the sector of activity: founders in services (especially business services and high technology) have completed higher levels of education than those in industrial sectors, a lower educational level still predominates in founders in manufacturing, construction, transport and in the HORECA (Hotels, restaurants and cafés) sectors. In most cases, new entrepreneurs continue the same activity they were already engaged in. This is more frequent in the manufacturing, construction, trade and tourism sectors.
- The analysis of enterprise creation trends by sector of activity confirms the trend towards tertiarisation. The majority of new enterprises are established in the services: HORECA, commerce and repair are the most popular sectors.
- As regards legal form, an increasing number of start-ups are founded as limited companies; while the predominant legal form of individual ownership is losing relative importance.
- Quantitative information at national level in the EU confirms the impact of economic conditions on firm creation. Data available for the second half of the Nineties show a negative correlation between per capita GDP, considered as a proxy of economic development of a country, and gross birth rate. This could mean that, on average, a higher level of economic development is associated with a less favourable attitude towards self-employment in EU countries.
- A positive (but less pronounced) correlation can be found between unemployment and number of start-ups. The lack of alternative opportunities for employment or the threat of losing their job 'pushes' individuals to start their own business.
- The importance of push factors has however declined in recent years, and pull factors, such as increased economic opportunities, play a far more important role.

- As relevant as economic opportunities or unemployment are for the decision to become an entrepreneur, most people would never become entrepreneurs, if they did not have strong personal motives. These include the wish for independence, the desire to realise one's own plans, dissatisfaction with one's current position, or a wish for greater economic success.
- Apart from specific cases (mainly referred to sectors of economic activity, such as high-technology and crafts), public financial grants (especially when not accompanied by support services) do not play a key role in enterprise birth, although they are still relevant as an external source of funding for the start-up.
- Support services (implementation of the business idea, consultancy on financing, taxation and juridical issues, training, market researches, etc.) are generally considered as an enabling factor for enterprise creation. There is a positive correlation between the founder's educational level and the utilisation of support services: the higher the education, the more active people are in using private or semi-public advice services.
- The start-up capital of new firms consists mainly of founder's personal savings. A considerable number of new enterprises start very small and therefore no external funds are needed. The informal capital market (private loans coming from family or friends) plays a relevant role in the composition of start-up capital.
- Factors that affect survival and growth (both in terms of employment and economic performances) of newly created enterprises fall broadly into two main categories: macro-level (i.e. enterprise external) and micro-level (i.e. enterprise and entrepreneur specific) influences.
- Survival rates of newly created enterprises increase with size and age of firms. The legal form also acts as an important factor for the explanation of firm survival and growth. In contrast, market competition, social and fiscal legislation, administrative burdens and functioning of labour market negatively affect new enterprises potential survival and growth paths.
- Reasons for failures of young enterprises are usually combinations of outside events, unfavourable owner-manager characteristics, and managerial defects. However, business closures are not exclusively due to financial failure. In the case of individual ownership, a large proportion of exits are caused by the owner making use of better alternative job opportunities as wage-earners, as well as by founders who close down voluntarily without realising any or any significant financial losses and by those who had succession-related problems.
- The development of funding mechanisms supporting start-ups was the main aim of policies until at least the beginning of the Nineties. Measures currently running tend to combine incentives and support services (information, training and advice during the whole start-up phase).
- Government support schemes, at national level, are more and more focused on helping set-up a social-economic climate favourable to innovation and change and, as a result, to the competitive growth of entrepreneurial tissue.

Chapter 1

Introduction

The topic of business demography has become more and more relevant in the policy debate during the last decade¹. The dynamism of the enterprise sector is viewed by political and economic actors in Europe as an important instrument for boosting competitiveness. It facilitates growth and modernisation of the economic system as a whole (both in the manufacturing and tertiary sectors). The creation of new enterprises, as well as their death and their change in size, is one of the main mechanisms that show the capacity to adapt to changing market conditions, together with investment, innovation, training, co-operative agreements, mergers and acquisitions.

Since its communication to the Council² on 'Promoting Entrepreneurship and Competitiveness', the European Commission has assured its commitment to a policy that promotes entrepreneurship as an essential instrument for improving competitiveness and generating economic growth and job opportunities. Moreover, the 1999 Employment Guidelines adopted by the Council Resolution emphasise the development of entrepreneurship, given that the formation of new enterprises and the growth of small and medium-sized enterprises are essential for job creation.

The Council of Lisbon, in the summer of 2000, set the strategic goal of transforming the European Union into 'the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion'. This strategic goal can be reached, among others, through the support of entrepreneurship and entrepreneurial dynamism, the presence of which can be revealed by the analysis of business demography over time. As a consequence, the demand for information on enterprise births, as well as their survival or death rates, is increasing. Users need statistics not only on the numbers of enterprise births and deaths and the survival rate of newly born enterprises, they also need information on the factors of business success and failure, in order to determine what type of policies affect business survival and how to enhance the possibilities for success and growth. Nevertheless, data availability on these issues is still a limiting factor for a better understanding of business creation dynamics. Serious quantitative information shortcomings affect the monitoring of business demography. The statistical analysis of these processes is not without difficulties, especially due to the lack of regularly updated and harmonised data. In fact, concepts and definitions used by Member States differ, since registration systems have originally been set up for different purposes and according to different rules and regulations. As a consequence, the identification of new firms and closures is (in most cases) only a derived objective.

This report analyses business demography in a comprehensive way, enriching 'traditional' quantitative analysis with qualitative information that could give an overview of the main issues linked to business demography: start-up, survival and end of life.

The first part focuses on the evolution of the demography of enterprises, taking into account the definitions and sources in each European country. Because of the methodological and statistical problems summarised above, the

1 The increasing interest of policy makers in business dynamics led ENSR to pay attention to this issue in almost every Annual Report of the European Observatory for SMEs. In previous reports some analyses of birth and survival rates were presented (even if at different stages of development), a study on backgrounds of start-up founders was undertaken, the importance of entry and exit to the creation and loss of employment was examined and recent developments in business entry were studied. See: EIM/ENSR, The European Observatory for SMEs - First Report, EIM, Zoetermeer, 1993 (Chapter 5). EIM/ENSR, The European Observatory for SMEs - Second Report, EIM, Zoetermeer, 1994 (section 5.2). EIM/ENSR, The European Observatory for SMEs - Third Report, EIM, Zoetermeer, 1995 (Chapter 2). EIM/ENSR, The European Observatory for SMEs - Fourth Report, EIM, Zoetermeer, 1996 (Chapter 3). European Commission, The European Observatory for SMEs - Sixth Report, submitted to the Enterprise Directorate General by KPMG Consulting, EIM Business & Policy Research, and ENSR, Luxembourg, 2000 (Chapter 1).

2 COM (1998)550 final.

indicators presented rely on non-harmonised national data, which are only comparable to a very limited extent³. The results of a preliminary analysis of entry and exit in Candidate countries will also be presented.

In order to give an explanation for the different trends of birth and death rates at Europe-19 level (by country), an analysis of the correlation between the economic cycle and business demography follows, taking into account both quantitative and qualitative information available.

The study of enterprise birth, death, survival and growth patterns has been enhanced by qualitative information about the factors affecting business demography, so as to allow the reader to get a general outlook (as updated as possible) of the issues at stake. For this reason, the analysis of birth and death rates simply represents the framework for a survey on the elements stimulating enterprise start-up, the difficulties encountered by newly created enterprises during the early stage of their life-cycle, and the reasons for enterprise closures.

A special focus is put on the evolution of policies aimed (directly or indirectly) at enterprise creation in the last decade. The analysis of SME policies is not a 'new issue' for the Observatory of European SMEs, but it follows a different approach in this issue: instead of presenting measures, special attention is paid to the reasons why the topic of business demography has become more and more relevant in the policy debate in the EU. Finally, a selection of measures aimed at enterprise creation is presented, which have been evaluated in regard to their impact.

³ No effort to harmonise these data has been made in this Report; a joint methodology is being developed by EUROSTAT together with Member States ('Harmonisation of Enterprise Demography Data'), as specified in the next chapter. Results of this project are expected by the end of 2002.

Chapter 2

Enterprise dynamics in the EEA, Switzerland and in the candidate countries

2.1. Methodological and statistical aspects related to the quantification of business demography issues

This chapter establishes a quantitative framework for the understanding of the evolution of the demography of enterprises as recorded in each country, which will be analysed from a 'qualitative' point of view in the fourth chapter.

The report takes into account the recent developments⁴ in this field of study made by both the Commission⁵ and EUROSTAT⁶, which aim at harmonising and publishing regular statistics in the area of Business Demography to meet the needs of EU and national policy makers. Data on enterprise births and deaths are likely to be included in the collection of Structural Indicators⁷ that are produced in accordance with the Lisbon European Council conclusions, in order to provide an instrument for monitoring, benchmarking and assessing progress, which are vital elements of the Lisbon follow-up strategy. These Structural Indicators are used in the annual Synthesis Report of the European Commission to be produced at the beginning of each year.

The quantitative information is not presented at Europe-19 level because definitions, rules and regulations concerning entry and exit differ between the countries⁸ or over time. In fact, even small differences in national definitions can have large effects on the indicators (especially in terms of job creation).

Entry and exit can be the consequence of several events; in many cases, the identification of a new firm refers to a new registration number and a closure may be recorded if a registration number is deleted⁹. This may refer to registrations in a 'Register of Enterprises' or in Registers of Tax Departments or of Social Security Systems.

National figures about births and deaths can also be affected by differing 'fields of observation', some countries include categories of 'independent workers'¹⁰ whereas other countries don't. In some countries data refer to en-

4 These developments are part of the general progress made in defining and using a comprehensive and comparable set of (performance, policy and structural) indicators aimed at measuring and monitoring policy efforts and evaluation policy impact, as required by the Luxembourg process (Report on the Implementation of the Action Plan to promote Entrepreneurship and Competitiveness, SEC(2000)1825; The Joint Employment Report, COM(2000)551).

5 Benchmarking Enterprise Policy – Results from the 2001 Scoreboard, SEC(2001) 1900; Benchmarking Enterprise Policy – First results from the Scoreboard, SEC(2000) 1841; Structural indicators, Communication from the Commission, COM(2000)594; Benchmarking Enterprise Policy – An outline for the work ahead, SEC(2000) 821, Working Document of the Services of the European Commission of 5.5.2000.

6 A project on developing a joint methodology aimed at harmonising data on Business Demography issues is being carried by EUROSTAT in co-operation with national statistical services (with the support of DG Enterprise). Detailed methodological guidelines have been developed starting from common definitions (and data treatment methodology), so as to allow cross-country comparability. The methodology was tested in a feasibility study carried out at the end of 2001 and was developed during a series of Working Group and Task Force meetings. The objective of this project is to provide users with harmonised data on EU-level. The first harmonised variables and indicators should be available by the end of 2002. The results of the whole process will become the reference framework for the future development of EU statistics on Business Demography. See also: EUROSTAT, Enterprises in Europe, 5th report, 2000; EUROSTAT, Business Registers for statistical purposes: methodological recommendations, volume 1-2, 2001.

7 Council Regulation (EC, EURATOM) No 58/97 of 20 December 1996 concerning structural business statistics, OJ No L 14, 17.1.97. These indicators cover the 4 main domains of employment, innovation, economic reform and social cohesion and also include some general economic background indicators.

8 An evident process of convergence of totally different Business Registers and a general improvement in the coverage has been recorded from the time before the Council Regulation (EEC) N°2186/93 of 22 July 1993 on Community co-ordination in drawing up business registers for statistical purposes. The Report from the Commission to the Council about the implementation of this Regulation – see: COM(2000) 3 final – still pays attention to two main issues where a great deal of work is needed, i.e. the harmonisation of statistical units and the quality of Business Registers. Even though the improvements concerning these issues have also been extensive, the different enterprise delineations used in the different Member States have huge consequences on the comparability of enterprise statistics. Moreover, although the coverage has been highly improved and can be considered generally good, some aspects seem not to be covered well enough (micro and small enterprises, etc.).

9 For many enterprises there is no direct way to determine death and information on the date of cessation may not be forthcoming from an administrative source. Hence, the decision that an enterprise has ceased to exist or has become permanently inactive can be made only by combining information from different sources.

terprises and in other cases they refer to 'local units'; some include branches of foreign enterprises some do not. Another point to emphasise in this matter is that a new registration does not mean automatically that an economic activity has been started. Similarly, it may take some time to cancel a firm from a register after the conclusion of its production activity. Therefore, the phenomenon of 'dormant' firms must also be taken into account, since their 'quantitative' weight is relevant in some countries. Furthermore, data differ because of the availability of information for some specific groups of SMEs - both from a dimensional (micro enterprises) and a sectoral (social economy, new economy, services as a whole, etc.) point of view¹¹.

Despite all those differences, a common definition has been established at EU level. Commission Regulation No. 2700/98 defines 'real' enterprise births as follows: *'A count of the number of births of enterprises registered to the population concerned in the business register, corrected for errors. A birth amounts to the creation of a combination of production factors, with the restriction that no other enterprises are involved in the event. Births do not include entries into the population due to mergers, break-ups, split-offs or restructuring of a set of enterprises. It does not include entries into a sub-population resulting only from a change of activity'*.

The aim of this definition is to produce data on the creation of new enterprises, which have started from scratch and actually started activity.

Similarly, 'real deaths' are considered as *'the number of deaths of enterprises registered to the population concerned in the business register corrected for errors. A death amounts to the dissolution of a combination of production factors with the restriction that no other enterprises are involved in the event. Deaths do not include exits from the population due to mergers, take-overs, breaks-ups or restructuring of a set of enterprises. They do not include exits from a sub-population resulting from a change in activity'*.

Taking into account these definitions, and the fact that the national data obtained for the preparation of this report is not necessarily in accordance with them, an attempt will be made to identify the common and uncommon features of the 'new registration' and 'cancellation' of a firm throughout Europe-19, in order to discover the differences by comparison with the 'standard' definitions above listed, but without making an effort to change or harmonise national data.

The analysis of national definitions for entry and exit shows wide differences from one country to another, confirming the necessity to have a harmonised definition for an actual quantification of these phenomena. Table 2.1 gives an overview of the definitions used in each country, summarising what will be described in details below, country by country. The components included in the definitions of entry and exit are marked with an 'X'.

The demographic events analysed for an entry are:

- a A new entrepreneur starts a new firm (or becomes taxable);
- b An old-established entrepreneur starts a new establishment;
- c An old-established enterprise changes its legal form;
- d A new or an old entrepreneur takes over a firm or a part of it (take-over, management buy-out), or splits up his firm,
- e Two or more old-established firms merge into a new firm;
- f An old-established firm moves from another region;
- g An old-established firm changes his activity (measured on the level of NACE Rev. 1 classification).

The elements taken into account in the case of an exit are:

- h An entrepreneur terminates all activities of his firm due to a bankruptcy;
- l An entrepreneur terminates all activities of his firm not due to a bankruptcy (liquidation for other reasons);
- j An old-established enterprise changes its legal form;
- k An entrepreneur sells his firm to a new or old-established entrepreneur (take-over), or splits up his firm;
- l Two or more old-established firms merge into a new firm;
- m An old established firm moves to another region;
- n An old-established firm changes its activity (NACE rev.1 classification).

10 Generally speaking, 'independent workers' are in some case registered as 'enterprises' when their background like skills and education makes it obvious to practice an occupation for their own account, like lawyers, accountants, craftsmen, etc.. This specific category of 'independent workers' include, from a statistical point of view, professionals and entrepreneurs.

11 They will be mentioned and, when possible, considered in detail during the country description presented in this chapter.

Table 2.1: Characteristics of definitions on business dynamics in Europe-19, by country

	A	B	DK	D	EL	E	F	FIN	IRL	I	L	NL	P	S	UK	IS	LI	NO	CH
<i>Demographic events included in entry</i>																			
a. New entrepreneurs	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
b. New subsidiary	*	X		*	X	X	X	X	*	X	X	X	*	X	X	*	X	X	X
c. Change of legal form		X					*	*		X	X				*	X	X	X	X
d. Take-Overs/Split-ups	*	*				•	*	*	*	X			X		*	*	X	X	X
e. Mergers		X	X			X	X	X	*	X	X		X	X	X	*	X	X	X
f. Relocation					X					X									X
g. Change of activity		X			X											*	X		
<i>Demographic events included in exit</i>																			
h. Bankruptcy	X	X	X	X	X	X	X	X	X	X	X	X	X	X	*	X			X
i. Other closure	X	X	X	X	X	X	X	X	X	X	X	X	X		*	X			X
j. Change of legal form		X					*	*		X	X					X			X
k. Take-Overs	*	*					*	*	*	X			X		*	*			X
l. Mergers		X	X			X	X	X	*	X	X		X		X	X			X
m. Relocation										X									X
n. Change of activity		X														*			
<i>Other relevant aspects</i>																			
Independants included		X	X	*		X	X	*	X		X	X	*		X		*		*
Dormant enterprises incl.		*	X		X		X			X	X		X	*			*		X
Entity of entry and exit**	EN	EN	EN	EN	EN	EN	EN	EN	EN	EN	EN/L	ES	EN	EN	EN	EN	L		EN
Source***	T	V	V/S	T	V	S	S	S	V	T	S/V	T	S/L	S	V	S/T	S		T

* Partly include.

** EN = Enterprise; L = License; ES = Establishment.

*** T = Trade/business register and/or Chambers; V = VAT register; L = Labour or Social Security Register; S = Stat. Bureau.

• Only if a new or old-established entrepreneur splits up his firm.

X Occurrence is included in definition.

Source:	Austria:	Department of Statistics of the Austrian Federal Economic Chamber; no precise definition of exits exists.
	Belgium:	VAT Register.
	Denmark:	Denmark Statistik based on several registers including the VAT register.
	Finland:	Bureau of Statistics in Finland.
	France:	INSEE (Institut National de la Statistique et des Etudes Economiques), SIRENE file.
	Germany:	IfM Bonn are based on 'trade (de-) registration'- figures (Gewerbemeldungen) provided by the Federal Statistical Office.
	Greece:	National Statistical service of Greece (NSSG); V.A.T Register (provided by the Secretarial of Information Systems, Ministry of Finance).
	Ireland:	Revenue Commissioners on new registrations (entry) and deregistrations (exit) for Value Added Tax.
	Italy:	Movimprese (Unioncamere, Infocamere).
	Luxembourg:	STATEC.
	The Netherlands:	Trade Register of the Chambers of Commerce.
	Portugal:	National Statistics Institute (INE); Ministry of Labour (Statistics Unit).
	Spain:	DIRCE- Directorio Central de Empresas (Central Directory of Enterprises).
	Sweden:	Statistics Sweden's Business Register.
	The United Kingdom:	Inter-Departmental Business Register (IDBR), which is administered by the Office of National Statistics (ONS).
	Iceland:	Register of Enterprises.
	Liechtenstein:	Statistisches Jahrbuch Fürstentum Liechtenstein.
	Norway:	Central Bureau of Statistics.
	Switzerland:	Registre du commerce.

Other relevant aspects of the issues at stake are:

- The inclusion/exclusion of independent workers;
- The inclusion/exclusion of dormant enterprises;
- The statistical unit the definition refers to.

The sources are the same (except for some countries, as mentioned in the notes to the table) as those used for calculating birth and death rates in the following paragraph.

2.2. Statistics on business demography in Europe-19 countries

2.2.1. Development of entry and exit in the non-primary private sector in Europe-19 countries

The different national definitions and sources of births and deaths throughout Europe, as well as the shortage or lack of relative data, prevents comparative analysis in 'quantitative' terms to highlight the different patterns of development, especially at sector level.

Table 2.2 shows data on entry and exit in the non-primary private sector available for each country, according to national definitions and sources mentioned above. The average figures presented cover the period between 1995 and 2000¹². Gross birth rates and death rates have been calculated on entries and exits respectively¹³ and are expressed as an annual average for the period; the difference between these two rates corresponds to the net birth rate, which indicates the development in the number of enterprises (but it does not fully explain the possible growth or reduction of the total stock of enterprises, since other factors come into play, such as mergers). The development of enterprise birth and death rates during this period is also presented.

Country differences should be interpreted very cautiously. The strong differences in birth rates from one country to another are due, at least in part, to the definitions used and not to economic factors only.

Nine countries out of the seventeen for which data are available show annual average gross birth rates exceeding 10 percent. This, together with comparatively low gross death rates, leads to a positive net birth rate all over Europe-19 and thus a total increase of the enterprise population in the period 1995-2000.

Germany has the highest gross birth rate, confirming the trend recorded over the period between 1988-1994. Ireland, Finland, Spain and Portugal follow closely. Despite the use of the broadest definitions for entry, Belgium and Italy have quite low birth rates, compared to other countries. A restrictive description of entry is adopted in The Netherlands but this does not prevent the gross birth rate from being among the highest in the EU.

The development trends during the period 1995-2000 reveal entrepreneurial dynamism in most countries. Ireland, UK and Iceland show a continuous growth of gross birth rates, whereas a large number of countries (Greece, Italy, The Netherlands, Portugal, Spain and Sweden) recorded an increase only after a decline at the beginning of the period.

The economic recovery recorded at the end of the period examined affected death rates in different ways. In Germany, it led to a decrease of the rate; in other countries, such as for Greece, Portugal, the United Kingdom and Switzerland, gross death rates increased.

No evident link between the net birth rate and economic development can be observed. The high rates in Ireland, Sweden and The Netherlands are in accordance with the economic dynamism of these countries during the second half of the Nineties. A similarly direct correlation cannot be found in other countries. An in-depth analysis between the economic cycle and enterprise birth, as shown in the following chapter of this report, finds some clusters of countries having similar entrepreneurial development patterns during the observation period.

The large differences among Member States could be better explained when analysing the national definitions on entries and exits and the way related variables are calculated, so as to find out the factors of convergence/divergence compared to the definitions of the Commission Regulation No 2700/98.

12 Average data and development trends over the period 1988-1994 were presented in EIM/ENSR, 1996 (Chapter 3). Break in series and missing data for some years are mentioned in the notes below the table.

13 In both cases as percentages of the total stock (of enterprises/establishments/VAT units in the case of businesses, of occupied persons in the case of employment) at the end of the previous year.

Table 2.2: Entries and exits in the non-primary private sector in the period 1995-2000 (averages per year), indication of development and net rates, according to national definitions (non-harmonised data)

	N° of entries	Birth rate %		Ent. Dev.	N° of exits	Death rate %		Ent. Dev.	Net rate %	
		Enterprise	Employment			Enterprise	Employment		Enterprise	Employment
Austria	20,341	7.4	0.5	≈	13,369	4.9	0.4	≈	2.5	0.1
Belgium	57,900	8.4	n.a.	≈	56,398	8.2	n.a.	–	0.2	n.a.
Denmark ¹	-	6.5	-	n.a.	-	-	-	n.a.	n.a.	n.a.
Finland	24,946	12.3	n.a.	—	21,684	10.6	n.a.	–	1.7	n.a.
France ²	273,084	11.6	n.a.	–	248,250	n.a.	n.a.	n.a.	n.a.	n.a.
Germany ³	443,600	15.7	n.a.	–	352,200	12.6	n.a.	∩	3.1	n.a.
Greece ⁴	87,423	11.0	n.a.	∪	61,702	7.8	n.a.	∪	3.2	n.a.
Ireland ⁵	21,015	14.2	n.a.	++	11,923	8.2	n.a.	≈	6.0	n.a.
Italy	352,121	8.1	n.a.	∪	280,364	6.5	n.a.	–	1.6	n.a.
Luxembourg	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Netherlands	75,351	10.2	1.3	∪	40,962	5.5	0.6	≈	4.7	0.7
Portugal ⁶	28,744	13.2	4.7	∪	19,449	9.1	3.4	∪	3.8	1.1
Spain ⁷	327,564	13.3	n.a.	∪	282,035	11.4	n.a.	≈	1.9	n.a.
Sweden	36,238	8.2	2.3	∪	9,259	2.0	0.9	–	6.2	1.4
United Kingdom ¹⁰	175,888	10.9	n.a.	+	166,132	10.3	n.a.	∪	0.6	n.a.
Iceland	2,534	8.2	n.a.	+	764	2.6	n.a.	≈	5.6	n.a.
Liechtenstein ⁸	351	7.4	n.a.	≈	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Norway	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Switzerland ⁹	29,512	7.5	n.a.	≈	20,217	5.1	n.a.	∪	2.4	n.a.

1. Entries are from '95 to '98, whereas exits are from '96 to '98.

2. Data on exits are rough estimation for the 1990-1998 period (INSEE).

3. No data on 1995 exist; rates start from 1997.

4. No data on 1998 and 2000 exist.

5. No data on 2000 exist.

6. Entries have been calculated until 1998; data on exits until 1997.

7. Rates have been calculated from 1996 onwards.

8. No data on 1995 exist; data on entry only until 1999.

9. Data have been taken from CREDITREFORM database.

10. Data only until 1999.

Explanation of signs

++ Strong and continuous growth of birth/death rate in the period (more than +4 percentage points from the beginning to the end);

+ Moderate and continuous growth of birth/death rate in the period (between 0 and +4 percentage points from the beginning to the end);

– Moderate and continuous decline of birth/death rate in the period (between 0 and -4 percentage points from the beginning to the end);

— Strong and continuous decline of birth/death rate in the period (more than -4 percentage points from the beginning to the end);

∪ Decline of birth/death rate followed by growth;

∩ Growth of birth/death rate followed by decline;

≈ Birth/death rate grows and declines alternatively.

Source: See Table 2.1. Because of the use of non-harmonised national definitions, data presented are non-comparable. Gross birth rates and death rates have been calculated on entries and exits respectively, in both cases as percentages of the total stock (of enterprises/establishments/VAT units in the case of businesses, of occupied in the case of employment) at the end of the previous year and are expressed as annual averages for the period 1995 to 2000. The difference between these two rates corresponds to the net birth rate.

2.2.2. National regulations, definitions and sources of information

Austria

In spite of the existence of a variety of data on business demography produced by different institutions¹⁴, there is only one data set in Austria that gives a plausible estimate of the number of real start-ups and that allows the calculation of exits¹⁵. This data set stems from registrations to the Austrian Federal Economic Chamber¹⁶. The data are published annually by the Department of Statistics of the Austrian Federal Economic Chamber in *Unternehmensneugründungen in Österreich*. The statistical unit therefore is the enterprise that becomes a member according to its trade licence. From the registrations¹⁷, the Department of Statistics of the Austrian Federal Economic Chamber calculates 'real' entries¹⁸. For that purpose, they apply the so-called 'rule of continuity': if at least two of the three attributes - i.e. (1) firm name, (2) location, and (3) kind of activity - have changed, then the registration of a new member is considered a 'real' entry. The take-over of an old-established firm is only included when the firm also changes its activity. In addition, a certain sustainability of the activity is necessary to qualify as a real start-up (i.e. dormant enterprises that are no longer in business 6 months after their registration are not counted). The number of exits (calculated by subtracting the net change of registrations from the number of 'real' entries, since no 'official' definition of enterprise death exists) is only an estimate and does not represent original data. Data for entries may be sub-divided on provincial level and according to legal form of the enterprise, age-class of natural persons (sole-proprietorship), and sub-sector (according to the definition of the Economic Chamber, which does not match with NACE rev. 1 classification).

Belgium

VAT-statistics give information on existing firms, new firms and disappearing firms in Belgium. Only firms that have to register with the VAT administration (i.e. legal persons/corporations and physical persons/independent/self-employed workers) and are engaged in 'trade' are included in these statistics. As a consequence, most non-profit organisations are excluded because their main objective is not 'trade'¹⁹. The substantial decrease of the number of new registrations in 1999 is probably the consequence of a change introduced in January 1999, according to which a person who wants to start a business must show a proof of sufficient knowledge of business management²⁰. VAT-statistics do not provide information on the number of employees. Statistics of Employers from the Social security administration for employees (RSZ/ONSS)²¹ are the only source where both the number of employers and the number of employees are counted, according to the sector of activity (NACE rev. 1, digit 5 level). Other important sources are the RSVZ/INASTI, the government agency that takes responsibility for the social security of the self-employed²², and the Fund for Closing Enterprises, which publishes statistics on firms that go bankrupt or must close under difficult circumstances²³.

Denmark

Since 1996, new firms in Denmark are defined as the entry of enterprises, which have not been driven by another owner, in another form of ownership, under another firm or by a personal owner that already is registered. The source is from Statistics Denmark, based on several registers including the VAT register. Data follow the NACE rev. 1 classification at digit 4 level and are crossed with vocational and social data of the owner, allowing detailed studies of specific groups that can be defined along sectoral and social levels.

14 The Company register (Firmenbuch) and the social security system.

15 Official statistics on business start-ups are being prepared by Statistics Austria but they are not ready for publication yet.

16 The data cover the biggest part of economic activity in Austria, but as they refer to members of the Economic Chamber the number of real entries is underestimated.

17 One enterprise may operate in different provinces and/or trades and may therefore be counted as member of several Provincial Economic Chambers and in several (sub-)sections of these chambers. Nevertheless, through the calculation of 'real' entries, it is possible to avoid double counting of members.

18 WKÖ - Wirtschaftskammer Österreich, Unternehmensneugründungen in Österreich 1993 - 2000. Zahlen, Daten, Fakten, Vienna: Department of Statistics of the Austrian Federal Economic Chamber (WKÖ), 2001.

19 These entities are often in a 'border zone' between commercial firms and non-profit organisations. They take the legal form of a non-profit association and as such they do not need to apply for a VAT number code. However, most association of the 'social economy' do have as objective to produce and trade goods or services; others organisations, for instance, like sporting associations sell food and drinks in their clubhouse, doing a substantial amount of trade.

20 Proof of 'sufficient knowledge of business management' can be shown in several ways: a university diploma or a secondary school diploma are sufficient regardless of whether a course of business management was ever a part of the programme. Those without one of these diplomas must have attended enough hours of business management courses to get a certificate. The most evident impact of this change occurs in the category of physical persons, as people without sufficient formal training can no longer simply start a shop or pub or restaurant. Moreover, by requiring this business course work, the option of starting a business for the uneducated, the school-tired, those that have experience but no schooling or those with a un-recognised foreign diploma is nowadays quite limited.

21 There are substantial differences between the social security statistics and the VAT statistics. On the one hand, some employers are included in the social security statistics but not in the VAT statistics (for instance public authorities, non-profit and also the professions such as doctors and lawyers who employ people). On the other hand all commercial outfits (shops, services firms) run by self-employed who do not employ other people are included in the VAT statistics but not in these social security statistics.

22 This source counts not only physical persons, but also corporations, since the corporations also have to pay contributions for the social security status of the self-employed/independents. Professions are also included (lawyers, doctors, pharmacists, para-medical professions, bailiffs, consultants, journalists, professors, etc.) of which a number are not usually classified in enterprise statistics because their activities are non-commercial.

23 These statistics also include the number of employees entitled to an allowance if the firm can no longer fulfil its obligations.

Finland

In Finland, new entries are registered only if they are subject to VAT or if they act as employers. Thus, independents not VAT liable are not accounted in the data made available by Statistics Finland. In case of take-over, there are (at least) three different options for reorganisation. In case of a merger, both the buyer and seller exit and a new entry is registered. Secondly, the enterprise that has been taken over can continue as a daughter company and no changes in the register are made. Thirdly, all the activities of the seller company can be transferred into the buyer company and the seller ceases to exist. Two other possible sources are the Trade Register (which includes also enterprises that have not yet started their operations in practise) and the Preliminary Taxation Register (which includes also active enterprises not subject to VAT or not being employers).

France

Statistics published in France by the INSEE (*Institut National de la Statistique et des Etudes Economiques*), on which the APCE (*Agence pour la Création d'Entreprises*) makes further analysis, refer only to the creation and death of enterprises, because the registration does not always imply the birth of a company²⁴. The company creation is materialised by the registration of the unit in the SIRENE register of the INSEE. It corresponds to the birth of the first economically active establishment creation. It can be an 'ex-nihilo' creation (i.e. an economic unit until then not existing and legally independent, as it happens in about two cases out of three) or a take-over (if this implies the creation of a new legal unit having an economic activity) or a reactivation (a new creation or take-over under the same registration number, even if it is to say that the large majority of re-activations corresponds to new creations). The register contains all the activities in the Industry, Business, and Services areas (including professional services). Activities related to agriculture, forestry, fishing, and as well financial activities (banks, insurances) are excluded. Since exit declaration is not compulsory, no exact data are available on enterprise death²⁵.

Germany

The definitions of enterprise entry and exit mostly used in Germany are the ones developed by the *Institut für Mittelstandsforschung Bonn* (IfM Bonn), based on trade registration and deregistration figures²⁶ (*Gewerbemeldungen*) provided by the Federal Statistical Office²⁷. According to them, only new original, independent economic units are considered as 'enterprise start ups' (entries)²⁸, even if the founder (e.g. old-established entrepreneur as a physical person) already owns another economically and legally separate enterprise. Analogously, with regard to exits, IfM Bonn records as exits only economically and legally independent original enterprises, which do not continue existing in the market (in another form)²⁹. Due to a legal change in 1999, enterprise starters are now obliged to register their new business at the time of the actual business start and not just before business start (as foreseen by the old legislation). The new rule, thus, aims at discouraging the registration of dormant companies and at improving the reliability of statistical data³⁰. Other prominent sources for enterprise entry and exit data are the Federal Labour Office (statistics of employees liable to social security contributions, referred only to establishments and without one-person enterprises), the VAT statistics, the Federal Statistical Bureau (whose definitions focus exclusively on major enterprises start-ups and liquidations), the Company register (which covers only larger scaled new firms which are by law obliged to register) the micro-census and the socio-economic panel (both referred to self-employed persons and including agriculture and the professional classes).

Greece

The main source of data³¹ on business demography in Greece is the administrative VAT register, which covers all units (other than agricultural) in the market sector, irrespective of size and economic activity. The number of entry and exit may not correspond to reality, since this register contains:

24 For instance, an entrepreneur having created his company as a physical person will maintain his registration number all his life. He can so create 10 companies but only one registration will have been made. Only the change from the 'physical person' to a 'moral person' implies both a de-registration/registration and a death/birth event.

25 The source generally used for death is extracted from a census made by EULER-SFAC on company exits from 1990 to 1999.

26 By their nature, trade (de-) registration figures do not include the professions (e.g. medical doctors, architects, lawyers, tax consultants, authors, artists etc.). Furthermore, also exempted from the registration duty are primary production activities such as agriculture and forestry, fishery, wine growing and mining. IfM Bonn's entry figures also do not include travelling traders.

27 Even if the definitions have remained the same, IfM Bonn has revised its method for calculating entry and exit in 1996, due to an improvement in the data source and to the availability of information on a uniform basis for overall Germany. Some more rough estimations had to be used in the past, due to the lack of specific information.

28 Therefore, derived entries (merger/change of capital owner and take-over of existing enterprise) and the creation of a new establishment (local unit) are not included.

29 As a consequence, a sale of establishment or its transfer to a new owner, as well as the closure of an establishment (local unit), are excluded.

30 Especially in Eastern Germany, many businesses were registered, which for different reasons never actually entered the market and thus distorted entry data.

31 These data are provided by the Secretariat of Information Systems, Ministry of Finance.

- Started business which stop functioning but never declare their exit;
- Dormant enterprises (included in the stock of enterprises in the sense that in the future may restart business);
- Enterprises which declared start-up but never started business;
- Trade unions (workers, entrepreneurs etc), as well as chambers and non-profit corporations and organizations, which are included due to the fact that they are registered as enterprises.

Ireland

The most regular and comprehensive source of data for Ireland is the Revenue Commissioners (i.e. the tax authorities) on new registrations (entry) and de-registrations (exit) for Value Added Tax³². Such data are published annually in the Statistical Report of the Revenue Commissioners. Companies or sole traders are required to register for VAT only if their turnover exceeds a certain limit. This limit is updated from time to time to reflect the changing value of money. While these alterations to the limit should have rather little impact on longer-term trends seen in the data, they could cause some noticeable short-term effects at times. Data on new registrations and de-registrations are not published either by size class or sector.

Italy

In Italy, business demography can be analysed through the observation of the variations occurred in the enterprise stock of the Business Register of the Chambers of Commerce, containing all the modifications (i.e. from the birth to the closure), which happened to entrepreneurial activities for which the registration is compulsory³³. Data on entry and exit (as well as those on the stock of enterprises) are published by Movimprese (a statistical report carried out by Infocamere on behalf of Unioncamere, the Italian Union of Chambers of Commerce) every three months, with a breakdown by legal form and sector of activity (at NACE rev. 1, digit 2 level). Quantitative information on employment created by new enterprises is strongly underestimated, since the declaration of the (possible) number of employees is not compulsory³⁴. The definition used in Italy is among the broadest in Europe-19: entries also include the change of legal form (from physical to legal person) and the movement to another region (province)³⁵. In 2000, Unioncamere established an 'Observatory on Business Demography', with the aim of identifying real entries (i.e. excluding dormant firms, take-overs, split-ups, mergers, etc.), as well as the 'profile' and strategic behaviour of new entrepreneurs³⁶. Finally, exits are recorded in the Business Register only after a declaration of closure that may happen some time after the end of the firm activity. Enterprises that neither declare their closure nor renew their registration at the end of the year are considered as dormant³⁷.

Luxembourg

The National Statistical Institute (STATEC) is the most relevant source in Luxembourg, followed, for specific issues, by the VAT Register, the Trade Register and the Social Security Register. The STATEC detects all the economic units that are liable to VAT, which occupy employees or which are declared to Social Security as independents (with or without employees and even without any liability to VAT).

The Netherlands

In The Netherlands the most common definition and source of entry and exit is the one from the Trade Register of the Chambers of Commerce. Another one is the statistical bureau in The Netherlands (Central Bureau for Statistics). The main difference between both sources is that CBS uses a narrower definition of entry: a start-up should have a 'reasonable' turnover. Besides, CBS considers a new venture that arises from a bankruptcy not as a new enterprise and, therefore, as an entry. Furthermore, they often use a time criterion with respect to enterprises; the owner of the business should be working in the business at least 15 hours a week.

32 In principle, dormant enterprises are not included on the VAT register. However, the Statistical Report of the Revenue Commissioners 1998 did note that about 3% of the companies on the register at the end of 1997 were found to be inactive. So it seems that at times there can be a small proportion of dormant or inactive companies registered for VAT.

33 Independent's (even if VAT liable) and 'professionals' are not compelled to enter Business Register. On the contrary, since 1995 business activities in agricultural sector have been included. Nevertheless, new business units in this sector are excluded from quantitative data presented in this Report.

34 Possible sources for quantification of employment creation/destruction linked to business demography are the registers of INPS and INAIL (institutes belonging to the national social security system), which use a definition similar to that described for the Business Register.

35 In these cases, both an exit and a subsequent entry are registered.

36 Information on new entrepreneurs come from a direct survey carried out every year on a sample of about 2,000 'real' start-ups.

37 New firms that enter the register but declare not to have already started their activity are also considered as dormant. For this reason, they are counted in the stock of enterprises but not among the entries.

Portugal

National Statistics Institute (INE) is the Portuguese main source of information regarding business demography. Because of the project carried out by EUROSTAT on the harmonisation of methodologies and concepts, the national definition will probably change soon, which means that data for 1998 and the following years will be treated in accordance to a different definition from the past (until 1997). Other sources are the Statistic Bureau, the Trade Register and the Labour Register (Statistics Unit of Ministry of Labour). This last source³⁸ is the one to which data on entry and exit presented in this report refer to, due to the fact that no official data are available from INE since 1996/97. The methodology used by Labour Registry for data collection is based on the analysis of the forms yearly received from all Portuguese entrepreneurs (with employees). However, there are significant delays in the delivery of many forms, which means that, in each year, there are unreal exits due only to those delays (when an enterprise does not send that form it is registered as an exit, at least temporarily). This is the reason why there isn't a real definition of exit for this source, since causes of the exit are unknown.

Spain

INE (Spanish National Institute of Statistics) is in charge of preparing the DIRCE (*Directorio Central de Empresas*, Central Directory of Enterprises), nowadays the main source of information on entry and exit for Spain. There is another source referred to business demography, i.e. *Estadística de sociedades mercantiles* (Statistics on mercantile enterprises), also prepared by INE, but information is much less complete than in DIRCE. The main criterion to register an entry or exit lies in the 'situation of activity' of the enterprise. Thus, during the update process, when the start-up of one (or more) economic activities by an enterprise is detected, this fact implies an entry in the Directory. On the contrary, when the end of all the activities of an enterprise is detected, it is reflected as an exit in the Directory. Input data for DIRCE³⁹ are basically taken from Tax and Social Security Institutions. Moreover, since this source also takes into account the phenomenon of re-activations⁴⁰, the category of entries remains divided into two sub-categories: 'pure entries' (i.e. units that start their activity during the update year and not registered in DIRCE the year before, not even as a result of a closure) and 're-activations' (i.e. units that start their activities during the update year but have finished activities the year before)⁴¹.

Sweden

The definition of new enterprises in Sweden is among the narrowest ones. Data (the source of which is Statistics Sweden's Business Register) are aimed at measuring only genuinely newly started enterprises, that is, the number of new operations (real birth)⁴². Therefore, statistics do not include change of ownership, change of legal form or other restructuring, all of which result in a new registration, but which do not mean that operations are new. At sector level, companies in agriculture and forestry, hunting and fishing or property management are not included in these statistics. Moreover, Sweden has no complete statistics on exit. The nearest equivalent is the official statistics on Bankruptcies, which does not cover the total number of real deaths in Sweden⁴³.

United Kingdom

The most complete data for the United Kingdom are collected, analysed and published by the Inter-Departmental Business Register (IDBR), which is administered by the Office of National Statistics (ONS). IDBR holds records of all registered companies, all businesses registered for VAT and all businesses operating a PAYE scheme⁴⁴. The VAT data are received from HM Customs and Excise, whereas the Inland Revenue provides the PAYE data. When an individual decides to become self-employed, he is required to report this to the Inland Revenue⁴⁵. New independent professional or entrepreneur businesses belong to the main definition and will be included in the Register

38 The differences compared to the definition from INE are the following: professionals are not included; sole proprietors are not included, unless they have employees; businesses with zero employees are not included.

39 DIRCE distinguishes two different economic units: enterprises and establishments. Therefore, the statistics are referred separately both to enterprises and establishments. Nevertheless, only statistics referred to enterprises are to be considered, when business demography concerned.

40 This situation occurs when the closure of a unit is communicated and later, after some time within the subsequent year, activities are re-started. This kind of situation may be caused by several reasons: cyclical activities, owners' illnesses or accidents, external factors, etc.

41 In any case, there is still an unsolved problem related to this phenomena, this is, to decide whether a closure is definitive (and so registered as an exit) or just temporary (and should not be consider as a de-registration).

42 This means that a company is considered to be newly started when operations are completely new or when operations have been resumed after having been inactive for at least two years.

43 Studies carried out on survival of newly started enterprises, after three years of operation, show that only a smaller part of the non-survivors filed the enterprise's petition in bankruptcy. Instead, most of the non-survivors did wind up the enterprise, or made the enterprise dormant.

44 PAYE is Pay As You Earn, a system used by the Inland Revenue, in conjunction with employers, where income tax is deducted by the employers every month, based on a tax coding worked out by the Inland Revenue.

45 To some extent, those data help provide an input for the number of self-employed in addition to the Labour Force Survey input. Nowadays, the Inland Revenue has also responsibility for income/company tax as well as National Insurance contributions (social security), allowing a greater co-ordination.

when they meet the entry levels for either VAT⁴⁶ or PAYE. It is assumed by IDBR that all unregistered businesses are in the 'zero employee' category. Their turnover is generally low, i.e. below the VAT threshold.

Iceland

The main source of business demography in Iceland is the Register of Enterprises, which covers all businesses and institutions as well as organisations that have been given an ID number by Statistics Iceland. The Register is comprehensive, but, since it is mainly used for administrative purposes⁴⁷, it has considerable shortcomings as a source for statistics on business demography and, moreover, it is not related to other business statistics (such as employment, etc.). Enterprises that have not registered any activity (in terms of VAT) are deleted from the register after some time of inactivity. Independents are as a rule not in the registry, as most use their personal ID in their business activity.

Liechtenstein

Until today there are no really reliable data on entry and exit in Liechtenstein. Therefore, birth rates (both in terms of enterprises and labour force) have to be considered as estimates. An image of entry can be seen in the movement of business licences⁴⁸, which are the statistical units for data on business demography.

Norway

The Norwegian Bureau of Statistics is currently preparing to start producing statistics on business demography, which are expected to be harmonised at EU level⁴⁹. Since these data will not be comparable to what has been produced in the past, at the moment no official data are available even for previous years⁵⁰.

Switzerland

The only way to calculate entry and exit rates in Switzerland is to use the figures published by the business register⁵¹ (*Registre du Commerce*), with evident drawbacks. Even if there are no official sources on business demography (except for survival rates), business registry is not used as an official statistic. Since 1991/95, Creditreform (a private company) has been publishing regularly figures on the number of bankruptcy (those firms - legal entities - which are registered in the business register on the basis of the official publication of bankruptcy)⁵² and new entry⁵³. Business register does not classify the enterprises either by sector or by size, whereas Creditreform publishes data by sectors, but not by size.

2.3. The possible role of Candidate countries in the growth of the entrepreneurial tissue

This last section of the chapter presents a general overview of business demography phenomena in Candidate countries, starting from national definitions (where existing). Information has been collected through research institutes operating in each Candidate country⁵⁴, on the basis of official national definitions used. The main objective of this survey was to assess the differences compared to the definitions of 'real' entry and exit, as established in the commission Regulation No 2700/98. The results of this exercise, reported below, could give some indications to be taken into account when developing structural business statistics in Candidate countries.

46 The current VAT threshold is a turnover of GBP 54,000 (€86,622) per annum.

47 For this reason, entries depend on whether a new ID is issued and, similarly, exits depend on whether ID is annulled. In some cases (e.g. mergers), enterprises may continue to use old ID.

48 In Liechtenstein, almost all economic activities need business licences. One enterprise can have more than one licence.

49 This is being made in the framework of the above mentioned project carried out by EUROSTAT on 'Harmonisation of Enterprise Demography Data'.

50 Other research institutes (Nordland Research Institute and The Norwegian School of Management) have also confirmed that there are no public statistics available.

51 Registration is required for all enterprises that must take a legal form, i.e. all enterprises which capital requirement (limited company, e.g.) and all others, individual firms.

52 It is to take into account that official statistics on bankruptcy do not distinguish enterprises and private persons.

53 The definition of the stock of enterprises is the same as for the Business Register, but entry and exit figures compiled by Creditreform include some other legal forms (e.g. co-operatives).

54 Though all Candidate countries were encouraged to participate, some difficulties in collecting quantitative (data) and qualitative (definitions and sources) information were encountered. In total, ten countries supplied data for this report, at different levels of detail.

In this respect, the main methodological problems recorded in these countries can be summarised as follows:

- Most existing business registers have been set up for administrative purposes and their use for any statistical analysis should be made very cautiously. They often include changes of legal form, permanently dormant (inactive) units, as well as companies under liquidation or that have ceased to exist; 'cleaning' procedures are very difficult and long, since it is not always possible to combine information from different sources.
- Nevertheless, the statistical significance of administrative registers is currently improving; in some cases, as in Poland, this is a result of efforts to adapt to EU standards. On the other hand, this implies that data cannot be compared over the years, until harmonised time series are produced.
- Comparisons between different years are complicated, due to the transition from a planned to a market economy and due to privatisation processes, which led to the reorganisation of enterprises. Totally state-owned companies are generally excluded from the calculation of the total stock of enterprises, but the same does not always hold for the mixed (public and private) ones.

The most relevant characteristics of definitions and sources on business demography are illustrated below, for each Candidate country that has supplied information.

Data for the *Czech Republic* have been provided by the Czech Statistical Office (CSO) and are based on the national Business Register. Currently, the statistical unit in the Business Register kept by the CSO is the enterprise⁵⁵. This register includes a lot of dormant (inactive) units. Consequently, an average number of active units are established by a structural sample survey (grossed up to the population). The definition of entry includes only new enterprises and the ones that change their legal form. Exits are based on bankruptcy and other forms of 'forced' closure; change of legal form is considered as an exit, as well.

The data about entry/exit in *Estonia* are compiled every year by the national Statistical Office through the comparison of Statistical Profile (SP)⁵⁶ databases referred to previous years. The SP relies on the database of the Centre of the Register of Estonian Enterprises, Institutions and Organisations, where all legal and natural persons, such as enterprises, sole proprietors, institutions, organisations, non-profit organisations and foundations, are registered. During the year, the database is updated with the help of a special annual survey and the data from the centre of registers, as well as from the register of state institutions and local municipality institutions. The entries and exits of enterprises (considering only non-agricultural private ones, excluding public administration and public owned businesses⁵⁷) in the database of SP are not the same as according to the definition of birth and death in Structural Business Statistics. Change of legal form and/or activity, as well as relocation, do not imply the registration of a new unit. Mergers and bankruptcies are factors determining an exit. Dormant units are excluded. These statistics should include all units active during at least a part of the reference period. Moreover, strict data confidentiality rules exist⁵⁸.

Data on stock and flow of enterprises in *Hungary* originate from the Business Register kept by the Hungarian Statistical Office (HSCO). Registered units are those with legal entity and tax number, figuring in the administrative register at the time of the survey, including companies under liquidation, bankruptcy and dissolution proceedings. Active enterprises (i.e. the ones data presented refer to) are the units, which were established in the reference year or the year before, supplied statistical information and/or had tax (corporate tax, value added tax etc.) reports in this year or in the preceding two years.

The Statistical Business Register in *Latvia* is based on the State Business Register, which is an administrative register under the Ministry of Justice. There are two most important sources for updating of the Statistical Business Register:

- Official information about changes in the names, legal addresses, ownership form from State Business Register;
- Special register surveys are carried out to get information about the real start of the activity, activity code, size class etc.

55 The definition is based on Council Regulation No 696/1993 of 15 March 1993. Records in the Business Register include a lot of attributes, which are used for statistical purposes: e.g. institutional sector number, number of employees, legal form, date of emergence and extinction, codes of predecessor and successor, etc.

56 Statistical Profile is the database of economically active enterprises. Since 1994, the Statistical Office of Estonia uses this database as a sampling frame for all economic statistics.

57 These are the companies, in which the state or municipal capital is more than 50%.

58 Government of Estonia Regulation No. 41 of 29 January 2001.

Data available for the years 1998 and 1999 show the influence of the crises in Russia. After mid-1998 many enterprises temporarily ceased their activity and restarted it only at the end of the year 1999. For the same reason, only a small number of enterprises were registered and many more enterprises went bankrupt in 1998 and 1999 as compared to 1997.

During the last few years, the statistical information system in *Poland* has been modernised and steadily changed to adapt it to EU requirements. Hence, data for particular years cannot be compared. Data available through the yearbooks of the Central Statistical Office (CSO) cover only firms registered in REGON (register of firms), which differ from the number of active enterprises⁵⁹. The set of active enterprises is based on compilation of statistical data of two subsets: (i) the set of enterprises with 6 and more employees, which have the obligation of submitting statistical reports regularly, and (ii) surveys on representative samples of business units with 0 to 5 employees, which do not have the obligation to submit statistical reports regularly. Data on entry (including only totally new enterprises and establishments, also through privatisation processes) and exit (excluding only changes in location and/or economic activity) presented in Table 2.3 concern the number of active private enterprises. Birth rates have been estimated on the basis of data for the total stock of enterprises at the end of the previous year⁶⁰.

Data available in *Romania* are based on the Trade Register, correlated to information derived from balance sheets. They refer only to the non-agricultural private enterprises (without taking into account their branches in the country), excluding public administration and all state-owned companies (including the mixed - both state and private - ones). Family associations having one employee or more and carrying out an activity (except agriculture) are also considered as active. Not all of these associations are registered within the Trade Registry, this being not a condition to be set up. For this reason, their real number is larger than the estimated one. The general definition of entry and exit is very broad, since only changes in the sector of activity do not imply a (de-)registration.

Data about the number of enterprises in *Slovakia* are based on the Statistical Register of Companies from the Statistical Office of the Slovak Republic. In the Statistical Register of Companies, enterprises in liquidation are marked but it should be noted that the liquidation procedure can be very long and, therefore, it is not possible to decide which companies are actually exiting that year.

The Statistical Office of the Republic of *Slovenia* is the source for enterprise flow data. Entries include newly created enterprises, as well as take-overs, split-ups and mergers. Exits are related to bankruptcies and other forms of closure, also including disappearance due to take-overs and mergers.

The source of all the data on enterprises in *Turkey* is the Statistical Institute of the State of Turkey (SIS), starting from information obtained through the Turkish Trade Register Gazette published by the Union of Turkish Chambers of Commerce, Chambers of Industry and Commodity Exchange.

The absence of harmonised definitions in these countries makes comparisons impossible. For some countries where no information from national sources is available, data based on a survey on newly created enterprises carried out by EUROSTAT⁶¹ have been used. An indication of development trends has also been included.

59 The number of active enterprises, according to CSO data, in 1997 represented only 65% of all registered sole traders and partnerships. Studies made by the Department of Statistical-Economic Studies, Central Statistical Office and the Polish Academy of Sciences (Department of Statistical-Economic Studies) indicate that the ratio of registered SMEs to active enterprises was increasing rapidly between 1994 and 1997. The main cause of this situation is the fact that many small firms suspend their operation without informing appropriate statistical bodies about it. The situation was somewhat improved in 1998 and 1999, but variations continue to be quite significant.

60 Chmiel J., *Problemy statystycznego pomiaru i analizy tendencji rozwojowych sektora prywatnych przedsiębiorstw w Polsce w latach 1990-1998* (Problems of statistical measurement and analysis of development trends in sector of private enterprises in Poland in the years 1990-1998), CASE, Report no. 24, Tables 9, 10, 11 (variant II), Warsaw 1999.

61 EUROSTAT and European Commission, *New Enterprises in Central European Countries in 1998*, Luxembourg, 2000.

Table 2.3: Entries and exits in Candidate countries in the period 1995-2000 (averages per year), indication of development and net rates, according to national definitions*

	N° of entries	Birth rate %		Ent. dev.	N° of exits	Death rate %		Ent. dev.	Net rate %	
		Enterprise	Employment			Enterprise	Employment		Enterprise	Employment
Bulgaria ¹⁰	53,964	16.6	n.a.	≈	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cyprus ¹	n.a.	n.a.	2.7	n.a.	n.a.	n.a.	1.7	n.a.	n.a.	1.0
Czech Republic ²	158,707	11.2	n.a.	-	14,612	1.0	n.a.	-	10.2	n.a.
Estonia ³	9,849	31.8	8.0	-	6,555	20.7	6.7	≈	11.1	1.3
Hungary ⁹	137,004	17.0	6.6	-	64,498	7.9	2.4	-	9.1	4.2
Latvia ⁴	2,625	6.7	4.1	≈	1,347	4.6	1.4	≈	2.1	2.7
Lithuania ¹⁰	13,073	19.7	n.a.	≈	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Malta	n.a.	n.a.	n.a.		n.a.	n.a.	n.a.		n.a.	n.a.
Poland ⁵	236,609	20.8	n.a.	+	80,367	7.2	n.a.	≈	13.6	n.a.
Romania ⁶	84,277	21.6	8.9	-	4,425	1.1	1.2	≈	20.4	7.7
Slovakia ¹⁰	31,902	14.3	n.a.	∩	n.a.	n.a.	n.a.		n.a.	n.a.
Slovenia ⁷	9,995	8.8	n.a.	∩	5,110	4.5	n.a.	∩	4.3	n.a.
Turkey ⁸	72,631	6.0	n.a.	+	14,964	1.1	n.a.	+	4.9	n.a.

1. Years 1995-1998-1999 (Source: Manpower Balance).

2. Years 1995-1998-1999 (Source: Business register kept by Czech Statistical Office).

3. Years 1995-1999-2000 (Source: Statistical Office of Estonia, database of Statistical Profile).

4. Data on entries and birth rates have been calculated from 1997 to 2000; those on exits are from 1997 to 1999 (Source: State Business Register).

5. Years 1995-1996-1997 (Source: Central Statistical Office, REGON registration system; estimates according to Chmiel J.).

6. Years 1995-1998-1999: family associations in the trade register are included (Source: Trade Register and balance sheets) Data were collected and processed by the Chamber of Commerce and Industry and Bucharest Municipality.

7. Years 1995-1996-1997-1998 (Source: Statistical Office of the Republic of Slovenia).

8. Years 1995-1996-1997 (rates have only been calculated for years 1996-1997). Source: Statistical Institute of State of Turkey.

9. Years 1995-1999-2000 (Source: HSCO's Business Register). The employment impact figures of birth and exit of enterprises are estimates.

10. From 1995 to 1998, according to: EUROSTAT and European Commission, New Enterprises in Central European Countries in 1998, Luxembourg, 2000.

Explanation of signs

+ Continuous growth of birth/death rate in the period;

- Continuous decline of birth/death rate in the period;

∩ Decline of birth/death rate followed by growth;

∪ Growth of birth/death rate followed by decline;

≈ Birth/death rate grows and declines alternatively.

* Because of the use of non-harmonised national definitions, data presented are non comparable. Gross birth rates and death rates have been calculated on entries and exits respectively, in both cases as percentages of the total stock (of enterprises/establishments/VAT units in the case of businesses, of occupied in the case of employment) at the end of the previous year and are expressed as annual averages for the period 1995 to 2000. The difference between these two rates corresponds to the net birth rate.

Chapter 3

Economic variables and business demography

This chapter of the report analyses the effect business conditions have on the start-up of small firms⁶². This has been attempted despite the difficulties of correlating economic variables and business demography. It relies on isolating effects of the macroeconomic situation (economic prosperity, level of unemployment, etc.) from micro-economic influences (which include, among the others, existing policy measures, considered either as enabling or impeding factors). The interpretation of the data must bear in mind the complexity and should be made cautiously, since many factors affect start-ups simultaneously.

Nevertheless, some findings can be reported. They derive from the examination of the (likely) relationship existing between the birth rate (considered as a proxy of the capacity of an economic system to re-generate itself and to enlarge its entrepreneurial tissue) and some of the factors determining start-ups.

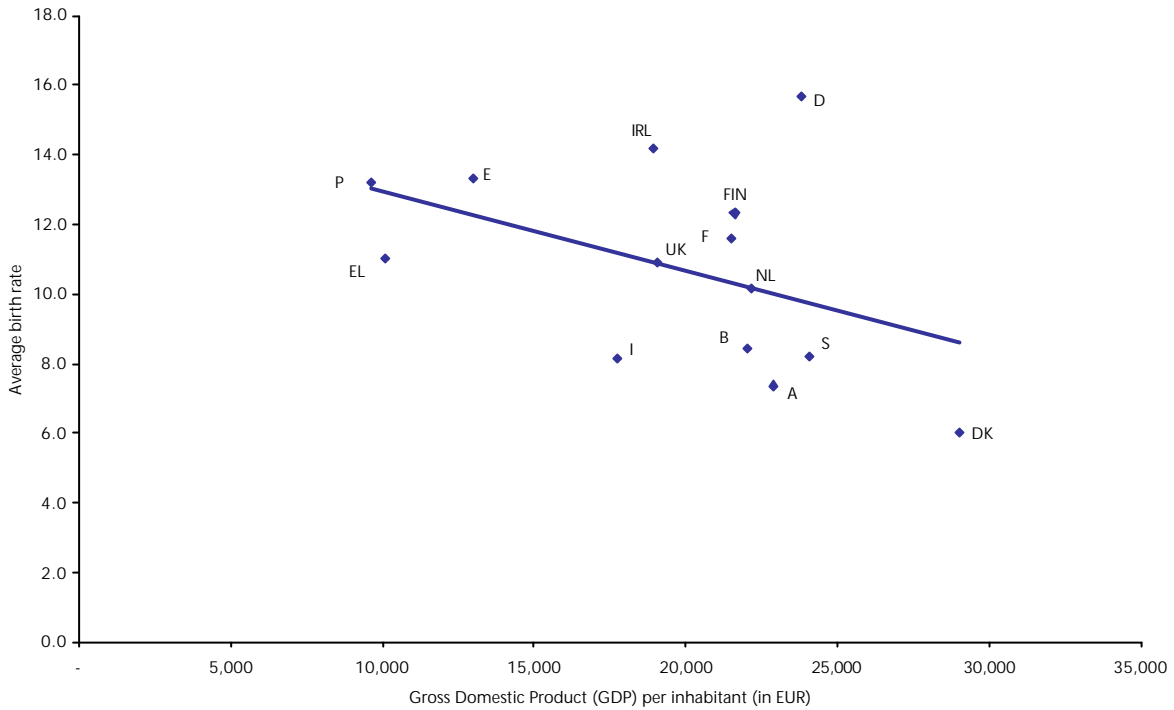
The relationship between GDP per capita as a proxy of economic development of a country and gross birth rate is analysed. Data show the existence of a negative correlation (-0.44⁶³) between these two variables, both expressed as annual averages for the period 1995 to 2000. Thus, a higher level of economic development seems to correlate with a less favourable attitude towards self-employment in EU countries⁶⁴ (Figure 3.1). This negative impact is probably due to the fact that economic prosperity generally brings with it higher wage levels and an improved system of social security, both factors that could make employment a more attractive alternative than to open a new enterprise. As the following graph shows, the relatively high birth rate in Germany does not fit the above hypothesis as Germany also has a relatively high GDP per capita, while Spain, Portugal and Greece, which also have a high birth rate, but a comparatively low level of GDP per capita, fit the pattern.

62 The analysis of the impact of economic development on enterprise closures cannot be carried out starting from quantitative information available, due to the fact that only scattered data on this last issue exist, as seen in Table 2.

63 The Bravais Pearson correlation coefficient measures the intensity of a linear relationship and can vary between -1 (maximum of negative correlation) and +1 (maximum of positive correlation).

64 Luxembourg is not included in the analysis, because data on entry are missing for this country.

Figure 3.1: Correlation between enterprise birth rate and GDP per inhabitant in Europe-19 countries (annual averages, 1995-2000)⁶⁵



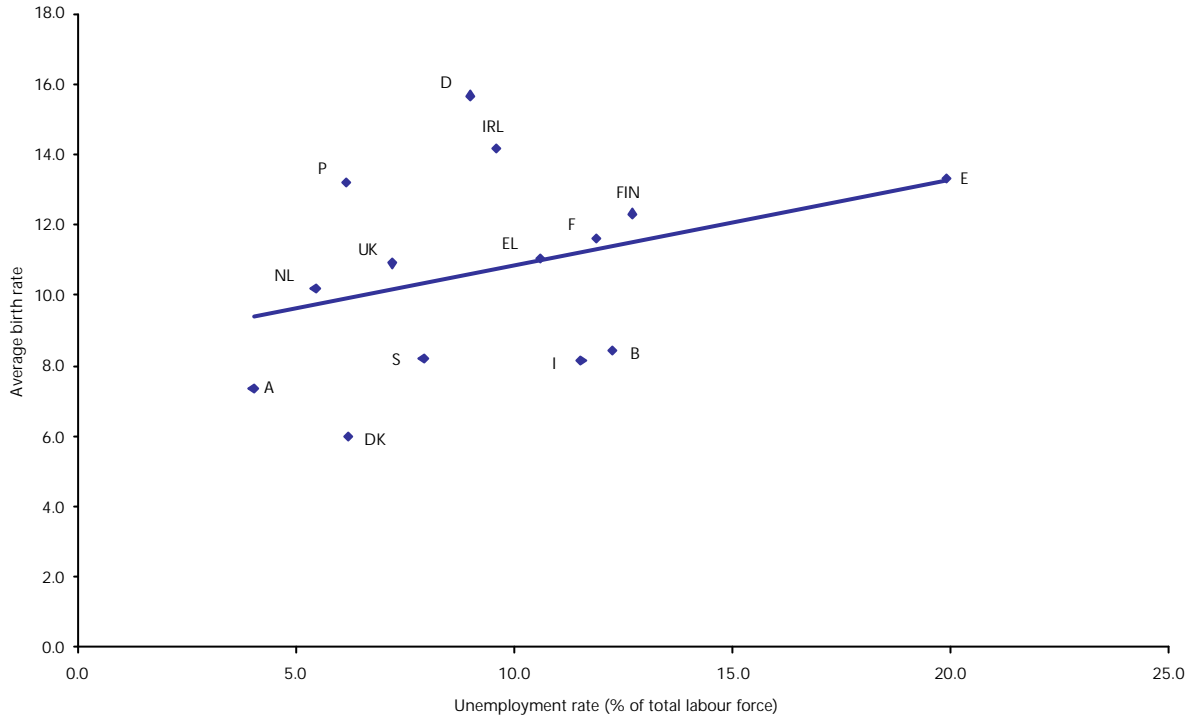
Source: ENSR, 2001 (based on OECD, EUROSTAT and national statistics).

A positive but not very strong correlation (+0.35) can be found between unemployment rate and birth rate. If there is no chance of finding a job, the unemployed might be almost ‘forced’ into entrepreneurship. As a consequence, average enterprise birth rate tends to be generally high in those countries where the unemployment rate is high, as is the case in Spain.

Nevertheless, the correlation found in both these exercises is not sufficiently explanatory or stable to establish quantitative relations between the variables. Especially since it does not take into account development of each variable over the years. In other terms, the relationship between the trend of each variable could provide further insight. The assessment of the effect of economic indicators (either GDP per inhabitant or unemployment rate) on start-ups needs to be further refined and extended. However, since the time series available are too short (and non-harmonised) to carry out such exercise, the analysis presented relied on qualitative information as collected by ENSR partners.

⁶⁵ For national sources used and years for which data on entry are available, see Table 1 and Table 2.

Figure 3.2: Correlation between enterprise birth rate and unemployment rate in Europe-19 countries (annual averages, 1995-2000)⁶⁶



Source: ENSR, 2001 (based on OECD, EUROSTAT and national statistics).

Literature available for *Ireland* shows a clear link between firm entries and the economic situation, since the start-up rates rose to very high levels during the exceptionally strong economic growth of the country in the late Nineties. New firm entry in *Portugal* displays a pro-cyclical behaviour, as well:⁶⁷ small firms are created mostly when aggregate demand is growing fast. On the other hand, in *Belgium*, the enterprise birth rate has been declining during the whole period, as well as the unemployment rate, but GDP per capita has been increasing constantly in the same years.

The growth of the birth rate in *Italy*, which continued without any interruption during the second half of the Nineties but with a lower rate compared to the past, seems to be mainly linked to a slight increase of economic conditions. This could mean that enterprise creation has been less dependent on unemployment trends and, as literature indicates⁶⁸, market-pull factors have become more relevant. The majority of studies carried out in the *United Kingdom*⁶⁹ show that both unemployment and, above all, the general level of economic activity are positively associated with new firm formation.

Recent developments in SME demography related to economic conjuncture have not been analysed in *Spanish* literature. An analysis for the period 1981-1995⁷⁰ on correlation coefficients between enterprise creation and macroeconomic indicators shows that firm formation is positively correlated with macroeconomic stability (GDP and consumption), while short and long term interest rates prove to be negatively correlated (specially long term rates). In *Austria* negative macro-economic factors characterising the period from 1990 to 1999 (during which a high insolvency rate has also been recorded) no longer seem to affect the performance as the available figures for the year 2000 show.

66 For national sources used and years for which data on entry are available, see Table 1 and Table 2.

67 Mata, J., *Small firm births and macroeconomic fluctuations*, Banco de Portugal, Lisbon, 1996.

68 Unioncamere, *I nuovi imprenditori: caratteristiche, motivazioni e prospettive di crescita* (New entrepreneurs: characteristics, motivations and growth perspectives), Roma, 2001 (mimeo).

69 Storey, D., *Understanding the Small Business Sector*, London, Routledge, 1994.

70 De André, P. (et al.), *Incidenza del marco ambiental en la creación de empresas* (Incidence of environment in the creation of enterprises), in: *Economía Industrial*, nº 318, pages 151-164, Madrid, 1997.

The unemployment rate does have at least some impact on growth rates in *Finland*⁷¹. According to statistics gathered by Statistics Finland, the link between economic cycle and business demography was clear during the years of recession (between 1990 and 1992), but no significant differences can be found during the second half of the Nineties as far as enterprise survival rates after three years are concerned. A selection of *German* studies⁷² points to the fact that profit-oriented entrepreneurs (entrepreneurs by dedication) react positively to favourable economic (cycle) conditions, whereas self-employed by necessity mainly create their own businesses during recessions.

Qualitative analysis carried out at national level in *The Netherlands* shows that there is no direct link between the economic cycle and the entry of new enterprises, even if some evidence suggests that the macroeconomic situation has a positive effect on starting a business⁷³. The economic situation in *Sweden* varied widely throughout the last decade, but this does not seem to have affected the overall level of start-ups. Nevertheless, it would not be correct to conclude that there is no evidence that the economic cycle affects the start-up process in that country⁷⁴. Looking at changes in start-up motives during the period there is an evident economic cycle effect: the share of new entrepreneurs stating unemployment or risk of unemployment as the primary motive has been more than halved between 1994 and 1999, being now only about 12%.

Moreover, during the Nineties, bankruptcies have followed the economic cycle. Statistics cannot affirm a 'solid' relation between growth and firm creation processes in *France*, either. Nevertheless, company creation in 2000 has strongly contributed to the improvement in the employment situation, especially because one out of three creators came from previous unemployment⁷⁵.

Qualitative and quantitative information available⁷⁶ allows analysis of the possible relation between economic cycle and business demography in *Switzerland*. In general, entries are quite sensitive to business cycle conditions (boom period 1985-1990, followed by stagnation 1990-1993, and recovery since 1994). The exit rate, as defined by the business register, shows also a cyclical component, but on a smaller scale. The number of bankruptcies increased throughout the period 1975 to 1995, due to the rising number of enterprises and to the economic stagnation in the early Nineties. The increase of bankruptcies slowed down and even reverted after 1995 due to the relative high growth rate of the economy.

71 Neillimo, K. and Salmi, P., Yritysten perustaminen ja lopettaminen Etelä-Karjalassa ja sen kunnissa vuosina 1987-1997 (The Launching and Winding Up of Firms in South Karelia 1987-1997), Lappeenranta University of Technology, Department of Business Administration, Research Report 19, 1999.

72 Wellens, P.J.J., Small and medium sized companies in Economic Growth: Theory and Policy Implications for Germany; Diskussionsbeitrag Nr. 27, Potsdam, 1996.

73 Bangma K.L. and W.H.J. Verhoeven, Het belang van bedrijfstypen voor de werkgelegenheidsontwikkeling; Editie 2000 (Report on the importance of types of enterprises for the development of employment), EIM, Zoetermeer, January 2001.

74 NUTEK, Invandrars företagande i Sverige, NUTEK: Infonr 004-2001.

75 APCE, Annual Report, 2001.

76 Habersaat, M., Schönenberger, A. and Weber, W., Les PME en Suisse et en Europe (PMI in Switzerland and in Europe), 2001.

Chapter 4

Factors affecting business start-ups and end of life

This section (based on national literature on the characteristics of business start-ups, growth and death) analyses the factors stimulating or impeding enterprise creation, survival and closure. This investigation is aimed at strengthening the data presented in the previous chapters through qualitative information on the factors affecting business start-up, success and failure, to determine what type of policies influence business creation and survival and how to enhance the possibilities for success and growth.

The complexity of the determinants of birth and volatility rate of new enterprises is often reflected in national literature, containing an extensive range of factors which researchers associate with the creation, survival or death. This chapter has been divided into two sections: the first deals with the factors affecting births and start-ups, the second focuses on the determinants of survival and the patterns of growth.

The approach followed in each of the two sections differentiates between factors, which are related to the environment (both economic and institutional) and factors related to the enterprise and entrepreneur. External reasons, possibly leading to the formation of a new business unit, are clearly separated from the features of the founder, in terms of age, gender, level of education and previous working experiences. The latter factors are considered in the opening paragraph, whereas economic factors are analysed in the following one. The description of the influence of environmental conditions on birth rates takes the concept of market-pull and push factors into account. Personal motives are analysed separately, as they are linked to the characteristics of the 'European entrepreneur' and are instrumental for the transformation of external opportunities into concrete decisions to start a new enterprise.

Separate sections are dedicated to the role of external (both public and private) support to enterprise birth, in order to assess the (possible) impact of supporting measures (in terms of funding and/or services) and improved access to finance in the start-up phase.

Similarly, the second part of this chapter will investigate the role of the elements that, on the macro- (i.e. external) and micro- (enterprise and entrepreneur specific) level, affect survival, growth and (eventually) closure.

Unless otherwise stated, information presented in this chapter of the report is based on research (original analysis, literature review, interviews, etc.) carried out by national partners of the European Network for SME Research.

4.1. Birth and start-up

4.1.1. The profile of new entrepreneurs and new enterprises

Firm creation processes and chances of survival after the start-up phase strongly depend on the 'profile' of the entrepreneur. The elements characterising this 'profile' refer to gender, age, level of education and previous working experience (either as an employee, manager or entrepreneur). These features vary according to the sector of activity and the size of the firm created. This will be taken into account (when possible), in order to have a clearer picture of the issues at stake and the occupational aspects linked to enterprise birth and start-up.

Looking at the results from the literature review carried out for each country, the slogan could be 'nobody is born an entrepreneur'. Level of education and previous experience are essential factors, even for those who are driven

to create an enterprise in order to avoid unemployment (Table 4.1). As a consequence, the decision to start a business is generally taken some years after completing formal education and acquiring specific know-how as an employee.

It should be noted that although it is possible to identify the general motives of new entrepreneurs (as shown in the next two paragraphs), it is much more difficult to define a universal profile of such entrepreneurs, since the motives vary considerably by age group, gender, academic qualifications, previous working experience, activity sector, size and geographic location of companies.

Table 4.1: Profile of new entrepreneurs and new enterprises in Europe-19

Country	Average age	Males as % of total	Level of education	Previous experience	Prevalent sector/s	Average size*
Austria	34	±75%	apprentice or compulsory school	work as employee	n.a.	0.8-1
Belgium	n.a.	80	n.a.	n.a.	n.a.	n.a.
Denmark	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Finland	>40	75	professional skills	entrepreneur	n.a.	n.a.
France	37	73	inferior to the Baccalaureate	professional experience	services (trade); construction	2.3
Germany	36	65	professional education	work ad employee	services	2.4
Greece	n.a.	n.a.	n.a.	n.a.	trade and other services	n.a.
Ireland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Italy	36	69	secondary education	work as (technical) e mployee	trade and horeca	0.3-0.5
Luxembourg	31-40**	63	technical qualification	work as employee	trade and horeca	2.6
Netherlands	30-39	68	higher level of education	work as employee	n.a.	n.a.
Portugal	25-35	n.a.	equal distribution among groups	experience as businessmen	trade and other se rvices	n.a.
Spain	<40	n.a.	medium/high degree of qualification	work as employee	n.a.	n.a.
Sweden	39	70	post-secondary education	work as employee	n.a.	n.a.
United Kingdom	25-44	n.a.	n.a.	work as employee	n.a.	n.a.
Iceland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Liechtenstein	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Norway	36	0	higher level of education	work as employee	n.a.	n.a.
Switzerland	38	0	medium/high degree of qualification	top or middle management	n.a.	n.a.

* Number of wage earning employees per enterprise.

** Data refer only to craft sector.

Source: ENSR, 2001.

The average age of new entrepreneurs is about 35 years, the proportion of over 35 year old creators has decreased from the mid-Nineties, as recorded in some countries like *France* and *Italy*. Only in *Finland*⁷⁷ the average age of new business founders is over 40 years (both among male and female). The age tends to vary according to sector: for instance, the youngest (especially those who are less than 30 years old) seem to be more attracted to company creation in the 'new economy'. In *Portugal*, the age of founders in manufacturing and transport sectors is slightly higher (an average age of 37 and 45, respectively).

The share of men among new entrepreneurs in *Germany* and *Luxembourg* is comparatively low (about 65%) and tends to be higher in *Belgium* and *Norway* (80%). Female entrepreneurs in *Portugal*⁷⁸ are most common in the trade and services sector, they tend to set up smaller companies and to start as entrepreneurs at an older age than men. The share of new enterprises run by women in *Sweden* increased from approximately 20% in 1990 to 30% in 2000. Women are more likely to start an enterprise in areas such as education, health care and medicine rather than in trading, hotel or restaurant sectors.

In *Germany*, new entrepreneurs have been working as employees for some years (48% from 10 to 20 years) before starting their own business, frequently in the same economic sector (31%).⁷⁹ Most of the founders in *Norway*⁸⁰ were workers before they dropped out and established a new firm, but a large number of them also had experience as firm managers.

Professional skills and previous working experience are common attributes of entrepreneurs in *Austria* and in *Finland*⁸¹. About 60% of founders in *The Netherlands* had working experience as an employee in the line of business, in which they started their own enterprise. Half of them had still been employed in another firm while starting up the new firm or took care of their family, were enrolled in further education or were entrepreneurs in another firm.⁸² This is even more frequent in the *UK*⁸³ and *Sweden*, where a large group of entrepreneurs had an additional occupation, or sideline activity, in combination with the new enterprise (in some cases they either ran an additional firm or controlled more than one business, with varying levels of antecedent experience). There is no evidence to suggest that this type of founder is particularly advantaged and performs better (in terms of job generation and wealth creation) than their more inexperienced counterparts. It is quality rather than quantity of entrepreneurial experience and how it is transferred to a new venture that seems to be relevant⁸⁴.

New business founders in *France* and *Portugal* are frequently from an entrepreneurial environment, since most of them had entrepreneurs in their families or among their close relatives. Nevertheless, over 1/3rd of Portuguese entrepreneurs have also had previous entrepreneurial experience (in another partnership or as sole proprietors), especially those whose age were over 40 and who had lower educational qualifications. Evidence confirms that previous business experience has a strong influence on enterprise creation, frequently also on the choice of the sector of activity. The level of qualification is particularly influential for the choice of business sector in which the new firm is established.

Regarding all sectors of economic activity, the majority of entrepreneurs in *Austria* have finished an apprenticeship (this relationship has remained quite steady for many years) or compulsory school (which ratio is in decline). The number of entrepreneurs who finished high school or university is increasing and now equals 1/4th of the total⁸⁵. In *Germany*, three founders out of four terminated professional education.⁸⁶

77 Kivimäki, E., Uusien yritysten synty, kasvu ja työllisyysvaikutukset. Tutkimus Espoon, Kauniaisten, Kirkkonummen ja Siuntion alueelta vuosina 1994 ja 1995 (Study of the birth, growth, employment impacts of new enterprises set up in the area of Espoo, Kauniaisten, Kirkkonummi and Siuntio), Ministry of Labour. Labour Policy Reports No. 195, Helsinki, 1998.

78 Costa Pereira, Representação Social do Empresário (A Social Representation of the Businessman), Silabo Publishers, 2001. Gonçalves, M., O Empreendedorismo em Portugal (Entrepreneurship in Portugal), Instituto Superior das Ciências do Trabalho e da Empresa (Higher Institute for Work and Company Sciences), 2000.

79 Deutsches Institut für Wirtschaftsforschung e.V. (DIW), Zunehmende Selbständigkeit in Deutschland von 1990 bis 1996. Starke Veränderungen im Bestand (Increasing self-employment in Germany in the period 1990 to 1996. Huge changes in the stock of the self-employed), in: DIW-Wochenbericht, Vol. 65, Nr. 38/1998.

80 Spilling, O. (red), Entreprenørskap på norsk (Entrepreneurship in Norwegian), Fagbokforlaget, Bergen, 1998.

81 Littunen, H., Uusien yritysten menestyminen. Tutkimuksen toteutustapa ja perustamistilanteen kartoitus (The success of new firms. Method of implementation of the study and examinations of establishment phase), University of Jyväskylä, Centre for Economic Research. Publications 124, Jyväskylä, 1992.

82 EIM firm founders panel 1998-2001 (EIM database with detailed information on entrepreneurs who started their own business in 1998, 1999 or 2000)

83 Moralee, L., Self-employment in the 1990s, in: Labour Market Trends, March 2000, pp121-130.

84 Birley and Westhead, New Venture Environments: The Owner-Managers View, in: Birley, S., MacMillan, I.C. and Subramony, S. (eds), International Perspectives on entrepreneurship Research, pp207-247, Amsterdam, Holland, 1993.

85 AMS, Erwerbsbiographien und Qualifikationsprofile von Selbstständigen, Study by Instituts für Berufs- und Erwachsenenbildungsforschung (IBE) and Instituts für Bildungsforschung der Wirtschaft (IBW), Vienna: AMS-Info No. 20, 1998.

86 Deutsches Institut für Wirtschaftsforschung e.V. (DIW), Zunehmende Selbständigkeit in Deutschland von 1990 bis 1996. Starke Veränderungen im Bestand (Increasing self-employment in Germany in the period 1990 to 1996. Huge changes in the stock of the self-employed), in: DIW-Wochenbericht, Vol. 65, Nr. 38/1998.

The level of education of starting entrepreneurs in *The Netherlands* is quite high compared to other EU countries: two out of three of them have a basic or secondary level. Regional studies carried out in *Spain*⁸⁷ show that enterprises are created by medium to high degree qualified young people (usually less than 40 years old), mainly men, with previous working experience and devoted almost entirely to their new business. Some differences can be highlighted according to the sector of activity: generally speaking, founders in services seem to have a higher degree than those in industrial sectors.

The desire to start a new business is greater in *Sweden* among those with higher education and/or leadership experience, those who have job experience and those who are below 40 years of age. In addition, it is higher for immigrants (whose share is now equal to 20% of total), those living in larger cities, persons with high incomes and/or whose parents or close relatives had started a business and in particular if they had a positive impression of owning a business⁸⁸.

Entrepreneurs in the sector of high technology have, on average, a higher level of education; in *Ireland*, for instance, they have post-graduate degrees in technological subjects and they all agreed that success came from a combination of market knowledge and technical expertise. These entrepreneurs had no previous experience in forming new companies, but most of them had work experience in management positions.

This is also the case for founders of new businesses in IT services in *Portugal*. Apart from sectoral specificities, Portuguese entrepreneurs are almost equally divided among those who have completed high school, compulsory schooling or have graduate degrees (between 23% and 26%). Nevertheless, a lower educational level still predominates in founders of manufacturing, construction, transport and in the hotel and catering sectors.

The analysis of enterprise creation trends by sector of activity confirms the tendency towards tertiarisation. The majority of new enterprises is in the services sector, where entry as well as exit barriers are comparatively lower. Start-ups concentrate in HORECA, retail trade and repair sectors. Moreover, the group of newly created enterprises under the legal form of a limited liability company is increasing, while individual ownerships are decreasing.

Available information of the 'Observatory on Business Demography',⁸⁹ run by the Italian Union of Chambers of Commerce, allows a profile to be drawn of the creator of an enterprise in *Italy*: he is male, about 36 years old, and has a secondary school education. The majority of entrepreneurs operating in the sectors of trade and tourism hold a high school diploma (57.7% against the 48.9% average). Education becomes a real discriminating factor in the advanced services sector. In fact, 18% of the new entrepreneurs in this sector hold a university degree, and 71.4% hold a high school diploma. This means that the company owner in this sector has received, on average, at least 13 years of education.

Because of the general shortage of data about the number of employees in start-ups, it is not possible to calculate the average size of new enterprises at EU level. Some specific studies have been carried out in some countries, giving an indication of the development trends at least at national level. According to them, start-ups are mostly micro-enterprises and only new firms in manufacturing and construction tend to create more employment in the first year of operation.

Compared to other representative surveys carried out in the past, it can be stated that the average size of *Austrian* start-ups is decreasing and it varies approximately from 0.8 to 1 employees⁹⁰. Most of founders employ family members and tend not to employ part-time workers or apprentices.

Most newly created enterprises in *Germany* are micro units (with 0 employees) and their share on total is continuously increasing: 45.5% in 1991 and 49.8% in 1998⁹¹. On the other hand, those new firms, which create

87 Garmendia, F. and Echeverría, J. M., Creación de empresas en Euskadi: Del objetivo cuantitativo de los ochenta al objetivo cualitativo de los 90 (Creation of enterprises in the Basque Country: From a quantitative objective in the Eighties to a qualitative objective in the Nineties), in: Estudios Empresariales, nº 92, pages 6-20, San Sebastián, 1996. IKEI, Dinámica empresarial en Navarra: 1990-1995 (Enterprise dynamics in Navarra: 1990-1995), Government of Navarra, 1997. Durán, J. J., Apoyo financiero a la creación y desarrollo de la empresa. Un sistema incompleto (Financial support in the creation and development of the enterprise. A non-complete system), in: Economistas, nº 69, pages 116-122, Madrid, 1995. Velasco, R., La creación de empresas en España (Creation of enterprises in Spain), in: Iniciativa Emprendedora y Empresa Familiar, nº 12, pages 37-41, Madrid, 1998. Casani, F. and De Pablo, I., La formación de emprendedores en la Universidad (Education of entrepreneurs at University), in: Iniciativa Emprendedora y Empresa Familiar, nº9, pages 48-55, Madrid, 1998.

88 Delmar, F. and Davidsson, P., Where do they come from? Prevalence and characteristics of nascent entrepreneurs, in: Entrepreneurship & Regional Development, 1-23, 1999.

89 Unioncamere, I nuovi imprenditori: caratteristiche, motivazioni e prospettive di crescita (New entrepreneurs: characteristics, motivations and growth perspectives), Roma, 2001 (mimeo).

90 Blumberger, W., Wege aus der Arbeitslosigkeit – Evaluierung des Unternehmensgründungsprogramms des Arbeitsmarktservice Österreich für den Zeitraum 1995–1997, (Ways out of unemployment – evaluation of the business start-up programme of the Austrian Labour Market Service (AMS) for the period 1995-1997), AMS-Report 16, Vienna, Hofstätter, 2000.

91 Weißshuhn, G., Wichmann, T., Beschäftigungseffekte von Unternehmensgründungen. Endbericht einer Studie im Auftrag des Bundesministeriums für Wirtschaft und Technologie (Employment effects of enterprise start-ups. Final report of a study on behalf of the Federal Ministry of Economics and Technology), Berlin, 2001.

jobs, tend to employ full-time workers; the share of part-time employees and apprentices is quite low (15.4% and 4.9%, respectively, in Western Germany and even less in Eastern regions).

At the moment that they start their own business, only 9% of new entrepreneurs in *The Netherlands*⁹² have employees, but 20% of them say that they want to have more staff in the future. Three out of five new firms in *Sweden* seem not to be growth oriented: their owners declare they would stay small even if an opportunity to grow were at hand.

The results of a survey carried out on a sample of newly created firms in *Switzerland*⁹³ show that both the level of education of founders and their management skills (due to the fact that almost two out of three of them had a top or middle management experience in SMEs before the start-up of the firm) are above average. The percentage of self-employed women resulting from this survey is quite low when compared to the results of the *Swiss* labour survey, due to the fact that a large part of them simply do not enter in the business register because they are engaged in small, part-time activities.

4.1.2. Environmental and economic factors enabling enterprise creation

Studies of the factors leading to the formation of new enterprises have been produced in most European countries, the following approaches derived from either quantitative (using administrative sources) or qualitative (interviewing entrepreneurs, experts, business associations, etc.) information. Based on these studies, one can conclude that there are different factors that stimulate the birth of small firms. These factors result from various causes⁹⁴.

In broad terms, much of the literature differentiates between external factors, which encourage an individual to start-up his own business (e.g. environmental or economic influences) and internal ones, which mainly relate to personal traits or motives⁹⁵, together with the personal characteristics that have already been dealt with in the previous paragraph. These two categories are not mutually exclusive but often interrelated, given that favourable conditions in the business environment can predispose an individual to become an entrepreneur.

The focus of this first section is on the external or environmental factors, which directly affect the birth rate and which can be influenced by policy measures at micro and macro level.

The approach, which emphasises environmental factors, considers the economic cycle to be the explanation for temporal variations in the rate of enterprise birth, as already suggested by the exercise presented in Chapter 2 of this report. The hypothesis, suggesting this as a 'pull' factor, is: the higher the aggregate demand, the larger the possibility of new firm creation, because of increased market opportunities. Opportunity-related entrepreneurship, thus, relies on the identification of new market opportunities.

An increase in the creation of firms may be caused by the application of new production procedures (microelectronics, communications, miniaturisation leading to increased productivity), development of the service industry and computerisation, return to core business for larger enterprises (out-sourcing)⁹⁶.

Apart from a healthy macroeconomic situation, good physical and social infrastructures (transport and communications, health system, education and research, etc.) are enabling factors for business creation.

Thus, summarising the various arguments, the following economic conditions are generally stimulating an increasing rate of start-ups.

Potential entrepreneurs will start a new business if there are:

- Sectors, in which smaller economic units have an advantage in costs, vis-à-vis those of a larger firms;
- Sectors, which are expanding as a consequence of the growth of demand, be it because they exploit new needs or because of behavioural changes of customers or because of simple market expansion;
- Sectors with a larger proportion of subcontracting firms;
- Sectors with a lower degree of concentration and of technological intensity;

92 EIM firm founders panel 1998-2001 (EIM database with detailed information on entrepreneurs who started their own business in 1998, 1999 or 2000).

93 Harabi, N. and Meyer, R., Die neuen Selbständigen, Fachhochschule Solothurn Nordwestschweiz, Forschungsbericht, Olten, 2000.

94 OECD Jobs Strategy, Fostering Entrepreneurship, Paris, 1998.

95 Mazzarol, T., Volery, T., Doss, N. and Thein, V., Factors influencing small business start-ups: a comparison with previous research, in: International Journal of Entrepreneurial Behaviour and Research, 5(2), 1999. Birley, S., Start-up, in: Burns, P. and Dewhurst, J. (eds), Small Business and Entrepreneurship, Second Edition, Macmillan, Basingstoke, UK, 1996. Belussi F., Pozzana R., Natalità e mortalità delle imprese e determinanti dell'imprenditorialità (Birth and death of enterprises: factors determining entrepreneurship), Milano, 1995. Istituto Guglielmo Tagliacarne, Formazione di nuove imprese: un'analisi comparata a livello internazionale (The creation of new enterprises: a comparative analysis at international level), Milano, Franco Angeli, 1993. Mariti P., La formazione di nuove imprese (The creation of new enterprises), Franco Angeli, Milano, 1990.

96 Gray, C and Allan, J., Small Firm, Large Firm Linkages: the Fabric of Business Growth and Development, 22nd ISBA Conference, Leeds, UK, 1999.

- Services that are not traded internationally and for which there is growing domestic demand;⁹⁷
- Market niches at local or regional level, in manufacturing and/or service sectors (bakers, plumbers, etc.) for which proximity to consumers is the main competitive advantage;
- Sectors with a strong science base and where R&D institutions offer their services, so SMEs do not have to carry out these activities in-house.

Apart from 'market-pull' factors, some other external influences, mainly the level of unemployment,⁹⁸ can provide a 'push' towards self-employment. According to this hypothesis, the growth in self-employment is linked to the lack of alternative opportunities for employment, with individuals starting their own business because they have been made or are likely to be made redundant and/or because they are unable to find paid employment. It has also been suggested that much of the resilience of the SME sector during recessions in the Nineties actually reflects an increase in self-employment fed from large firm redundancies and increased out-sourcing and sub-contracting.

The importance of unemployment as a 'push' factor varies among different studies from very important to not so important. There seems to be at least slight differences in entrepreneurial motives according to the sector of activity: in *Finland*, for instance, market-pull factors are more important than push factors in metal industry and business services.⁹⁹ In the service sector, on the other hand, unemployment has a more important role in entrepreneurial motivation and in establishing a business: one fifth of new entrepreneurs have been unemployed just before establishing their firm¹⁰⁰.

Surveys carried out in *Austria*¹⁰¹ focus their attention mainly on these 'push' factors. Since the condition of unemployment is the motivation of approximately one out of four start-ups in this country, enterprise creation is, in these cases, considered essentially as a mean to get a job and to prevent oneself from social decline. High unemployment or the threat of unemployment has also positively influenced entrepreneurship in *Greece*, even if growth rates of the economy played an equally important role in the increase of entries during 1999.

In *France*,¹⁰² *Ireland*,¹⁰³ *Italy*¹⁰⁴ and *Spain*,¹⁰⁵ unemployment is becoming a less and less important factor for firm creation, as shown by the comparison of recent results with studies related to the first half of last decade. During the recent recovery phase of the *Italian* economy (from 1998), the possibility to exploit new market opportunities (even if, in some cases, as a subcontractor) and/or to succeed through an innovative idea has become more and more relevant (one out of three new enterprises). This is particularly evident in some sectors like the business services and, above all, the 'new economy'.

The 'push' factor unemployment has also lost importance in *Sweden*. This trend has been fairly constant throughout the last decade, in spite of a dramatic shift in the economic development. In the mid-Nineties almost 75% of all starters stated unemployment as a primary motive, in 1999 the corresponding figure had dropped to less than 40 percent¹⁰⁶. One may conclude that 'push-factors' only apply at very high levels of unemployment.

Not only the unemployment but also the risk of losing one's job can 'push' people to create their own working place: even if only a small part of the establishers in *Norway* was unemployed when they started their own firm, one third of the establishers meant that an insecure job-situation was an important motivational factor.¹⁰⁷

97 O'Gorman, C., Jones-Evans, D., Review of Entrepreneurship in Ireland, Report to Forfas, 2000 (mimeo).

98 Birley, S and Westhead, P., A Taxonomy of Business Start-Up Reasons and their Impact on Firm Growth and Size, *Journal of Business Venturing*, 9, 1994, pp7-31. Marlow, S. and Storey, D., New Firm Foundation and Unemployment: Note on Research Method, in: *International Small Business Journal*, 10 (3), 1992. Lawrence, L. and Hamilton, R.T., Unemployment and new business formation, *International Small Business Journal*, 15(3), 1997.

99 Littunen, H., Uusien yritysten menestyminen. Tutkimuksen toteutustapa ja perustamistilanteen kartoitus (The success of new firms. Method of implementation of the study and examinations of establishment phase), University of Jyväskylä, Centre for Economic Research. Publications 124, Jyväskylä, 1992.

100 Kivimäki, E., Uusien yritysten synty, kasvu ja työllisyysvaikutukset. Tutkimus Espoon, Kauniaisten, Kirkkonummen ja Siuntion alueelta vuosina 1994 ja 1995 (Study of the birth, growth, employment impacts of new enterprises set up in the area of Espoo, Kauniainen, Kirkkonummi and Siuntio), Ministry of Labour. Labour Policy Reports No. 195, Helsinki, 1998.

101 Frank, H., Korunka, C., Lueger M. Fördernde und hemmende Faktoren im Gründungsprozeß. Strategien zur Ausschöpfung des Unternehmerpotentials in Österreich. Veröffentlichungen zur Mittelstandspolitik. Study on behalf of the Federal Ministry for Economic Affairs and the Federal Ministry for Science and Transport by the Institute for Business Administration of Small- and Medium-sized Enterprises, Vienna, Federal Ministry for Economic Affairs, 1999.

102 APCE - Agence Pour la Création d'Entreprises, La création/reprise d'entreprises en 2000, Paris, 2001, (Agency for the creation of enterprises, The creation/take over of enterprises in 2000, Paris 2001).

103 Garavan, T.N., O Cinneide, B., Fleming, P. (with McCarthy, B. and Downey A.), *Entrepreneurship & Business Start-Ups in Ireland*, Dublin, Oak Tree Press, 1997.

104 Unioncamere, I nuovi imprenditori: caratteristiche, motivazioni e prospettive di crescita (New entrepreneurs: characteristics, motivations and growth perspectives), Roma, 2000 (mimeo).

105 Veciana, J. M., Características del empresario en España (Profile of Spanish entrepreneur), in: *Papeles de Economía Española*, no. 39, pages 19-36, Madrid, 1989. Veciana, J. M., Generación y desarrollo de nuevos proyectos innovadores. 'Venture management' o 'Corporate entrepreneurship' (Source and management of new innovative projects. Venture management or Corporate Entrepreneurship), in: *Economía Industrial*, no. 310, pages 79-90, Madrid, 1996.

106 Source: Institute for Policy Studies (ITPS) & Statistics Sweden.

107 Spilling, O. (red.), *Entreprenørskap på norsk (Entrepreneurship in Norway)*, Fagbokforlaget, Bergen, 1998.

Pull and push factors for start-ups are equally important in *Denmark*. Along with the risk of unemployment and the desire to be one's own master, opportunity related motives prevail: an innovative business idea, an opportunity to become a subcontractor for larger firms, etc.

In *Germany*,¹⁰⁸ the risk of unemployment is less relevant than other factors: only 3 new entrepreneurs out of 20 started their own business in order to avoid unemployment. Available figures indicate that in the western part of Germany many apprentices and non-working people consider the start-up of a new business as an important alternative to entering the labour market as an employee. In the eastern part, however, far more people (about 3/4 of the total) enter self-employment by leaving a paid occupation, but a large group of them declared that they would 'surely' or 'probably' have lost their job in the (near) future. Thus, self-employment can be regarded in eastern Germany as an important escape from the condition or risk of unemployment.

Various studies carried out in the *United Kingdom* refer to both 'pull' and 'push' factors. Unemployment and slack labour markets, on the one hand, the general level of economic activity together with a healthy business climate for enterprise, on the other hand, influence new firm creation simultaneously.

4.1.3. Personal motives supporting the entrepreneurial choice

As relevant as the external factors as described above might be, many people would still never become entrepreneurs if they did not have strong personal motives.¹⁰⁹ The 'individual' factors contributing to the decision for self-employment include the wish for independence (e.g. personal and economic success, autonomy, making one's own decisions) as a key motivator in business start-ups¹¹⁰, dissatisfaction with the current employment, a desire for improvement of professional life, and the opportunity to realize their ideas and satisfy a need of achievement by creating something themselves. Beaver and Jennings¹¹¹ underline that, at least in the *UK*, 'money and the pursuit of a personal financial fortune are *not* as significant as the desire for personal involvement, responsibility and the independent quality and style of life which many small business owners strive to achieve'.

One of the main reasons why new entrepreneurs start their own business in *The Netherlands* is because they want to be their own boss,¹¹² also because having a business of their own gives them better possibilities to combine work and family related tasks. This reason is mentioned specially by starting women entrepreneurs.

In *Germany*,¹¹³ *Sweden* and *Finland*, the opportunity of being independent and to realise one's ideas seem to be the factors mostly affecting enterprise birth, together with market-pull factors. Among the motivational factors, the desire to be independent and of self-realisation leads to the birth of most companies in *France*,¹¹⁴ where founders consider that a professional path is more interesting if it includes the experience of a company creation.

Apart from environmental conditions (especially the expansive economic situation), which seem to play an important role in the creation and development of enterprises in *Spain*, the wish for personal independence, the opportunity to put into practice their own ideas and the social and economic success remain as the main reasons that moves new founders.¹¹⁵

108 Deutsches Institut für Wirtschaftsforschung e.V. (DIW), Zunehmende Selbständigkeit in Deutschland von 1990 bis 1996. Starke Veränderungen im Bestand (Increasing self-employment in Germany in the period 1990 to 1996. Huge changes in the stock of the self-employed), in: DIW-Wochenbericht, Vol. 65, Nr. 38/1998.

109 Deakins, D. and Whittam, G., Business start-up: theory, practice and policy, in: Carter, S. and Jones-Evans, D., Enterprise and Small Business: Principles, Practice and Policy, Financial Times/Prentice Hall, Harlow, UK, 2000.

110 Barrow, C., The Essence of Small Business, Second Edition, London, Prentice Hall, 1990. SBRT, Quarterly Survey of Small business in Britain (Nat West), 1996.

111 Beaver, G., Jennings, P.L., Picking Winners: the art of identifying successful small firms' in Hussey, D. (ed), International Review of Strategic Management, Vol.6, John Wiley, Chichester, UK, 1995.

112 EIM firm founders panel 1998-2001 (EIM database with detailed information on entrepreneurs who started their own business in 1998, 1999 or 2000)

113 Impulse: Dresdner Bank (eds.), MIND- Mittelstand in Deutschland (MIND - SMEs in Germany), Cologne, 1999.

114 APCE - Agence Pour la Création d'Entreprises, La création/reprise d'entreprises en 2000, Paris, 2001, (Agency for the creation of enterprises, The creation/take over of enterprises in 2000, Paris 2001).

115 Garmendia, F., Echeverría, J. M., Creación de empresas en Euskadi: Del objetivo cuantitativo de los ochenta al objetivo cualitativo de los 90 (Creation of enterprises in the Basque Country: From a quantitative objective in the Eighties to a qualitative objective in the Nineties), in: Estudios Empresariales, n° 92, pages 6-20, San Sebastián, 1996.

The key influences for *Portuguese* entrepreneurs are individual motives rather than external factors. Firstly, they consider autonomy as the major benefit (independence, but also the will to show their professional capacity), closely followed by economic necessity (resulting from difficulties in finding a job and/or the desire to set up their own business) and the desire for change.¹¹⁶ Other important factors also include social recognition, making the best of an opportunity, and an interest in investing or increasing current income. By contrast, social advancement is a relatively less important factor in the start-up of companies. It is interesting to note that economic necessity is of special importance to women and to young entrepreneurs. Entrepreneurs with higher educational qualifications are led by market opportunity, as well as the desire for change, as main motivating factors.

In *Iceland*, individual factors like personal fulfilment of life and autonomy are the most common motivation behind the start of a business. Women entrepreneurs more often quote unemployment and income increases as important reasons.

A sound business environment (high per capita income, functioning infrastructure, low tax rates, etc.) and the desire for greater autonomy are the most important factors for stimulating enterprise birth in *Liechtenstein*.

Establishing a new enterprise in *Norway* is not only an economic decision, but also depends heavily on social factors such as support from family and friends¹¹⁷. People who wish to work on their own and to use their own resources and abilities are most likely to establish new enterprises, as well as who have entrepreneurs in their families.

New entrepreneurs in *Switzerland* start-up their own business because of their wish for independence and self-realisation. Flexible working hours, market opportunity and less satisfaction in the previous job follow in importance, whereas increase in income and other personal reasons (marriage, death, family tradition, etc.) are almost irrelevant.

The results of the analysis of personal motives influencing enterprise birth (together with the working and educational background, that has been analysed in the first section of this chapter) can be summarized as follows¹¹⁸:

- Pragmatic businessmen: this group sets up their own company as a result of the previous experience, either as an employee (in most cases qualified) or a manager (or also an entrepreneur, even if in a different sector). They begin their entrepreneurial activity later in their careers, taking advantage of a business opportunity, also as a sub-contractor when their former employer out-sourced their job.
- Risk-takers: they start a new business in order to achieve autonomy and independence and consider this experience as a new challenge. They have a good contacts network, strong management capability and an enhanced self-image.
- Insecure businessmen: they set up their own company in order to avoid unemployment, but also to achieve personal fulfilment, independence and autonomy, even if in a moderate manner. This group includes younger entrepreneurs and most female entrepreneurs.
- Established entrepreneurs: they became businessmen in order to continue a family business and provide security to their respective families. This is the group that feels more secure and has the highest standard of living when beginning this experience.
- Ambitious entrepreneurs: the principal motivations of this group are the need for approval and social advancement. This group is most influenced by personal motives (better earnings, a wish to decide their own work situation, dissatisfaction with current employment, etc.) and by environmental considerations in the decision to set up a new company.

116 Gonçalves, M., *O Empreendedorismo em Portugal (Entrepreneurship in Portugal)*, Instituto Superior das Ciências do Trabalho e da Empresa (Higher Institute for Work and Company Sciences), 2000. This study is based on analysing the results obtained by surveying businessmen who set up their own enterprises in the Centres for Enterprise Formalities (CFE – the Portuguese one-stop shops for handling administrative matters, specially for new settlements), between October 1999 and January 2000.

117 Spilling, O. (red.), *Entreprenørskap på norsk (Entrepreneurship in Norway)*, Fagbokforlaget, Bergen, 1998.

118 The definition of these groups has been adapted from Costa Pereira, *Representação Social do Empresário (A Social Representation of the Businessman)*, Sílabo Publishers, 2001.

4.1.4. External support to enterprise birth

This section of the report focuses on the institutional framework of start-ups, which comprises:

- The public support system and its role in 'pushing' towards self-employment;
- The services supplied both by private and public organisations, available to new entrepreneurs before and after the crucial moment of firm creation.

Direct interventions such as grants by the state in the field of enterprise creation and development are becoming more and more limited in EU countries, as specified in the fifth chapter of this report. Most instruments available either on state or local levels tend, instead, to create favourable conditions for business start-ups¹¹⁹ and growing enterprises, such as simple, fast and cheaper¹²⁰ registration procedures, fewer administrative burdens, etc. and provision of information, advice and consulting.

At regional level, some initiatives promote the creation of firms and the location of firms from outside (even from foreign countries) through a combination of measures, such as information and contacts, fiscal measures, land leasing, facilitation of work permits, grants, and financial guarantees, and access to R&D facilities.

These developments are widespread in EU countries. For instance, the role of *Swedish* government is more about creating good conditions for individuals and enterprises and less about supporting sectors or companies financially. However, the government has a role when it comes to stimulating new business start-ups, developing entrepreneurs and helping innovators to enter the market. A quantitative evaluation of the effect of the start-up grant, based on a follow up survey of newly started enterprises after three years of operation, showed a positive correlation between the start-up grant and the employment rate¹²¹. This is especially valid for persons with an immigrant background, those with an occupational handicap and persons over 55 years old. The prerequisite to receive the start-up grant is unemployment or running the risk of being unemployed.

State assistance has a significant impact on the formation of firms in *Ireland*, as a consequence, the degree of availability of state grant aid (i.e. the more or less restrictive approach to state grant aid for start-ups) has a considerable influence on start-up rates. Non-financial support from public agencies also appears to have had a substantial impact on new business formation; many of the new high-technology firms received significant state financial assistance in the start-up stage, in the form of grant-aid or loan guarantees, and some would not have been founded without this assistance. All of these enterprises benefited from some form of state intervention for their emergence and subsequent development.

Incentives have played a crucial role in raising the level of start-ups in *Denmark*. These incentives stimulating the start-up rate are both direct (as the initiatives to innovative entrepreneurs concerning pre-seed and seed capital, as well as consultancy) and indirect (in the case of the home service initiatives, where the government pays 50% of the costs to families that have their house cleaned).

Almost half of craft enterprises in *Luxembourg* have benefited from public assistance (52% of the new start-ups in this sector) and claimed they would not have had enough financial means without the official support.

Evaluations of different support programmes developed in *Norway* have indicated that many new enterprises have been established as a result of incentives¹²², mainly investment subsidy. About half of those who received support, meant that it was decisive for the establishment. At the same time, it seems that enterprises founded without financial support do survive longer and achieve higher incomes.

Apart from these cases (which mainly refer to specific sectors, as high-technology and crafts), the analysis of national studies shows that public financial grants (especially when not accompanied by support services) do not play a key role in enterprise birth. In fact, a large share of founders would have created their firms irrespective of such support available and most enterprises, which have taken advantages of public incentives, consider their

119 This typology of measures ranges from developing the right motivation at school to providing a conducive physical environment for bringing a business idea to fruition. The EU project SMIE (Support Measures and Initiatives for Enterprises) provides information on good practices at Member States level in support measures and assistance to start-ups on three main issues (training; finance; incubator infrastructure and innovation support). See e.g.: <http://forum.europa.eu.int/irc/sme/euroinformation/info/data/sme/en/gpbsm/startups.html>.

120 National policy measures aimed at a cheaper and faster enterprise start-up (as well as those of other priority areas of enterprise life) have been collected and described in: http://europa.eu.int/comm/enterprise/enterprise_policy/charter_directory/index.htm.

This EU initiative to exchange information on measures in favour of entrepreneurship and competitiveness in these fields has been developed as a way of disseminating the large amount of information that was gathered as a result of the Report on the Implementation of the European Charter for Small Enterprises (COM(2002)68 final of 06.02.2002). It is hoped that this will assist those who are seeking to exchange good practices as well as those who are looking for more general information about initiatives and services offered by public authorities in Europe.

121 AMS, Support for entrepreneurial start-ups, Factsheet: 2001-12.

122 Spilling, O. (red.), *Entreprenørskap på norsk (Entrepreneurship in Norway)*, Fagbokforlaget, Bergen, 1998.

effect as small. In other words, financial grants are considered as a major influence only by a limited group of enterprises.

Public policies to support new businesses financially in the Eighties appear to have had only a marginal effect on birth rates and as compared to structural and cyclical changes within the UK economy¹²³. More recent examinations of small business policy in the UK¹²⁴ point to the fact that such policies (even where targeted at small firms) rarely achieve a substantial take-up, which might be explained by the following three points: firstly, in the perception that accepting external support threatens personal autonomy; secondly, that policies are 'top-down' in character; thirdly, that they tend to ignore the heterogeneity of small firms or the specific characters of localities.

In general, young entrepreneurs in *Austria* are less and less interested in incentives. Public support measures, which are considered as efficient, are tax relief, one-stop-shops for support and one-stop-shops for industrial licenses. Other incentives are (according to their importance) one-stop shops for advice and training, liberalisation of the trade's law (*Gewerbeordnung*), jobless insurance, and a saving scheme for start-up capital.

The public sector does not have a real impact on the promotion and creation of new enterprises in *Spain*¹²⁵, perhaps because no specific policy on this topic exists. Although 76% of new entrepreneurs are aware of the existence of institutions that promote new enterprises, just one out of three new enterprises uses them.

Approximately 40% of a sample of *German* firms in Northrhine-Westphalia, which entered the market in 1999, made use of public support programmes¹²⁶. Almost two thirds of all public supported new firms did not have sufficient equity capital, as compared to 39% of the non-supported new businesses.

Despite the amount of support available for *Portuguese* enterprises, only 1/3 plans to resort to incentive schemes supporting the establishment of enterprises. However, this result should be viewed cautiously, as it is mostly the enterprises in manufacturing that responded positively to this issue, since for a long time a substantial part of the support in Portugal was only aimed at industry.

Support services are generally considered as an enabling factor for enterprise creation. Consultancy and advice, available at public and/or private organisations, usually cover the implementation of the business idea, finance, taxation issues, training, legal affairs, choice of location, market research and market information, quality certification, etc. Business owners mainly refer to individual consultants (as tax consultants and accountants), private consulting companies and banks, but in some countries (namely *Austria*, *Italy*, *Luxembourg* and *The Netherlands*) Chambers of Commerce (or Craft Chambers) and business associations also offer reliable services for the start-up phase.

The need for advice and other services varies also according to the sector of activity. For instance, firms operating in business services tend to use outside experts less than others.

There is a positive correlation between the founder's educational level and the utilisation of support services: the higher the education, the more active people are in using private or semi-public advice services. Unemployed, and especially long-term unemployed, take advantage of public advice services systematically.

The interest to resort to consultants in order to draw up the plan for setting up an enterprise is in most cases linked to the intention of applying for public financial support. Many *Italian*¹²⁷ new entrepreneurs (60.2%) choose to rely primarily on inside resources in taking care of all, which is necessary to create and start a company (bureaucratic papers, credit, business planning, support in foreign markets, etc.). In many cases the main resource was the entrepreneur himself. Less often outside experts were called upon, mainly in more complex areas such as entering foreign markets or establishing quality certification.

Two new *Austrian* entrepreneurs out of three said that they have made use of professional support, especially on taxation issues and training. Half of new *French* entrepreneurs have needed an advisor (especially an accountant), one third has undertaken a market study. Unlike *Finnish*¹²⁸ founders, who seldom used external training services.

123 Storey, D., *Understanding the Small Business Sector*, London, Routledge, 1994.

124 Curran, J., *What is Small Business Policy in the UK For? Evaluation and Assessing Small Business Policies*, *International Small Business Journal*, 18(3), 2000.

125 Garmendia, F. and Echeverria, J. M., *Creación de empresas en Euskadi: Del objetivo cuantitativo de los ochenta al objetivo cualitativo de los 90* (Creation of enterprises in the Basque Country: From a quantitative objective in the Eighties to a qualitative objective in the Nineties), in: *Estudios Empresariales*, nº 92, pages 6-20, San Sebastián, 1996.

126 Institut für Mittelstandsforschung Bonn (ed.), *Wissenschaftliche Begleitforschung 1998/99 und Würdigung der Gründungs-Offensive Nordrhein-Westfalen 'GO!' NRW* (Scientific accompanying research 1998/99 and evaluation of Northrhine-Westphalia's start up initiative 'GO!' NRW), in: IfM-Materialien Nr. 142, Bonn, 2000.

127 Unioncamere, *I nuovi imprenditori: caratteristiche, motivazioni e prospettive di crescita* (New entrepreneurs: characteristics, motivations and growth perspectives), Roma, 2001 (mimeo).

128 Kivimäki, E., *Uusien yritysten synty, kasvu ja työllisyysvaikutukset. Tutkimus Espoon, Kauniaisten, Kirkkonummen ja Siuntion alueelta vuosina 1994 ja 1995* (Study of the birth, growth, employment impacts of new enterprises set up in the area of Espoo, Kauniainen, Kirkkonummi and Siuntio), Ministry of Labour. Labour Policy Reports No. 195, Helsinki, 1998.

Personal relationships are important, as support from friends and family are frequently the main sources for 'external' advice. 'Informal' exchange of experience with other founders can also have a positive effect during the start-up phase. Attending business classes, specifically designed to promote entrepreneurship, seems not to be necessarily associated with enterprise creation¹²⁹ or successful business development. However, there is a strong link between training and technical assistance for the design of the business plan conditional for public funding. This has been recognised by policy makers in some countries, as recent measures aimed at supporting enterprise creation show (see chapter 5 below).

4.1.5. Sources of finance for enterprise start-ups

Lack of financing for basic investments is generally the most important barrier for creating a new firm. According to several studies conducted at national¹³⁰ and international¹³¹ level during the last few decades, this is true especially in the relationship with the institutional sources of finance (banks, etc.), since business founders are typically short of collateral, which weakens their position in financial negotiations.

The ENSR Enterprise Survey 1999¹³² results illustrate the situation in respect to the access to different sources of finance by enterprises, which were less than 5 years old ('Early Stage Enterprises')¹³³. The results of this survey provide information on the principal source of funds used at the moment of the establishment of enterprises:

- Two enterprises out of three started with owners' funding as main source of finance;
- Only one fifth took recourse to bank credit as their main source of funding;
- 'Love money' (i.e. relatives and friends' money), as well as venture capital, seldom appear as principal source of funding, but it seems to be an important complementary source of funding.
- Literature reviews carried out at national level confirm this general overview.¹³⁴

The start-up capital of new firms consists mainly of founder's personal savings. A considerable number of new enterprises start very small and therefore needs no external funds. Nevertheless, private loans, coming from family or friends are an important source.

New enterprises in *Italy* start as tiny undercapitalised units¹³⁵. For three firms out of four (with insignificant variations among the sectors), the total initial investment was lower than €25,800. They were mostly financed with capital owned by the creator (89%) or with 'love money' (loans from relatives or friends). Financing with own money is the most important way of financing for new enterprises in *The Netherlands*, as well. Recent researches¹³⁶ indicate that, also in *UK*, SMEs (and especially micro businesses) tend to be markedly less dependent on external finance and suggest that most of start-up businesses use personal funds as an initial source of finance (60% of the cases). These findings are consistent with the 'pecking order' hypothesis, which suggests that firms will use internal sources of finance prior to seeking external funding¹³⁷.

In cases where the owners provides much of the start up funding they also take no remuneration from the enterprise in the start up years but live off the remaining capital not invested in the enterprise and for those which do take a remuneration, a large portion of them earn less than in their preceding activities.

129 Jungbauer-Gans, M. and Preisendörfer, P., Verbessern eine gründliche Vorbereitung und sorgfältige Planung die Erfolgchancen neugegründeter Betriebe? (Does a thorough preparation and careful planning increase success chances of newly founded firms?), in: Zeitschrift für Betriebswirtschaftslehre, Vol. 43, Nr. 11/1991, p. 987-996.

130 Gratz C., Heinrich G., Lettmayr C., Oberholzner T., Parger T., Seipl A., Barrieren für potentielle Unternehmensgründer. Study on behalf of the Federal Ministry for Economic Affairs by the Austrian Institute for Small Business Research (IFGH), Vienna, IFGH, 1996. Fielden, S.L., Davidson, M.J. and Makin, P.J., Barriers encountered during micro and small business start-up in North-West England, in: Journal of Small Business and Enterprise Development, 7(4), Winter 2000, pp295-304.

131 European Commission, The European Observatory for SMEs - Sixth Report, submitted to the Enterprise Directorate General by KPMG Consulting, EIM Business & Policy Research, and ENSR, Luxembourg, 2000. Reynolds, Paul D. et al., Global Entrepreneurship Monitor, 2000 Executive Report, Babson College, Kaufmann Centre for Entrepreneurial Leadership, London Business School, 2001. UNICE, Fostering Entrepreneurship in Europe, the UNICE Competitiveness Working Group, 1999.

132 European Commission, The European Observatory for SMEs - Sixth Report, submitted to the Enterprise Directorate General by KPMG Consulting, EIM Business & Policy Research, and ENSR, Luxembourg, 2000.

133 By nature, these enterprises need funds to finance both their fixed assets and their working capital. It is also important to emphasise the difference between long and short term loans. Whereas long term financing provides certain independence and allows for investment financing, short term financing only allows the financing of working capital.

134 Specific information on the role of sources of informal finance (money from relatives and friends, venture capital, Business Angels) that enterprises in the seed and start-up phases can attempt to draw on was presented in previous Observatory Reports. See: European Commission (2000), The European Observatory for SMEs - Sixth Report, submitted to the Enterprise Directorate General by KPMG Consulting, EIM Business & Policy Research, and ENSR, Luxembourg, 2000.

135 Unioncamere, I nuovi imprenditori: caratteristiche, motivazioni e prospettive di crescita (New entrepreneurs: characteristics, motivations and growth perspectives), Roma, 2001 (mimeo).

136 Barclays Bank, Research Review- setting-up in Business, 1999. ESRC Centre for Business Research, British enterprise in Transition, 1994-1999, Cambridge, UK, 2000.

137 Cosh, A.D. and Hughes, A., Size, Financial Structure and Profitability: UK Companies in the 1980s, in: Hughes and Storey (eds), Finance and the Small Firm, 1994.

The small size of *Portuguese* start-ups is also reflected by low share capital and initial investment: most are set up with the minimum share capital, and close to 80% of new entrepreneurs planned to invest less than €50,000 in the first year. The sectors with greater initial investment levels are manufacturing, construction and the hotel and catering sector. Entrepreneurs usually use their own money for the initial capitalisation of an enterprise often with family members taking equal shares in a partnership. This is explained by the fact that most new enterprises are made up of entrepreneurs from the same family. As a consequence, after personal savings, loans from family members are the second most usual source of finance for new entrepreneurs, together with bank loans.

Lower investments tend to be financed with capital owned by the creator; the greater the investment, the more external 'formal' sources, such as bank credit and venture capital funds, are needed.

In *France*, 22% of creators rely on bank borrowing, 10% of them used a reimbursable loan, less than 1% had external risk capital, and 2% received a grant¹³⁸.

Approximately 80% of SMEs operating in science parks in *Finland* have applied for external funding at the start-up phase. Sources for external funding were in order of popularity: grants, secured loan, unsecured loan, equity loan, selling of own shares, convertible promissory note and unsecured loan with stock options. The technology firms studied did not consider availability of external funding that difficult. In most cases the financing of new enterprise is organised through personal and bank financing as well as through cash flow financing¹³⁹.

In *Ireland*, the main sources of finance were personal savings and loans/overdrafts from banks. It has frequently been argued¹⁴⁰ that the poor availability of seed and venture capital has constrained the development of entrepreneurship in that country. But there has been a significant change in the past few years, with a substantial increase in venture capital funds available for investment, and a substantial proportion of this going to seed and start-up investments.

Within the last years there have been several public initiatives to create and stimulate a venture capital market in EU countries. This led to a substantial increase in venture capital funds. These initiatives, especially those focusing on innovative start-ups, seem to be quite successful, as in the case of *Denmark*.

4.2. Survival or end of enterprise life after start-up

4.2.1. Determinants of survival and patterns of growth

The factors, which affect the survival and growth (both in terms of employment and economic performances) of newly created enterprises, refer to a variety of issues, frequently interrelated. Reasons that could explain these phenomena fall broadly into two main categories: macro-level (i.e. enterprise external and, as a consequence, more relevant for policy design) and micro-level (i.e. enterprise and entrepreneur specific) influences.

Table 4.2, presents an overview of factors that affect survival, distinguishing between macro- and micro-level effects. Main findings from literature collected by ENSR partners suggest that growth prospects are affected by a complex range of influences, some of which are beyond the control of the individual organisation (e.g. the intensity of competition in an industry and the general macroeconomic environment.)

138 APCE, Banque de Développement des PME, Caisse des Dépôts et Consignations, Le financement des plus petites créations d'entreprises (Financing of the smallest companies creation), 2000.

139 Littunen, H., Uusien yritysten menestyminen – Seurantatutkimuksen loppuraportti ja johtopäätökset (The success of new firms – Summary report of followup study and conclusions), Ministry of Trade and Industry, Studies and Reports, 8/2000, Helsinki.

140 O'Gorman, C. and Jones-Evans, D., Review of Entrepreneurship in Ireland, Report to Forfas, 2000 (mimeo).

Table 4.2: Main micro- and macro-environmental factors that affect survival and expansion of newly created enterprises

	<i>Macro-level</i>	<i>Micro-level</i>
Positive effect	Favourable economic situation Favourable regional conditions Favourable sector performances Technological development Support services and advice Public business services support	Creator and employees qualifications Creator and employees experience in the activity Management skills Financial resources Market internationalisation Networking capabilities Firm already existing (take-over) Productive diversification
Negative effect	Insufficient demand Market competition Administrative burdens Burdensome social and fiscal legislation Malfunctioning of labour market Financial system	Individual ownership structure Limited invested capital

Source: ENSR, 2001.

In terms of framework conditions, lack of labour resources, administrative burdens and other malfunctioning of labour markets are (together with unfavourable market developments and burdensome social and fiscal legislation) the most important external factors for the survival and growth of start-ups. The wage level exerts a negative impact in 'traditional' manufacturing sectors, but plays only a minor role as (significant) cost factor in innovative firms¹⁴¹.

Some studies¹⁴² also refer to the negative impact on enterprise development of poor communication networks and the lack of industrial locations, hindering logistic and distribution.

Sectoral differences in enterprises survival rates show that business service firms live through the critical first three years of existence more frequently than manufacturing firms¹⁴³. In terms of industry specific characteristics, it has been found that the likelihood of survival is lower in R&D intensive industries and in industries that are capital intensive and where scale economies play an important role.¹⁴⁴ On the other hand, entry into medium and high technology sectors can slightly enhance the prospects of survival.¹⁴⁵ Moreover, life duration of enterprises is generally presumed to be higher in the craft sector than in other sectors.

141 Generally speaking, the innovation of an enterprise has a positive effect on enterprise survival and growth. Innovation of an enterprise correlates closer with growth of turnover than with growth of employment but there still is a positive effect on employment. More innovative trades (high-technology and medium-high technology trades) have a significantly higher employment growth than medium low or low technology trades. For more information on high tech SMEs, see: European Commission, Observatory of European SMEs, High Tech SMEs in Europe; Report submitted to the Enterprise Directorate General by KPMG Special Services, EIM Business & Policy Research, and ENSR; Brussels, 2002.

142 Erquiaga, E., La incidencia del entorno en la competitividad de la pyme: empresas de alto rendimiento (Influence of the environment on the competitiveness of SMEs: outstanding enterprises'), in: Alta Dirección, nº185, pages 65-74, Madrid, 1996.

143 See, among the others, a follow-up study conducted among 200 Finnish enterprises during the Nineties: Littunen, H., Uusien yritysten menestyminen – Seurantatutkimuksen loppuraportti ja johtopäätökset (The success of new firms – Summary report of follow-up study and conclusions), Ministry of Trade and Industry. Studies and Reports, 8/2000, Helsinki.

144 Audretsch, D.B., P. Houweling and A.R. Thurik, Firm Failure and Industrial Dynamics in The Netherlands, EIM, Zoetermeer, November 1998.

145 Mata, J. and Portugal P., How does new firm survival vary across industries and time?, Banco de Portugal, 1993.

Studies carried out in *Ireland*¹⁴⁶ used econometric techniques to regress lifetimes or durations of manufacturing enterprises on various explanatory variables. They found that the duration of firms, or their probability of survival, was positively related to the growth rate of their own sector, size of firm relative to minimum efficiency scale (as specified below), and the fact that firms perform R&D.

It seems that both enterprises with positive and enterprises with negative results have a similar perception of the threats and opportunities derived from the environment. The main differences refer to the situation of the sector (much more threatening in the opinion of those enterprises with negative results) and to market competition (fall or lack of demand, pressures from competitors, etc.). Other relevant issues refer to the entrepreneurial climate: tradition, international open-mindedness, appeal to international capital markets, etc.

As far as the enterprise-specific factors are concerned, the analysis of the literature available on the subject indicates that previous entrepreneurial history and management experience (especially in designing market strategies) generally increases survival chances.

Patterns of growth and survival¹⁴⁷ indicate a set of characteristics of successful start-ups. Survival rates increase with firm size¹⁴⁸; and being located in a large city region¹⁴⁹ is also positively related to survival.

There is general agreement in the literature (Storey¹⁵⁰, Jovanovic¹⁵¹) that the job generating potential of new firms is most apparent during the initial phase. Enterprises are usually founded with a sub-optimal size and realise relatively high growth rates in the first three years of their existence. Their small market entry size requires them to grow in order to reach minimum efficiency size, which, once reached, allows a profitable way of production. Nevertheless, some founders prefer to stay small because a large number of employees are, in their view, often associated with increasing administrative burdens. One of the greatest barriers to growth seems to be the hiring of the first employee:¹⁵² in order to cover the costs of employing the first worker, enterprises may have to double their turnover.

Some differences have been detected according to the economic sector of the firm. Firms in the manufacturing sector show the highest growth in terms of employment, since minimum efficiency sizes are higher in these industries; trade and personal services companies' record relatively weak employment growth.

Besides enterprise age, size and sector of activity, some legal forms also seem to be associated with growth. Capital companies such as limited liability companies and share companies have higher growth rates. Direct investments from abroad show different development patterns compared to endogenous firms: for instance, foreign-owned firms in *Ireland*¹⁵³ (which are mostly LSEs) had better survival rates than *Irish*-owned firms.

Furthermore, the previous existence of the firm itself (i.e.: take-overs of an already existing firm) and the participation of another enterprise providing equity capital, management advice and know-how seem to act favourably on the survival and growth of young firms. The analysis of the characteristics of *Austrian* enterprises established in 1990 and still in business in 1995¹⁵⁴ shows that enterprises established by founders with more than one trade licence (i.e. active in more than one industry) have higher survival chances.

The network of relations with other firms (co-operation, sub-contracting, consortia, associations, etc.) also has a positive effect on survival rates. In fact, entrepreneurial team-driven enterprises in which several people participate in strategic management survive better than enterprises active (only) in creating external networks.

Especially in innovative firms, higher qualifications (general academic degree, specific training in the sector of activity of the enterprise and training in business management) of entrepreneurs and personnel are extremely relevant. Still survival correlates closer with the volume of invested capital, than with entrepreneurial quality.¹⁵⁵

146 Konings, J. and Walsh P., The Real Effective Exchange Rate and the Life Expectancy of Manufacturing Plants in Ireland (1973-1994), Paper presented to the annual conference of the Irish Economics Association, 1997 (mimeo).

147 See, among the others, an empirical work on Spanish manufacturing sectors over the period 1990-1995 (Fariñas, J. C. and Moreno, L., Size, age and growth: an application to Spanish manufacturing firms, in: Documentos de Trabajo del Programa de Investigaciones Económicas, nº9705, Madrid, 1997).

148 Audretsch, D.B., P. Houweling and A.R. Thurik, Firm Failure and Industrial Dynamics in The Netherlands, EIM, Zoetermeer, November 1998.

149 This applies in Sweden for the Stockholm region. See: Institute for Policy Studies (ITPS) & Statistics Sweden.

150 Storey, D. J., Firm Performance and Size: Explanations from the Small Firm Sectors, in: Small Business Economics, 1, 1989, pp175-180.

151 Jovanovic, B., Selection and the Evolution of Industry; in: Econometrica, Vol. 50, 1982, p. 649-670.

152 See: European Commission, Observatory of European SMEs, Recruitment of Employees: Administrative Burdens on SMEs in Europe;; Report submitted to the Enterprise Directorate General by KPMG Special Services, EIM Business & Policy Research, and ENSR; Brussels, 2002.

153 Konings, J. and Walsh P., The Real Effective Exchange Rate and the Life Expectancy of Manufacturing Plants in Ireland (1973-1994), Paper presented to the annual conference of the Irish Economics Association, 1997 (mimeo).

154 Wanzenböck, H., Überleben und Wachstum junger Unternehmen. Vienna – New York, Springer, 1998. Wanzenböck investigated growth of enterprises established in 1990 and used the number of employees as indicator. Of all new members of the Austrian Federal Economic Chamber in 1990 (27,200 new members) a sample of 504 cases that qualified as start-ups was drawn in several steps of selection and analysis.

155 Lamontagne, E., Thirion, B., Créations d'entreprises : les facteurs de survie – les qualités du projet piment sur celles du créateur (Companies creation : the survival factors – the project qualities surpass the creator qualities), INSEE Premiere, n°703, 03/2000.

A study carried out in the *United Kingdom*¹⁵⁶ on the variables that might determine the life duration of very small firms arrives at the conclusion that the 'talent' characteristics (i.e. personal characteristics/human capital) are only of modest importance, being least relevant, where young firms are concerned. Moreover, also firm-based indicators such as age, sector, size and locality are of greater significance than the 'talent' characteristics such as the age, qualifications or business background of the owner.

Survival and growth of enterprises is strongly linked to the business strategy: firms with active attitudes towards the market (in terms of differentiation, innovation and quality) get better economic results (return rates, production, market share). According to a *German study*¹⁵⁷, young enterprises can be generally grouped, according to the main strategy followed, in 'open' or 'determining' enterprises. The first ones are created in response to an already existing (market) demand and they are strongly dependent upon the prevalence of this demand. The range of offered goods and services is rather broad and neither fixed nor innovative. They usually face strong competition from other firms with a similar range of offered goods and services. By contrast, 'determining' new firms offer autonomous, less differentiated, but mostly innovative products or services, thus, exerting a determining influence on the market. 'Determining' start-ups can reach their strategic aims usually only through further growth, whereas 'open' enterprises, by contrast, mainly focus on the preservation of the business and less often produce substantial employment effects.

A survey carried out in *Switzerland* by the OFS (*Office Fédéral de la Statistique*) on the survival rate of the newly created enterprises in 1996-1997 shows that survival rates are higher the larger the enterprise is. In general, the legal, institutional and regulatory environment for the creation and growth of enterprises in Switzerland is positive, by international comparison. Nevertheless, surviving firms complained about the lack of highly qualified people (especially in finance, IT and other research intensive activities), as well as limited access to finance in those cases in which new enterprises are very small and have little equity capital.

One of the main conclusions from the comparative analysis of literature available at national level is that the entrepreneur's motives for start-up exert significant influence on survival and growth. Business starters wishing to achieve high profits differ from those who only intend to develop a sufficient income source. On the other hand, enterprises, which are founded in order to create high profits, face a higher probability of closure. Enterprise owners with sector experience and with income substitution motivation show the highest survival rates¹⁵⁸.

With reference to the start-up motives, former, impending or actual unemployment does not seem to exert a significant impact on business survival.

In conclusion, business starters motivated by income substitution motives display higher survival chances but significantly lower employment growth rates. Support policies focusing on employment creation should therefore rather focus on 'aggressive', highly profit-oriented start-ups, which offer more positive prospects for significant growth but are also more vulnerable to failure.

Employment effects of entries and exits are not easy to determine. Apart from limited data availability, employment effects are difficult to evaluate comprehensively because it is frequently not possible to capture indirect effects as employment substitution or growth in related companies. It can be assumed that innovative start-ups are less connected to substitution than non-innovative firms.

4.2.2. Factors mainly affecting enterprise closure

Quantitative information available on business demography does not reflect the real dimension of the phenomenon of enterprise death. As already described when analysing definitions of exits in Europe-19 countries, the disappearance of a business unit from a register (whatever its nature is) does not necessarily imply the closure of an enterprise.

¹⁵⁶ Storey, D. and Wynarczyk, P., The Survival and Non Survival of Micro Firms in the UK, in: Review of Industrial Organization, 11, 1996, pp. 211-229.

¹⁵⁷ Brussig, M. et al., Ökonomische Probleme und Entwicklungspotentiale in ostdeutschen Kleinbetrieben (Economic problems and development potential of eastern German small businesses), in: Brussig, M. et al., Kleinbetriebe in den neuen Bundesländern, Opladen, 1997.

¹⁵⁸ A study carried out on a cohort of eastern German original start-up entering the market in 1991 (Hinz, T. and Ziegler, R., Gründungsmotive und Unternehmenserfolg (Motivation for start up and enterprise success), in: Mitteilungen aus der Arbeitsmarkt- und Berufsforschung; Vol. 32; Nr.4/1999, p. 423-433) explains these behaviours with different individual thresholds of performance set by different types of business owners. The threshold of performance is the level of performance below which the owners will act to dissolve the new firm. This implies that survival is not strictly a function of economic performance, but of performance relative to an owner-specific threshold. The threshold of performance is determined by the individual motivation and achievement demands as well as by the personal alternative opportunities. Enterprise starters pursuing mainly income substitution motives generally dispose of less alternative (self-) employment opportunities. Therefore, they set lower thresholds of performance and stick to self-employment even if it generates only a modest return (which under the same conditions would induce highly profit-oriented starters to close down the business).

Moreover, it is impossible in most countries to link exit data to previous entries, in order to analyse the life cycle. In other words, whereas there is information that allows analysis of enterprises that survived the critical first stages, data and literature available do not cover enterprises that fail in the establishment stage.

All in all, the few studies available at national level underline that business closures are not exclusively due to financial failure. In the case of individual ownership, a large part of business closures is due to the decision of the owner to take advantage of an alternative job opportunity. Those start-ups, which have been mainly motivated by unemployment, clearly differed with respect to the causes of business closure, as those were mainly caused by insufficient profitability. These closures were seldom accompanied by high losses due to the rather defensive and cautious strategies. Other groups consist of those entrepreneurs who close without realising any significant financial losses and those who failed to find a successor.

Summing up, it is clear that in many cases it would be more appropriate to talk of business 'disappearance' rather than business failure. A more differentiated attitude towards business liquidations would be helpful to avoid the negative stigma, which has been often associated with business closures, and which does deter some potential entrepreneurs, who are afraid of the image aspects of possible failure.

The competitive environment is also relevant to the survival of new firms. The higher the rate of firm creation in a sector, the lower the life expectancy of new units, which is consistent with the correlation between entry and exit rates. Most studies¹⁵⁹ link the forced closure of young enterprises to a combination of outside events, unfavourable owner-manager characteristics and managerial defects. Most frequent management failures are:

- Business idea has not been considered carefully from entrepreneur's and enterprise's viewpoint;
- Insufficient amount of start-up funding, enterprise runs out of working capital before revenues start pouring in;
- Entrepreneur has been over-optimistic when examining size and quality of the market;
- Competitors have been underestimated;
- Entrepreneur has not invested properly in training either for him/herself or for his/her personnel, particularly in fields of small business management.

A study analysing the *Austrian*¹⁶⁰ situation identified reasons linked to the lack of strategic and managerial capabilities and to the 'carelessness', such as the inability to differentiate and judge economic procedures; mistakes in founding, and inexperience. In the last decade, carelessness and internal mistakes gained importance, whereas reasons linked to the economic environment and the level of competition declined in importance. *Dutch* entrepreneurs mainly indicate external circumstances (lack of clients, competition, etc.), but finance-related and structure-related problems are also relevant.

Entrepreneurs who have been unsuccessful in *Switzerland*¹⁶¹ identify causes linked both to external factors (in particular the fall in demand and pressure from competitors) and internal problems (wrong strategy, bad organisation, lack of internal communications, quarrel between partners, etc.). It seems that enterprises had not been able or did not know how to react correctly to external changes. Enterprise transfer (succession) failures, lack of product quality, technology and wrong products have not been identified as significant causes of failure.

159 Kallio, J., Yrittäjän starttikirja (Guide for Enterprise Start-up), Turku Vocational Adult Education Centre, Turku, 1993.

Burns, P. and Harrison, J., Growth, in: Burns, P. and Dewhurst, J., *Small Business and Entrepreneurship*, Second Edition, Macmillan, Basingstoke, UK, 1996.

Watson, J. and Everett, J. E., Small Business Failure Rates: Choice of Definition and Industry Effects' *International Small Business Journal*, 17(2), 1999.

Jennings, P.L. and Beaver, G., The Managerial Dimension of Small Business Failure, in: Hussey, D.E. *The Implementation Challenge*, John Wiley, Chichester, UK, 1996.

North, D., Leigh, R. and Smallbone, D., A Comparison of Non-Surviving Small and Medium-Sized Manufacturing Firms in London During the 1980s, in: Kaley, K., Chell, E., Chittenden, F. and Mason, C. (eds.), *Small Enterprise Development: Policy and Practice in Action*, Paul Chapman Publishing, London, UK, 1992.

Keeble, D., Walker, S. and Robson, M., *New Firm Formation and Small business Growth in the United Kingdom: spatial and temporal variations and determinants*, Employment Department Research Series No 15, University of Cambridge, UK, 1993.

160 Haendl, K., *Insolvenzursachenanalyse 2000*, Vienna, Press Department of the Kreditschutzverband von 1870 (KSV), 2001.

161 These are the results of a direct survey carried out by Eco'Diagnostic in 1996 on a sample of 120 failed enterprises.

Chapter 5

Developments in policies aimed at enterprise creation and survival

5.1. The growing importance of enterprise creation policies

The question of how to support industrial development came onto the agenda of policy makers in most EU countries following the first petrol shock in 1973. In parallel, the increasing rapidity of technological evolutions implied changes in the industrial tissues and in their organisational patterns, leading to a growth of potential importance of entrepreneurship and particularly of SMEs.

Another issue is the unemployment problems that governments have faced during the last two decades. It has been recognised that entrepreneurship is one of the main sources of new employment creation: small businesses offer job opportunities to a large number of people and, especially during the recession phase, they were better at retaining employment than large businesses.

The issue of business demography has thus become more important than ever, especially since the second half of the Eighties. This implied a need to study the factors favourable to flexible and dynamic markets, so as to (re) direct public policies (also taking into account the typology of the companies to be supported) and to create good conditions for (successful) entrepreneurship.

The information collected by ENSR partners, analysis of literature and interviews with national policy makers, illustrates the evolution of enterprise creation policies at national level, both in terms of aims and tools adopted.¹⁶²

In most EU countries, enterprise creation policies have served as vehicles in order to encourage the creation of employment, especially in less developed areas or regions affected by de-industrialisation processes. However, the reduction of unemployment should not be the only (or strategic main) purpose of enterprise creation policy. New business formation is primarily an important instrument to stimulate growth and modernisation of the productive system, although it will also create jobs.

Therefore, policy making in the field of enterprise creation has to consider the following aspects:

- Enterprise demography allows the renewal of national industrial tissues: obsolete firms will disappear and new ones appear, more adapted to the market needs (as growth in the tertiary sector can show). These new enterprises allow new ideas to emerge / to evolve, so fostering innovation (in terms of technologies as well as services or products innovations);
- The need for greater adaptation of high technologies and increases of innovation capacity pertains to a minority (but growing part) of newly created enterprises: very few of them are technologically innovative or highly job creating, because most new firms are created in self-employment or (economic and social) insertion logics, and have a very small size (mostly with no wage earner);
- Newly created enterprises might improve the performances of the existing companies (services to other companies, networks, technological partnerships, etc.): this is the case in the sector of services like software houses, components and sub-assemblies, waste treatments, etc.;
- Unemployment remains an important (and in some countries the most important) factor affecting enterprise start-up phenomena, and self-employment remains a path to re-employment.

¹⁶² Measures and initiatives carried out at EU level have not been included in this report, since its main objective is to provide a framework based only on national developments.

Moreover, the growing importance of creation of a favourable economic environment for (new) enterprises, leads to lower emphasis on schemes providing direct support (especially financial aid), which as the present Report confirms, are not very effective.

5.2. Aims and tools of policy measures in Europe-19 countries

This section describes by country the development of policies aimed at support for start-ups¹⁶³ and their survival.

Until the Nineties, the reliance on public sector job creation in *Austria* was such that entrepreneurship was not linked with income and employment growth in the public perception. This attitude has been changing in the course of the Nineties, as a consequence of the transformation of business sector (also due to the admission to the EU in 1995). A factor that made politicians put their focus on the topic of business demography was that statistics showed that *Austria* had a very low number of self-employed and of start-ups, compared to other EU-countries (even though a very high survival rates of start-ups has been recorded at the same time). Nowadays, special emphasis is put on the creation of incentives for self-employment in general and of a more 'entrepreneur friendly' environment.

The prevalent idea in *Belgium* is not to have a pure 'quantitative' policy (which means only to raise the number of starters as much as possible), but to combine it with a 'qualitative' policy (which means to increase also the success ratio of starting entrepreneurs). Therefore, more and more emphasis will be on supporting firms through their development, so as to reduce the number of failures. The federal government of *Belgium* has also introduced measures aimed at reducing the differences between the social security status of the self-employed and the status of the employees, in order to increase the mobility between the two conditions.

In *Denmark* the policies have been directed in two directions. First, a set of policies have been focusing on raising the general level of entry by creating entrepreneurial spirit; these policies have been directed mainly towards unemployed and have also focused on developing markets like personal services. The second set is concerned with supporting innovative entrepreneurs (especially by stimulating capital markets), with the aim of stimulating the dynamics in the economy, first of all in the high tech sectors.

During the recession of the early Nineties, start-ups and self-employment were seen as an instrument to decrease unemployment in *Finland*. In general, enterprise creation policies aim both at finding and assisting profitable business ideas/start-up (which in turn have good possibilities to survive and grow, and create employment, too) and supporting the first critical steps and phases of the newly founded companies (i.e. companies which have difficulties in starting up).

Business demography has been considered as a crucial target of policy for the last thirty years in *France*. Nowadays, the company creation policy is more oriented towards a logic based on accompanying, development and perpetuation of new enterprises. As a consequence, there are more reimbursable loans than a few years ago and, on the other hand, less subventions. The latest publication concerning the evaluation of support to company creation was made in 1996¹⁶⁴. Another evaluation mission on these policies has also begun in February 2001¹⁶⁵.

SME start-ups have already been playing an important role in *German* economic policy for quite a long time (approx. for the last 50 years). The on-going major start-up support programme *ERP-Existenzgründungsprogramm* (ERP-business start-up programme), for example, dates back to 1960. The main objective of business creation support, however, changed over the time. Since the beginning of the Eighties, SMEs have been considered as the only enterprises generating new employment (*Mittelstandshypothese*). Therefore, enterprise creation policies have been developed also to generate new employment opportunities and to encourage insertion or reinsertion of unemployed. Especially, since the second half of the Nineties, innovative high-tech SMEs are seen as promising vehicles in order to press forward with structural change and to create a larger number of highly qualified jobs.

There was a good deal of rather indiscriminate support for start-ups in *Ireland* in the 1970s and well into the 1980s, at least for those in manufacturing and internationally traded services. From about the mid-Eighties, however, there was a good deal of questioning about the approach to follow, since the promotion of some 'low qual-

163 This choice has been made because specific policies covering other issues of 'Business Demography' have already been covered in the Work Programme of the Commission, as in the case of bankruptcies and business transfer.

164 Commissariat Général du Plan, Evaluation des aides à la création d'entreprises (Evaluation of the supports to companies creation), Commission presided by Bertrand Larrera de Morel, La Documentation Française, 1996.

165 This mission is conducted by the General Inspection in charge of Industry and Commerce (IGIC – Inspection Générale de l'Industrie et du Commerce) and the General Inspection in charge of Finance (IGF – Inspection Générale des Finances) at the request of the French minister in charge of Economy, Finances and Industry (MinEFI, Ministère de l'Economie, des Finances et de l'Industrie).

ity' start-ups probably gave rise to 'deadweight' (wasteful use of state support for firms that would exist in any case) and 'displacement' of existing firms by new grant-assisted firms. This gave rise to a policy of selectivity in the distribution of grant aid to small industry: priority was to be given instead to supporting the development of existing small firms into larger internationally trading firms. This new approach was adopted by Enterprise Ireland (and its predecessor organisation), the principal national-level enterprise development agency that supports *Irish-owned firms*¹⁶⁶. However, in some contrast to that line of thinking, from the early 1990s a range of new local development bodies, most notably the City and County Enterprise Boards¹⁶⁷, were established to assist micro enterprises and start-ups, without a very selective approach.

The first policy measure specifically aimed at enterprise creation in *Italy* dates back to 1986, with the Law 44/1986, through which financial grants, vocational training and technical assistance were offered to start-up firms created by young entrepreneurs in the less developed regions of the country. In the Nineties, the number of public initiatives and programmes focusing on start-ups grew. The former Law 44/86 was replaced by an improved mechanism for financial and technical support to young entrepreneurs (Law 95/1995) and, in 1996, a new support measure to young unemployed people willing to open a new firm was approved (Law 608/96, *Pres-tito d'onore*). The attention of policy makers is nowadays focused on regional development through the strengthening of the local entrepreneurial tissue, especially in high-tech and innovative sectors. The *Italian* agency for local development named Sviluppo Italia, created in 1998, owns and manages incubators, where start-ups find space, services and technical assistance at lower costs. Moreover, this agency provides a special venture capital fund for start up firms born in depressed areas of the country. Some regional governments have also introduced local venture capital funds and participatory loans in order to support newly created firms.

The First Programme in favour of SMEs in *Luxembourg*, decided in April 1996, had as its main objective the stimulation of job creation and entrepreneurship in *Luxembourg*, especially through a better economic, social, administrative and fiscal environment to be offered to the SMEs. Therefore, it contained certain measures directly or indirectly oriented towards enterprise creation (encourage start-ups and take-overs, tax incentives, facilitating the access to finance, as well as business transfer and succession, etc.) and the subsequent employment. The responsible Ministry of Middle Classes, Tourism and Accommodation took the decision to continue the action programme in 2001; certain measures were redefined, others reoriented but in general the 'second' action plan has a similar structure as the first one.

Policy measures supporting the steady growth of the amount of new firms in *The Netherlands* focus specifically on more start-ups, less bankruptcies, fewer stigmas on failure and taking away growth barriers. Entrepreneurship has become increasingly popular among young people and the annual number of starting enterprises almost doubled between 1987 and 2000. In recent years, the increasing interest of entrepreneurship led to an evaluation and consequently to modifications of the Establishment Law (including the requirements for starting a new enterprise), which was considered as being no longer efficient, effective and necessary to promote the quality of entrepreneurship. In practice, the Establishment Law is an entry barrier to potential new entrants. The *Dutch* government aims that in the year 2006 all requirements in the Establishment Law will disappear and the law itself will be withdrawn. Also the Bankruptcy Law has been changed in order to give entrepreneurs who have serious financial problems more possibilities to make a new start.

Portugal joined the European Union in 1986, and consequently many supports were created for national firms, encouraging and facilitating the entry of many entrepreneurs into the market. This, together with the natural market processes, which eliminate the weakest enterprises, led to increased rates in enterprises being set up and closed down, particularly visible in the Nineties. Enterprise creation policies in *Portugal* clearly gamble on providing support to economically viable projects and competitive enterprises, by reasoning that it can promote competitiveness in the national business tissue. This approach has been only recently followed in employment policies, the main support programmes of which were for many years dominated by the concept of the social viability of the enterprise, leaving economic viability in second place. This means that many projects were supported as they could resolve employment problems, even if only for short periods of time.

Enterprise creation policy has gained increasingly importance in *Spain* during the last years, although the main focus of the *Spanish* SME policy (in terms of financial resources devoted) still remains the support to the already existing firms. A new General Subdirectorate (*Subdirección General de Creación de Empresas e Información*) has

¹⁶⁶ Enterprise Ireland deals mainly with established firms, more than new start-ups. In the field of supporting start-ups, Enterprise Ireland focuses on companies with relatively high growth potential in manufacturing or internationally-traded services. Enterprise Ireland provides a comprehensive advisory service and financial supports including management development, employment grants, capital grants and equity investment.

¹⁶⁷ The basic function of the Boards is to develop indigenous enterprise potential and to stimulate economic activity at local level. They support individuals, firms and community groups provided that projects have the capacity to achieve commercial viability. The assistance that they provide includes advice, training and a range of financial assistance including capital, employment and feasibility study grants, as well as refundable aid and/or equity.

been recently created for the support to start-ups. The aim of this new Subdirectorate is to provide information and guidance to the new entrepreneur and to eliminate the existing barriers for business creation by reducing the existing costs (in terms of money and time) linked to the setting up of a new enterprise. Since the beginning of Nineties, *Spanish* public authorities have fully abandoned the typical restructuring policies that were particularly common during the previous decade. Nowadays, they tend to support more strongly those new enterprises that have positive prospects in terms of innovating capability in products or processes.

The emphasis in SME policy in *Sweden* has shifted from selective, delimited policy measures to a more general and horizontal policy approach. The objective of the government is, in other words, to promote institutionally favourable preconditions for the birth and development of small and medium sized enterprises in general, i.e. rules of the game, access to markets, financial support etc. Women, young people and immigrants are the main targets of enterprise creation policy. There are several activities focusing on stimulating entrepreneurship among women, the evaluations of which have shown good results. The need for specific efforts to support entrepreneurs with immigrant background is still under discussion. So far the contribution in this area is mainly focused on advice and counselling, both on a national and regional level. Strengthening the entrepreneurial culture amongst young people is to a large extent related to the education policy domain.

Enterprise creation has been a consistent theme in *UK* public policy for at least two decades. Both Conservative and Labour governments have stressed the importance of small businesses to the development of a culture of enterprise and to job creation, with the latter aim being particularly prevalent at times of rising unemployment. However, it is not clear the extent to which new businesses contribute to overall employment creation, since official statistics on enterprise and employment creation do not necessarily provide a complete picture of the link between the two. Following academic research, which suggested that small firm job creation in the *UK* tended to be heavily concentrated within a few fast-growing businesses, official policy has increasingly been targeted at promoting firms which are felt to have growth potential.

No specific interest for business demography issues has been shown by policy makers in *Iceland* now, due to the economic boom, which occurred since the mid-Nineties. Nevertheless, there is an important and growing interest at regional level.

Government does not conduct an active SME creation policy in *Liechtenstein*.

In the Eighties, support services programmes for newly created enterprises in *Norway* experienced a change of focus towards the rise of founder competence¹⁶⁸. At the same time, the target was no longer formed by individual enterprises, but mainly by networks and 'dynamic milieus'. This trend has continued in the Nineties, when one of the primary aims becomes the growth of the innovative ability among enterprises. Policy on business demography has been and is still directed at possible ways to keep the structure of population and to stimulate jobs for females in district regions. The consequence of the priority assigned to district area is a geographically bounded SME policy, which is also directed to specific customers and branch sectors.

In the late Nineties, several measures have been taken or initiated in order to promote the creation and development of SMEs in *Switzerland*. The main objective of these measures seems not to be employment, but to enhance the dynamism of the economy through the birth of new enterprises; nothing is envisaged to reduce the bankruptcy rate.

Table 5.1 presents a general overview of measures currently running in the field of enterprise creation and support for survival in the start-up phase, grouped by policy aims and tools and with the indication of the period in which such tools have been adopted by the Europe 19. It is not always easy to determine exactly when a programme started. Therefore, the indicated dates refer only to the implementation of programmes that are still available or, when possible, to previous programmes for which the subsequent implementation/s (or modification/s) can be tracked with certainty. Because of the multitude of programmes and measures for each country, those included do not constitute a complete list but only the most important ones adopted to support birth and survival.

Analysing the dates of introduction, it clearly emerges that development of funding mechanisms supporting start-ups was the main aim of enterprise creation policies until at least the beginning of the Nineties. Most of currently running measures date back to the mid-Nineties, especially those aimed at simplifying the administrative procedures linked to the start-up phase.

168 Spilling, O. (red.), *Entreprenørskap på norsk (Entrepreneurship in Norway)*, Fagbokforlaget, Bergen, 1998.

Table 5.1: Main aims and major tools of policy measures supporting enterprise creation and survival in the start-up phase existing in Europe-19 countries

Aims	Tools	Before 1980	1981-1985	1986-1990	1991-1993	1994-1997	1998-1999	2000-2001	Planned
<i>Simplification and reduction of administrative overheads borne by new businesses</i>	Reduction of administrative burdens linked to the start-up phase (one-stop shops for administrative matters, information services, etc.)					A, DK, FIN, F, D, I, NL, P, E	A, D, L, P, E, S, IS, NO	A, FIN, D, EL, S, UK, CH	A, D
<i>Reducing the occupational impact of business failures</i>	Reforms on failure legislation in order to allow the failed entrepreneur to create a new firm or to avoid failure			IRL	FIN	B, NL	D, EL, L, NL	A, D, L, UK	A
<i>Facilitating enterprise transfer</i>	Legislative reforms, tax relief or incentives for enterprise transfer					FIN, IRL, E	A, B, F, D	A, FIN, D, I	FIN, L
<i>Development of funding mechanisms supporting SME start-up</i>	Incentives of venture capital, seed capital funds, business angels, mezzanine financing, participatory loans, participative credit	FIN, D, L	FIN	FIN	FIN, I, UK	A, B, FIN, D, IRL, NL, E, S, UK	A, B, DK, FIN, F, D, IRL, I, L, E, UK, IS, CH	A, NL, P, E, NO, CH	IRL
<i>Creation of highly innovative new SMEs</i>	Set up of incubators; financial tools for creating hi-tech and high-productivity industries (seed capital, venture capital, etc.)	FIN	I	IRL	I	FIN, D, IRL, S	A, DK, D, EL, L, NL, UK, IS	A, NL, P, UK, CH	D, IRL
<i>Developing the trend to self-employment, especially among the young and areas of society most at risk of exclusion from the labour market</i>	Incentives to creation of new businesses by the young, women and the jobless			FIN, D, I, E	A, IRL, S	A, DK, FIN, D, I, NL, P, E, S, UK	A, B, F, D, IRL, P, E, UK	A, FIN, P	L

Source: ENSR, 2001.

5.3. A selection of assessed measures aimed at developing the trend to self-employment and funding mechanisms for SME start-up

All selected measures, which are presented in the following section, have been evaluated and belong to the following two target areas:

- Development of funding mechanisms (especially if innovative, but also including traditional ones, such as tax incentives, etc.) supporting SME start-up¹⁶⁹, through incentives for venture capital, seed capital funds or business angels, as well as through incentives for mezzanine financing, participatory loans, participative credit, etc.,;
- Developing the trend to self-employment¹⁷⁰, especially among the young and those most at risk of exclusion from the labour market, through incentives for the creation of new businesses by the young, women and the jobless.

5.3.1. Austria: the Business start-up programme of the AMS

The Business start-up programme (Unternehmensgründungsprogramm–UGP) has been implemented by the Labour Market Service (Arbeitsmarktservice – AMS) in 1995 after pilot-programmes had been launched in 1992-1993. It aims at encouraging and supporting jobless people with a business idea in starting-up their own enterprise, through services (after application, participants are trained and advised by management consulting companies co-operating with the AMS) and subsidies. Total budget sums up to about €10.5 million were allocated in 2000. Though the UGP is only applicable for an absolute minority of the jobless (only 1.7% applied) it has proved extremely successful with regard to fiscal matters as well as with regard to successful start-ups.

An evaluation of the performance of UGP in the years 1995-1997 has been recently carried out by the IBE Linz (Institut für Berufs- und Erwachsenenbildungsforschung). During this period, 7,162 applications and 1,851 business-start-ups have been processed, with an estimated survival rate of 94% after one year. A survey on the impact of the programme has been carried out among 1,211 former applicants. Those who have participated are content with the guidance they have received. Particularly, personal engagement and professional competence of the management consultants is positively noted. The impact of the training on the success of the business start-up is considered differently – those who have actually established an enterprise value it higher than those who decided not to found an enterprise.

5.3.2. Finland: the Start-up Loan

This measure, available since 1992, is administered by a state-owned financing company (Finnvera Plc, the Finnish Export Credit Guarantee Agency and Domestic Specialised Risk Financier) and is mainly focused on production sectors, tourism and business services (but the other economic activities are not excluded). The aim of the measure is to speed up the establishment of enterprises with adequate amount of equity capital, especially by professionally skilled persons. It consists of a loan, which can be used for share subscribing at an establishment phase of a company, or for raising equity in an enterprise established less than two years earlier. Applicants need to commit to a certain payback timetable: the loan period is ten years, and no repayments are required in the first five years.

Taking into account the total number of new limited company and limited partnership entries in 1999, it can be estimated that at most 4.0% of start-ups have benefited from the measure. The average size of the loan per applicant was around €20,000 in 2000. Take-up figures for the measure have been declining during the last five years. In the year 2000, total amount voted was approximately €7.3 million, which consisted of around 350 individual loans. The measure was evaluated in 1996. The study aimed particularly at investigating the effects of the measure on borrower's decision to establish an enterprise: one third of enterprises probably would not have been established without getting a positive loan decision. Furthermore, 80% of respondents considered the loan hav-

169 In discussing and evaluating these policies, a necessary distinction has been made between types of enterprise and their need for different kinds of finance. Appropriate finance and credit for start-ups is a different matter from the funding required for more established, medium-sized businesses, that, even if relevant for the general development of SMEs, are not to be considered objects of research of this Report. For the same reasons, national programmes of direct aid to SMEs (i.e. financial incentives for SME investments) are not included in this section, because the link with enterprise creation is not always evident.

170 Policies generally aimed at fostering entrepreneurship and enterprise culture (courses, training activities, etc.) have been excluded in this section.

ing significant role in the establishment phase. According to the study, the measure is successful but needs some modest improvements. For this reason, Finnvera has also launched a new measure particularly for female entrepreneurs in services and other sectors. The measure is available both for new enterprises and for those already in operation.

5.3.3. Germany: Bridging allowances

Previously unemployed enterprise starters face particularly high market entry barriers, such as more difficult access to debt capital. This programme of support to start-ups with bridging allowances (*Förderung von Existenzgründungen vormals Arbeitsloser mit Überbrückungsgeld*, launched in 1986 by the *Bundesanstalt für Arbeit*, i.e. the Federal Labour Office and its local employment offices) is not meant to serve as assistance in funding new businesses but tends to encourage economically sound start-ups by formerly unemployed firm creators, compensating for systematic disadvantages they have to face in financing their business idea¹⁷¹. These entrepreneurs receive bridging allowances (i.e. non-repayable grants), which amount to their former unemployment benefits including social security contributions.

The programme, which in its first year of existence (1986) supported only 5,600 formerly unemployed people (1.8% of total enterprise start-ups in *Germany*), has acquired such an importance year after year (especially after 1994) that it has become a substantial ingredient of the *German* start-up assistance system. Since its start, more than half a million of formerly unemployed people entered self-employment assisted by bridging allowances. In 1999, 98,100 new businesses (equal to 18.8% of the total, ten times the percentage recorded for the first year) have been supported, with an average bridging allowance granted of €7,767 and an annual spent budget of about €762.1 million. Start-ups publicly supported by bridging allowances do not show higher death rates than average start-ups: three years after start-up, seven out ten new firms were still operating in the market.

5.3.4. Italy: Law 608/96 ('Honour Loan')

The main objectives of the Law 608/96 (through which the 'Honour Loan' has been introduced) are the creation of new entrepreneurial activities and the improvement of the trend to self-employment (especially among the young and the areas of society most at risk of exclusion from the labour market) in the less developed regions of the country. The innovative factor of this measure consists in the strong link between incentives¹⁷² and activities of training¹⁷³ and technical assistance to new entrepreneurs during the first year of firm life. Compared to other initiatives of enterprise creation, the strengths of this measure lies in the attention paid to the needs of candidates (who are 'accompanied' to identify and implement the rationales of their business idea) and on the short time existing between the approval of the investment project and the actual start of the new firm. Another positive aspect is linked to the creation of a network operating at regional level (and co-ordinated by Sviluppo Italia, the agency which is in charge of the measure), that has been directly involved in the promotion of the opportunities offered by this law, as well as in the (direct and indirect) assistance for drawing up the business plans.

From December 1996 to the end of October 2000, 77,712 unemployed people applied for the 'Honour Loan'. After the first evaluation of the investment projects, 33,554 candidates were admitted to the training-selection courses and 17,747 of them (60% of the participants) were considered as eligible for the incentives. The percentage of women attending the training courses grew from 28.3% in 1996 to 36.6% in 2000; the same holds for participants aged between 18 and 25 years (from 8.3% to 31.4%) and for those with a higher degree of qualification (from 20% to 24.8%). Services and crafts are more represented among approved projects, compared to manufacturing activities. The total budget in the period 1996-1999 was equal to €252.5 million; the provisional budget in 2000 was equal to €51.6 million. Sviluppo Italia and Istituto Guglielmo Tagliacarne, starting from all the enterprises having at least two years of age, are assessing the measure. The results will be ready by the end of 2001.

171 Wießner, F., Arbeitslose werden Unternehmer. Eine Evaluation der Förderung von Existenzgründungen vormals Arbeitsloser mit Überbrückungsgeld nach §57 SGB III (Unemployed become entrepreneurs. An evaluation of the support of start ups by formerly unemployed with bridging allowances according to §57 SGB III), in: Beiträge zur Arbeitsmarkt- und Berufsforschung, Nr. 241, Nürnberg, 2001.

172 The measure includes financial grants and facilitated loans up to 100% of the investment (which should not exceed €25,800) and, in addition, a financial grant covering 10% of the operational costs paid in the first year of enterprise life.

173 Training activities (carried out before the start-up) on the formation of the business plan aim at supplying elements for evaluation and self-evaluation of candidates who have applied for the incentives.

5.3.5. Portugal: Local Employment Initiatives

Local Employment Initiatives¹⁷⁴ is an important *Portuguese* programme aiming at the development of the trend to self-employment, especially among the groups at risk of exclusion from the labour market (jobless, women and young people). Specific measures are addressed at economic and social development of less developed regions; in order to keep the residents in those regions where the population density is falling, also improving their living standards. The support granted is of a technical nature – particularly training their promoters in management skills and the provision of consultancy and monitoring during and after the launch of the venture – and of a financial nature, involving a non-refundable grant equal to eighteen times the legal minimum monthly wage and an interest-free subsidy of up to the same amount, per job. Furthermore, supported initiatives must be systematically monitored from the standpoint of the consolidation and viability of the projects, and they are subject to verification of the number and type of jobs created.

The total budget in 1999 was up to about €26.4 million, 59.2% of which concerns non-refundable grants and 40.8% for interest-free subsidies. In global terms, during 1999, 86.3% of the approved subsidies were paid (this rate goes up to 91% in the case of the non-refundable grants). In the same year, a total of 1,169 initiatives were supported, created by 1,521 promoters, allowing the creation of 2,535 jobs. Evaluation studies of these measures show that 73% of the promoters are unemployed, 20% are youths looking for their first job and the remaining include both persons in employment and those at risk of losing their jobs. This, together with the fact that women represent almost 50%, clearly reflects the importance of this measure as far as those at risk of exclusion from the employment market are concerned.

5.3.6. Spain: Support of enterprises run by women

The Programme to support the setting-up and consolidation of enterprises run by women (Programa de Apoyo Empresarial a Mujeres), existing since 1996, is aimed at fostering self-employment initiatives amongst *Spanish* women, as well as consolidating and further expanding those businesses already set up. Two authorities are in charge of the programme: the Institute of Women (*Instituto de la Mujer*, an organism dependant on the Spanish Ministry of Labour and Social Affairs) and the Spanish Higher Council of Chambers of Commerce¹⁷⁵ (*Consejo Superior de Cámaras de Comercio*). The programme supplies information, advice and training services, basically with the help of a network of technical support offices located within the participating local Chambers of Commerce. These offices supply the following services:

- Information services (socio-economic information, business opportunities, legislation, administrative requirements, business networks, specialised books, magazines and newspapers or interesting addresses).
- Advice services (self-employment and business management, feasibility studies, market studies, legal, tax and financial consulting, new technologies for business management, business co-operation, etc.).
- Training services on a number of relevant business topics.

The annual budget is equal to €1,017,780. During the period 1996-2000, the programme has allowed the setting up of 1,130 new enterprises run by women, with 2,000 jobs generated. In addition to this, more than 12,000 women have been advised and 5,000 have received training.

174 The programme, in its present structure, was legally regulated in October, 1996. However, there are local employment initiatives in Portugal, with different specificities, since 1986.

175 Indeed, the Chambers of Commerce are responsible for the practical dissemination of the programme, in the sense that it is currently being supplied by more than 30 Spanish local Chambers of Commerce.

Annex I

Names and addresses of the consortium partners

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