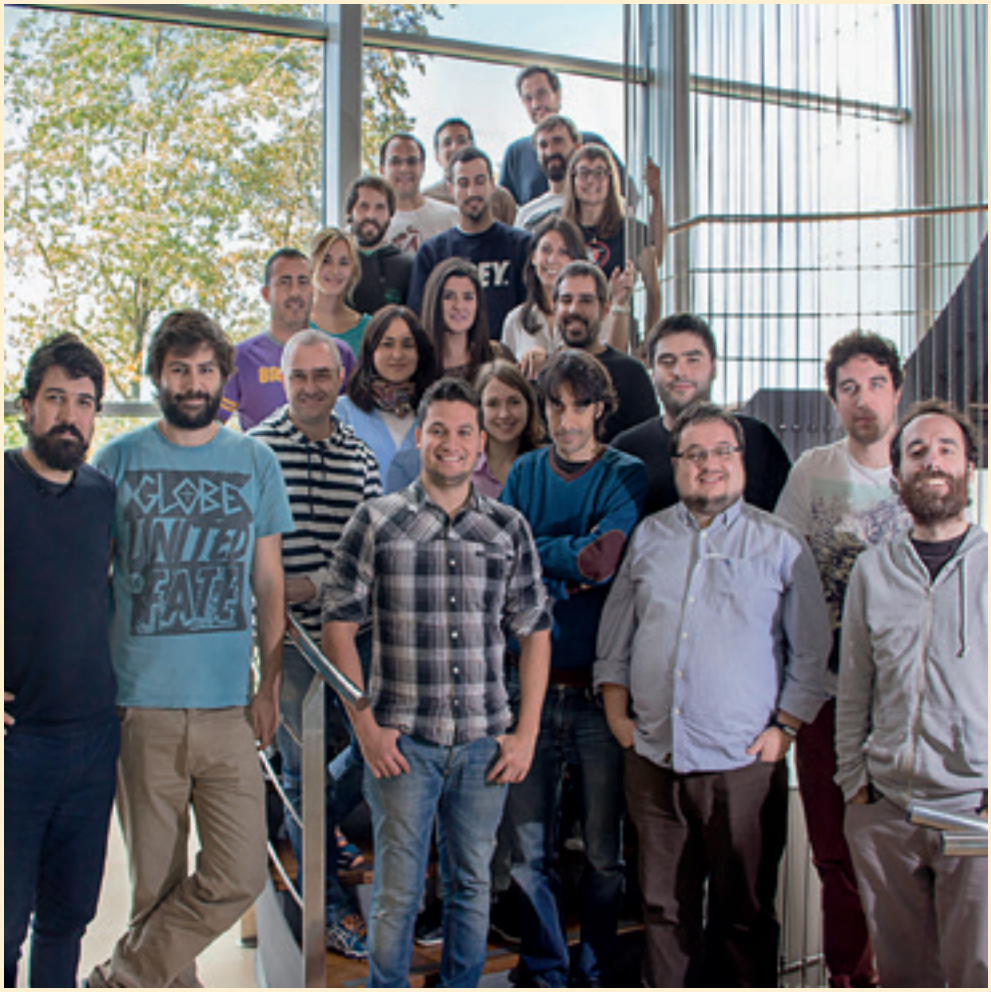
Eurofound

Job creation in SMEs: ERM annual report 2015



Coordinating the Network of EU Agencies

EU Agencies Network

Job creation in SMEs: ERM annual report 2015

Eurofound

European Foundation for the Improvement of Living and Working Conditions

When citing this report, please use the following wording:

Eurofound (2016), *ERM annual report 2015: Job creation in SMEs*, Publications Office of the European Union, Luxembourg.

Authors: Irene Mandl and John Hurley, with Stefanie Ledermaier and Joanna Napierala
Research managers: Irene Mandl and John Hurley
Research projects: Job creation in SMEs; European Restructuring Monitor

Luxembourg: Publications Office of the European Union, 2016

Print	978-92-897-1435-8	10.2806/343338	TJ-AL-15-001-EN-C
PDF	978-92-897-1434-1	10.2806/342142	TJ-AL-15-001-EN-N

The European Foundation for the Improvement of Living and Working Conditions (Eurofound) is a tripartite European Union Agency, whose role is to provide knowledge in the area of social and work-related policies. Eurofound was established in 1975 by Council Regulation (EEC) No. 1365/75 to contribute to the planning and design of better living and working conditions in Europe.

European Foundation for the Improvement of Living and Working Conditions
Telephone: (+353 1) 204 31 00
Email: information@eurofound.europa.eu
Web: www.eurofound.europa.eu

Cover image: Enigmedia's team at the HQ in San Sebastian, Spain

Printed in Luxembourg

Contents

Executive summary

Introduction

Labour market indicators for the EU have improved significantly since mid-2013. There has been a net increase of 4.4 million in the employment headcount of the EU28 between the first quarter of 2013 and the first quarter of 2015. The EU unemployment rate has fallen below 10%, and growth in full-time jobs has resumed. Recent restructuring data from the European Restructuring Monitor (ERM) illustrates a balance between job loss and job creation announcements. Nonetheless, large disparities remain between Member States. Significant divergences have also emerged between the EU and the main developed countries (the US and Japan), where the post-crisis recovery in labour markets started earlier and has been more vigorous. At Member State level and overall, much catching up remains to be done.

Small and medium-sized enterprises (SMEs), meaning companies with fewer than 250 employees, are likely to have contributed to improved employment levels and increasingly gain attention as a source of job creation in Europe. However, due to the large scale of the SME population, there is considerable heterogeneity among them, and not all are equally dynamic job creators.

This Eurofound research aims to identify in detail which SME types are more or less dynamic job creators and to determine their main drivers and barriers for job creation. Furthermore, the processes of job creation in SMEs and some of their outcomes are illustrated. Finally, the report discusses the orientation of the public debate on job creation in SMEs in the EU28 as well as some public support instruments. On the basis of this analysis, the report highlights areas where better support of SMEs in their employment growth efforts could be targeted.

Policy context

The European Commission has recognised SMEs' contribution to economic development and labour markets in the EU, and it supports SMEs through a variety of policies and instruments – particularly since the introduction of the Small Business Act for Europe in 2008. In the aftermath of the crisis, job creation also features among the top priorities of EU social and employment policy. Nevertheless, the issues of job creation and SMEs seem to be linked only indirectly in most policy discussion. For example, start-up, innovation and internationalisation support for SMEs or improving their access to finance is deemed to foster companies' economic development, competitiveness and sustainability, and consequently leads to job creation. Similarly, EU-level social partners engage in initiatives supporting job creation in SMEs as an outcome of improving the business environment or of focusing on specific groups of entrepreneurs, notably young people.

At Member State level, the policy debate on job creation in SMEs remains rather limited. Instead of discussing how SMEs could be encouraged to hire more employees, debates typically focus on supporting economic growth in SMEs – often only considering employment growth as a result of good economic performance – or job creation in the economy more generally, without any differentiation regarding company size and hence no specific focus on SMEs.

Key findings

Employment losses in Europe since the global financial crisis were very much concentrated in two sectors – manufacturing and construction. Together, these two sectors suffered a combined loss of more than eight million jobs between 2008 and 2015. However, leaving aside developments in these two sectors, employment has been growing in the EU even during the peak crisis period. There has

been sustained employment growth particularly in the broad categories of professional services (legal, accounting and engineering activities) and administrative services (employment, security, travel and building maintenance services) – sectors in which SMEs generally account for a large share of employment.

Employment shifts tended to be polarising during and, to a lesser extent, after the global financial crisis. In other words, employment grew relatively more (or contracted relatively less) in jobs at either end of the wage distribution than in the middle, which suffered the greatest job losses. This pattern was observed across the distribution of company size classes.

The current analyses indicate that job creation in SMEs is influenced by a combination of factors both internal and external to the company. The SMEs that tend to create jobs are young, innovative, internationally active, located in urban areas and run by skilled managers; they perform well due to sufficient market demand and good management, have active growth and investment strategies, and possess the capacities to realise these plans.

SME job creation efforts need to be supported by a range of factors, including:

- a favourable business environment, including effective institutional administration as well as labour legislation and labour costs that are manageable for SMEs;
- effective public support structures;
- a sound financial structure, with access to external finance, if needed;
- the motivation of the owner–manager to grow the business and to take some level of risk.

Other important preconditions for job creation are the availability of workers with the required skills in the labour market and SMEs being deemed as attractive employers by potential candidates.

Recruitment processes in SMEs tend to be informal by nature, frequently conducted by the owner–manager, with some involvement of other staff in job interviews. The necessity to seek colleagues' opinions arises from the high degree of importance given to candidates' soft skills and personality traits, which have to fit with the team. For this reason, several rounds of interviews may be arranged, while competency tests are less common. Easy-to-use and cost-effective recruitment channels are important for SMEs, and they draw extensively on personal and professional networks. Young, innovative and international SMEs are also found to frequently use social media and internet job search tools.

Surprisingly little is known about the characteristics of the jobs created by SMEs. Existing evidence suggests that some working conditions tend to be of lower quality than in larger companies, including pay, career options and employee representation. On the other hand, employees of SMEs may benefit from advantages inherent to the smaller scale of the employer – for example, greater flexibility and autonomy and more meaningful tasks. However, considerable differences seem to persist across the SME population, and more differentiated analysis is required.

Policy pointers

The fact that job creation in SMEs is determined by a combination of factors highlights the importance of comprehensive public support packages or one-stop shops facilitating individual access to instruments. Such coordinated efforts could include:

- improving the general business environment;
- providing access to finance;
- offering early-phase (rather than just start-up) support;
- supporting innovation;
- providing support for internationalisation;
- supporting the enhancement of management and leadership competences;
- matching SMEs' skills needs with labour market supply;
- offering support regarding the choice and use of recruitment channels;
- addressing (non-wage) labour costs.

A further consideration should be the large variety of the SME population, which implies a requirement to offer tailor-made instruments for the various SME types to suit their characteristics and needs. Support for job creation in SMEs does not necessarily need to be exclusively provided by government actors. For example, SME organisations are well placed to assist their target groups and could be further supported in their efforts to provide suitable services to other SMEs.

Introduction

The theme of the 2015 ERM annual report is job creation in small and medium-sized enterprises (SMEs), with the aim of identifying the factors that cause SMEs to create new positions and to recruit staff to fill them. As has been the practice with previous annual reports, the current report begins with a review of labour market and restructuring trends in 2015 in the European Union. Mindful of this year's thematic study, it includes an examination of employment change and restructuring in SMEs. The report then proceeds to present the study on job creation in SMEs.

Background and objectives of the study

In light of the recent economic and financial crisis and its detrimental effects on EU labour markets, both academics and policymakers are paying increasing attention to the role of SMEs in job creation in Europe. SMEs are defined by the European Commission (2003) as companies with fewer than 250 employees and an annual turnover of up to €50 million or an annual balance sheet total of up to €43 million. They constitute 99.8% of all businesses in the European non-financial business sector (Muller et al, 2015). In 2014, these 22.3 million companies accounted for 67% of total employment and contributed considerably to job growth despite employment in the EU being 1.3 percentage points below the 2008 level.

The observation that smaller companies create more jobs than their larger counterparts originated from US research by Birch in the 1970s and 1980s.[1] In the European context, Audretsch (2003) and De Kok et al (2011) similarly concluded that small companies are the job engine of Europe. In 2014, SMEs were responsible for 71% of employment growth in the non-financial business economy. For 2015 and 2016, a moderate annual employment growth of 0.8% and 0.9% is forecast for SMEs in the EU (Muller et al, 2015).

The vastness of the SME population across Europe suggests a considerable heterogeneity within this enterprise type. Indeed, available data demonstrate that this also holds true for their job creation contribution. Some SMEs appear reluctant to grow beyond a handful of employees, while others tend to rapidly create a larger number of jobs. However, analyses are scarce and mainly focus on structural characteristics such as sector of activity, company age or size class within the SME spectrum.

This report goes beyond the analysis of structural characteristics by identifying in more detail which SME types are more or less dynamic in creating jobs and the main drivers and barriers behind job creation. Furthermore, the processes of job creation in SMEs and some of their effects are illustrated. Finally, the report discusses the orientation of public debate on job creation in SMEs across the EU and describes a number of public support instruments. On the basis of this analysis, policy pointers have been derived to pinpoint potential improvements for better support of SMEs in their employment growth efforts.

This report focuses exclusively on dependent employment directly created in SMEs. Neither the employment effects of self-employment nor the indirect employment effects of SMEs' outsourcing activities to other businesses are considered. Moreover, SMEs as discussed in the report are taken to be surviving businesses and effects of business closures are not covered.

[1] While Birch's work has been criticised for methodological shortcomings, references to his work persist in the literature on small business economics. Moreover, more recent studies from the US confirm Birch's findings (see, for example, Neumark et al, 2011).

Furthermore, no assessment regarding the sustainability of the newly created jobs can be given. These aspects are certainly important for the European labour market, but they are beyond the scope of this study.

Methodology and structure of the report

Chapter 1 summarises recent labour market and restructuring trends in Europe. The analysis is based on extractions of EU Labour Force Survey (EU-LFS) data, which are publicly available on the Eurostat website.[2] While the EU-LFS is the most reliable source of information on employment levels and employment shifts in Europe, there is no survey-based source of representative data on the employment impacts of restructuring activity at the company or establishment level. For this reason, Eurofound's European Restructuring Monitor (ERM) events database provides an important source of complementary data.[3] It monitors the announced employment impacts of large-scale restructuring events in European countries, covering both job creation and destruction. Based on media reports across all EU28 countries as well as Norway, it is the single best publicly available source of EU data on the employment impacts of large-scale organisational restructuring.

The ERM defines job loss at restructuring in a similar fashion to the European Directive on Collective Redundancies (98/59/EC) in that it refers to intended redundancies.[4] However, the intended redundancies do not have to be notified to any public authority but rather 'announced' and subsequently covered in media reports. The thresholds for cases to be included in the dataset are that they involve at least 100 jobs gained or lost, or affect at least 10% of the workforce in establishments employing at least 250 people. The data are collected via Eurofound's network of European correspondents following screening of local media sources, and are edited and published daily. Unlike the directive, however, there is no stipulation regarding the timescale of the intended job loss.

The ERM dataset comprises factsheets on over 19,000 individual restructuring events captured between 2002 and the second quarter of 2015. Around 100 to 150 new cases are added each month.

The information compiled for the SME study, in Chapters 2–7, was collected through a combination of different quantitative and qualitative research methodologies between September 2014 and June 2015.

- A literature review was conducted at European level by Eurofound.
- Data analysis at European level was conducted by Eurofound, drawing on the EU-LFS, the European Company Survey (ECS) and the Global Entrepreneurship Monitor (GEM)[5] (see Annex 1).
- Policy analysis at European level was conducted by the EU-level correspondent of Eurofound's network of European correspondents.

---

[2] Extractions were made in the week of 17–21 August 2015. EU-LFS data are subject to frequent revision, so results of later extractions may not match exactly.

[3] Available online at www.eurofound.europa.eu/observatories/emcc/erm/factsheets

[4] Council Directive 98/59/EC of 20 July 1998 on the approximation of the laws of the Member States relating to collective redundancies. This directive consolidates Directives 75/129/EEC and 92/56/EEC.

[5] If not explicitly stated otherwise, GEM data in this report refer to data from the Adult Population Survey (APS) 2011. For comparative reasons, only information regarding owners or managers of companies surveyed in European countries was used – namely, from Belgium, Croatia, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, the Netherlands, Romania, Slovenia, Spain, Sweden and the UK. In total, 6,462 observations were analysed.

- Literature, data and policy analysis in the EU28 was carried out by Eurofound's network of European correspondents (see Annex 2) based on a qualitative research guideline to ensure comparability of information collected across Member States.
- Analysis of national secondary data on 'born global' enterprises for Austria, Estonia and Sweden was carried out by Oxford Research AB. Born globals are young companies that immediately after inception intensively engage in international activities. Previous research has found these businesses to be dynamic job creators (Eurofound, 2012a) and hence have been given particular attention in this report. Details on the national data are available in Annex 1.
- A total of 17 company case studies were carried out on born global enterprises in Austria, Estonia, Spain, Sweden and the UK. The case studies were based on semi-structured interviews with the management and employees of the companies. Of the case studies, 15 were conducted by national researchers (see Annex 2) under the coordination of IKEI Research and Consultancy, and 2 by Eurofound. A profile of the case study companies is available in Annex 3.
- Illustrative policy analysis was carried out by Eurofound in Belgium, Estonia, Germany, Ireland, Italy, Lithuania and the Netherlands in the form of interviews with representatives of the government or support service providers. Online research was also conducted on specific support instruments in Estonia, France, Ireland, Italy, the Netherlands, Spain, Sweden and the United Kingdom.

Chapter 2 of the report summarises the SME types that have been identified in the Member States as particularly dynamic job creators. Chapter 3 supplements this information with an analysis of the motivations of companies to create employment and of the barriers to doing so. As some overlaps exist between these two topics, an interim summary after Chapter 3 provides an overview of the factors influencing job creation in SMEs.

Chapter 4 describes the recruitment processes in SMEs, while Chapter 5 illustrates characteristics of the jobs created. As secondary information on both topics is scarce, most of the information presented stems from the born global case studies conducted for this project. Chapter 6 summarises the main topics discussed in policy debates on job creation in SMEs and provides some examples of public support instruments. Finally, Chapter 7 presents the conclusions of this research as well as important policy pointers for the future.

1 Recent labour market and restructuring trends

General trends

Employment and unemployment

After five years of recession or stagnation, labour markets in Europe appear to have finally turned a corner. Aggregate employment has increased steadily since late 2013, with the rate of growth increasing markedly in 2014 and 2015. There has been a net increase of 4.4 million in the number of people in employment between the first quarter of 2013 and the first quarter of 2015, equivalent to around 1% growth per annum – similar to 'standard' pre-crisis, non-recessionary rates of employment growth.[6] The EU unemployment rate has fallen below 10% and, in the most recent unemployment data (June 2015), only 5 out of 28 EU Member States recorded a year-on-year increase in the unemployment rate.

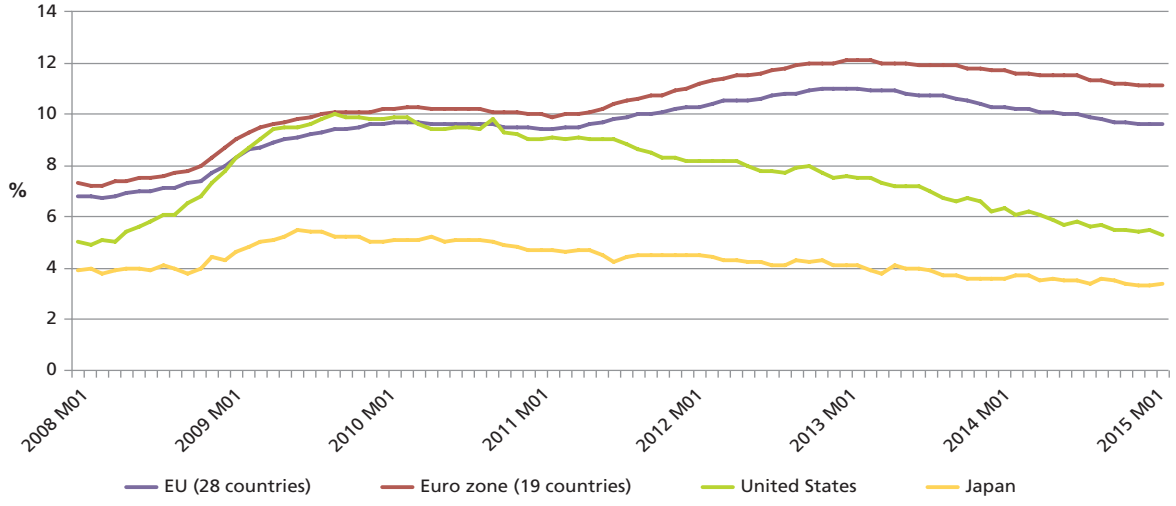
Some particular features of the recovery since 2013 are of note. Firstly, net employment growth has recommenced belatedly in some of the national labour markets most scarred by the twin global financial and sovereign debt crises. Spain added half a million new jobs from the first quarter of 2014 to the first quarter of 2015. Despite its troubled situation, even Greece saw modest employment growth in the same period. Conversely, there is evidence of labour market downturns in countries whose economies had fared comparatively well through the crisis period, notably Finland.

A second feature has been the resilience of employment growth in some larger economies, for example the UK, where 1.7 million net new jobs have been created since 2012. Similarly, in Germany, the unemployment rate has declined to the lowest levels in a generation. This is in contrast to a relative lack of labour market dynamism in France and Italy.

Thirdly, since early 2014, there has been a resumption of net growth in full-time employment, indicating greater employer confidence in future economic prospects.

On the other hand, there are three million fewer people in employment in the EU28 in 2015 compared with the pre-crisis peak in 2008. International comparisons with other major developed economies are not flattering either. Recent labour market performance in the United States and Japan has been notably better than in the EU and especially compared with the euro zone countries (Figure 1).

Figure 1: Unemployment rates, 2008–2015



Note: M01 refers to the first month of the respective years.
Source: EU-LFS, Eurostat

[6] These figures exclude the French départements d'outre-mer.

Since 2011, the divergence in unemployment rates between the euro zone countries and the US has grown from less than one percentage point to nearly six percentage points. Within the EU, the euro zone countries as a whole have also fared worse than the remaining Member States outside the single currency. Moreover, within the euro zone, the divergences have been even sharper as the unemployment rate remains above 20% in Greece and Spain but below 5% in the Czech Republic and Germany.

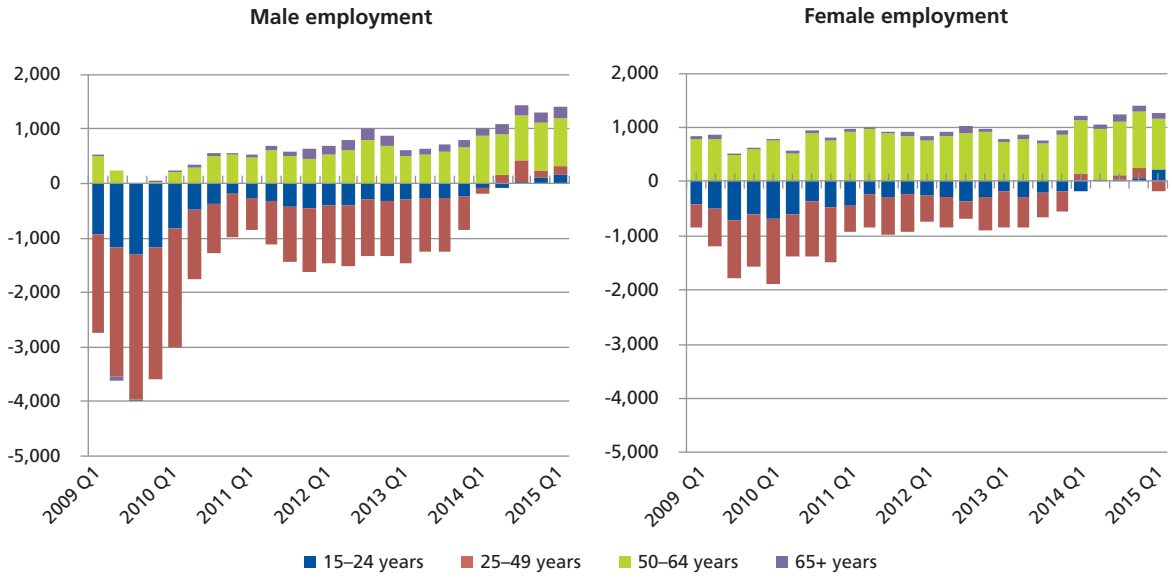
Age and gender

The crisis and post-crisis periods have had a polarising impact on employment in terms of age. Employment levels have continued to grow for those aged 50 years and over. A combination of factors has contributed to this development: population and workforce ageing, the relatively protected employment status of those with greater tenure (generally older workers) and the increasing average effective retirement ages. Employment resilience has been especially notable for female workers, for whom year-on-year employment growth for those aged over 50 never fell below 500,000 jobs even during the peak crisis period (Figure 2). Conversely, employment levels declined for younger cohorts (15–24 years) and core-age cohorts (25–49 years) continuously from late 2008 until the beginning of 2014. Job losses were especially sharp for younger and core-age male workers.

Only with the resumption of employment growth in 2013–2014 has there been a net year-on-year increase in jobs for those aged under 50 – first in early 2014 for those aged 25–49 and, more recently, in late 2014 for young workers (aged 15–24). This growth has been somewhat stronger for male than for female workers.

Overall, the data convey a strong impression of workforce ageing, as seen in the continuing disproportionate contribution of older age groups to employment growth, including since 2011 that of those aged 65 or over.

Figure 2: Male and female employment growth, in thousands, by age category, quarterly year-on-year, first quarter of 2009 to first quarter of 2015, EU28



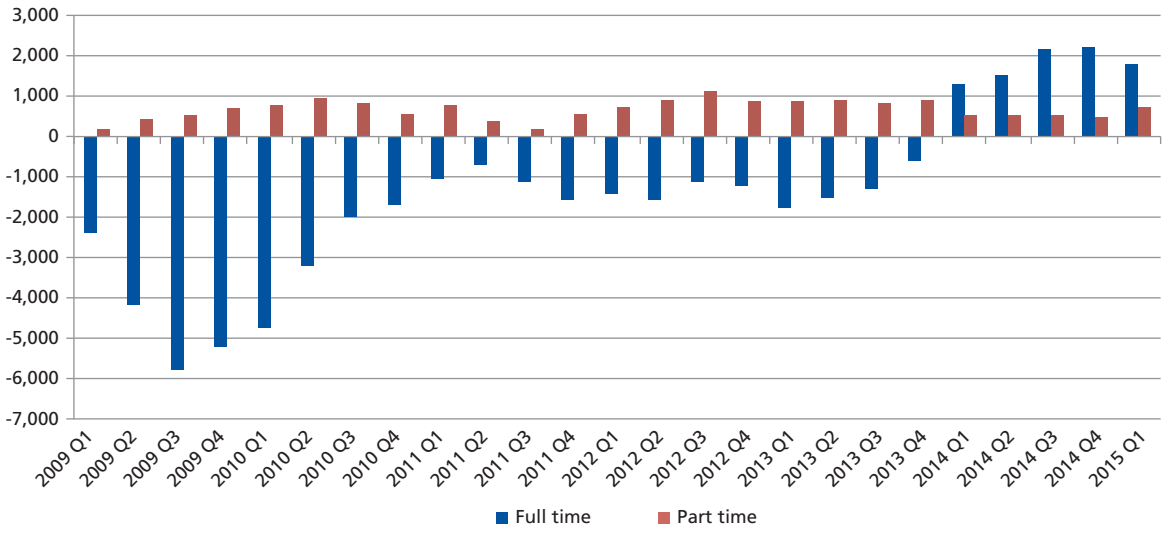
Source: EU-LFS, Eurostat (author's elaboration)

Full-time and part-time employment

The crisis has, in particular, reduced significantly the ranks of those in full-time permanent work (the traditional, standard employment relationship). In the first quarter of 2015, there were 4.7 million *more* part-time workers in the EU28 and 8.3 million *fewer* full-time workers than in the pre-crisis period (first quarter of 2008). The labour market adjustment during the crisis fell disproportionately on full-time workers; part-time work has continued to grow throughout the crisis and now represents 21% of total employment (up from 18% in 2008).

The positive message from the available data is the strengthening of full-time employment growth since 2014 (Figure 3), indicating that labour markets on the whole are starting to normalise, albeit with major variations geographically.

Figure 3: Part-time and full-time employment growth, in thousands, quarterly year-on-year, first quarter of 2009 to first quarter of 2015, EU28



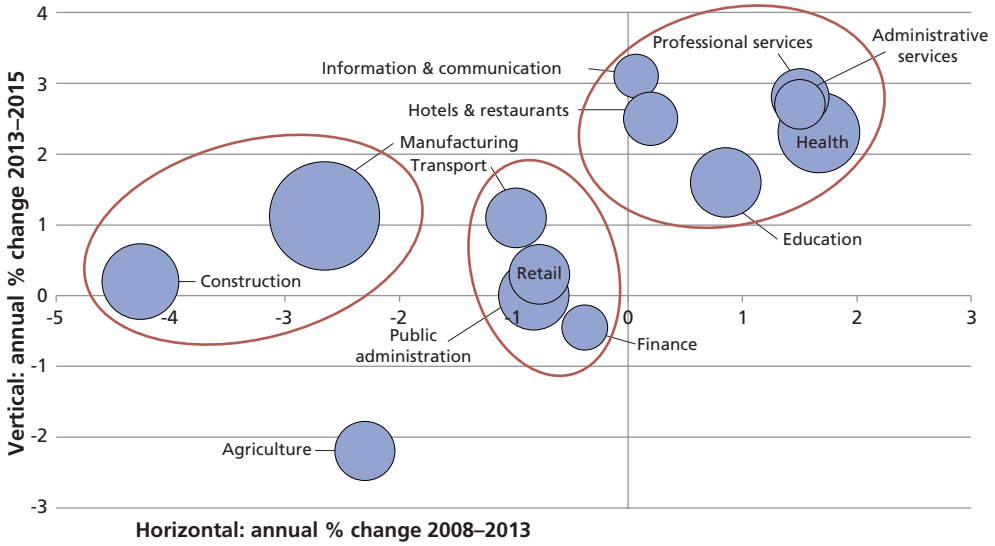
Source: EU-LFS, Eurostat (author's elaboration)

Employment by sector

In terms of employment by sector, the two sectors that suffered the greatest job losses during and after the 2008–2009 crisis were manufacturing and construction. Peak-to-trough employment declines amounted to 5.4 million jobs in manufacturing and 4.1 million in construction. The concentration of job loss in these two male-dominated sectors is one of the main factors behind the divergent gender patterns of employment already illustrated above. Since the first quarter of 2013, there has been a very modest recovery of employment in both sectors amounting to some 70,000 net new jobs in construction (0.2% per annum growth) and 700,000 in manufacturing (1.1% per annum growth).

Figure 4 compares sectoral employment growth rates in the post-crisis employment contraction (2008–2013) and the more recent period of recovery (2013–2015).

Figure 4: EU employment growth per annum by sector, comparing 2008–2013 with 2013–2015



Notes: Selected sectors; first quarter data in each year. Bubble areas are scaled to sector employment in 2008 (for example, manufacturing = 38 million, information and communication = 6 million; see Table 3 for precise employment estimates).
Source: EU-LFS, Eurostat (author's elaboration)

Four clusters can be identified as follows.

1. Agriculture – This sector showed a continuing secular employment decline of around 2% per annum in both periods.

2. Manufacturing and construction – There was a sharp contraction in the crisis and post-crisis periods, but this cluster has enjoyed some modest growth since 2013.

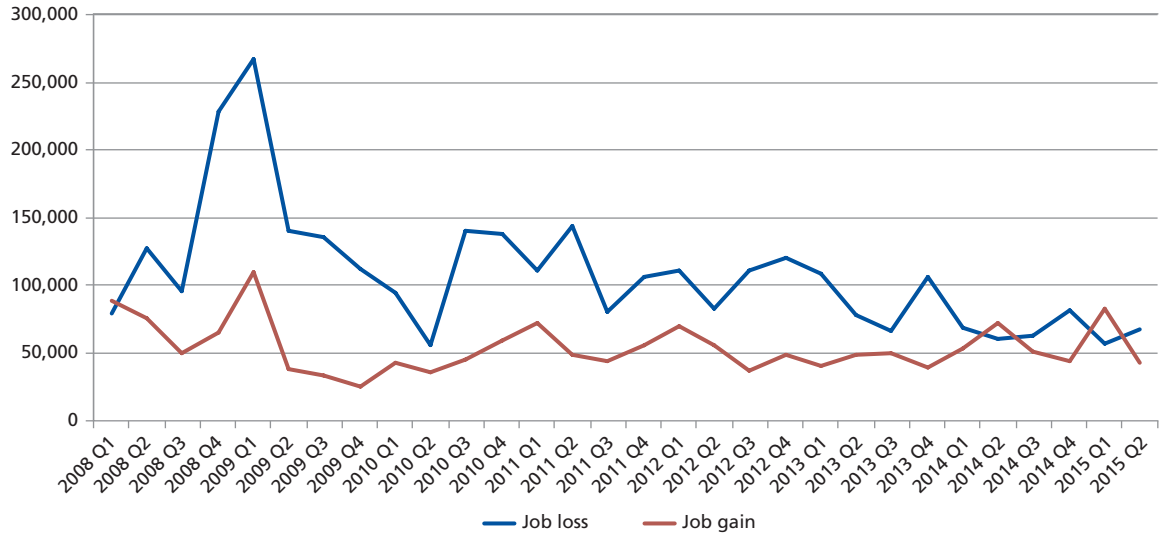
3. Stagnant or slow-growing service sectors – These were evident both in the private sector (retail, transport and finance) and the public sector (public administration). In finance and retail, technological advances such as online banking, self-service and online shopping are likely to have suppressed demand for labour even as economies have recovered. As the transport sector includes postal and courier activities, technology is likely to have been a factor here as well, with internet communication replacing traditional 'snail-mail' and the emergence of new sorting technologies. This explains the relatively slow employment growth in the transport sector too, although recent liberalisation may be a contributing factor as well. Reduced public spending (austerity) is the most likely factor behind declines in the public administration headcount, although again technology in the form of e-government developments is likely to have played a contributory role. Developments in this cluster are mirrored in the ERM restructuring data for large cases (see Table 1).

4. Structurally growing, generally high-skill service sectors – In these sectors, employment grew during the crisis and growth has strengthened since 2013. The most significant of these in terms of overall employment are the predominantly state-funded sectors of health and education – although there is widespread evidence of an increasing private share of employment in these sectors, notably in the health sector (Eurofound, 2015a). There has also been sustained employment growth in the broad categories of professional services (such as legal, accounting, engineering and management consultancy services) as well as administrative services (such as employment, security, travel and building maintenance services). These sectors tend to be labour intensive, requiring higher skills and for the most part involving tasks that are not trivial enough to automate and thereby replace with technology.

Restructuring developments

The descriptive analysis that follows summarises the most recent restructuring developments (2013–2015 inclusive), with some comparisons of data from the earlier crisis and immediate post-crisis period (2008–2012). Between the first quarter of 2013 and the second quarter of 2015, the ERM recorded 3,549 cases of large-scale restructuring in the Member States and Norway, as well as 146 transnational cases.[7] The number of announced job loss cases was around 45% higher than the number of announced job creation cases (2,051 cases of announced job loss compared with 1,442 cases of announced job gain; 56 cases involved both announced job loss and creation). Total announced job destruction associated with these cases was more or less proportionately greater than that of job gain (758,000 job losses compared with around 527,000 job gains). Figure 5 below shows the evolution in the magnitudes of both announced job losses and gains by quarter. In recent quarters from mid-2014 onwards, total announced job creation and job loss have converged, reflecting improved labour market conditions.

Figure 5: Announced restructuring job loss and job gain by quarter, first quarter of 2008 to second quarter of 2015



Source: ERM

There has been a trend over time towards smaller case sizes in terms of both announced job loss and announced job gain. For instance, very large-scale restructurings (more than 1,000 job losses) accounted for 58% of total ERM job loss in the pre-crisis period, 50% between 2008 and 2012, and 38% since 2013. There has been a similar progression in the share of job gains by case size; a growing share of new jobs relate to business expansions involving fewer than 500 new jobs (44% in 2013–2015 compared with 25% in the pre-crisis period). Table 1 shows the restructuring cases with the largest employment impacts recorded by the ERM during 2014–2015. The range of job losses and gains for the largest cases in this period is 5,000–10,000, while the entire ERM dataset records 36 cases with job losses or gains greater than 10,000. In particular, there has been a decline in the number of very large job loss announcements resulting from public sector restructuring since 2013, following their sharp increase in 2010–2011 (see Figure 6).

[7] Transnational cases are those involving announced job loss or creation in units across more than one Member State or in at least one Member State as well as a third country. To avoid double-counting, these cases are omitted from the analysis that follows.

Table 1: Five largest national restructuring cases in terms of announced job loss and announced job gain, 2014–2015

Job loss					
Company	**Sector**	**Date**	**Announced job loss**	**Country**	**Comments**
Lloyds Banking Group	Financial services	28 October 2014	9,000	United Kingdom	The announced job losses resulted from a further wave of branch closures (150) by the UK banking group, which had shed 30,000–40,000 jobs since 2008. The company abandoned its previous policy of keeping open at least one branch per town.
Ministry of Defence	Public administration	15 October 2014	7,500	France	The announced job losses formed part of the restructuring envisaged in the Loi de Programmation Militaire 2014–2019, which anticipates 24,000 job cuts. Job losses arise from, among other things, closures of the 1st Marine Artillery Regiment, the headquarters of the 1st Mechanised Brigade in Chalons en Champagne and a military hospital in Paris.
HSBC	Financial services	9 June 2015	7,000	United Kingdom	The global banking group announced the loss of one in six jobs in the UK, with the closure of hundreds of high-street branches. HSBC is also considering moving its global headquarters from the UK back to Asia, after moving from Hong Kong in 1992.
Public sector	Public administration	7 June 2014	6,500	Greece	Public sector job cuts were agreed as part of the austerity measures arranged with the country's international lenders (IMF, EU and ECB).
Poczta Polska	Transportation and storage	13 January 2015	5,000	Poland	The Polish national postal operator shed 5,000 out of 78,000 employees nationwide, primarily through a programme of voluntary redundancies.
Job gain					
Company	**Sector**	**Date**	**Announced job gain**	**Country**	**Comments**
DHL Delivery	Transportation and storage	22 January 2015	10,000	Germany	The announced job gain is due to expansion of the parcel delivery business, with jobs set to be created by 2020. The employees are not directly employed by DHL Deutsche Post but via a subsidiary company, and therefore not subject to the in-house wage structure.
Asda	Retail	3 July 2014	5,670	United Kingdom	The announced job gain was part of a major restructuring that also envisaged a de-layering of middle management staff (loss of 1,360 jobs). Most of the new jobs were lower paid. The move was a response to growing competition, especially from German discount retailers, and to a growing share of online retail sales.
Aldi	Retail	22 May 2014	5,500	United Kingdom	The German discount retailer is expanding in the UK, opening 55 new stores. Most of the jobs were for general store operatives; about 10% were managerial. There was a further announcement of 5,000 new UK Aldi jobs in February 2015.
Morrisons	Retail	16 April 2015	5,000	United Kingdom	The UK supermarket chain recruits mainly shop floor operatives. It simultaneously announced plans for a 'simplified management structure', with the loss of 720 management jobs, primarily at company headquarters in Bradford.
BMW	Manufacturing	1 March 2015	5,000	Germany	The announced job gain was due to ongoing expansion at the German car manufacturer, forming part of a global expansion involving 8,000 new jobs. The jobs were generally of a high-skilled profile, such as specialists in alternative power units, light construction and information technology (IT).

Source: ERM

Type of restructuring by establishment size

The case size thresholds in the ERM mean that there is an over-representation of large-scale restructurings, generally involving large establishments. Nonetheless, around 19% of cases captured since the beginning of 2008 (1,186 from a total of 6,269 cases) involve establishments employing fewer than 250 people, which is close to the definition of SMEs used in this report. A comparison of the restructuring cases below and above this threshold shows some interesting differences, especially in the form of job-loss restructuring that most commonly takes place in establishments of different sizes (Table 2).[8]

Table 2: Type of restructuring in ERM cases of job loss, by establishment size, 2008–2015

Type of restructuring	% of job loss		No. of cases		
	SMEs, < 250 employees	250 + employees	SMES, < 250 employees	250+ employees	Total
Bankruptcy or closure	75.4	19.1	863	761	1,624
Internal restructuring	10.4	73.0	147	3,823	3,970
Merger or acquisition	1.6	3.5	27	171	198
Offshoring	9.1	3.2	105	235	340
Relocation or outsourcing	3.1	1.0	39	73	112
Other	0.4	0.3	5	20	25
Total	**100.0**	**100.0**	**1,186**	**5,083**	**6,269**

Source: ERM

With regard to the form of restructuring, one catch-all, residual category 'internal restructuring' accounts for a majority of cases in the ERM dataset; over two-thirds of job losses are attributable to this type of restructuring (Table 2).[9] However, as Table 2 also illustrates, this relates predominantly to larger establishments (with 250 or more employees). For those cases involving establishments with fewer than 250 employees, the incidence of internal restructuring is relatively small (about 11% of cases) and the main restructuring type is bankruptcy or closure. Thus, major restructuring job loss in smaller establishments, and by implication in smaller companies or enterprises, is much more likely to arise out of business failure, with correspondingly severe consequences for the establishments and employees.[10] Larger establishments tend to be more resilient and have greater margin of manoeuvre to reorganise internally when faced with external shocks.

A second noteworthy feature of restructuring among SME-scale establishments is a relatively high share (12%) of restructuring job loss due to offshoring, relocation and outsourcing compared with larger establishments (just over 4%). This falls counter to some assumptions of the international

---

[8] The specific field used in this analysis is the 'Number employed' in the units or establishments that are the subject of the restructuring factsheet. This field is completed in around 74% of cases in the period covered. This only approximates the EU definition of SMEs (European Commission, 2003), which relies in the first instance on firm-level or enterprise-level employment. For example, ERM case data may refer to one or more units of a larger firm where the employment in those units being restructured is fewer than 250 employees but overall firm or enterprise employment is greater, possibly much greater, than 250. For our purposes, these will be included (erroneously) in the SME category. Notwithstanding, the differences in restructuring type by establishment size are so marked that it is reasonable to infer a strong relationship between firm or establishment size *and* restructuring type.

[9] In part, this is because of the way internal restructuring is defined for ERM purposes: where a company 'undertakes a job-cutting plan, which is not linked' to the other forms of job-loss restructuring, that is, it is a default category, and correspondents tend to classify as internal restructuring cases where there may be a mix of restructuring types – such as a combination of closure of some units or offshoring of certain functions – including larger restructuring cases affecting multiple sites.

[10] A caveat is that the case size eligibility threshold means that there is a bias towards bankruptcy or closure cases for establishments employing fewer than 250 people.

sourcing literature (for example, Statistics Denmark, 2008, p. 18). Even if the shares of overall restructuring job loss remain modest, the phenomenon of job loss through offshoring appears to be more prevalent among larger SMEs.

Restructuring and employment shifts by economic sector

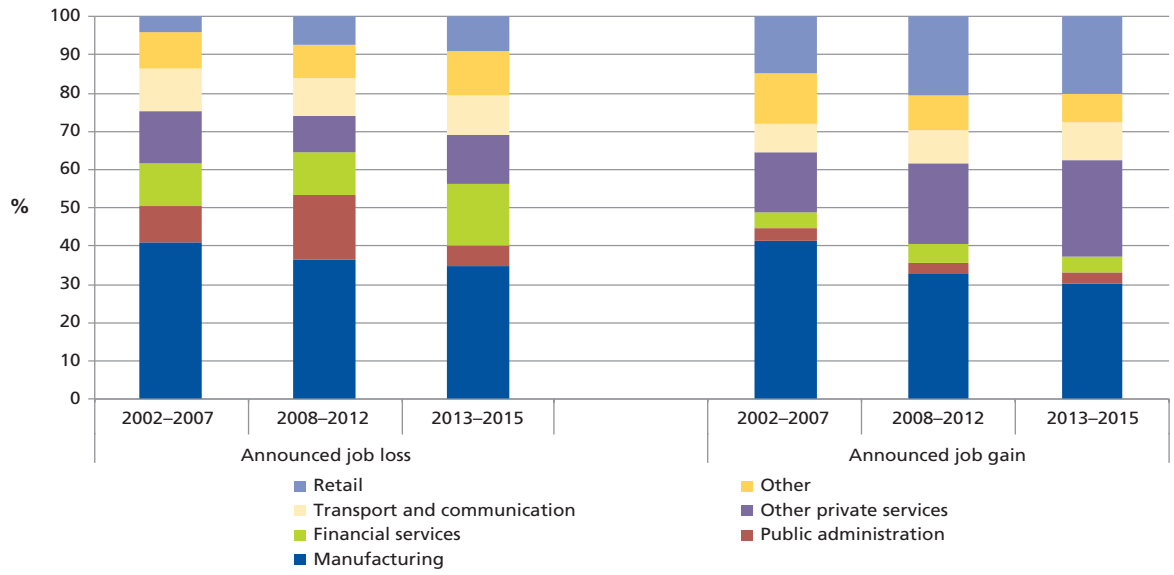
Manufacturing is the broad sector that accounts for most announced job losses and job gains in the ERM database (Figure 6). Given the ERM's case size eligibility thresholds, manufacturing, with its predominance of establishments or companies with high levels of employment, tends to be over-represented in the dataset. The sector accounted for 35% of announced job loss and 30% of announced job gains in the ERM in 2013–2015. Its share has tended to decrease, particularly regarding announced job creation, reflecting the sector's contracting share of overall employment. As the EU-LFS data in Table 3 show, employment levels in manufacturing have shrunk by 11% since 2008, notwithstanding the modest increase since mid-2013. Around one in six European jobs is now in manufacturing.

Other recent developments regarding large-scale restructuring job losses have been:

- the increasing share of the retail sector in overall job losses;
- the sharp reduction in announced job losses in public administration since 2013, a sector that accounted for one in six of all job losses during the crisis and immediate post-crisis period, coinciding with sharp fiscal retrenchment in many countries;
- the increase in the share of financial services job losses since 2013.

Each of the above trends is consistent with the EU-LFS data presented earlier in Figure 4, where these sectors were clustered together and labelled stagnant or slow-growing service sectors. The restructuring announcements in the public administration sector in the 2008–2012 period generally had a multiannual timeframe; as a result, their impacts in terms of actual employment contraction are likely to be still materialising.

Figure 6: Share of announced job loss and job gain, by broad sector, 2002–2015



Source: ERM

In terms of announced job creation, the two main trends have been a decline in the manufacturing share and an increase in the share attributable to 'other private services' – a broad grouping including legal services, engineering, consultancy, media, hotels and restaurants, as well as other professional and administrative services, but excluding financial services and retail.

The manufacturing sector's share of announced new jobs in the ERM declined sharply at the onset of the global financial crisis in 2008 and has continued to decline since then. Conversely, there has been sharp growth in other private services' share of job creation, with the sector now accounting for over one in four of every new announced job in the ERM dataset.

The representative data from the EU-LFS confirm many of the trends at sector level observed in the ERM restructuring data. Since the onset of the crisis in 2008, the largest declines in employment have taken place in manufacturing (4.3 million), construction (3.9 million), agriculture (1.7 million) and wholesale and retail (1 million) (Table 3). In terms of balancing gains, four sectors have recorded net employment growth of over 1 million jobs: residential care and social work activities (+1.8 million), education (+1.2 million), administrative and support services (+1.1 million) and health services (+1 million). The majority of service sectors continued to add employment, although with some notable exceptions – including core government functions (public administration and defence), which suffered a 4% decline, and the telecommunications sector, which shed 22% of pre-crisis employment. Growth was fastest in IT and information services (+28%), other professional, scientific and technical activities (+22%) and residential care and social work activities (+21%).

Table 3: Employment by sector, EU28, 2008–2015

NACE Rev. 2 sector	Employment (000s)			
	2008	2015	Change	% change
A – Agriculture, forestry and fishing	11,308	9,565	-1,743	-15
B – Mining and quarrying	886	840	-46	-5
C – Manufacturing, of which:	37,990	33,669	-4,321	-11
CA – Food, beverages and tobacco	*5,092*	*4,961*	*-131*	*-3*
CB – Textiles, clothing and leather	*3,329*	*2,312*	*-1,017*	*-31*
CC – Wood, paper and printing	*3,323*	*2,501*	*-822*	*-25*
CD – Coke, petroleum products	*246*	*201*	*-45*	*-18*
CE – Chemicals	*1,470*	*1,290*	*-180*	*-12*
CF – Pharmaceuticals	*799*	*832*	*33*	*4*
CG – Rubber, plastics, etc.	*3,356*	*2,922*	*-435*	*-13*
CH – Basic metals, metal products	*5,706*	*4,694*	*-1,012*	*-18*
CI – Computers, etc.	*1,712*	*1,519*	*-193*	*-11*
CJ – Electrical equipment	*1,601*	*1,354*	*-246*	*-15*
CK – Machinery, etc	*3,334*	*3,305*	*-30*	*-1*
CL – Cars, transport vehicles, etc.	*4,217*	*4,176*	*-41*	*-1*
CM – Furniture, other and repair	*3,805*	*3,603*	*-202*	*-5*
D – Electricity, gas, steam and air conditioning supply	1,496	1,552	55	4
E – Water supply; sewerage, waste management	1,584	1,688	105	7
F – Construction	18,491	14,616	-3,875	-21
G – Wholesale and retail trade	31,408	30,376	-1,032	-3
H – Transportation and storage	11,489	11,162	-327	-3
I – Accommodation and food service activities	9,189	9,725	536	6
JA – Publishing, broadcasting	1,999	1,970	-29	-1

NACE Rev. 2 sector	Employment (000s)			
	2008	2015	Change	% change
JB – Telecommunications	1,451	1,138	-313	-22
JC – IT and information services	2,737	3,492	755	28
K – Financial and insurance activities	6,579	6,387	-193	-3
L – Real estate activities	1,687	1,861	174	10
MA – Legal, accounting, architecture, engineering, etc.	7,470	8,321	850	11
MB – Scientific research and development	832	931	99	12
MC – Other professional scientific, technical activities	2,146	2,620	473	22
N – Administrative and support service activities	7,953	9,028	1,075	14
O – Public administration	15,550	14,926	-624	-4
P – Education	15,603	16,809	1,206	8
QA – Human health services	12,538	13,552	1,014	8
QB – Residential care and social work	8,374	10,153	1,779	21
R – Arts, entertainment and recreation	3,374	3,754	381	11
S/U – Other service activities, extraterritorial organisations	5,568	5,523	-44	-1
T – Activities of households	2,505	2,366	-139	-6
Non-response	*665*	*1,274*	*609*	
All sectors	**220,872**	**217,298**	**-3,574**	**-2**

Note: First quarter data in each year.
Source: EU-LFS, Eurostat

Within the manufacturing sector, three clusters can be identified. Employment losses have been most severe (greater than 15% of total employment) in basic, low-technology subsectors such as basic metals, textiles, clothing and leather, and wood, paper and printing. More modest employment losses (10%–15%) have been recorded in the production of chemicals, rubber and plastic goods as well as computers and electrical goods. Finally, the remaining predominantly high-technology sectors (cars, machinery and pharmaceuticals) have largely recovered employment losses experienced at the outset of the crisis; employment in these sectors has benefited from strong export markets, evidenced by positive and increasing trade surpluses.[11]

In the case of food, beverages and tobacco – the largest subsector within manufacturing – employment losses have also been modest. Considerations such as the importance of proximity to market and perishability of raw materials make delocalisation of production much less feasible in this sector compared with other manufacturing sectors and serve as a buffer to employment.

The broad trend in sectoral employment since 2008 has been the continuation of secular patterns of ongoing shrinkage of manufacturing and primary sector employment, combined with employment expansion in the majority of service sectors.

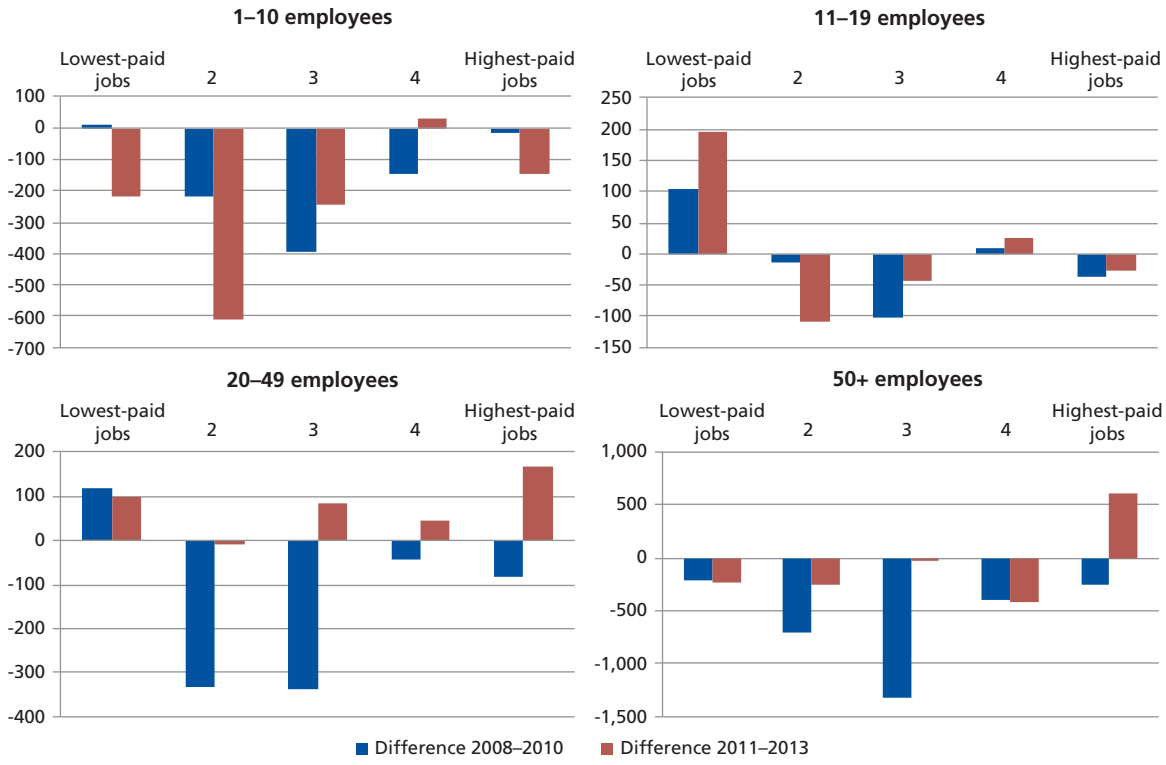
[11] See 'Table 6: Extra EU-28 trade by main products, EU-28, 2008, 2012 and 2013' on the Eurostat web page *International trade in goods*, available at http://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_trade_in_goods&oldid=194396.

Employment change in SMEs during and after the crisis

The crisis period of 2008–2010 was characterised by significant job loss in Europe, which also holds true for SMEs.[12] The overall trend towards job polarisation could also be observed for SMEs, with a lower level of job loss among the lowest-paid and highest-paid jobs compared with the medium wage categories (Eurofound, 2014). However, some particularities across the various SME size classes can be highlighted. Notably, during the crisis period of 2008–2010, establishments with 11–19 workers generated net job creation in the lowest-paid and mid-high-paid job categories, while entities with 20–49 and 1–10 workers did so in only the lowest-paid jobs (Figure 7).

In the subsequent period, 2011–2013, the picture is more diversified. Entities with 1–10 employees suffered net job destruction in all pay categories except the mid-high-paid jobs, and this destruction was considerably higher than during the crisis. Workplaces with 11–19 workers followed the same pattern as in the crisis period. In workplaces with 20 or more workers, the polarisation of the crisis period continued, but now with a more positive trend (job creation rather than destruction) and with some net job creation also in middle-paid jobs.

Figure 7: Employment change, in thousands, by job-wage quintile and size of workplace, EU25, 2008–2010 and 2011–2013



Note: Croatia, France and Slovenia were excluded from the analysis.

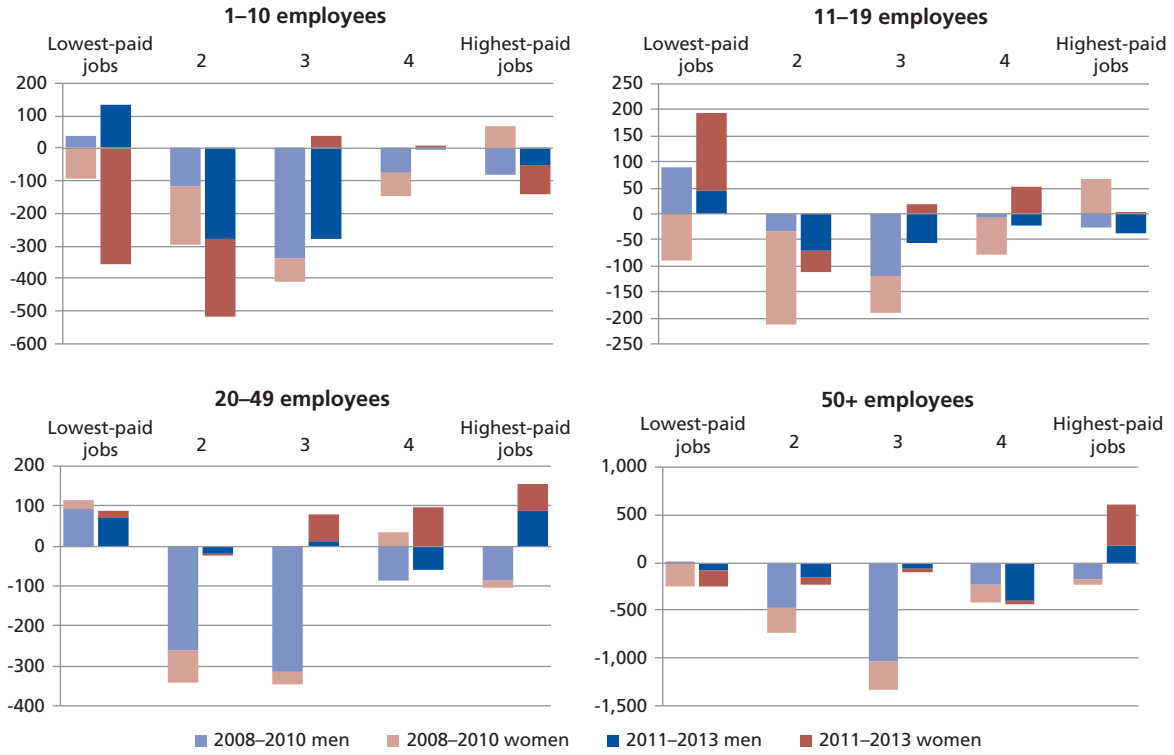
Source: EU-LFS annual data, Eurostat

[12] In EU-LFS data, the variable SIZEFIRM refers to the number of people working at the local unit, as reported by the survey respondent. This variable is coded into four categories 1–10, 11–19, 20–49 and 50 or more employees. This unsatisfactory categorisation does not allow a distinction to be made between SMEs with 50–250 employees and larger companies. As the SMEs constitute a high share of all companies, this analysis refers to SMEs with 50 or more employees, which also include large companies.

In terms of gender, certain differences are apparent in SMEs' patterns of job creation and destruction in both periods. In the crisis period, there was net creation of jobs employing women in the high-paid category in establishments with up to 19 employees, while jobs taken up by men were created mainly in the lowest-paid category (Figure 8). In establishments with 20–49 employees, net job creation for women was observed in the lowest-paid and mid-high-paid categories, while net job creation for men was observed only in the lowest-paid category.

In 2011–2013, the smallest establishments (1–10 employees) had net job creation for men in the lowest-paid positions, while net job creation for women occurred in both the mid-paid and mid-high-paid categories. In establishments with 11–19 employees, jobs employing men were created in the lowest-paid category and destroyed particularly in the mid-low-paid and mid-paid positions, while the greatest job creation for women occurred in the mid-high-paid and lowest-paid categories. Establishments with 20–49 employees created jobs employing men in the lowest-paid and highest-paid categories, while for women net job creation occurred in all categories except the mid-low-paid but with stronger growth in higher-paid jobs.

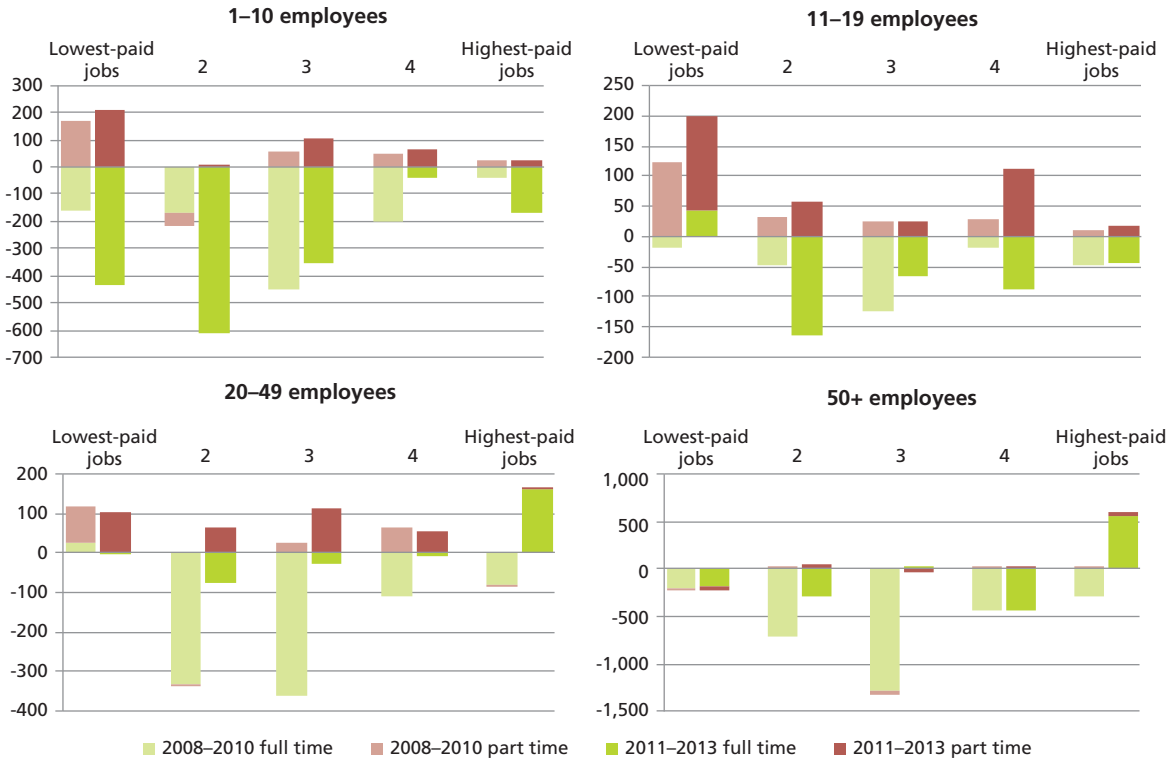
Figure 8: Employment change, in thousands, by job-wage quintile, size of workplace and gender, EU25, 2008–2010 and 2011–2013



Note: Croatia, France and Slovenia were excluded from the analysis.
Source: EU-LFS annual data, Eurostat

Regarding the type of employment, in both periods analysed, net job creation was observed mostly for part-time employment (Figure 9). In the crisis period, net creation of full-time jobs occurred only in establishments with 20–49 employees and in the lowest-paid category. After the crisis, full-time jobs were created in the highest-paid positions in establishments with 20–49 employees and with 50 or more employees, and in the lowest-paid positions in establishments with 11–19 employees.

Figure 9: Employment change, in thousands, by job-wage quintile, size of workplace and full-time or part-time status, EU25, 2008–2010 and 2011–2013



Note: Croatia, France and Slovenia were excluded from the analysis.
Source: EU-LFS annual data, Eurostat

Restructuring, SMEs and job creation – The example of born globals

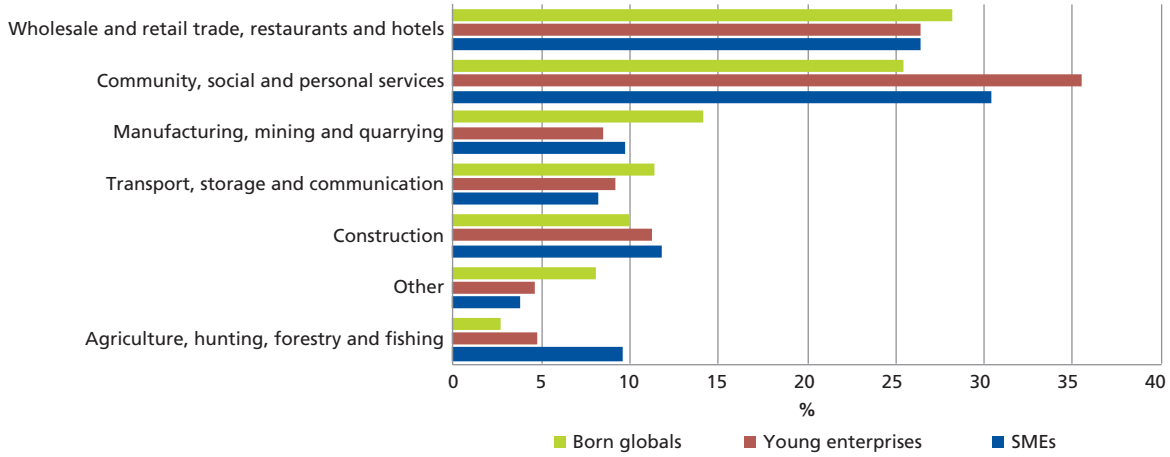
One of the restructuring types considered by the ERM is business expansion, which includes companies' internationalisation activities. Traditional internationalisation theory suggests that enterprises first build up a solid home market before gradually starting to export to neighbouring or culturally close markets; only as a third step do they consider engaging in global business more intensively (Johanson and Vahlne, 1990; Leonidou and Samiee, 2012). However, there are also young companies that realise substantial international activities soon after inception – so-called born global enterprises (Eurofound, 2012a).

Data from the GEM show that born globals constitute about 2.5% of all SMEs and 12% of young enterprises. Similar results emerge from national data for Austria, Estonia and Sweden, where born globals constitute between 1% and 5% of SMEs and around 2%–16% of young enterprises (sources: survey by the Austrian Institute for SME Research on behalf of the Austrian Federal Economic Chamber, 2013; statistics from Estonian foreign trade data combined with business registry data; survey results from the Swedish Agency for Economic and Regional Growth, 2014).

The majority of European born globals are in the service sectors. National data for Estonia, for example, show that about 40% of born globals are active in trade and transport, while in Austria and Sweden the most significant born global sector is information, communication and professional activities (sources: survey by the Austrian Institute for SME Research on behalf of the Austrian Federal Economic Chamber, 2013; statistics from Estonian foreign trade data combined with business

registry data; survey results from the Swedish Agency for Economic and Regional Growth, 2014).[13] Due to their export orientation, a higher share of born globals compared with other young enterprises or SMEs in general is active in manufacturing, while comparatively fewer work in community, social and personal services, agriculture and construction, all of which are more domestically oriented (Figure 10).

Figure 10: Sector distribution by type of company, selected EU Member States, 2011



Note: Born globals are young enterprises (up to 3.5 years in operation) with more than 25% of customers based abroad.
Source: Global Entrepreneurship Monitor, Annual Population Survey (GEM APS) 2011

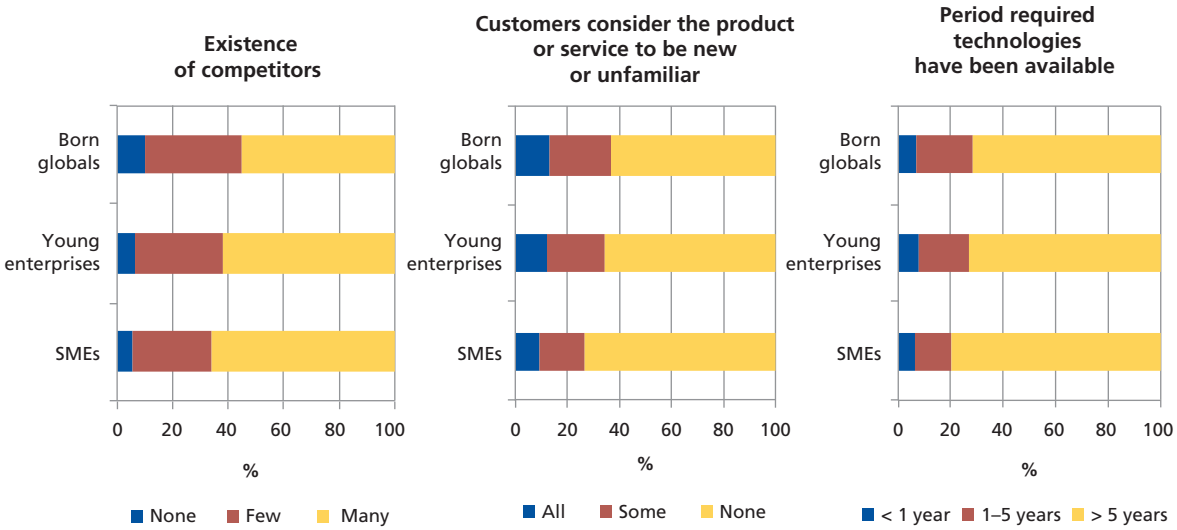
Although born globals represent only a small share of enterprises and hence employment, they are dynamic job creators in relative (but not in absolute) terms. This is reflected in their bigger average company size and more ambitious future employment plans (see Chapter 2).

Furthermore, it can be assumed that born globals do not only restructure in terms of extending their market orientation and employment but also restructure internally due to their higher degree of innovativeness.[14] Some 45% of European born globals indicate having none or only a few competitors, compared with 38% of young enterprises and about one-third of SMEs (Figure 11). Moreover, 37% of born globals consider their products and services as new for their customers, compared with 34% of young enterprises and 26% of SMEs. Finally, about 30% of born globals and young enterprises estimate that the technology required for their products has been available for a maximum of five years, compared with only 20% of SMEs.

[13] It should be noted that service exports are covered to a limited extent only in the Estonian statistics (see Annex 1).

[14] Innovativeness was measured by managers' and owners' answers to the three following questions: 'Right now are there many, few, or no other businesses offering the same products or services to your potential customers?'; 'Do all, some or none of your potential customers consider the product/service as new and unfamiliar?'; 'Have the technologies or procedure required for this product or service been available for less than a year, or between one to five years, or longer than five years?'

Figure 11: Innovativeness by type of company, selected EU Member States, 2011



Note: Born globals are young enterprises (up to 3.5 years in operation) with more than 25% of customers based abroad.
Source: GEM 2011 APS

This comparatively high innovation level is also supported by national data. In Austria, around 75% of born globals introduced at least one new product, service or method between 2010 and 2012, compared with around 70% of young enterprises and SMEs. In Sweden, around 70% of born globals significantly improved or developed new products or services in the past three years, compared with around 50% of young enterprises and SMEs (sources: survey by the Austrian Institute for SME Research on behalf of the Austrian Federal Economic Chamber, 2013; statistics from Estonian foreign trade data combined with business registry data; survey results from the Swedish Agency for Economic and Regional Growth, 2014).

In the long run, it is reasonable to assume that the innovativeness of born globals may lead to job creation (see also Chapter 3). Innovation is important for the competitiveness of companies. More competitive companies that bring new products and services to the market are more likely to outlast and outgrow their competitors. However, innovation may also lead to job loss, for example if tasks are automated.

Estonian data show that closure as a cause of restructuring is less common among born globals than among other young enterprises. Survival rates of born globals range from about 90% to 97% during their first four years, compared with around 70% to 85% for young enterprises (Table 4).

Table 4: Survival rate by company type, Estonia

Reference year	Year	Born globals (%)	Young enterprises (%)
2007	1	100	100
	2	97	85
	3	94	72
	4	90	70
	5	86	64
2008	1	100	100
	2	97	86
	3	93	81
	4	89	73
	5	86	62
2009	1	100	100
	2	100	79
	3	97	70
	4	91	57
2010	1	100	100
	2	100	88
	3	96	70

Note: Estonian born globals are SMEs that have existed for five years or fewer and that exported at least 25% of turnover during at least two of these years.
Source: Statistics from Estonian foreign trade data combined with business registry data

Dynamic and non-dynamic job creators among SMEs

2

The following section summarises data and literature available in the EU Member States as well as at cross-national level regarding which types of SMEs contribute more or less to job creation than their counterparts. 'Employment dynamism' is thereby understood in relative terms – meaning either a significant increase in jobs from period to period or compared with other groups of SMEs. This is not necessarily in line with absolute job growth, that is, the number of employment relationships established in the context of contribution to the overall labour market. Also, it does not give any information about survival rates of the companies (which, naturally, is a precondition for job creation) nor about the sustainability and quality of jobs created.[15]

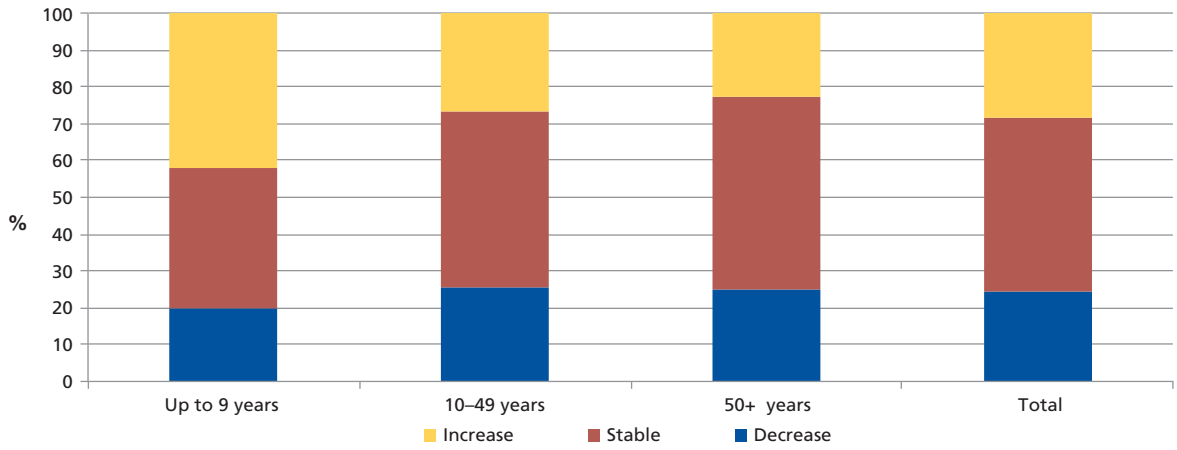
Structural characteristics

Age of company

When employment dynamism is discussed, it is often found that the age of the company is a decisive factor, with start-ups and young enterprises generally identified for creating more jobs than older companies in relation to their share of employees.[16] Bearing in mind the company life cycle, this is not very surprising: during the start-up phase, the company is typically small and 'quick growth is … generally a feature of young firms' (Eurofound, 2013a, p. 19).[17]

The OECD highlights that even though young enterprises (up to five years old) represent on average only 17% of employment, they contribute more than twice as much to job creation (42% of the total) and only to 22% of all job destruction, making them net job creators (Criscuolo et al, 2014). Conversely, older SMEs are generally net job destroyers. Similarly, data from the ECS show that employment growth between 2010 and 2013 was negatively related to the age of the establishment. A much higher proportion of establishments in operation for fewer than nine years increased employment compared with older establishments (Figure 12).

Figure 12: Change in employment in SMEs between 2010 and 2013, by age of establishment, EU28



Note: Data exclude the public sector.
Source: Third European Company Survey (ECS)

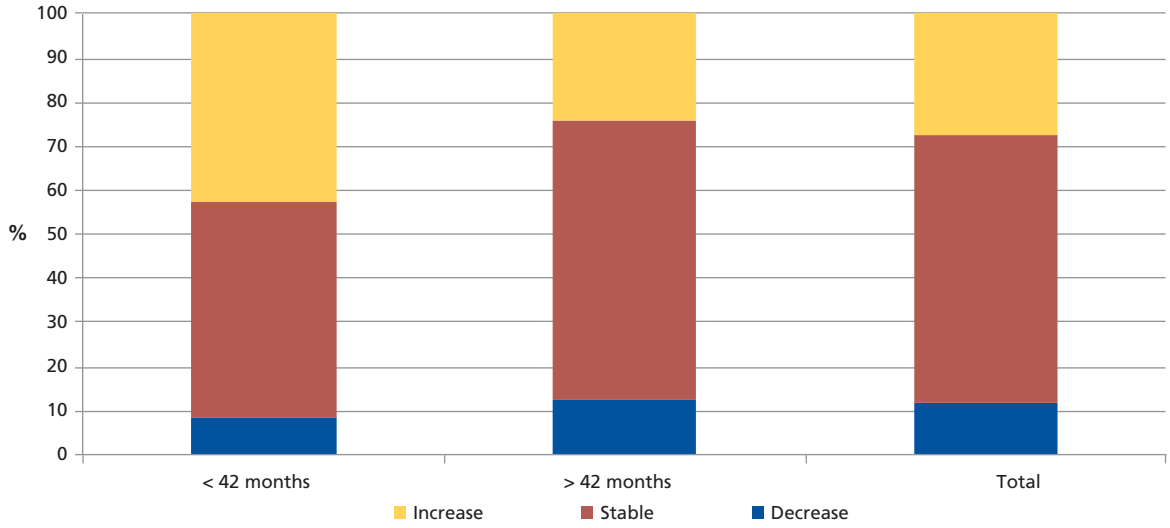
[15] High-growth firms and 'gazelles' are not discussed in this section as a dynamic job creation process is part of the definition of these business types. However, if the available data on this enterprise group highlight an even higher dynamism for characteristics analysed here, this is mentioned.

[16] There is some anecdotal evidence that young enterprises are dynamic job creators only in the case of 'real' start-ups. Spin-offs and mergers do not necessarily result in additional employment (De Kok et al, 2011).

[17] Quite naturally, job creation is only possible in companies that remain in the market. Discussing survival of SMEs, particularly differentiated by company age, would go beyond the scope of this study but could be considered for further research.

Moreover, results from the GEM suggest that double the proportion of owners or managers of companies younger than 42 months expect job growth within the next five years than owners or managers of older companies (Figure 13). It should be noted, however, that younger enterprises might be more optimistic about future employment developments due to less experience and that employment plans do not necessarily result in actual job creation.

Figure 13: Expected change in employment in SMEs within five years, by length of time in operation, selected EU Member States, 2011



Source: GEM APS 2011

National data also confirm that younger SMEs are more dynamic job creators. For example, the vast majority of Finnish SMEs hire their first employee during their first year in existence (Aaltonen et al, 2009), and a Lithuanian survey shows that start-ups on average created five jobs in 2013 (Startup Lithuania, 2013). Danish SMEs create the most jobs within the first two years of their existence, while most of the job destruction takes place in companies that are older than 15 years (Ibsen and Westergaard-Nielsen, 2011). German data from 2006 highlight that the annual employment growth rate of companies that are five years or younger is around 8.8% and thus 6.8 percentage points higher than that of those in business for 20 years or more (KfW, 2006). For Ireland, Lawless (2013) finds a job creation rate of 24% for companies established less than 5 years (constituting 67% of total job creation), compared with 7% for companies in operation for 5 to 10 years and 5% for older companies (Lawless, 2013).

Interestingly, across Member States, there were two exceptions to this general finding regarding young enterprises as dynamic job creators. For Hungary, it was noted that young enterprises are not as dynamic in creating jobs as older ones. This may be due to the fact that young enterprises struggle to survive during the first five years, and hence employment creation remains limited. Similarly, for Romania, stability effects in companies result in higher job creation contribution by older enterprises (on average 1.49 new jobs are created per year by SMEs older than 15 years) compared with younger ones (on average 0.93 new jobs per year in SMEs that are younger than five years) (National Council of Private Small and Medium Enterprises in Romania, 2014).

Furthermore, recent research from the United Kingdom indicates that dynamic job growth occurs in waves across the company life cycle, interrupted by phases of slow or no growth or even downsizing. Hart and Anyadike-Danes (2014a, 2014b) introduce the concept of 'extraordinary prolific job creators' (EPJCs), which defines a small group of companies (around 6%) that accounts for 40% of all job creation over a 15-year observation period.

Company size

It is generally observed that one-person enterprises (OPEs), defined as companies without any dependent employees other than the owner–manager, tend to be hesitant job creators. Available data for Austria, Finland, France (Insee, 2014), Slovenia and Sweden suggest that about one-third of OPEs at most intend to recruit staff (Dörflinger et al, 2011; Aaltonen et al, 2009; SAERG, 2014).

When considering the other size classes within the SME population, no clear assessment can be given. De Kok et al (2011) found that micro-enterprises in particular contributed to job growth, accounting for an average of 1.7% of job growth per year; this compares with 0.4% for large enterprises, 0.5% for medium-sized enterprises and 0.7% for small enterprises, averaging at 0.9% of employment growth. Similarly, De Wit and De Kok (2014) observed a decreasing average net job creation rate according to increasing company size: 3.1% for micro-enterprises, 1.6% for small enterprises, 1.3% for medium-sized enterprises and 1% for large ones.

National data show a large variation in employment contribution according to SME size class across Member States. Lawless (2013), for example, shows that for Ireland job creation declines with increasing company size, from a 21% job creation rate in the smallest size class analysed (up to 20 employees) to 7% for the largest companies (more than 250 employees). The opposite is found for Cyprus, where an average annual net job increase of 3.3% between 2002 and 2010 was observed for medium-sized enterprises, compared with 2.2% for micro-enterprises and 2.9% for small enterprises (De Kok et al, 2011).

Micro-enterprises with fewer than 10 employees are found to be more dynamic job creators than other SME types in Croatia, Finland, Ireland,[18] Lithuania and Slovenia. However, they are among the companies contributing the least to employment growth in Belgium, Cyprus, France, Poland and Romania (Ministry of Economy, 2012; Starczewska-Krzysztoszek, 2012). In Poland, only one-eighth increased employment in 2010 or planned to do so in 2011.

In other countries, small enterprises (10–49 employees) are contributing more to job creation than other SMEs (KMU Forschung Austria, 2014; Ministry of Employment and the Economy, Finland, 2011, 2012; Rikama and Huovinen, 2015). In Austria, for instance, small enterprises accounted for 50% of all job creation in 2013 and about a quarter of all jobs. It is also the case in Croatia, and in Finland, where 87% of high-growth enterprises are small. In contrast, small companies are slow to create jobs in Cyprus, France, Greece, Portugal and Romania. In Belgium, too, small SMEs show a lack of dynamism, whereas medium-sized enterprises are quite the opposite: SMEs with fewer than 50 employees showed net employment creation of 1.6% between 2007 and 2013, compared to an average of 3.9% in SMEs and 8.3% in SMEs with 50–200 employees (DynaM, 2014).

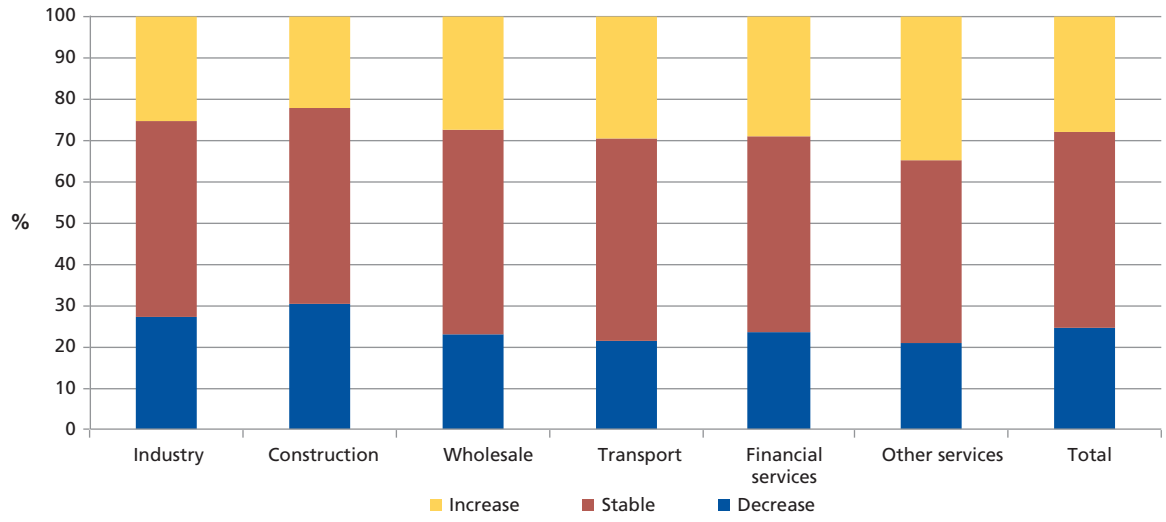
[18] Less dramatic job destruction between 2008 and 2011 is taken as a proxy for employment dynamism (Lawless et al, 2012).

As in Belgium, medium-sized enterprises (50–249 employees) are dynamic job creators in Cyprus, France and Sweden. Likewise, in Poland, a survey in the second half of 2012 found that 25% of medium-sized enterprises reported employment growth, compared with 7% of all Polish companies, while a 2011 survey found that twice as many medium-sized enterprises than small enterprises reported employment growth (Ministry of Economy, 2012; Starczewska-Krzysztoszek, 2012). In Romania, an average of 8.87 new employees per year have been reported for medium-sized enterprises, compared with 2.16 new employees for small enterprises and 0.56 for micro-enterprises (National Council of Private Small and Medium Enterprises in Romania, 2014). In Ireland and Portugal, however, this size class is not a dynamic employment creator.

Sector

There is a general tendency for employment growth to be most pronounced in the service sector, while SMEs in the construction and manufacturing sectors in particular contribute less to job creation (see also Chapter 1), not least due to the effects of the global economic and financial crisis (Muller et al, 2015). Data from the ECS show that between 2010 and 2013, SME establishments active in the industry and construction sectors had a lower than average probability of increasing employment, while financial services, other services and transport were more dynamic (Figure 14).

Figure 14: Change in employment in SMEs between 2010 and 2013, by sector, EU28



Note: Data exclude the public sector.
Source: Third ECS

Across Member States, there is considerable diversity regarding the sectors in which SMEs contribute most to new jobs. In some countries, SMEs in parts of the manufacturing sector are dynamic job creators. This is the case in Austria (chemicals and pharmaceutical industry, automobiles, IT and electronic equipment), Croatia (before the crisis), Italy (agro-food industry), Latvia, Slovenia and Romania (particularly food and apparel production). However, manufacturing SMEs are stagnant or responsible for job losses in Bulgaria, Cyprus, Greece, Italy (wood and furniture industry), Luxembourg, the Netherlands and Malta (other industries).

Construction SMEs contribute to job creation at an above average level in Latvia, Lithuania, Luxembourg (due to strong investment in public infrastructure and residential and non-residential buildings – see below) and Slovenia. In Austria, many start-ups can be found in this sector, with young companies identified as dynamic job creators (see above). In Belgium, SMEs account for more than half of the employment growth in the construction sector, which is, however, generally characterised by moderate job increases. Construction SMEs report job losses in Bulgaria, Cyprus, Denmark, Greece, Ireland and Portugal.

In roughly one-third of the Member States, SMEs in trade, transport and storage are observed to be dynamic job creators, but account for job loss in Belgium and Cyprus.

There is more consistency across Europe for SMEs in accommodation and food services, financial services, professional, scientific and technical activities, as well as information and communication. This reflects the more general trend of employment growth in the service sector (see also Chapter 1). De Kok et al (2011) also highlight that most employment creation takes place in the business services sector, where 27% of job creation was by newly established enterprises in 2005–2008.

Similarly, SMEs in the electricity and water supply sector are dynamic job creators in five Member States. This may be attributable to the enhanced activities related to environmental protection, efficient energy use and reduction of greenhouse gas emissions, which suggests further growth potential in this sector for the future. However, this is a very small sector and hence has a limited overall employment effect.

Next to these 'formal' sectors, other dynamic job creators in Austria, Denmark and Romania are SMEs in the creative industries (comprising enterprises from various sectors that conduct activities originating in individual creativity, skills and talent or that create, produce and distribute cultural goods or services). Implicitly, this is also the case for some of the other countries highlighting SME job growth in information and communication or professional, scientific and technical activities, which form part of the creative industries. In contrast, there is evidence in some countries of a limited job creation effect in the creative industries. In Malta, SMEs involved in internet gaming contribute to job creation, but the audiovisual and creative arts and entertainment sectors incur job loss. For Estonia, while the number of businesses in the creative industries grew by 44% between 2007 and 2011, the number of employees increased by only 4.4% (Estonian Institute of Economic Research, 2013). Similarly, in Slovakia, there is a higher share of one-person enterprises and microenterprises in the creative industries than in other sectors, resulting in lower job creation dynamism.

Location

Finally, the location of the SMEs seems to influence their job creation dynamism. In about one-quarter of the Member States, SMEs in urban areas contribute more to employment growth than other companies. In Hungary, for example, this is explained by the fact that more SMEs settle in the capital region, resulting in more employment dynamism than in other regions. In Poland, rural areas are dominated by micro-enterprises and one-person enterprises, which are more hesitant in job creation. Among the analysed born globals that experienced dynamic job creation since their inception, the vast majority are located in large urban areas. Those that are located in smaller cities or rural areas report additional difficulties in finding a suitable workforce.

Summary

Table 5: Structural characteristics of dynamic job creators among SMEs, by country

	Age	Size	Sector	Location
Austria	Young	Small	Accommodation, food services (many start-ups) Construction (many start-ups) Creative industries Manufacturing (chemical and pharmaceutical industry, automobiles, IT and electronic equipment) (many innovative companies) Professional, scientific and technical activities (many start-ups) Retail trade (many start-ups)	Urban (many in creative industries)
Belgium	Young	Medium	Administrative and supporting sectors Construction	
Bulgaria			Electricity, water supply	Economically developed regions (south-west and south-east)
Croatia		Micro Small	Accommodation, food services Electricity, water supply Manufacturing	Urban Tourism regions
Cyprus		Medium		
Czech Republic	Young		Construction (bricklaying and other construction crafts) Professional, scientific and technical activities Trade (internet shopping)	Urban
Denmark	Young		Creative industries Information and communication (many innovative companies)	
Estonia			Electricity, water supply Information and communication	
Finland	Young	Micro Small	Information and communication	
France	Young	Medium		
Germany	Young		Accommodation, food services Administrative and supporting sectors Financial services Information and communication Professional, scientific and technical activities Real estate activities Trade, transport, storage Other services	
Greece			Air transport Information and communication Mining and quarrying Water supply	

	Age	Size	Sector	Location
Hungary	Older		Information and communication	Urban (capital region)
Ireland		Micro	Accommodation, food services Financial services Wholesale and retail trade	
Italy	Young		Manufacturing (agro-food industry)	
Latvia	Young		Construction Manufacturing Wholesale and retail trade	Urban
Lithuania	Young	Micro	Construction Information and communication	Urban
Luxembourg	Young		Administrative and supporting sectors Construction Financial sector (funds, professional services) Social services Wholesale trade	
Malta			Creative industries (internet gaming) Financial services Information and communication Manufacturing (basic pharmaceutical products) Professional, scientific and technical activities Transport	
Netherlands	Young		Information and communication Transport	
Poland		Medium	Professional, scientific and technical activities	Urban
Portugal	Young		Electricity, water supply	
Romania	Older	Medium	Creative industries Manufacturing	Urban (many in creative industries)
Slovenia		Micro	Construction Manufacturing Retail trade Transportation and storage Professional, scientific and technical activities	
Spain	Young		Information and communication technologies (many gazelles) Transport (many gazelles)	
Sweden	Young	Medium	Accommodation, food services	
United Kingdom	Young		Accommodation, food services Professional, scientific and technical activities	

Notes: Empty cells and omitted countries mean that no information is available for these characteristics. For Bulgaria and Greece, no job creation has taken place in SMEs since the recession, but job stability or low job loss are considered an indicator of employment dynamism in individual SME types. Micro-enterprises are those with fewer than 10 employees, small enterprises have 10–49 employees and medium-sized enterprises have 50–249 employees. A gazelle is a company with extremely fast growth during a certain period of time.

Source: Eurofound, based on contributions from its network of European correspondents; Criscuolo et al, 2014; De Kok et al, 2011; Forfás, 2013

Business model

While analyses of job creation tend to focus on companies' structural characteristics, less attention is paid to differences among business models. However, the (fragmented) data available across Member States suggest that this aspect should be explored further.

Corporate governance

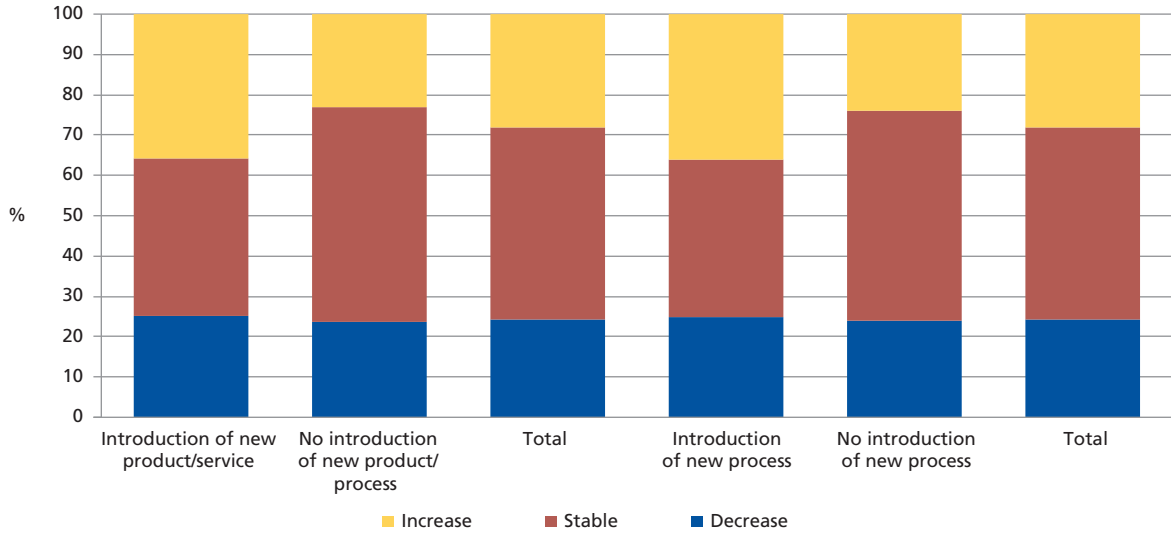
For about one-quarter of the Member States, non-family businesses are more dynamic in job creation than family businesses (where the majority of ownership and decision-making is done by the family of the founder). Estimates highlight that while about 60% of all companies in the EU are family owned, the latter represent about 40%–50% of employment (European Commission, 2009). This is attributed to family businesses' preference for long-term sustainability in order to hand over the business to the next generation rather than to strive for quick growth. In Estonia, family businesses are often unable to pay competitive wages and hence are less able to attract staff (Kirsipuu, 2011). However, in the Czech Republic, the opposite is the case. This is explained by family businesses' great flexibility, stability and intention to create jobs for family members. Research from the UK also suggests that employment in family businesses has increased in recent years and that 23% of family-owned SMEs are expecting an increase in employment in the future (Institute for Family Business, 2014).

Business strategy

Innovative SMEs are more dynamic job creators than non-innovative SMEs (De Kok et al, 2011). Both process and product innovation are considered to be positive factors for companies' survival and employment growth (Calvo, 2006) caused by cost reductions, an increase in demand or business expansion through internationalisation (De Kok et al, 2011). Data from the ECS confirm this relationship. However, innovative SME establishments that reported having introduced or significantly improved a product or service or having introduced or significantly improved a process also had a significantly higher likelihood of having decreased employment between 2010 and 2013 (Figure 15).[19]

[19] Those two variables – although recommended by the OECD (2005) in the *Oslo manual guidelines for collecting and interpreting innovation data* – might not always work well as indicators of innovativeness. During the observed period, they might capture changes in company processes, products or services that were made in response to the crisis rather than as a result of a planned innovation strategy. Hence, these results should be interpreted with caution.

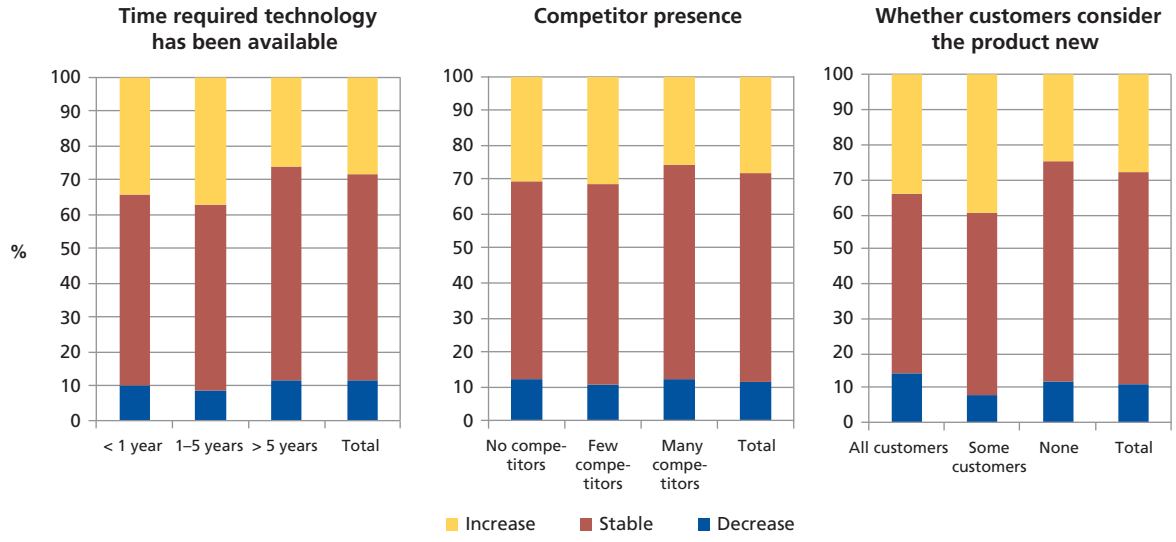
Figure 15: Change in employment in SMEs between 2010 and 2013, by innovativeness as defined by the ECS, EU28



Notes: Innovativeness is defined in the ECS as the introduction of or significant improvement in a product or service or the introduction of or significant improvement of a process. Data exclude the public sector.
Source: Third ECS

Data from the GEM highlight that SMEs that are more innovative also have greater expectations about future job growth (Figure 16).

Figure 16: Expected change in employment in SMEs within five years, by innovativeness as defined by the GEM, selected EU Member States, 2011



Source: GEM APS 2011

For about half of Member States, national data also support a link between innovation and the job creation behaviour of SMEs. Data for Austria show that enterprises that have introduced new or improved products have on average a 1.7% higher employment growth rate than non-innovators (Falk, 2013). However, while 86% of large companies in Austria have been innovative between 2010 and 2012, this share is only 60% for SMEs (Statistik Austria, 2012). In Italy, companies undertaking product or process innovation experienced 8% employment growth between 2007 and 2010, compared with 2% on average (Istat, 2013 and 2014). In Slovakia, innovative SMEs account for 36% of companies but 61% of employment (ŠÚSR, 2012).

While statistical evidence does not clearly show whether innovation drives employment or whether increased staff numbers results in innovation, a relationship between innovation and job growth is obvious. However, there are also some indications that innovation results in staff reduction due to technology replacing human resources or delocalisation of production (Segnana and Bernard, 2012).

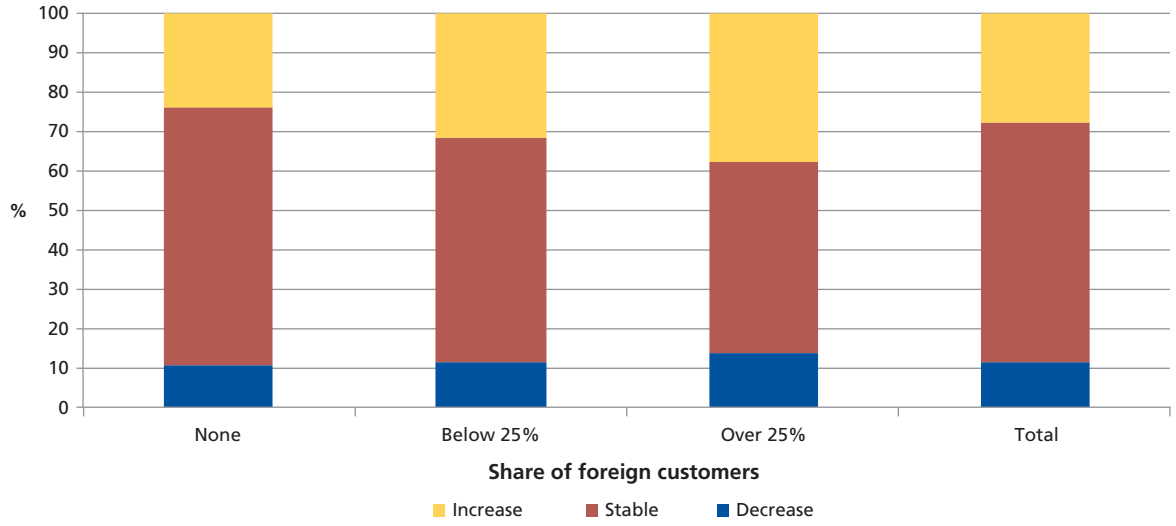
In Austria, France and the Netherlands, SMEs that follow an active growth strategy ultimately also have higher employment than other companies. An Austrian survey, for example, shows that 34% of family businesses, which are generally considered modest job creators (see above), that have a growth plan intend to hire additional staff. In contrast, only 8% of family businesses without a growth plan intend to do so (Dörflinger et al, 2013). In France, growth-oriented SMEs (roughly 2% of all SMEs) – defined as companies with a growth-oriented strategy combining innovation, agility (quick adaptation to changes in the business environment) and continuous search for opportunities – achieve faster and stronger growth in value added or employment (KPMG, 2010). In the Netherlands, gazelles more often have a marketing plan, marketing staff and an active human resources management (HRM) policy (including objectives and evaluations, training, development plans, profit sharing and so on) (De Wit and Timmermans, 2008).

Interestingly also, in France and Germany, a company's investment strategy influences their job creation. German joint-stock companies with 10–49 employees that invest for any reason – for example, to increase sales, to satisfy new regulations or to renew the product range – grow by about 5 percentage points faster than non-investing companies. Companies that invest with the aim of increasing sales create the most jobs (KfW, 2006). In France, high-growth SMEs are defined as young SMEs that are highly internationalised and invest even under adverse economic conditions. While they constitute only about 7% of SMEs, they accounted for more than half of the net employment created between 2002 and 2005 (Brun and Chai, 2012).

Market orientation

GEM data point towards more ambitious job creation plans in companies engaged in increasing international activities (Figure 17).

Figure 17: Expected change in employment in SMEs within five years, by share of foreign customers, selected EU Member States, 2011



Source: GEM APS 2011

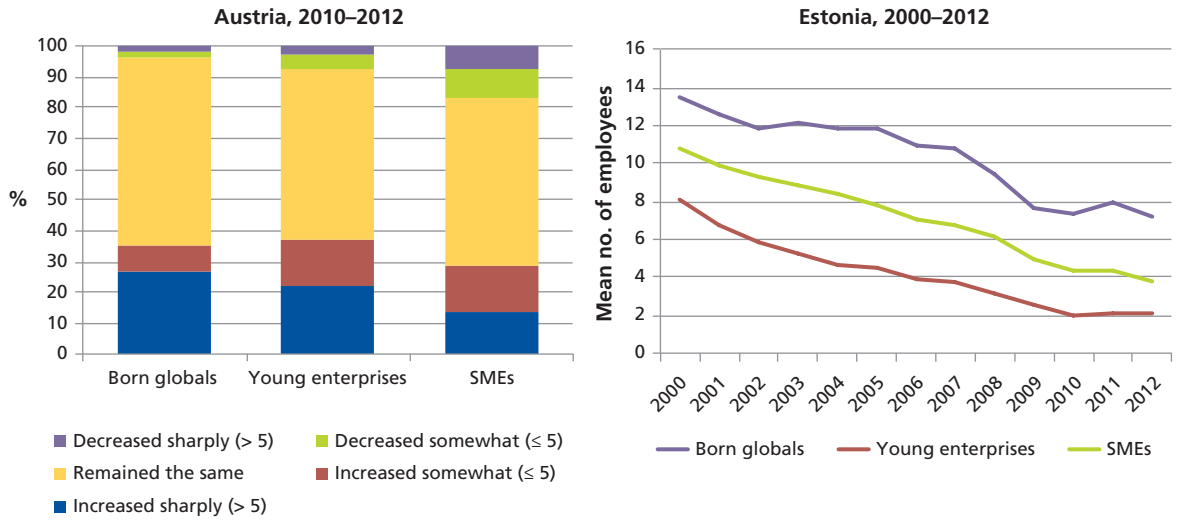
Moreover, in almost 40% of Member States, international SMEs are more dynamic job creators than those that are exclusively active in their home country. Evidence from Belgium, for example, suggests that 'SMEs that started to export also made a significant contribution to net employment growth', while 'firms that stopped exporting and those that continued showed a substantial decline in employment' (Onkelinx and Sleuwaegen, 2010, p. 6). In a Spanish survey, around 10% of exporting SMEs created more than 25 jobs during 2001–2004, compared with about 2% of the non-exporters (DGPYME, 2006). Data for Germany show better employment development among exporting SMEs compared with larger exporting companies: while the net job creation rate of SMEs engaged in exporting between 2001 and 2009 reached about 10% for this period, larger exporters realised a net job loss of about 6% (May-Strobl and Wolter, 2013). Research from Italy highlights that, while exporting SMEs generally show better employment growth than those exclusively oriented towards national level, the structure of the value chain influences this dynamism. International SMEs strongly relying on imported products contribute very little to employment (Istat, 2013).

Interestingly, for Croatia and Slovakia, SMEs not engaged in exporting do better in terms of employment numbers than international businesses. While the number of exporting SMEs in Slovakia increased by 3.2% in 2012, employment in those companies decreased by 3.5%, which is attributed to the increasing cost of exporting (Slovakian Ministry of Economy, 2014). In Croatia, before the crisis, micro-enterprises and small companies oriented towards local or regional markets had significantly increased their employment share.

In the context of internationalisation, born global enterprises should be mentioned. Previous Eurofound research (2012a) found these companies to be dynamic job creators and likely to create good-quality and sustainable jobs. GEM data from 2011 show that on average in European countries, born globals employ 9.6 staff, compared with 5.6 in young enterprises (up to 3.5 years) and 6.7 in SMEs in general. This highlights the relevance for employment growth of the combination of some of the characteristics discussed – in this case, international market orientation, young company and an innovation-oriented business model (see also Reinstaller et al, 2010; European Commission, 2014a; Wagner, 2002; Serti and Tomasi, 2008).

Born globals' employment contribution can also be shown with national data. For the UK, born globals, which account for around 2% of British companies, 'make a disproportionately large contribution to employment (6.8%)' (Harris and Li, 2007). Swedish born globals on average employ 2.6 workers, compared with 2.2 workers in young enterprises (source: survey results from the Swedish Agency for Economic and Regional Growth, 2014). In the knowledge-intensive business services, born globals on average employ 7 people after three years and those in manufacturing actually employ 26, compared with the national average of 2 employees in all enterprises after three years (Halldin, 2012). Estonian born globals on average employed between 7.2 and 13.5 staff during 2000–2012, compared with 2 to 8.1 employees in young enterprises and 3.8 to 10.8 employees in SMEs (source: statistics from Estonian foreign trade data combined with business registry data) (Figure 18). While Austrian born globals employ on average 3.9 staff, the comparative value for other young enterprises is slightly lower at 3.1 employees (source: survey of the Austrian Institute for SME Research on behalf of the Austrian Federal Economic Chamber, 2013). For the period 2010–2012, almost 27% of born globals reported a sharp increase in staff numbers, compared with 22% of young enterprises and 13.5% of SMEs. However, taking into consideration the overall small size of born globals, these data have to be interpreted with caution.

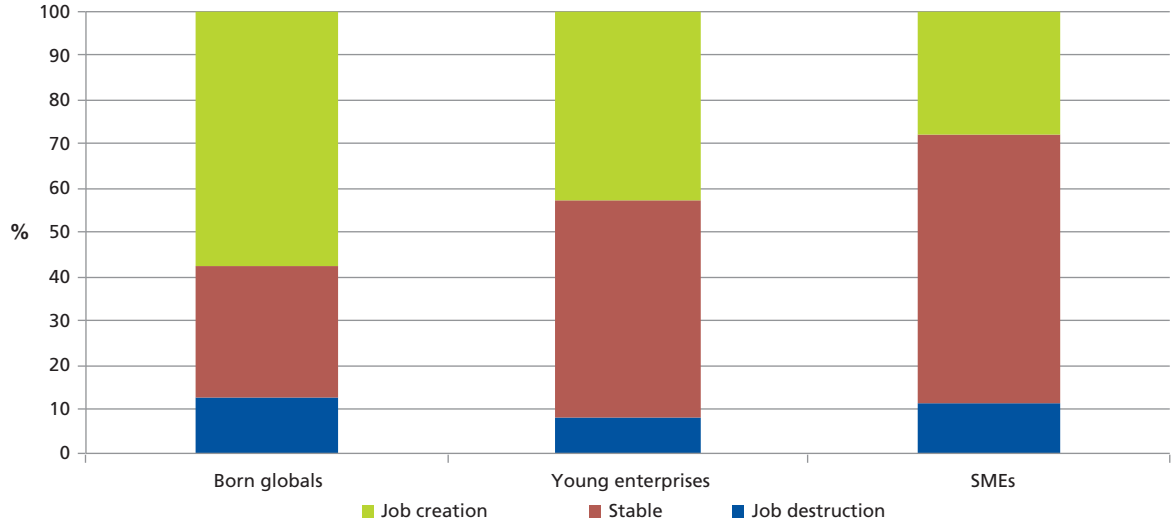
Figure 18: Employment change, by company type, Austria and Estonia



Notes: Austrian born globals are SMEs formed in 2007 or later that had an export share of at least 25% in 2012; Estonian born globals are SMEs that have existed for five years or fewer and that exported at least 25% of turnover during at least two of these years. The percentages exclude those enterprises that did not answer the questions.
Source: Survey of the Austrian Institute for SME Research on behalf of the Austrian Federal Economic Chamber, 2013; statistics from Estonian foreign trade data combined with business registry data

When asked about their employment plans for the next five years, born globals more frequently report job creation plans than other companies (Figure 19).

Figure 19: Expected change in employment within five years, by company type, selected EU Member States, 2011



Note: Born globals are young enterprises (up to 3.5 years in operation) with more than 25% customers based abroad.
Source: GEM 2011 APS

Nearly 30% of Austrian born globals have a business goal to increase staff in the next three years. This is 3 percentage points higher than the corresponding percentage for young enterprises and over 11 percentage points higher than that for SMEs (source: survey of the Austrian Institute for SME Research on behalf of the Austrian Federal Economic Chamber, 2013). A total of 60% of Swedish born globals indicate that they would like to grow in terms of turnover and number of employees if there was the opportunity to do so, compared with 38% of SMEs and 48% of young enterprises (source: survey results from the Swedish Agency for Economic and Regional Growth, 2014). In addition, a total of 44% of born globals think that their number of employees will increase in the next three years, compared with 23% of SMEs and 32% of young enterprises.

Funding sources

In a few countries, information is available that highlights that funding sources can make a difference. In Spain, SMEs with substantial financial assets and a more diversified financial portfolio create more jobs (Castellanos et al, 2008), while in Lithuania enterprises with foreign investments are most dynamic. In 2012, foreign investors developed 27 projects through foreign investment centres, each creating more than 60 jobs on average (15min, 2013). The largest number of jobs was created by Danish and US investors.

For Poland and Romania, SMEs that received EU support are dynamic job creators. Similarly, in Latvia, enterprises that are started up within the framework of the country's public micro-enterprise support programme contribute to job creation beyond the job of the founder. In contrast to this, less than one-fifth of subsidised self-employed people in Slovenia employ additional workers (Employment Service of Slovenia, 2014).

Summary

Table 6: Characteristics of dynamic job creators among SMEs in terms of business model

	Corporate governance	Business strategy	Market orientation	Funding sources
Austria	Non-family	Active growth strategy (for family businesses) Innovation		
Belgium			International	
Croatia			National	
Czech Republic	Family		International	
Denmark		Innovation (many gazelles)	International (born globals)	
Estonia	Non-family		International	
France		Active growth strategy (including innovation) Investment	International (many high-growth SMEs)	
Germany		Knowledge intensive High investment	International	
Hungary			International	
Ireland			International	
Italy	Non-family	Innovation	International	
Latvia		Innovation		Public funds
Lithuania				International investors
Luxembourg		Innovation		
Malta	Non-family	Innovation		
Netherlands		Marketing plan and staff HRM strategy Innovation		
Poland	Non-family Legal personality			EU support
Romania				EU support
Slovakia	Family	Innovation	National	
Slovenia				
Spain	Non-family	Innovation	International	High amount of assets and diversified financial sources
Sweden		Active growth strategy (for entrepreneurs of foreign descent)	International (born globals)	
United Kingdom	Family	Innovation	International	

Notes: Empty cells and omitted countries mean that no information is available for these characteristics. For Bulgaria, no job creation has taken place in SMEs since the recession, but job stability is considered as an indicator of employment dynamism in individual SME types. A family business is an enterprise in which the majority of ownership and decision-making rests with the family of the founder.
Source: Eurofound, based on contributions of its network of European correspondents; Onkelinx and Sleuwaegen, 2010; Harris and Li, 2007; Institute for Family Business, 2014

Drivers of and barriers to job creation in SMEs

3

Research on the factors that influence whether SMEs decide to create employment or not is scarce. Burke et al (2002) note that in contrast to the self-employment decision, relatively little is known about the hiring decision. Ichou (2010) comments that, in 2010, the literature on the job creation behaviour of self-employed people still remains 'quite limited' (p. 4).

From the current European mapping of available data, research and expert opinion, it is clear that job creation in SMEs is never driven – nor hampered – by a single factor. Rather, a bundle of elements influences SMEs' contribution to job creation. These elements can be either external factors to the company, and thus beyond its control, or internal factors. Furthermore, these elements can directly influence job creation or do so indirectly, by influencing the SMEs' economic performance. The current analysis looks only at aspects that have been identified as affecting employment growth in SMEs (and not those influencing only economic growth). It is notable, too, that a specific factor can be a driver for one SME but a barrier for another.

External factors

Macroeconomic situation

Understandably, the current macroeconomic situation and its development influences the job creation behaviour of SMEs (European Commission, 2009 and 2014b; OECD, 2013a; Ichou, 2010; Muller et al, 2015). While this aspect was identified as an influential factor in all Member States except for Austria and the Netherlands, its manifestations differ across countries, as well as sectors and regions within a country. Nevertheless, the macroeconomic situation seems to be a barrier to job creation rather than a driver of among European SMEs. More than half of Member States report exclusively negative effects; in only two countries does the economic situation generally drive job creation. In about one-third of the countries, both economic drivers and barriers can be identified.

Currently, the effects of the global economic and financial crisis as well as uncertainty over future prospects hamper job creation in European SMEs (see also Chapter 2). While the European Commission highlights that SMEs have been relatively more resilient than their larger counterparts (European Commission, 2013 and 2014a; Muller et al, 2015), the SME sector has also been hit by the crisis. SMEs experienced impacts in terms of total demand, increased customer payment delays and problems with obtaining finance. Very few SMEs reported positive effects such as ease of hiring skilled employees, increased willingness of employees to work more flexibly, a reduction in purchase prices or easier collaboration with other organisations (De Kok et al, 2011).

However, in Austria and Belgium, SMEs were relatively resilient during the crisis, and in Sweden, the strong macroeconomic situation with high growth rates was the primary driver behind employment growth in SMEs (European Commission, 2014c). In Germany, the demand for domestically oriented SMEs is assessed to be excellent at the moment, while moderate future expectations combined with the low investments forecast for large industrial companies threaten jobs in manufacturing SMEs. Recent statistical data from Spain show that the economy is growing fast (3.1% in the second quarter of 2015 compared with the same period in 2014), and this is resulting in strong employment creation (INE, 2015).

In addition, the favourable developments in specific sectors (notably IT, creative industries and sectors where 'greening' is a factor, such as electricity and water supply/waste management) drives job creation in SMEs.

Competition

More generally, employment growth in SMEs is limited by competition, including from international companies and the shadow economy. In a study from Belgium, for example, almost two-thirds of SMEs report competition from large or multinational companies as barrier to their employment growth (Unizo, 2014). In Cyprus, the negative SME employment trend observed since 2009 for micro-enterprises in the trade sector is mainly attributed to the arrival of shopping malls and supermarket chains. Italian research shows that competition from low-wage countries negatively affected employment in input suppliers in manufacturing during 1995–2007, while benefiting those companies that sell their goods to the final market, due to lower input costs (Federico, 2012). Similarly, almost one-third of Swedish SMEs experience competition, notably price competition, as a major obstacle to economic and employment growth (SAERG, 2014). This share increased from one-fifth in 2008, probably due to increasing internationalisation.

An Irish report concludes that the shadow economy 'has a detrimental effect on legitimate businesses – weakening their sustainability and the potential to create jobs' (Lawless et al, 2012). Similarly, for Italy, fiscal evasion is assessed to hamper fair competition, economic sustainability and employment levels in 'honest companies' (MEF, 2011; UNCTAD, 2014).

Administrative and institutional environment

The administrative and institutional business environment is identified as a decisive factor for SME job creation in the literature (Napier et al, 2012; OECD, 2010; Criscuolo et al, 2014; Accenture and Oxford Economics, 2011) and in all Member States in the framework of the current study. For example, among Swedish born globals, laws and government regulations are mentioned as big obstacles to business development and growth by almost 40% of the entrepreneurs, compared with about 20% of young enterprises and SMEs in general (source: survey results from the Swedish Agency for Economic and Regional Growth, 2014).

In half of the Member States, the business environment is seen as a barrier. In another two-fifths of Member States, it is seen to have some elements that hinder job creation as well as some favourable aspects.

A notable driver of employment growth in SMEs is government activities to improve framework conditions for SMEs along the lines of the Small Business Act (SBA, see Chapter 6), while lack of government action in one or several areas is seen as barrier to job creation in SMEs.

Availability of public support and SMEs' job creation

The manager of the Austrian company 'ecoduna' acknowledges that the system of public support is well developed in Austria, offering wide-ranging support for companies and notably start-ups. However, he mentions that company owners or managers need to have substantial knowledge of which instruments are offered by which institution to identify the support that is most effective for their company. In the absence of a central contact point providing all relevant information and advising potential beneficiaries about available programmes, entrepreneurs need to invest time in finding suitable support initiatives, for example by searching online. Consequently, the manager calls for a higher level of transparency as well as the establishment of a one-stop shop providing information for businesses on support instruments, including better coordination among the various providers of these supports.

Targeted support for specific SME types, sectors, innovation or investments is favourable to fostering job creation in SMEs – for example, initiatives aimed at fostering demand, such as reductions in value-added tax (VAT) or investment incentives.

In contrast, the main barriers are the administrative burdens faced by SMEs in their business activity – for example, related to environmental standards, taxation, labour or social law (OECD, 2010). This affects SMEs more than larger companies due to their more limited resources, often time resources. In an Estonian study, for example, 38% of SMEs report burdensome legislation and excessive bureaucracy as a problem, with some improvement in recent years (Kaarna et al, 2012). In Germany, one-fifth of companies feel that red tape related to environmental standards, taxation and labour or social law has increased strongly over the previous five years (BDI, 2013).

Administrative procedures hindering SMEs' (employment) growth

The CEO of the Austrian company Fresnex mentioned that getting business and operating licences takes up a considerable amount of time for the management, which consequently cannot be devoted to other business activities that might drive growth. Furthermore, they occasionally find that it takes a long time for the authorities to decide on specific authorisations. For example, at the time of the interview (June 2015), this born global had a ready product in storage, waiting for installation at a client's premises, which, in turn, had been waiting for the authority's building permit for months. This not only created a delay in receiving an income from the sale of this product, but also caused difficulties as the storage room was needed for other purposes. While this does not have a direct impact on the company's job creation, it does influence the general business development, which is the basis for recruitment decisions.

The Spanish company Enigmedia reported slow administrative procedures related to employment relations as a barrier to job creation. In particular, public employment services require about two weeks to formalise a specific type of internship agreement, which regulates non-labour relationships for new graduates.[20] This means that Enigmedia has to wait two weeks between the moment it communicates to the public authorities its interest in signing the contract and the final formalisation of the agreement (when the person can actually start working). In holiday periods such as Christmas time, they have waited for up to one month.

The quality of public institutions also has an impact on employment levels in SMEs. Particular factors mentioned in this context include the level of transparency of public administration and its enforcement of controls and sanctions, the efficiency and length of public authorities' decision-making as well as corruption – as reported, for example, for Croatia and Italy.

Access to public procurement is seen as a further factor influencing SMEs' contribution to employment (Accenture and Oxford Economics, 2011; OECD, 2010; Pickernell et al, 2011). An increased emphasis by public procurement in Estonia on low prices rather than on high quality and

[20] This internship agreement is an 'agreement for doing a non-labour internship in companies', signed by the public employment services and the company. This particular measure entered into force in 2011 to promote the labour market integration of young people. It is a cheaper option for companies to 'hire' young workers with no more than three months' work experience (minimum salaries and social security contributions are lower). However, it requires much documentation to apply for it, and it takes longer than a normal contract to review and approve it.

creative solutions, for example, has put smaller businesses at a disadvantage (Estonian Institute of Economic Research, 2013).

An inferior image of entrepreneurship, including the stigmatisation of failure and reluctance to give a 'second chance', is a barrier to job creation in SMEs (Girard, 2002; Dumas, 2006). An unfavourable perception of entrepreneurship, and SMEs in particular, negatively impacts the number of potential start-ups that might create jobs later on. Furthermore, together with the negative perception of failure, it reduces the willingness to take risks, which might be important for launching innovation and hence driving employment growth.

Regulation

Business law can hamper job creation in SMEs. For example, with a 2013 legal amendment allowing for longer shop opening hours in Cyprus, the government is seeking to boost employment under the assumption that traders will meet the need for extra staff through hiring. The Pancyprian Professional Small Shopkeepers Federation, however, is concerned that this measure favours larger companies and increases the challenges for SMEs. Moreover, the Pancyprian Federation of Labour argues that the employment growth since the introduction of the law is attributable to seasonal trends rather than to a more favourable environment for SMEs.

Several of the born global entrepreneurs interviewed mentioned unfavourable migration legislation as a barrier to job creation as regards non-EU citizens. Lengthy and difficult-to-understand application processes make it difficult for them to recruit international talent from outside the EU.

Migration laws hampering job creation in born global enterprises

The Swedish SmartShake enterprise found that it can take up to 18 months for the migration agency to approve an application. In such cases, before the administrative process is finished, the company's development will have been significantly delayed or it will have been forced to hire another candidate. The manager says that SmartShake's negative experience with hiring non-EU employees has made the company reluctant to recruit international personnel, despite their need for such employees. He is worried that this barrier will impede SmartShake's future employment growth as the company's demand for international employees increases.

The main external concerns of the UK BBOXX enterprise regarding job creation are the restrictive immigration control systems and legal issues concerning the transfer of employees within its global subsidiaries for a short period; the company wishes to do this to enhance staff's knowledge of its clients in order to promote services and product quality. For example, the immigration control by the UK Border Agency restricts the potential opportunities for people from outside the EU to work in the UK. This presents difficulties for BBOXX as it is unable to sponsor working visas for prospective staff and to recruit employees from outside the EU. A coping strategy is to try to recruit local people and transfer or relocate them internally using intra-company visas for employees. However, acquiring intra-company transfer visas between its subsidiaries is complicated, time consuming and costly for both the employer and the employee.

The design or content of the legislation is not the only issue, but also its stability. Frequent changes are challenging for SMEs and hence can have a negative impact on their job creation. In Croatia, for example, since 2006 about 500 regulations have been introduced or changed annually, meaning companies need to continuously track these amendments and adapt to them. In a Lithuanian regional business survey, 58% of SMEs identified unstable and conflicting laws as the main barrier to their business development and thus employment creation (Šukytė, 2010).

Taxation regime

Taxation can equally limit the employment creation of SMEs if a high tax burden is experienced as a barrier to their growth. According to Carroll et al (1999), 'when the tax rate of a solo self-employed goes up, the probability that this individual will hire employees goes down'; similarly,'tax rates are found to subdue firm growth in case the entrepreneur has decided to hire labour' (Ichou, 2010, p. 4). In contrast to this, a VAT reduction for restaurant and catering services in Sweden contributed to the creation of 9,200 jobs between 2011 and 2012 (Swedish Agency for Growth Policy Analysis, 2014).

Access to finance

In about 80% of the Member States, access to finance is identified as not only a general SME challenge (see, for example, European Commission, 2009 and 2014b; Muller et al, 2015), but also as an influential factor for job creation (UEAPME, 2013). In almost 60% of Member States, lack of access to finance is viewed as a barrier, while in a further 20%, SMEs report both positive and negative experiences accessing finance. The main barrier in this context is the credit crunch caused by the global economic and financial crisis (Ardic et al, 2011; Infelise, 2014; De Kok et al, 2011; Bornhorst and Arranz, 2014). SMEs report facing unfavourable conditions (high interest rates, larger collateral required) or not being granted credit due to a poor lending history or high indebtedness. In an Estonian study of 2012, about one-third of SMEs reported difficulties in securing additional finance, compared with one-quarter in 2008 (Kaarna et al, 2012). Similarly, 38% of UK SMEs cited obtaining finance as an obstacle to their business success, and less than one-tenth obtained all the finance they needed, and this only with some difficulty (BIS, 2013a). In an Irish survey, 48% of small businesses felt that their business was being curtailed by banking restrictions, up from 44% the previous year (Advisory Group for Small Business, 2011, p. 9). Data for Portugal show that loans to SMEs decreased by 2.5% in 2011 and by 9% in 2012 compared with previous years; moreover, about one-fifth of SMEs assess credit constraints as being the most pressing business problem, thereby limiting the possibilities for a job-rich recovery (ILO, 2013).

In Austria, the economic crisis seems to have made it more difficult for some SMEs to access finance, but reprieved others. Overall, 38% of SMEs reported tighter conditions concerning new loans, compared with 46% of large enterprises (Hölzl, 2009). Interestingly, in Luxembourg, 2010 data show that most companies that applied for funding received it, which is seen as being essential for increasing their productivity, innovation and employment (Allegrezza et al, 2013).

Public support programmes aimed at improving SMEs' financial means are seen as a key driver.

Financial support fostering job creation in SMEs

In an interview, CEO of the Austrian company Fresnex stressed the importance of access to finance for product development and innovation and praised the favourable support landscape in Austria, which made it possible for him to hire employees (Stadlober, 2014).[21] He mentioned that such public support programmes as well as personal contacts with potential investors are important, as it can be difficult for an innovative start-up to attract investors through 'standard' channels such as business angel networks. Furthermore, public support acts as a signal to potential customers. As the start-up company does not yet have a track record of successfully executed projects, being granted national or EU support shows the market that they are deemed as reliable and offering high-quality products.

Access to financial support has also been essential for creating jobs in the Spanish Enigmedia enterprise, particularly at the beginning of its activities, when the company had limited access to funding. When Enigmedia received initial external funding in September 2012, it was able to hire three employees and two interns as it had the resources to pay for more salaries. Subsequently, at the end of 2013, the company received a second round of financial support, and it doubled the number of employees. In both cases, external financial support mainly came from a venture capital fund.

Labour legislation

In about two-thirds of Member States, labour law is mentioned as a factor influencing job creation in SMEs. This mainly refers to barriers caused by employee protection regulations, especially relating to dismissal, which might make the hiring process a substantial business risk for SMEs if a new employee proves to be unsuitable for the work (Mäki and Pulkkinen, 2000; Ojasalo, 2003).

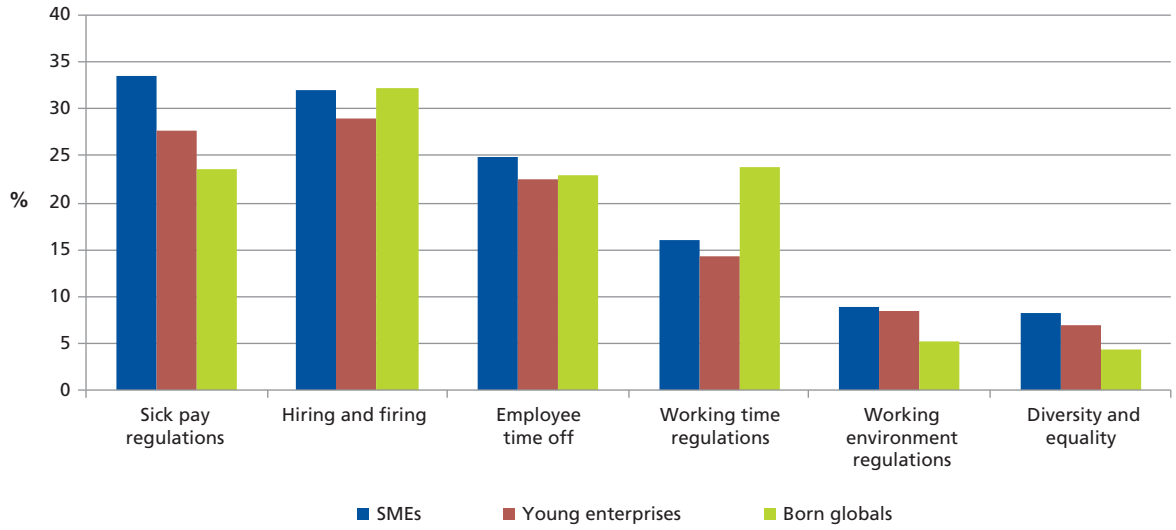
Labour law challenging for job creation in born global enterprises

The manager of the Austrian company 'seamtec' regards the regulations related to cross-border work assignments as a barrier to job creation in internationally active companies, notably born globals. In his experience, dealing with the Austrian Working Time Act for employees who are working abroad on a regular basis is challenging. If sent on a work assignment abroad, his employees would prefer to work longer hours than allowed for by the legislation so they could return home as soon as possible and make use of compensatory time off when they return.

Another aspect is the rigidity or lack of flexibility of labour legislation and the complexity and frequency of changes, which make it difficult for SMEs to implement such legislation in practice. For instance, Irish employees are protected by more than 40 pieces of employment legislation. Between one-tenth and one-third of Swedish SMEs cite various elements of labour legislation as a significant obstacle to their business development and growth (source: survey results from the Swedish Agency for Economic and Regional Growth, 2014). However, a lower share of young enterprises and born globals – two company types that have been identified as being more dynamic in job creation than SMEs on average – experience these problems (Figure 20).

[21] The company benefited from pre-seed support in the pre-start-up phase and from public financial support in its growth phase, including specific instruments to foster innovation and SMEs.

Figure 20: Labour-law-related growth obstacles, by company type, Sweden, 2014



Note: Born globals are defined as SMEs formed in 2008 or later with an export share of at least 26% in 2013. Data refer to the percentage of companies that report the obstacle as large.
Source: Survey results from the Swedish Agency for Economic and Regional Growth, 2014

Interestingly, labour law in Denmark, notably employment protection legislation and dismissal regulations, does not constitute a barrier to job creation in SMEs. In the Netherlands, Portugal and Slovenia, there is an expectation that labour law will hamper employment growth less in the future as amendments have just been put in place or are forthcoming.

Labour costs

For about two-thirds of the Member States, labour costs are considered to inhibit job creation in SMEs –either the wage level or the extent of non-wage labour costs (labour tax, social insurance and severance pay) (European Commission, 2005 and 2014b).

In a regional Austrian survey, for example, 71% of entrepreneurs reported that they would employ more people if non-wage labour costs were lower, and 60% stated that they had refrained from hiring a new employee for that reason (Lugger, 2014). High incidental wage costs were also the most common reason for Finnish OPEs not to hire (Aaltonen et al, 2009). In a Lithuanian survey, more than two-thirds of the SMEs reported high personnel costs as a difficulty hampering business development (Statistics Lithuania, 2009).

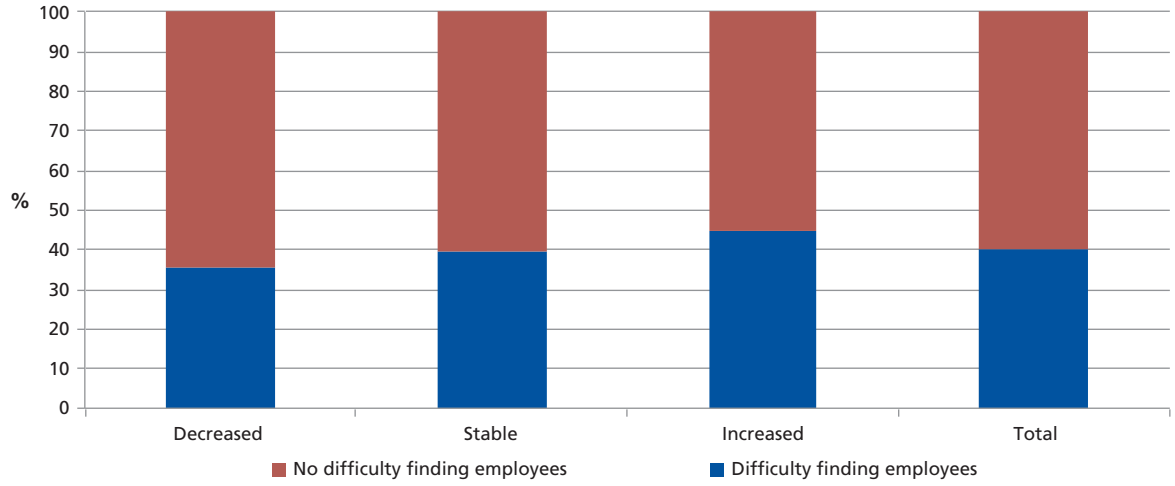
In contrast, in Estonia, SME exporters have a competitive advantage due to low labour costs, which positively influences job creation (Eesti Pank, 2010). In Portugal and Sweden, recent public initiatives have sought to reduce payroll costs, so a job creation effect is expected for the future. The Swedish reduction of payroll tax for young employees has already led to the creation of 6,000–10,000 jobs (Egebark and Kaunitz, 2013).

Labour supply

The availability of workers with skills needed by SMEs is an important factor influencing SMEs' hiring activities (European Commission, 2014b). According to recent findings, SMEs find it increasingly difficult to recruit skilled staff or experienced managers, with 17% of SMEs reporting this issue in 2014, compared with 14% in 2011 and 2013 (Muller et al, 2015). In the ECS, 40% of SMEs declared

having experienced difficulties in finding employees (Figure 21). The fact that the share does not differ much among companies that increased, did not change or decreased their staff implies that these difficulties could be a significant reason for not creating additional jobs.

Figure 21: Share of SMEs with difficulty finding employees, by change of employment numbers, between 2010 and 2013, EU28



Note: Data exclude the public sector.
Source: Third ECS

A lack of suitable candidates was also identified in about two-thirds of the Member States. For example, according to a survey conducted among 250 SMEs in 2014 in Austria, 64% of the companies in question reported difficulties in finding suitable employees (Ernst & Young, 2015). In a Belgian study, finding suitable staff was similarly identified as the main barrier to job creation, as identified by 87% of the enterprises interviewed (Unizo, 2014).

In an Estonian study, 27% of SMEs cited labour shortages as a problem (Kaarna et al, 2012). While there has been considerable improvement in recent years in general, it is becoming more difficult for Estonian SMEs to find highly skilled workers – for instance, 70% reported difficulties in finding senior specialists. In Sweden, 22% of SMEs reported that an inability to find workers with sufficient professional experience or with specific skills and competences is hindering growth (SAERG, 2014).

Data for Finland show that the problem of finding the right people is negatively related to company size: more than 50% of enterprises with 2–20 employees have experienced recruitment problems, compared with about 25% of enterprises with 21–100 staff (Vehmas, 2014; Aaltonen et al, 2009; Federation of Finnish Enterprises, 2014). Similarly, in Germany, almost 60% of companies with fewer than 50 employees reported problems filling job vacancies requiring a vocational qualification, compared with 31% of companies with 250 or more staff (BMWi, 2014).

Reinstaller et al (2010) highlight that the enterprises most affected by skill constraints seem to be small, young, innovative and growth-oriented enterprises in the economically most advanced countries with a comparatively low share of third-level graduates. This is supported by the born global case studies conducted, where 12 out of 17 entrepreneurs interviewed report difficulties in finding suitable workers for their growth ambitions. They not only emphasise the technical capabilities of the workforce, but also the importance of soft skills such as the capacity to learn,

team work, willingness to work hard, international experience, motivation to join a young company, flexibility and adaptability.

Lack of skilled labour hampering employment growth

The manager of an Estonian company that wishes to remain anonymous cites the inability to find people to fill certain positions as the biggest barrier to job creation. Specialists living in Tallinn rarely move for work to Tartu (Estonia's second biggest city and the company's location). The company started to hire people from Latvia to work in Tartu as they proved to be more mobile. Another related barrier is the shortage of specific skills and competences as the company operates across different fields – plants and biology, electronics and software – and staff should have knowledge in these different fields.

Overall impact of external factors

Overall, it seems that external factors to the company negatively affect job creation in SMEs – although it should be noted that there is a tendency in both policy discussion and research to deal with barriers rather than drivers, which is why some methodological bias needs to be taken into account. However, proactive government initiatives to improve this situation seem to work across all the dimensions discussed, in terms of acting as a driver for employment growth.

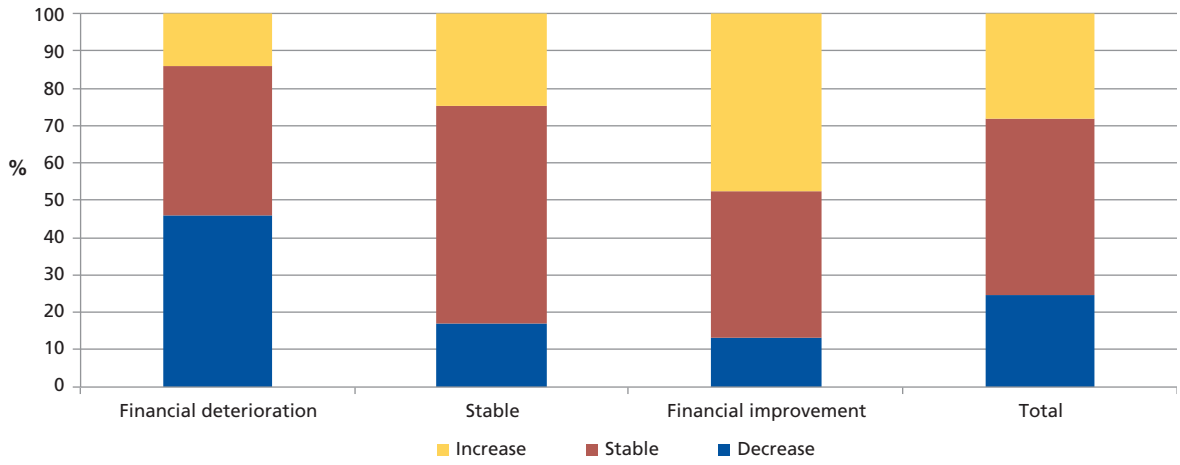
Internal factors

Company performance

In about 80% of Member States, evidence suggests that company development and strategy influence SMEs' job creation to a considerable extent. A level of demand that requires additional staff as well as a level of productivity, liquidity and profitability that is sufficient to cover additional HR costs are important preconditions for job creation in SMEs.

Evidence from the ECS highlights that establishments that experienced an improved or at least stable financial situation between 2010 and 2013 were almost three times more likely to increase employment than their less successful counterparts (Figure 22).

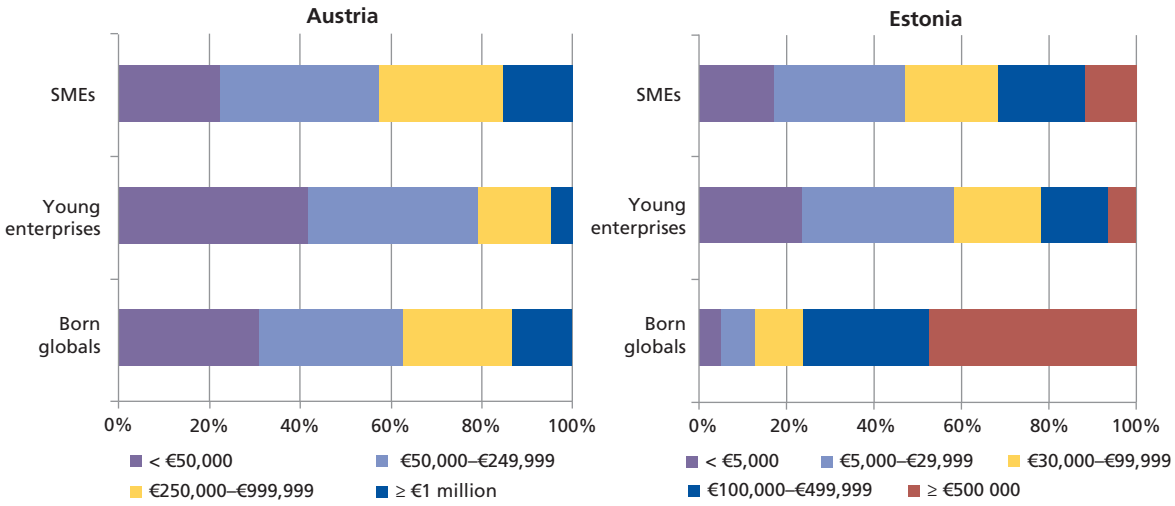
Figure 22: Change in employment between 2010 and 2013, by SMEs' financial situation, EU28



Note: Data exclude the public sector and companies established after 2010
Source: Third ECS

The relationship between good economic performance and job creation is also illustrated by national born global data. For example, 79% of young Austrian enterprises had a turnover of less than €250,000 in 2012, compared with 63% of born global enterprises (source: survey of the Austrian Institute for SME Research on behalf of the Austrian Federal Economic Chamber, 2013) (Figure 23). Estonian born globals also show higher turnover levels than other young enterprises: while about 76% of born globals had a turnover of €100,000 or more in 2012, this was the case for only 22% of young enterprises and 32% of SMEs (source: statistics from Estonian foreign trade data combined with business registry data). In the same year, 45% of born globals had a net income above €20,000, compared with 16% of young enterprises and 20% of SMEs. Furthermore, the Estonian data suggest that young enterprises and SMEs were somewhat more severely affected by the global financial crisis than born globals, with the latter recovering more quickly from the turnover and income dip experienced during the crisis.

Figure 23: Turnover by company type, Austria and Estonia, 2012



Notes: Austrian born globals are SMEs formed in 2007 or later that have an export share of at least 25% in 2012. Estonian born globals are SMEs that have existed for five years or fewer and that exported at least 25% of turnover during at least two of these years. The percentages exclude those enterprises that did not answer the questions.
Sources: Survey of the Austrian Institute for SME Research on behalf of the Austrian Federal Economic Chamber, 2013; statistics from Estonian foreign trade data combined with business registry data

Similarly, the born global entrepreneurs who were interviewed highlight that the increasing workload caused by growing demand for their products, combined with the perceived long-term financial sustainability of newly created jobs, drove their decision to hire additional staff.

Financial resources required to fund additional jobs

Two primary drivers have enabled employment expansion at the Swedish company SmartShake. The first is a high degree of certainty of demand for the company's products, which decreases the perceived risk of expansion. The second driver is that since the company released its product, it has always generated profits. As a result, SmartShake has always had access to capital, allowing it to grow dynamically without having to look for venture capital or loans. The benefit of this is a degree of independence, enabling SmartShake to grow without having to fundraise or involve external parties in the process. It also allows the management to maintain ownership, which decreases the duration of the decision-making process.

Strategic planning

Nonetheless, a good and sustainable economic performance is not necessarily sufficient. Not all SMEs that experience economic growth achieve or want to achieve employment growth. Instead, and in line with the identified dynamic job creator types, an explicit growth strategy set by the company acts as a driver for hiring staff. This is also confirmed by the case studies findings. Almost all of the born global enterprises interviewed have a formal business plan defining their innovation, internationalisation and growth strategy. In most of the cases, this was drafted by the founder/CEO and is regularly revised or updated (between every six months and two years). The interview partners also highlighted that their intention to realise this growth strategy is an important driver for employment growth in their companies.

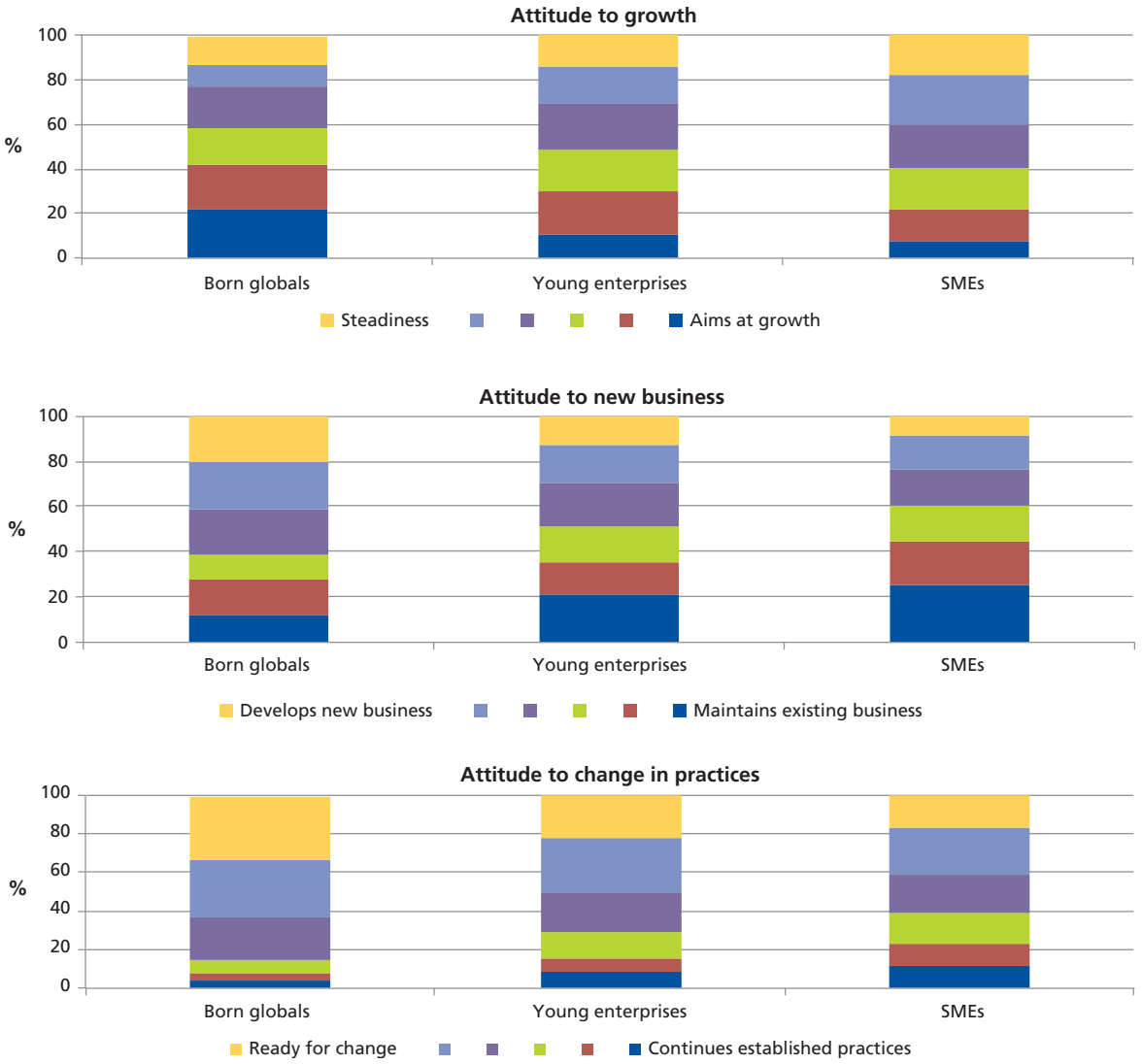
Growth intention and good economic performance as a precondition for job creation

The manager of the Austrian company ecoduna reports that striving for economic growth is the company's main reason for recruiting additional staff. At the time of the interview (February 2015), the born global was planning the establishment of another larger site. The expansion requires additional workers with the same skills and expertise as already available in the company, but on a larger scale to cope with the increased workload. However, the management acknowledges that this internal drive for growth is linked to an external factor – namely, interest in the company's product and the clients' continuous and increasing demand.

The main motivations for creating jobs in the Spanish company Enigmedia are linked to the business strategy and company performance, and the consequent need for additional workers. For example, the company's strategic decision to expand to foreign markets (Brazil, China, Egypt and Russia) created the impetus to hire employees of these nationalities to adapt the Enigmedia software to the culture of these countries.

Data on Austrian born globals show that a considerably higher share of these enterprises aims for growth rather than steadiness, wants to develop new areas of business,and is ready for change, compared with young enterprises and SMEs in general (Figure 24).

Figure 24: Company growth objectives and strategies, by company type, Austria, 2013



Notes: Austrian born globals are SMEs formed in 2007 or later that have an export share of at least 25% in 2012. Responses to each question are ranked on a six-point scale, which is colour-coded in the charts. The percentages exclude those enterprises that did not answer the questions.
Source: Survey of the Austrian Institute for SME Research on behalf of the Austrian Federal Economic Chamber, 2013

In line with the abovementioned SME types that are dynamic job creators, the company's capacities to internationalise and innovate are important drivers for employing additional staff. The OECD considers these two factors as the major distinguishing characteristics of high-growth SMEs, together with their effective exploitation of intellectual assets, active networks and adequate finance (OECD, 2002 and 2010). However, in Croatia, SMEs' lack of quality management standard certificates hinders their export activities. Furthermore, obsolete technology and low levels of R&D are barriers as they hinder innovation – as observed, for example, in Croatia, Italy, Poland and Spain. The existence of business contacts (noted for Croatia, Estonia, Italy and the United Kingdom) influences job growth in SMEs, as they affect the company's innovation and product development potential as well as internationalisation activities.

Besides the absence of a growth strategy, the lack of a clear corporate or HR strategy was found to hamper employment growth even more (for example, in Germany or Spain). A German survey showed that 27% of companies with 5–49 employees and 45% of those with 50–249 staff have a strategic HR plan in place based on a thorough analysis of the qualifications or age structure of the workforce (Hammermann and Stettes, 2014). Nevertheless, only 3 out of the 17 born global enterprises with dynamic job creation analysed for this project have a formal HR strategy. Another five have an annual recruitment strategy or mention HR issues in their business plan.

Organisational structure and management capacities

Internal capacities affect SMEs' job creation, as shown in about three-quarters of the Member States. For Austria, Croatia, Estonia, Portugal and Spain, flexibility, adaptability, lean structures, efficient communication and decision-making inherent in many SMEs drive employment growth. However, it should be borne in mind that the complexity of an organisation increases with size and that, at some stage, an internal reorganisation of structures and workflows will be required. This could act as an obstacle to increasing the workforce.

It is not surprising that management capacities affect job creation in SMEs, as due to the small size of the company, management plays a decisive role in overall company performance.[22] In a study from Belgium, for example, 62% of the SMEs indicated that a lack of management time hinders their employment growth (Unizo, 2014). Swedish data show that for one-third of SMEs, the limited management time available is an obstacle to job creation (SAERG, 2011). Among Swedish born globals with fewer than 50 employees, lack of time is mentioned as a big obstacle to business development and growth by more than half of the entrepreneurs, compared with about 20% of young enterprises and SMEs in general (source: survey results from the Swedish Agency for Economic and Regional Growth, 2014).

Lack of time hampering job creation

The manager of the Austrian company seamtec mentions time requirements for the induction of new employees as barrier to job creation. Regarding the first employee in particular, the manager had to work more than ever before. He had to maintain the daily business and train the new candidate in parallel. According to the manager, hiring his first employee was like starting a new business. Therefore, he quickly employed another person so that he was able to do the induction process in parallel.

Limited time resources of management are not necessarily always a barrier to job creation in SMEs, but can also enhance employment growth. Several interviewees mentioned that they hired additional staff as they could not cope with the workload on their own anymore – in terms of both administrative tasks and tasks related to the product or service.

[22] Alongside the availability and skills of managers, other demographic characteristics were explored regarding their influence on employment growth in SMEs. However, literature and data on the effect of managers' gender, nationality or ethnic background, among other things, on the company's employment development are scarce or related to other attributes (such as start-up motivation, sector, skills, risk behaviour or business challenges); as a result, no clear assessment can be drawn. Hence, these aspects are not further considered in this report. Further research on these aspects might be valuable for better-targeted policies.

Lack of time boosting job creation

At the Austrian company Fresnex, the main motivation of managers for hiring additional staff was that the size of the workload was limiting their ability to work on product innovation. They also wanted to focus more on those business activities they considered as their personal strengths by delegating other activities to employees. Another reason was to increase the pool of potential ideas within the company by drawing on the creativity of additional people, as they assessed a larger number of ideas as being positive for the company's development. Therefore, it was a need for both additional resources and additional input in terms of competences and skills that drove job creation.

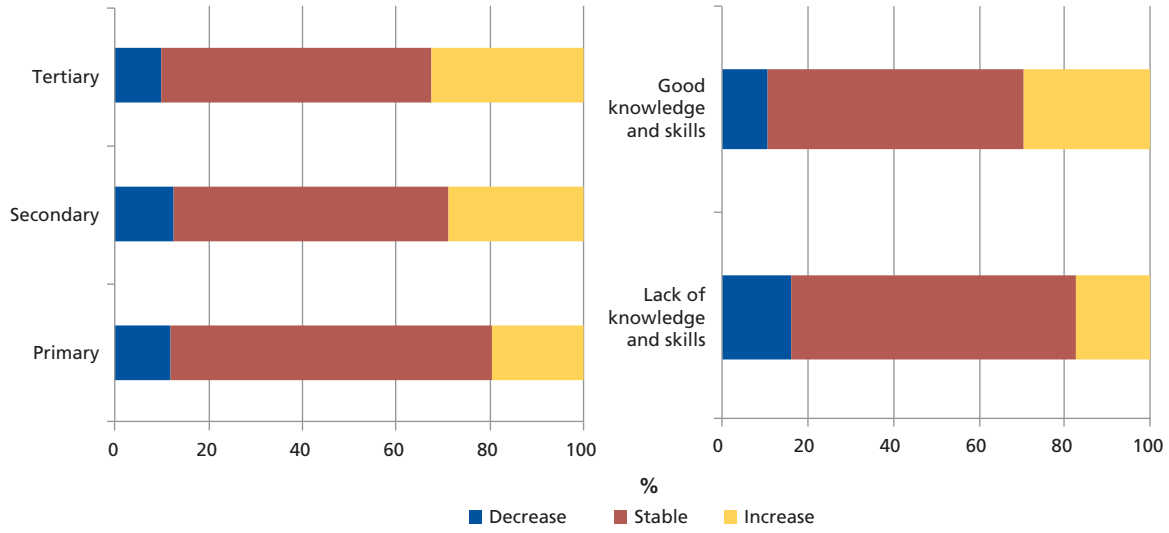
Another influential factor is the availability and quality of management experience, including leadership and business skills (Westhead and Cowling, 1995; Ichou, 2010; Levie and Autio, 2013; Koryak et al, 2015; BIS, 2013a). Lack of entrepreneurial competences may play a role in preventing SMEs from realising their full employment potential. These competences may include decision-making, risk-taking, information-processing, opportunity recognition, resource organisation, market awareness and product management, business planning and accounting, but also risk assessment, strategic thinking, self-confidence, networking and motivational skills (OECD, 2010). Generally speaking, the literature often describes SMEs as being too driven by short-term thinking rather than by strategic planning, which might also have implications for HR decisions (OECD, 2010).

Limited HRM and anticipation of skills needs hampering job creation

The manager of the UK company KwickScreen outlines how, in the early days, the company encountered barriers related to its limited HR capability and capacity to deal with issues as well as to anticipate the potential amount of work (for example, when a new position was required). Once the team grew, more administrative issues arose involving HR management, which was time-consuming. To solve this, KwickScreen used a subcontracted company, which helped to deal with legal issues such as drafting employment contracts.

GEM data from 2011 show that owners or managers of SMEs with higher education degrees and those who self-assessed their knowledge, skills and experience as good more often expected to create additional positions in the next five years than their less-qualified counterparts (Figure 25). The difference in educational level is particularly striking for born global enterprises: less than 9% have only a primary education, compared with 16% of young enterprises and 21% of SMEs.

Figure 25: Expected change in employment within five years in SMEs, by education and skill levels of the owner or manager, selected EU Member States, 2011



Source: GEM APS 2011

In Croatia, the Czech Republic, Denmark, Estonia (creative industries), Germany, Romania, Slovenia and Spain, a lack of knowledge or use of modern HR management practices constitute a barrier to job creation. In contrast, in Italy, the Netherlands and the United Kingdom, available data show that SMEs led by higher-skilled or experienced managers perform better, including in terms of employment (Estonian Institute of Economic Research, 2013; Istat, 2013; Drăgan and Isaic-Maniu, 2013; BIS, 2013a).

Related to this, the ability to access information on market developments (including foreign markets), funding, external support, legislation, taxation and administrative cooperation influences employment growth in SMEs (Inchou, 2010; Barkham, 1994, in De Kok et al, 2010; OECD, 2010). Inability to access such information was identified as barrier, for example, in Austria, Poland, Portugal, Slovenia and the United Kingdom.

Attractiveness as a place to work

Probably as a result of the abovementioned factors, the capacity of SMEs to attract workers plays an important role in their employment creation. Thus, there are SMEs that would like to hire but do not succeed in attracting (or retaining) the workers they require. For example, more than 60% of the respondents to PwC's 2013 Global Family Business Survey said that attracting the right skills and talents is a key challenge for them (an increase from 58% in 2012) (PwC, 2013). This is attributed to a negative image as an employer, including lower wages, limited career prospects and unfavourable management practices towards non-family members (European Commission, 2009).

Furthermore, a German survey from 2011 showed that only 77% of small companies finalised their recruitment process, compared with 89% of medium-sized enterprises and 98% of large companies (Dietz et al, 2013). The study found that, on average, 9 candidates applied for a job vacancy in a small company, compared with 14 applicants in a medium-sized enterprise and 23 in a large company, clearly showing the lower number of alternatives for smaller companies. This may be attributed to the lower awareness among workers of smaller companies as well as their lower attractiveness in terms of lower wages and limited career development possibilities. Furthermore, as smaller companies

use fewer channels to publish their vacancy notices, they tend to reach a more limited number of potential candidates. However, another German study highlights that it is not exclusively the company size that influences a company's attractiveness in the labour market, as SMEs have both advantages and disadvantages compared with larger companies (Werner, 2004). While employees in SMEs enjoy more independence in organising their work, are more often involved in important decisions and have more task diversity, they are more frequently subject to hazardous work settings exposing them to health and safety risks.

Attracting a workforce

The management of the Estonian company Defendec has found that, over time, attracting skilled staff has become somewhat easier as the company becomes better known and benefits from its reputation. The company does not have to explain and convince potential employees to the same extent as before about the future prospects of Defendec, as the company's profile is known through the media. This is a definite advantage compared with other, less well-known IT companies and start-ups with which they compete for staff.

On the negative side, the manager of the Austrian company Fresnex mentions that – as a start-up company just starting to sell its products – it is not yet able to offer full-time jobs for all positions. This poses a problem as qualified staff might not be interested in working on a part-time basis.

Attributes of the owner–manager

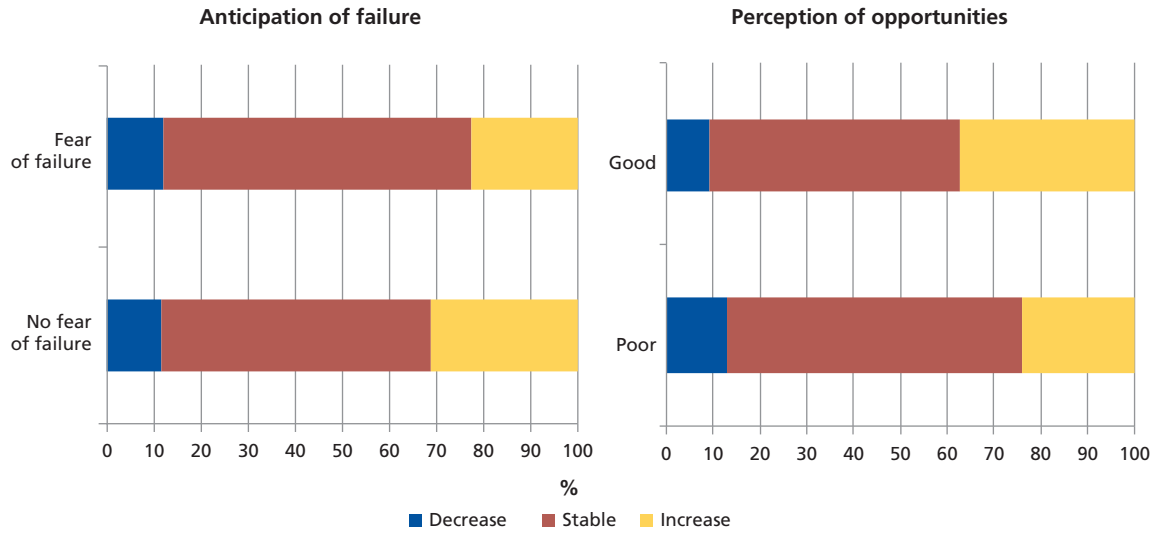
In almost half of the Member States, the personality, motivations and attitudes of the owner–manager stands out as a decisive factor for job creation in SMEs (Levie and Autio, 2013; Ichou, 2010; De Kok et al, 2010). If the owner–manager is opportunity-driven and confident in future developments, this acts as a driver for job creation. In contrast, necessity-driven entrepreneurs or managers, those who have limited confidence in future developments, and those who fear the consequences and stigma of failure tend to act in a risk-averse manner, which hinders employment growth in the company.

For the OPEs in the Czech Republic, the reluctance to hire staff is explained by the fact that many OPEs have been established out of necessity (which is also found for Slovenia) or can be considered as bogus self-employment (Vlach et al, 2013).[23] Similarly, Poschke (2010) finds that while necessity-driven entrepreneurs are likely to stay in the market, they run smaller companies and expect their companies to grow less. In the case of France, it was found that the majority of OPEs are employees or retired workers who engage in a secondary activity to create an additional income and do not plan to expand their business activity. In contrast, Ichou (2010) and De Kok et al (2010) suggest that compared with individuals who started a company out of intrinsic motivation, entrepreneurs who started their company out of necessity hired relatively more employees.

Other findings show that SME owners–managers who report not fearing failure or who are optimistic about good business opportunities more frequently expect to hire additional staff over the next five years (Figure 26).

[23] Bogus self-employment occurs when companies contract workers as self-employed in circumstances where they would normally be hired as employees. Such an abuse of the status of self-employment (subordinate employment relations are disguised as autonomous work) are in many cases applied for fiscal reasons, to avoid the payment of social security contributions or to circumvent labour legislation and protections.

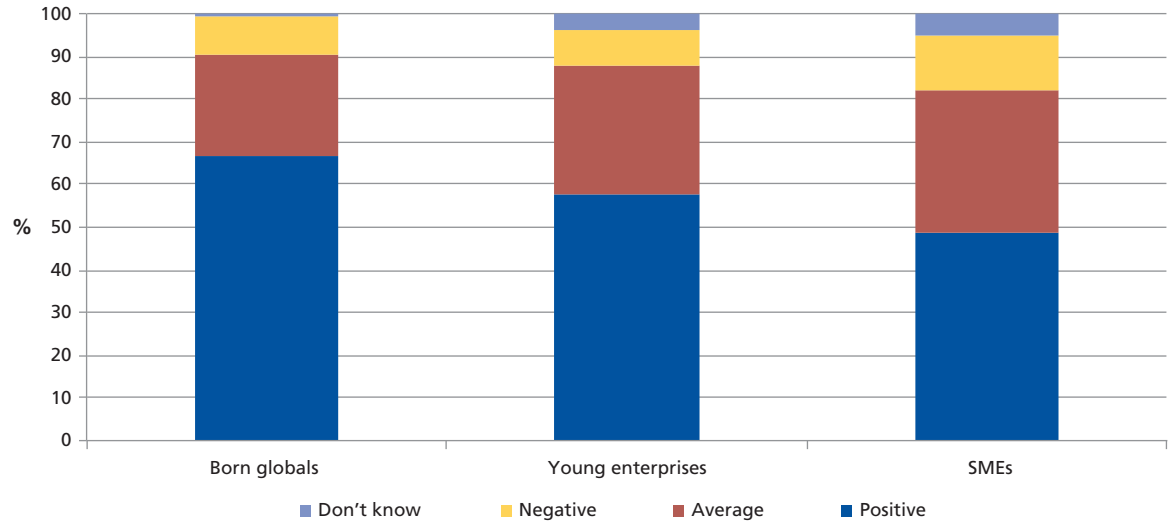
Figure 26: Expected change in employment within five years in SMEs, by owner or manager attitudes, selected EU Member States, 2011



Source: GEM APS 2011

Among born globals, the 2011 GEM data show that about 30% of owners or managers fear failure, compared with 35% of owners or managers of young companies and SMEs. Similarly, Austrian born globals are more positive about their future economic development than their counterparts that focus on the Austrian market only or SMEs in general (Figure 27).

Figure 27: Expected economic development in the next three years, by company type, Austria, 2013

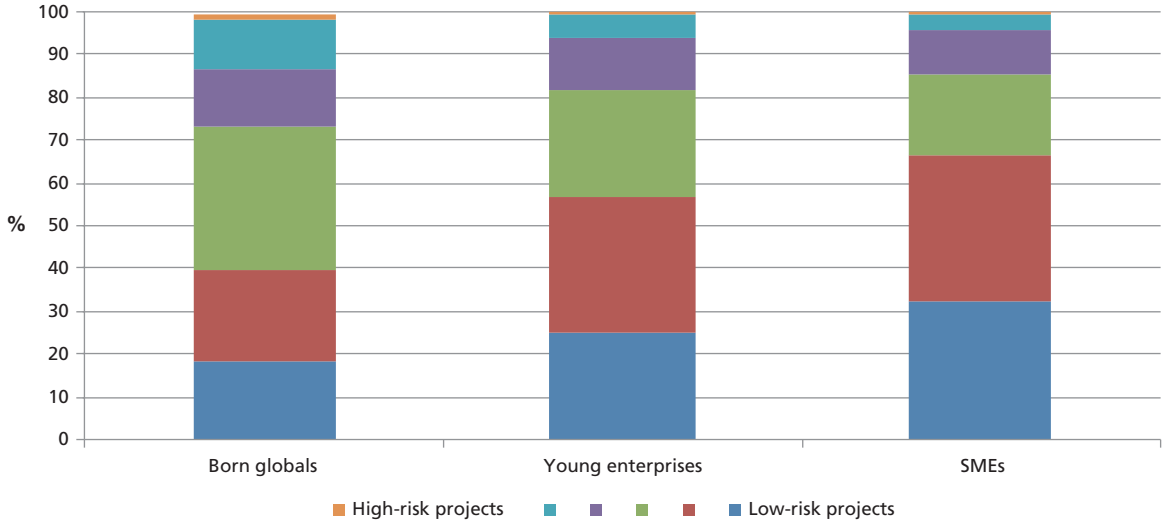


Note: Austrian born globals are SMEs formed in 2007 or later that have an export share of at least 25% in 2012.
Source: Survey of the Austrian Institute for SME Research on behalf of the Austrian Federal Economic Chamber, 2013

Interestingly, however, in Finland, entrepreneurs are more willing to hire if they experienced difficulties in the start-up process, in order to build up credibility (Martikainen and Nikkinen, 2005; Tornikoski et al, 2011).

Furthermore, owners-managers who have a reasonable level of risk-taking behaviour seem to be more dynamic in job creation (Van Praag and Cramer, 2001; Ichou, 2010; De Kok et al, 2010). For instance, data for Austrian born globals show that they tend to be more willing to engage in riskier projects than other young companies or SMEs do in general (Figure 28).

Figure 28: Company's preference for risk levels, by company type, Austria, 2013



Notes: Austrian born globals are SMEs formed in 2007 or later that have an export share of at least 25% in 2012. Responses are ranked on a six-point scale, which is colour-coded in the chart. The percentages exclude those enterprises that did not answer the questions.
Source: Survey of the Austrian Institute for SME Research on behalf of the Austrian Federal Economic Chamber, 2013

Owner–managers who wish to maintain full control and independence are found to be more reluctant to hire staff. Eurobarometer findings show that one-quarter of enterprise owners 'prefer to work alone and want to keep full control over all aspects of their business' (European Commission, 2005, p. 11). In one Polish study, this is referred to as the 'I-know-better disease' of SME owners (Starczewska-Krzysztoszek, 2012). These owner–managers tend not to hire professional managers as they do not believe that such personnel could help to improve business performance and development better than themselves. Similarly, 39% of Austrian OPEs do not want to hire as they want to work on their own, and 26% think that the service offered can only be provided by them and not by any other staff member (Mandl et al, 2009).

In line with the higher employment dynamism of skilled and experienced owners-managers, available literature suggests that older entrepreneurs tend to create more jobs than younger ones (Eurofound, 2015; Halabisky, 2012; De Kok et al, 2013a; Henley, 2005; Ichou, 2010). According to data for the EU28, 10.5% of self-employed people younger than 25 years old had at least one employee in 2013, compared with about 16% of those aged below 30 and 28% of the overall EU self-employed population. Moreover, in Austria and Sweden, owner–managers of born globals are older than the entrepreneurs in other young enterprises (sources: survey of the Austrian Institute for SME Research on behalf of the Austrian Federal Economic Chamber, 2013; Swedish Agency for Economic and Regional Growth, 2014).

Overall impact of internal factors

Internal company factors influencing job creation in SMEs are generally discussed and studied far less than external factors, even if there are some indications that internal factors are more decisive. Furthermore, the picture seems to be less straightforward than for external influences. While the negative effects of internal factors on job creation are highlighted, a positive influence is reported for a considerably higher share of characteristics. This could be attributed to the fact that these factors strongly depend on the individual company. Hence, in practice, a much larger variety is found, and there is no definitive conclusion regarding whether a factor is a driver of or a barrier to overall SME job creation.

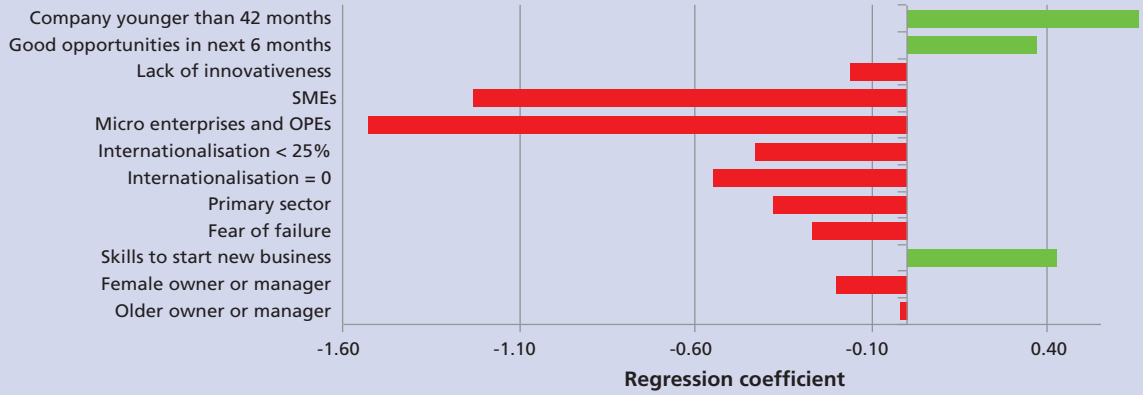
Summary – Determinants of job creation in SMEs

Job creation in SMEs is directly and indirectly influenced by a combination of elements, with some mutual influence among these elements. The following summary brings together the various elements discussed in the previous two chapters. In general, no clear assessment can be given regarding the importance of individual factors, as their relative weight depends on the individual company and the framework conditions in which it operates.

To start with, the hypothesis that job creation in SMEs is driven by different elements is supported by the statistical findings. According to the results of a multinomial logistic regression analysis of ECS data, establishments that created jobs between 2010 and 2013 were more likely to be younger, to have introduced new products, services or processes, and to have experienced an improvement in their financial situation over that period (Figure 29a). Job creation occurred less frequently in companies from sectors such as construction, wholesale and industry.

Figure 29a: Association between companies that created jobs and various company characteristics

Figure 29b: Association between companies that expect to create jobs and various company and owner or manager characteristics

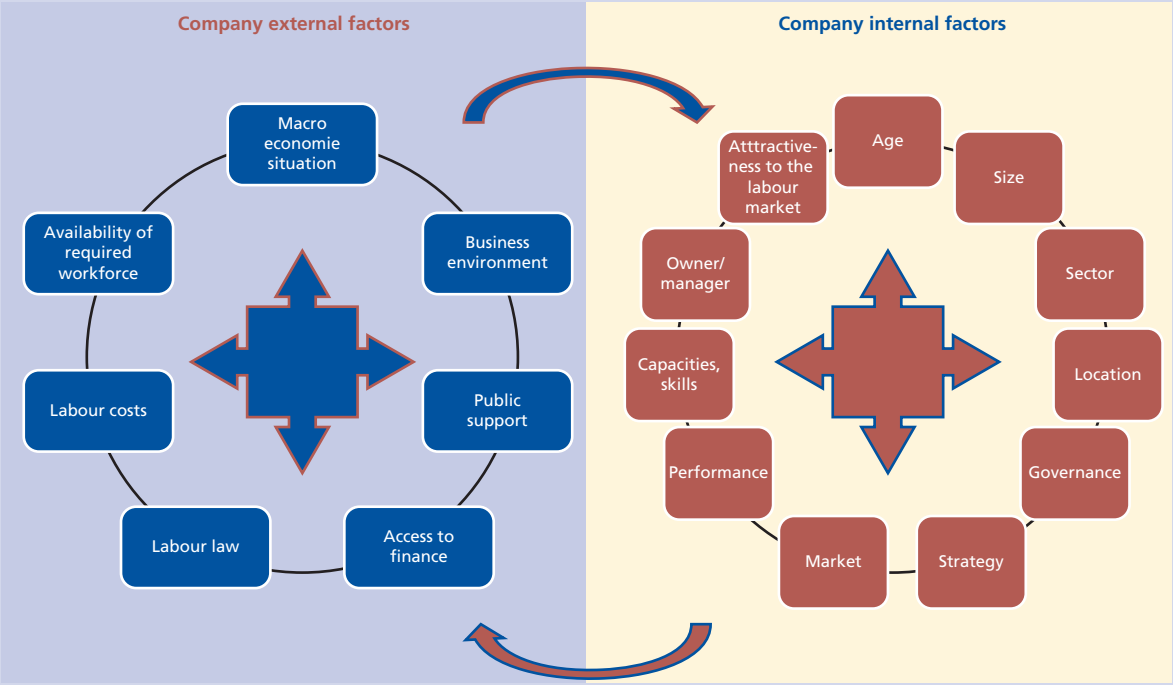


Notes: Green bars represent a positive association between companies and a specific characteristic, indicating that companies with the characteristic are more likely to create jobs. Red bars represent a negative association, indicating that companies with that characteristic are less likely to create jobs. The length of the bars indicates the size of the effect: the longer the bars, the stronger the positive or negative association between the characteristic and the companies analysed. Only statistically significant variables are shown; other variables included in the regression model are provided in Annex 1. ECS data exclude the public sector.
Sources: (a) third ECS (b) GEM APS 2011

A similar analysis was conducted on GEM data with regard to employment prospects. Accordingly, companies with higher levels of internationalisation and innovation as well as those younger than 42 months showed better prospects in terms of increasing employment (Figure 29b). Job creation plans are also positively related to some owner or manager characteristics. Generally, company representatives who were younger and male, who considered themselves capable of starting up a new company, and who were optimistic about the future more frequently expressed an intention to increase employment within the next five years.

Taking into consideration also the qualitative information from the literature and the interviews conducted in the framework of this study, the picture becomes even more diverse. Job creation in SMEs seems to be affected by a combination of a wide variety of elements. Some of these elements relate to the company while others concern the environment within which these companies are operating. For some factors, a relatively clear assessment can be given regarding whether they are driving or hampering employment growth in SMEs; other factors differ from country to country or the available research describes contradictory findings. Furthermore, several of the elements are interrelated or influence each other.

Figure 30: Determinants of job creation in SMEs



Source: Eurofound

Accordingly, the following conclusions can be derived from the current project to characterise those SMEs that have more potential to create jobs than others.

Profile of SMEs that create jobs

The SMEs that tend to create jobs are young, innovative, international, competitive and located in urban areas, and they perform well due to sufficient market demand and sound management. Dynamic job creators among SMEs have good economic performance, have an active growth strategy and are well prepared to implement it – for example, as regards company structure and resources. They are well financed in terms of having sufficient access to finance and applying diversified funding strategies, and they are willing and able to invest according to business needs. These SMEs have the internal capacities (such as management skills and innovation and internationalisation competences) to operationalise these strategies and are deemed as an attractive employer in the labour market.

These factors need to be supported by a good macroeconomic or sector performance and a level of competition that the SME can handle. A favourable business environment is important, including business and labour legislation as well as labour costs and taxation that are viable for SMEs. Moreover, the general image of entrepreneurship, and of SMEs in particular, needs to be positive, where the potential for failure is accepted and second chances are granted.

Other relevant factors are effective public administration and public support structures and access to external finance (not limited to bank credit). A further precondition for job creation is that workers with the required hard and soft skills are available in the labour market.

Therefore, good economic development or growth resulting in increased workload – both in the country or sector and in the company itself – as well as a good administrative and institutional business environment are important prerequisites for job creation in SMEs. In addition, elements that more specifically influence SMEs' employment decisions include the personality and attitudes of the owner–manager towards hiring (additional) staff, labour law characteristics, the level of (non-wage) labour costs, the availability of skilled workers in the labour market and the company's capacity to attract them, bearing in mind the competition from other companies.

Fewer job creators tend to be found among OPEs and family businesses than in other SMEs. For other SME-sized categories, no distinctive conclusion can be drawn, as considerable variations are found across countries. The same holds true for sectors, although there seems to be a tendency for SMEs in service sectors or more modern industries to be more dynamic.

Little is known about the demographic characteristics of entrepreneurs who are more or less dynamic in job creation, except the finding that higher-skilled or more experienced managers seem to create more jobs. Contradictory information is found for age, for example, while aspects such as gender or ethnicity are analysed very little in the context of job creation.

Recruitment processes in SMEs

4

Among the few available sources that discuss the recruitment practices of SMEs, there is general agreement that smaller enterprises make less use of professional HRM, including formalised recruitment procedures, compared with larger enterprises (De Kok et al, 2006; Tansky and Heneman, 2006). This is attributed to either a lack of awareness that HRM can be useful or a lack of human and financial capacities for professional HRM. Consequently, SMEs, particularly micro-enterprises, make more use of informal HRM practices than their larger counterparts do (Storey et al, 2010; De Kok et al, 2006 and 2011).

This is also confirmed by the case studies conducted in the framework of this project. The majority of born globals analysed do not follow any standardised procedures for their recruitment processes but instead act on an ad-hoc and case-by-case basis. Those enterprises that have established procedures have formalised these gradually, drawing on their experience. This suggests that there is some learning effect in SMEs, particularly among young companies, with repeated recruitment and more standardisation coming with increasing size. Processes become more structured and standardised, with a clearer picture developing within a company regarding, for example, which recruitment channels are the most suitable, how to formulate a vacancy notice, or which criteria are the most important to base selection on.

Nevertheless, processes do not vary considerably, as recruitment (and more generally HR tasks) is mainly done by the owner–manager in addition to a range of other responsibilities. In some cases, the owner–manager also involves other staff members, notably senior staff or future colleagues of the new worker, to get their feedback regarding HR needs and the evaluation of candidates' hard or soft skills (see below).

The born global entrepreneurs interviewed base their recruitment decision mainly on their business plan (if it exists) and the perceived HR needs by comparing the current and assumed future workload with available staff resources. Due to the small size of the companies analysed, the identification of HR needs is mostly discussed with the staff or even initiated by the workforce, with staff identifying that additional support is needed. Management acknowledges these suggestions and assesses them for feasibility in terms of whether, in the longer run, HR needs will prevail and financial resources are available to cover additional staff.

In their decision on whether or not to recruit, the born global managers who were interviewed say they sometimes consciously decide against hiring additional staff. This decision is mainly based on considerations regarding the level of demand for specific skills. If it is assumed that the HR need, whether short term or long term, is just for a limited number of hours, tasks are outsourced to business partners rather than assigned to new posts. Such tasks include specialist tasks in the production or service provision process or tasks that are not part of the core business activities (for instance, accounting, IT maintenance or legal expertise). However, if sustainable demand for additional staff in core activities is detected, managers often prefer to hire instead of outsource, as the complexity of their products or services requires comparatively long induction phases, which only pay off if the worker stays in the company. Moreover, managers often seek to build up and maintain expertise related to products or services in-house so that the company can benefit from this in terms of further development.

Recruitment decisions in born global enterprises

In the Austrian company ecoduna, if resource bottlenecks are identified, management first scrutinises whether the available resources are being used in the best possible way or whether efficiency gains could be realised by changing work patterns or procedures. If no inefficiencies are identified and workflow priorities are set in the best way, the management assesses whether the resource needs are short term or medium- to long-term. For medium- to long-term resource needs, management would never consider alternatives to recruitment, as such tasks require workers to acquire the necessary skills and expertise, and the company wants to keep this expertise within the company. Short-term resource needs, particularly if they are small, are in contrast sometimes addressed by outsourcing these tasks to partner organisations.

The decision to recruit staff is typically followed by measures to specify the job role of the person who is to be recruited. However, particularly for low-skilled positions, SMEs may choose an informal approach without drafting detailed job descriptions (DWP, 2014).

Defining job profiles

To specify the job profile for new positions, management of the Austrian company Evercyte starts an internal discussion about the related tasks and required skills. As the company has well-established strategic procedures and a structured business plan, it knows very quickly which profile it is missing. On the basis of these strategy documents, the company defines the skills of the prospective employee and establishes a detailed job profile.

Among the born globals analysed, in most cases it is the owner–manager who drafts the vacancy notice. The recruitment channels used depend on the characteristics of the vacancy to be filled. In general, the more junior or lower-skilled the position is, the higher the preference will be for low complexity and low-cost tools. For jobs involving high levels of responsibility or requiring higher skills, a greater number of and more sophisticated channels are considered.

Surprisingly, and in spite of their international orientation, the born global entrepreneurs interviewed take a rather local or regional approach to recruitment.[24] This is attributed to the high importance of personal contacts and word of mouth for SMEs' recruitment (Carroll et al, 1999; Dietz et al, 2011 and 2013). Employers will typically reach out to their immediate or extended family, friends and other businesses located in the same area, for instance by posting job vacancy notices in local supermarkets and similar outlets. The advantages of this approach are that it is free of charge and with low risks attached (DWP, 2014). German data also show that personal contacts are the most successful recruitment channel: more than three-quarters of the cases where small enterprises searched for staff through personal contacts resulted in recruitment, compared with about half in medium-sized enterprises and about three-tenths in large companies (Dietz et al, 2013).

[24] However, local sales staff for international subsidiaries, for example, might be recruited abroad, and some of the entrepreneurs interviewed highlight that they welcome international applications, even if not explicitly searching for them.

Relevance of personal networks for recruitment

One of the informal groups that has proved to be very helpful for the Estonian company Defendec is the Estonian start-up leader's club. This is a private initiative, created by a group of people who participated in a start-up leader's training programme in 2008. After the training programme was finished, the participants continued to share experiences and advice with each other. Among other issues, members of the club share their recruitment experiences and inform others if they have a surplus of employees. Although they are competitors for the same type of labour, it may be the case that one of the companies does not need a specific type of expertise anymore and can share this information about a specialist becoming available with other companies.

E-recruitment – where employers make use of the internet alongside more conventional recruitment processes – has a number of advantages compared with more traditional recruitment activities (see, for example, Smith and Rupp, 2004). Most importantly, it allows employers to accelerate the process of recruitment, limits the cost of advertising vacancy notices and gives employers the opportunity to extend the geographic scope of their recruitment. Through e-recruitment, companies can therefore significantly extend the reach of more traditional forms of recruitment (Broughton et al, 2013; Dietz et al, 2011). A recent study by McKinsey Global Institute (Manyika et al, 2015) also highlights that online talent platforms assist companies in finding better candidates by discovering hard-to-find, niche talent through access to non-traditional workers or channels. Moreover, these networks help employers to more efficiently filter interviewees, to use candidate data for better assessment, and to tailor their approach to each candidate (Manyika et al, 2015). A study from the UK found that use of online recruitment among SMEs was somewhat limited, particularly among smaller businesses (BIS, 2012). However, it was also found that in certain segments of the SME sector, such as in the creative industries, the technology sector, finance and engineering and young growth businesses, social media is increasingly used for recruitment (BIS, 2012; UKCES, 2012). Broughton et al (2013) assume that SMEs that hire on an occasional basis may find it both expensive and resource-intensive to set up social media recruitment processes.

Among the born globals interviewed, the internet plays a prominent role in recruitment. Most of these companies use social media or online job search platforms to publish their vacancy notices or actively search for candidates who put their profiles online. A few of these companies also use their own website to promote vacancies or invite potential candidates to submit speculative applications. In general, the managers are very satisfied with this recruitment channel as it is perceived as both cost- and time-efficient and easy to handle.

Regarding recruitment through public employment services, the European Commission (2014d) recently noted that across Europe only a few public employment services (notably in Belgium, France, Germany, the Netherlands, Norway and Sweden) have a formal strategy for working with SMEs. UK findings, for example, illustrate that while SMEs perceive public employment services as 'well positioned for recruiting for high turnover, unskilled and semi-skilled roles', many SMEs hesitate to take up their offer (DWP, 2014, p. 21). This is also confirmed by the case studies conducted for this project. The born globals rarely approached public employment services as part of their recruitment. Most of their vacant jobs were for highly skilled specialists, which companies did not view as the target group of public employment services. However, in cases where more

generic skills were required (notably for administrative staff), some of the employers approached public employment services and were satisfied with their services.

Public employment service identifying suitable candidates

The Austrian Public Employment Service (AMS) provided the born global Power Units with information about the employment of new personnel and different financial benefits. In one of their recruitment processes, the AMS pre-selected potential candidates according to the job profile. This was perceived as helpful for ensuring that Power Units did not receive too many applications from unsuitable candidates. Power Units is also in regular contact with a consultant at the regional office of the AMS; the consultant actively gets in touch with the company and enquires about job vacancies.

While universities are an important source of recruitment for larger employers, SMEs are much less actively involved with universities to attract graduates (Muenzinger, 2010; BIS, 2012; Hart and Barratt, 2009). One obvious reason may be that SMEs neither have the resources for extended campus recruitment campaigns nor typically have a large number of graduate positions to fill (Bryant, 2008).

Cooperating with universities to attract graduates

The Spanish company i-lanza recruits white-collar workers through a collaboration agreement with local technical universities and vocational schools. Every year, i-lanza contacts the University of Oviedo Foundation (which offers a six-month paid traineeship programme) for information on recent university graduates. i-lanza provides the foundation with a simple job description and receives a list of two to four potential candidates.

Recruitment agencies or headhunters are perceived as being costly and more relevant when looking for either skilled staff or large volumes of unskilled workers (DWP, 2014). There is a general understanding that SMEs use private sector recruitment services less than larger businesses do, which may reflect issues around economies of scale in recruitment (BIS, 2012). This is also confirmed by the case study interviews. Similarly, specialist trade publications and recruitment fairs seem less relevant to SMEs' recruitment as they are perceived as both unsuitable and too expensive (DWP, 2014).

Advantages and disadvantages of using headhunting agencies

The UK company BBOXX found that recruitment through headhunting agencies costs about £6,000 (€8,340 as at 26 October 2015) per position, compared with £100 (€140) for an online job advert. However, headhunters help the company to find the right talent within a short time. The company saves time on screening prospective candidates and undertaking the necessary administrative procedures, and minimises the risks of employing unqualified staff.

SMEs also make use of unsolicited applications, which some companies save in a dedicated database of potentially interesting candidates. Advantages of this approach are that it is free, and it shows interest and initiative on the candidate's part (DWP, 2014). Some of the born global entrepreneurs interviewed also receive unsolicited applications, which are then screened and stored for future use. However, there is an impression that the quality of such applications is doubtful.

The response to SME vacancy notices seems to vary according to the type of posts offered. A German study shows that, on average, small enterprises receive 9 applications per vacancy, compared with 14 in medium-sized enterprises and 23 in large companies (Dietz et al, 2013). The lower number of applications is attributed to the fact that smaller companies are less well known by potential candidates and less attractive as employers (see Chapter 3). Furthermore, SMEs tend to use fewer recruitment channels and hence reach a lower number of potential candidates.

The born global entrepreneurs report that they receive, on average, 10–40 applications per position. However, there are exceptions: the Estonian born global Taxify, for example, receives about 200 applications in general. The owners or managers find that higher numbers of applications are submitted if the vacancy notice asks for more generic or lower skills, while they can be very limited if the post is for specialists. Candidates mainly apply by submitting their CV and a letter of application by email.

For the screening of applications and selection of candidates, smaller employers use different criteria compared with larger companies. SMEs tend to evaluate an applicant's motivation for application, skills and competences rather than requiring specific diplomas or certificates (De Kok et al, 2011). SMEs also place greater emphasis on interpersonal factors such as general communication skills or the employer's perception of candidates' work readiness (DWP, 2014). Another important aspect of selecting future employees is trying to ensure that a candidate fits into the existing workforce (De Kok et al, 2011) and shares the company's ambitions. Hence, the 'gut feeling' of the owner–manager is often critical to the hiring decision (DWP, 2014). The born global entrepreneurs strongly support this point, mentioning that transversal skills matter to them, such as motivation and passion for work, capacity to learn, personality traits and the candidate's professional expectations.

After short-listing a number of candidates based on their written application, managers invite the most promising ones for interview. According to the born global entrepreneurs interviewed, the number of applicants invited for an interview is generally quite limited (one to five on average), which is in line with the limited number of applications received. On average, each interview takes 30 minutes to one hour. Managers find face-to-face interviews to be very important for identifying suitable candidates, as this is the only possibility to assess their transversal skills and whether they are likely to fit in the team. Interestingly, some of the born global entrepreneurs interviewed also seem to prefer new graduates or people who have been working in SMEs before rather than candidates who have spent their working life in larger companies, as the business culture and work environment to which they are accustomed may not be aligned to the culture of their own company.

Most of the entrepreneurs conduct several interview rounds to verify their initial assessments – normally two to three, but it could be up to six, as in the case of the Swedish company Zaplox.

Interviewers may also include different interview partners next to the business owner, such as future colleagues or heads of teams or units.

Staff involvement in job interviews

In the Austrian company Evercyte, applicants are ranked during a management meeting on the basis of their skills and experience described in their CV. Five to eight candidates are invited for a 30-minute interview with future co-workers to discuss candidates' educational background and career. The most promising three to five candidates are invited for a second round of interviews (two to four interviews, 15–20 minutes each) with different employees and managers. While future co-workers focus their interviews on technical skills and experience, managers assess the candidates' personality traits and how well they fit into the team. Afterwards, everyone involved in the recruitment process meets to decide whom to recruit. All staff members have the same vote, and the applicant with the highest number of votes is offered the job – unless the CEO, who has veto power, objects. Employees appreciate their involvement in the company's recruitment and selection procedures. From the viewpoint of the management, this strategy creates motivation and a good working atmosphere at no extra cost.

In the Estonian company Defendec, managers conduct two interviews with the applicants. For some positions, an advisory board member conducts a third interview. These interviews focus on candidates' skills, previous job and personality. Finally, co-workers conduct another interview to assess whether applicants fit into the team. Everyone involved provides their feedback to the management.

Employers may also choose to test applicants' knowledge and skills. However, among the born globals interviewed, this was rather rare. In a few cases, the companies investigated the past working life of the candidates. However, these occurrences seem to be specific to the industry in which they are active (for example, defence or healthcare).

Skills tests in the recruitment process

The Estonian company Taxify uses a skills test in its recruitment process, and candidates have to complete this at home. The task depends on the position applied for. For example, people applying for a sales position have to compile a newsletter for managers. This task aims to check candidates' writing and communications skills. People applying for marketing positions have to prepare a budget with marketing activities for a new target city. If this task is fulfilled to the satisfaction of the management, candidates are invited for an interview.

After screening CVs and conducting a first round of interviews, the Swedish ProposalsFactory sends test cases (programming tasks) to the most promising two or three candidates. These tests have to be completed for the next day. On completion, candidates present their solutions to the manager and the wider team. This allows the team to judge both candidates' technical skills and their ability to communicate.

The informal approach to recruitment is beneficial for SMEs as it reduces the time needed to find applicants (Barrett and Mayson, 2008). German data show that a medium-sized company takes about 66 days to recruit new staff, compared with 77 days for small companies and 86 days for large companies (Dietz et al, 2013). Similarly, the born global entrepreneurs report that it takes on average two months for a candidate to be selected, that is, from the time a decision is made to start recruitment to the time the final decision is made on a specific candidate.

When asked about the challenges encountered during the recruitment process, the born global managers allude to the difficulty of reaching potential candidates and the unsatisfactory quality of applicants. Some business owners mention that it is a time-consuming process, but also highlight that they find it worthwhile spending time and effort on recruitment rather than delegating the task, because they consider staff to be the company's most important resource. Hence, 'getting it right' is of utmost importance for the company's success.

Interestingly, few of the managers voiced a specific or additional need for external support for job creation. This can be attributed to a greater reluctance of SMEs to approach external support or their limited awareness of its benefits (Eurofound, 2013a). One manager underlined the need to improve public support for company development and growth; a second highlighted the need to make small start-ups more aware of how and where to find the most suitable candidates and to offer them access to vacancy platforms free of charge.

Outcomes of job creation in SMEs 5

Workers' perspective

Labour market integration

The fifth European Working Conditions Survey (EWCS) highlights that smaller companies more frequently employ female staff (Eurofound, 2012b). A total of 60% of women work in companies with fewer than 50 employees, compared with 54% of men. The same proportion of men and women work alone or in enterprises with 50–99 employees, and more men (25%) than women (20%) work in workplaces with more than 100 staff.

In contrast to these general findings, in 10 out of the 17 born globals analysed for this project, the vast majority of staff are men. In five of these enterprises, there is an almost equal number of male and female workers, and in only one company are there mainly female staff.[25] It can be assumed that this is attributable to the sectors of activity in which the born globals analysed are active and to the related occupations, which are rather male dominated (for example, IT, engineering and other technical positions).

Findings from the Enterprise Survey 2010 show that SMEs are more likely to employ people who have been previously unemployed for longer than one year. This suggests that small enterprises play a crucial role in the labour market reintegration of people who are long-term unemployed (for instance, 26% are employed by micro-enterprises compared with 9% by large companies) (De Kok et al, 2011). Micro-enterprises are also found to employ the highest share of older employees (aged over 50), while large companies employ the highest share of young people.

Once again, the born global case studies for this project show a different picture: for instance, their employees are younger, with the majority aged between 20 and 40. Consequently, anecdotal evidence suggests that start-up companies might also act as interesting labour market integration 'instruments' for young graduates and first-time job-seekers. Even in those cases where young graduates are not offered a permanent job in the beginning, being hired by a born global could be an important stepping stone for their future career.

Labour market integration effects of born global enterprises

The Austrian Power Units company employs a woman who had been long-term unemployed and who had been searching for a part-time job to combine work with her family responsibilities. Such a position was difficult to find for a technical post, which is why she thought Power Unit's job offer was an attractive opportunity. Austrian Power Units is also engaged in apprenticeship training, with one apprentice currently doing the practical part of her apprenticeship training at the company.[26] The decision to train an apprentice was made because the company needed administrative support and wanted to train an employee according their needs. After finishing the training, the apprentice will be given the opportunity to stay at the company for one year if she does not succeed in finding another job before then. The management will then plan to train a new apprentice.

---

[25] For one company, no information about gender distribution is available.

[26] In Austria, apprenticeship training takes place at the company and at a part-time vocational school. The company-based training constitutes 80% of the apprenticeship period and focuses on providing job-specific knowledge and skills. The education at the part-time vocational school constitutes 20% of the apprenticeship period and focuses on basic subject-related theory as well as enrichment of general education (ibw, 2014).

The recruitment strategy of the Spanish company Enigmedia stipulates that whenever it hires an experienced professional, it will also recruit an intern to assist them in their work. This ensures that repetitive and low-added-value tasks are covered but do not take up the experienced professional's time. Two objectives are met using this approach: on the one hand, the intern can be trained on the job; on the other hand, the experienced professional is motivated and strengthened. The name given to this procedure is the 'couples system' or 'tandem system'. These 'couples' function well, and the relationship is enriching for both workers. It is estimated that an intern needs about six to nine months to fully learn their tasks and to become autonomous at work. Formally, the company sets up a nine-month probationary period for interns, with an evaluation process in the middle and another evaluation at the end. If the intern successfully passes the probationary period, they will be offered an employment contract.

The recruitment strategy for white-collar workers at the Spanish company i-lanza focuses on hiring young people rather than experienced workers. In cooperation with the University of Oviedo Foundation, young people are offered a six-month paid traineeship. If trainees prove to be valuable additions to the enterprise, i-lanza offers them a junior two-year contract, which, if both parties agree, will result in a permanent work contract (two-and-a-half years after entering the company).

Despite these findings suggesting that SMEs more often employ disadvantaged groups, the available evidence does not allow an assessment of whether this is a deliberate decision, whether SMEs are better suited to employ such workers, or whether it is a result of their weaker labour market position.

Job security

Drawing on a review of different studies from the United States and Europe, Audretsch (2003) concludes that the quality of jobs created in SMEs is lower than that in larger companies. This is confirmed by the EWCS, which shows that the average score of overall employment quality increases with company size (Eurofound, 2013b).

In terms of job security and tenure, working for an SME might be riskier as 'their lifespan is generally shorter than that of large businesses' (CRWG, 2010, p. 17; De Kok et al, 2013a; Audretsch, 2003). Furthermore, the EWCS shows that while on average 5% of employees in Europe worked without a contract in 2010, this share reached 20% for employees in companies with two to four workers (Eurofound, 2013b).

However, among the born globals interviewed, the vast majority of jobs created were permanent full-time contracts. Survey findings from the United Kingdom also indicate that greater workforce stability can be found in SMEs: over a 12-month observation period, 68% of small companies experienced vacancies, compared with 74% of medium-sized enterprises and 86% of large companies (Forth et al, 2006). A reason for this could be the interest many SMEs have in developing a long-term relationship with their employees. This does not mean that the initial contractual relationship is a permanent job but that such permanency might be established after a kind of probationary period.

Wage levels

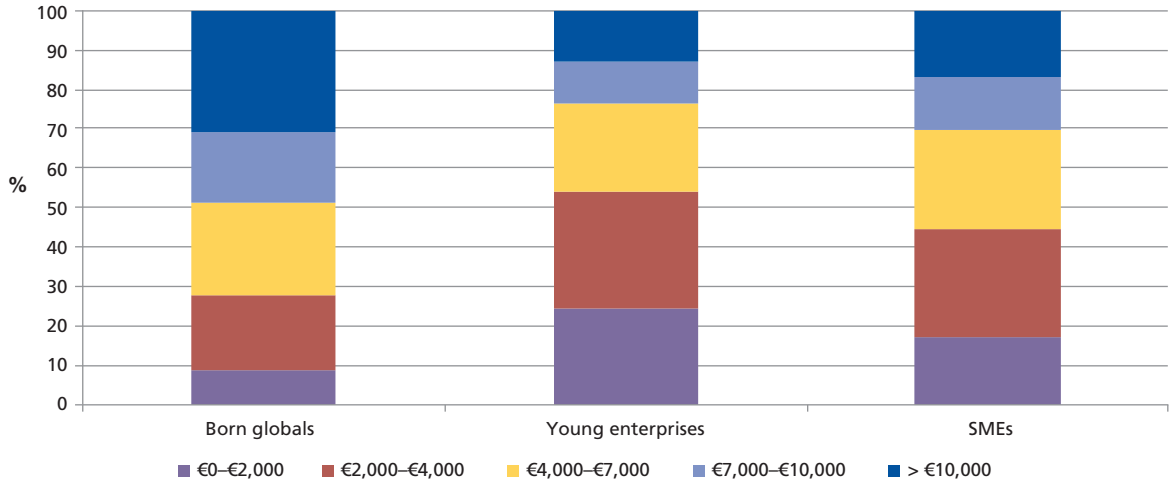
Another important indicator of job quality is wages. In general, smaller companies are found to pay lower wages (Nickell et al, 1994; De Kok et al, 2011; Eurofound, 2013b). Data from the EWCS, for example, show that between one-quarter and one-third of workers in micro-enterprises are in the lowest income quartile, compared with one-fifth in small enterprises and 15% or less in larger companies (Eurofound, 2013b). This is attributed to the better competitive position of larger companies in the market. However, while the scope for freely determining employee remuneration might be easier outside Europe, within some European Member States a high degree of collective bargaining coverage as well as employment regulations may make it difficult for smaller companies to 'deviate too far from industry norms' (Audretsch, 2003).

National research shows that small companies with competitive strengths (such as being highly innovative) may pay higher wages (Lever and Werkhoovem, 1996; Lopez-Sintas and Martinez-Ros, 1999). Furthermore, De Kok et al (2011) identify a non-linear relationship between company size and earnings, with micro-enterprises in various EU countries paying higher wages than small enterprises. The relationship between company size and wage level is therefore not always straightforward, but other company characteristics seem to be more decisive.

Born globals, for example, tend to pay higher wages than other young enterprises, and in some cases even exceed sector averages (Eurofound, 2012a). In Sweden, the average income in 2001–2008 of employees in three-year-old manufacturing born globals was more than twice as high as that in other new enterprises, while the difference was not as striking for knowledge-intensive business services but still considerable (almost 20% higher) (Halldin, 2012).

Estonian data show that a larger proportion of born globals have higher annual wage costs per employee than do young enterprises and SMEs (Figure 31). Moreover, the proportion of born globals whose annual wage costs per employee are €7,000 or over is greater than the proportion of young enterprises and SMEs in all the observed years (2000–2012) (source: statistics from Estonian foreign trade data combined with business registry data).

Figure 31: Distribution of annual wage costs per employee, by type of enterprise, Estonia, 2012



Notes: Estonian born globals are SMEs that have existed for five years or fewer and that exported at least 25% of turnover during at least two of these years. Wage costs are based on total payroll costs.
Source: Statistics from Estonian foreign trade data combined with business registry data

Among the case study born globals, there are some differences regarding wage levels. While some companies report wages above sector level, others indicate that they can afford only low pay. Interestingly, several of the entrepreneurs have implemented financial employee participation schemes such as profit sharing or employee shareholding, or plan to do so in the future. This is done to compensate for lower wages, but also these participation schemes are expected to increase workers' motivation and commitment towards the company.

Training

SMEs typically provide fewer formal training opportunities. This is generally due to the costs and procedures associated with training as well as the scarcity of time and lack of management expertise (Cedefop, 2009); the case study findings support this assertion. The majority of born globals analysed do not provide any training. In several cases, this is justified by the fact that the company is very young, has just recruited its staff and has strived to hire highly skilled people; as a result, the need for training is not apparent. However, some of the companies have a training plan in place to ensure that workers' skills are kept up-to-date. Furthermore, more informal training is widely encouraged, including on-the-job training or knowledge sharing among staff.

Training in born global enterprises

The UK company BBOXX has established the BBOXX Academy, which runs regular workshops for staff and provides training for both new and existing staff. These workshops are normally organised internally on a quarterly basis. In the future, BBOXX's vision is to form partnerships with external parties for non-BBOXX-specific subjects, such as computer skills or presentation skills. It is then planned to offer three different types of training:

- on-demand training, where employees who want to take a training course will register for it, and once a critical mass of registrations has been reached, the course will be scheduled and offered;
- refresher training, where audits of staff skills will show where staff are falling short, and refresher training will be scheduled according to that need;
- change management training, where training will be scheduled whenever processes change or when BBOXX has other short-term needs, such as promotions or new products.

Employee representation

A quarter of individuals working in micro-enterprises report having an employee representative (Eurofound, 2012b). For small local units, about 50% of the workers have a representative, while 70% do so in medium-sized enterprises. Among the born global enterprise sample, none has a works council or other form of employee representation. The interview partners attribute this to the small scale of the companies, which allows for direct contact between the owner–managers and the staff and hence eliminates the need for intermediaries.

Intrinsic job quality

Recent empirical findings suggest that micro-enterprises consider themselves attractive employers because of the 'soft' aspects of the employment relationship. According to findings from the 2010 Enterprise Survey (De Kok et al, 2013b), 65% of micro-enterprises reported a competitive advantage when recruiting skilled employees due to the working climate they can offer (for example, in terms of work–life balance or working time arrangements), compared with 56% of larger companies. In a similar vein, the good work atmosphere was strongly highlighted during interviews with both managers and employees of the born global enterprises analysed.[27] Both sides seem to be committed to understanding the needs of the other and to jointly achieve the best results for the company. The climate is often described as cooperative and friendly, and joint social activities during lunch breaks or after work seem to happen regularly (for example, jogging together, ping pong competitions or after-work drinks).

This is in line with other evidence, which suggests that employees working in SMEs report higher job satisfaction levels (Storey et al, 2010; De Kok et al, 2013b). Aspects of job satisfaction valued by employees of SMEs include autonomy and meaningfulness of work. This is also found in the born global case studies. The vast majority of jobs created involve a substantial level of autonomy, which correlates with the fact that most jobs are specialist positions; other characteristics include the informal atmosphere in most companies, the limited levels of hierarchy and the intention of managers to recruit staff who are able to work independently to free up management time (see Chapter 3). While in the beginning there might be more supervision and mentoring, after the induction phase employees experience gradual empowerment. This typically includes the possibility to self-organise their work and to report only on progress and achievement of objectives. Several born globals also mention that their staff do not have to be physically present at the company's premises but can work from home. Moreover, some of the companies interviewed show a level of 'inclusive management', involving staff in company decisions or actively encouraging them to suggest ideas for further development of products and services offered.

This also results in informal training effects, as a learning environment is created that allows for informal and non-formal learning on the job. Workers are often responsible for multiple diverse tasks, resulting in personal development that would not be possible in larger companies – including transversal skills such as teamwork or problem-solving.

The level of autonomy and personal appreciation of the work content might be linked to the characteristics of the work organisation. In general, SMEs are characterised by fewer hierarchical levels and less formal structures and lines of communication. While the born global enterprises analysed have some formalised company structures (that is, units and division of tasks and responsibilities among the management), both the managers and employees interviewed highlight the rather informal element of daily business activities. Due to the small size of the companies, personal interactions are more likely among the staff as well as between employees and the management. In most cases, a top-down management style is avoided in favour of flat hierarchies, encouraging 'intrapreneurship' and 'open doors' policies, whereby employees are welcome to approach the management and discuss any issues. In spite of the small size and the informal communication practices, regular team meetings are established in several of the companies analysed to ensure that relevant information is shared.

[27] The potential positive bias related to qualitative interviews should be kept in mind.

Regular team meetings in born global enterprises

The Estonian company Taxify has established a monthly team meeting among all staff in which the CEO informs staff about the company's development. Twice a month, a meeting between team leaders and each employee takes place in order to give and receive bilateral feedback about the work results as well as satisfaction regarding the company's development. There is also the possibility of an online group discussion for everyday communication among all staff.

Other attractive features of working for small companies often include the flexibility of working time arrangements and the resulting opportunity to combine work and family life. Moreover, SMEs make less use of performance related pay systems, which tend to be closely related to monitoring of individual or team performances. Among the born globals analysed, some have core working hours but even then they are rarely considered to be very strict. Flexible working time can be arranged on agreement between the management and the workers, depending on needs. As these companies are in their growth phase, several of the interviewees mentioned that working time is characterised by peak periods during which longer hours have to be worked to cope with the workload. In most cases, accrued overtime can be compensated by shorter working hours later on, while financial compensation for additional working hours seems to be rare. The employees interviewed willingly accept phases of longer working hours as they feel committed to the company and want to contribute to its progress. The employees do not view the intensive work periods as being particularly stressful or burdensome.[28]

Business perspective

The born global entrepreneurs interviewed are convinced that job creation positively contributed to their company's performance. Next to the primary need to have additional staff to satisfy customer demand for their products and services, managers believe that motivated employees boost product and service quality, productivity and competitiveness, thereby enhancing the company's reputation. Furthermore, additional staff positively influence the innovation and internationalisation capacities of the born globals due to increased access to knowledge and ideas, but also networks. This, in turn, is perceived to improve business sustainability.

Improved business performance due to job creation

According to the manager of UK Plumis, having more employees enables this born global to strengthen its business capabilities and capacity (such as marketing skills, engineering and design expertise), validating new market segments and establishing new sales channels for their products across borders. This not only helps to boost sales, but also improves the efficiency of the workflow, enabling active interaction with clients, suppliers and distributors locally and internationally.

[28] The potential positive bias related to qualitative interviews should be kept in mind.

Regarding company structures, due to the limited size of the born globals analysed, the job creation achieved so far has hardly had any impact on this factor. However, at least a few of the managers expressed the view that with further growth, there will be a need to restructure in the future.

Job creation requires organisational restructuring

Job creation at the Austrian company seamtec has had effects on the structure and work organisation of the company. The company's manager has had to reorganise work procedures. With a growing team, it is essential to implement procedures for knowledge transfer, quality management and the handling of projects. The manager often organises meetings with his employees to further improve their processes and to learn from their experiences. They have tried to establish a documentation system that includes job instructions for new employees and analysis of malfunctions.

In the case of BBOXX in the UK, an increase in staff numbers from 20 to 155 resulted in changes to the management and organisation. The born global had to increase management controls and formalise procedures as well as to assign particular tasks to specific workers. Employees now collaborate more with their line managers rather than directly with the CEO, as was the case before. This has resulted in an improved workflow, including faster responses to customer inquiries.

Due to their short period in existence and small scale, no strong lessons can be derived regarding whether or not (employment) growth in born globals impacts other companies – although a few of the managers interviewed think that there are some knock-on effects or could be in the future (see also Eurofound, 2012b). This mainly relates to business partners along the supply chain. Szalavetz (2015) also finds that the outsourcing activities of Hungarian born globals can result in job creation effects in other companies.

Cross-company job creation effects of born global enterprises

Despite realising some job creation, the Hungarian born global Thermowatt has not increased its number of employees in line with the growth of its net sales. This is due to the born global's use of 'strategic flexibility': instead of hiring staff, the company has opted for outsourcing tasks to subcontractors and business partners. As a result, the company has contributed to job creation in a wide range of industries both in Hungary and abroad (Szalavetz, 2015).

Policy debate on and public support for job creation in SMEs

6

This chapter examines the policy debate at EU and Member State levels regarding job creation in SMEs and presents examples of public initiatives aimed at fostering job creation in SMEs in some countries.[29]

The European Commission has a policy focus on job creation, stating that its top priority in terms of social and employment policy is 'to get Europe growing again and to increase the number of jobs without creating new debt' (European Commission, undated). At the same time, and given the evidence of SMEs as job creators, the European institutions are focusing on supporting SMEs, particularly since the launch of the European Commission's Small Business Act for Europe (European Commission, 2008).

However, the job creation effect seems to be touched on only indirectly: one key focus is on encouraging Europeans to set up their own business, in recognition of the employment-generating potential of start-ups, which will in the future grow and provide jobs for employees of these operations. Furthermore, the European Commission (2014e) notes that 'only new firms that start with a product or service that is really innovative can be expected to generate employment growth'. Accordingly, there is awareness that not all start-ups will produce jobs and that innovation is key.

In addition, the EU-level social partners work together on some of the issues that are relevant to job creation and SMEs. Again, the relevant initiatives focus on matters such as promoting entrepreneurship, supporting SMEs or helping young people into the labour market, where the link with job creation is part of the overall aims of the initiative rather than being the main focus. For example, in 2013, the social partners adopted a Framework of Actions on Youth Employment (ETUC, 2013). One of the challenges identified in terms of increasing job creation among young people was that of optimising the role of industry, particularly SMEs, as a driver of sustainable and inclusive growth.

More generally, with the aim of supporting job creation, EU-level social partners have called on Member States to find a balance between administrative and regulatory requirements, to guarantee a favourable environment for the creation or transfer of small enterprises, to develop one-stop web portals, and to implement incentives and facilitate access to finance for young entrepreneurs. Moreover, the European Trade Union Confederation (ETUC) advocates considering the quality (and not only the quantity) of new jobs (ETUC, 2015). BusinessEurope has also developed a set of recommendations on how SMEs could be better supported as net job creators, highlighting in particular innovation support (BusinessEurope, 2014).

At Member State level, SMEs generally rank high on the policy agenda. However, an explicit focus on SMEs' contribution to job creation is not prevalent. In the current research, this focus could be identified in only nine countries, namely Austria, Bulgaria, Finland, Ireland, Portugal, Slovakia, Spain, Sweden and the United Kingdom.

In the other countries, the discussion focuses more on supporting SMEs' economic growth (hence implicitly touching on employment growth as a result of good economic performance) or on job creation in general, with no differentiation regarding company size. The latter is sometimes justified

[29] The examples of public support instruments presented here are illustrative and no claim is made that they are comprehensive or representative. Types of instruments shown for one country might well be available in other countries as well. Next to the examples mentioned, relevant support instruments to foster job creation in SMEs can also be found in Eurofound's ERM database on restructuring support instruments (http://www.eurofound.europa.eu/observatories/emcc/erm/support-instrument) and in Eurofound, 2012c and Eurofound, 2013c.

by the fact that the vast majority of businesses are SMEs, so a specific support focus on them is not necessary as SMEs can access the generally available instruments anyway.

Nevertheless, topics at least implicitly related to job creation in SMEs are discussed across Europe (see Table 7 at the end of this chapter), encompassing a combination of business-related and labour market issues.

Access to finance is part of the public debate in almost all Member States. In most of the countries, this refers to the provision of public grants, loans or subsidies explicitly or implicitly linked to job creation. At European level, for example, the Joint European Resources for Micro to Medium Enterprises (JEREMIE) initiative promotes the use of financial-engineering instruments to improve access to finance for SMEs through use of structural funds. Furthermore, the European Progress Microfinance Facility (Progress Microfinance) was launched in 2010 and aims to increase the availability of microcredit (loans of up to €25,000), particularly for vulnerable groups with difficulties accessing the conventional credit market and for start-ups as well as existing micro-enterprises. The scheme initially operated in 15 Member States and was extended to 5 more in 2013 and 2014, resulting in coverage of 20 countries at present.[30] In the period 2014–2020, the Programme for Employment and Social Innovation (EaSI) will follow up on the activities of Progress Microfinance. Its third axis will support access to microfinance[31] and social enterprise finance,[32] with an indicative budget of €193 million. The European Commission has also identified some sectors in which SMEs could be supported in order to boost growth, jobs and competitiveness. These include coastal and maritime tourism, where SMEs have been identified as forming a significant part of the sector's economy. The Commission states that it will develop an online guide with an overview of the main funding opportunities available for the sector, and particularly for SMEs (European Commission, 2014f).

Public funding linked to job creation

The Croatian Investment Promotion and Investment Climate Development Act, which came into force in 2012, supports investment aimed at strengthening the competitive and innovation capacities of companies. Among its objectives is the aim to secure an 'increase in employment and higher level of employee training'. Beneficiary companies should achieve a net increase in the average number of employees and are eligible for a non-repayable aid to support job creation costs (with the maximum amount ranging between €3,000 and €9,000 per year and new job, depending on the level of regional unemployment).

The Microfinance Ireland initiative, established in 2012, targets microenterprises that experienced a bank credit refusal (removal of this requirement is being considered) and provides them with loans of up to €25,000 under favourable conditions.[33] These loans facilitate job creation and retention in commercially viable enterprises. In its first two years of operation, the initiative supported more than 330 micro-enterprises and more than 740 jobs. More than three-quarters of the loans went to enterprises outside Dublin (Department of Jobs, Enterprise and Innovation, 2015).

[30] Austria, Belgium, Bulgaria, Croatia, Cyprus, Denmark, France, Greece, Ireland, Italy, Lithuania, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the UK.

[31] See the European Commission web page *Supporting entrepreneurs and the self-employed – Microfinance*, http://ec.europa.eu/social/microfinance

[32] See the European Commission web pate *Supporting entrepreneurs and the self-employed - Social entrepreneurship*, http://ec.europa.eu/social/socialentrepreneurship

[33] Information on Microfinance Ireland is available at http://microfinanceireland.ie/

The SME Initiative is a joint financial instrument of the European Commission and the European Investment Bank Group, funded by the European Structural and Investment Funds, COSME (Competitiveness of Enterprises and Small and Medium-sized Enterprises) and Horizon 2020 (see, for example, European Commission, 2015; La Moncloa, 2015). The initiative offers guarantees to financial intermediaries to provide SMEs with access to finance on favourable terms. Spain was the first country to put this scheme into practice in early 2015, with strong involvement of the regional governments. Overall, the total amount of loans to be made available to SMEs will reach €3.2 billion to €4 billion over the next three years. Guarantees will cover up to 80% of the loans. It is expected that more than 32,000 SMEs will benefit from this scheme, creating 6,400 new jobs and consolidating employment for more than 120,000 people.

Another priority on the agenda of some Member States is improving the infrastructure for venture capital, business angels or foreign investors. The UK government, for example, encourages business angels to submit bids to the Regional Growth Fund to improve SMEs' access to finance.

Public venture capital investment

Almi Företagspartner AB is owned by the Swedish government and is the parent company of a group of 16 regional subsidiaries.[34] Amongst other activities, it provides venture capital to companies with scalable business concepts and prospects for long-term capital growth. Companies must have the ability to compete nationally and internationally, and there must be a clear customer demand for their product or service. Venture capital is offered for both start-up projects and the expansion of existing projects.

In addition, favourable tax treatment for SMEs is considered in a small number of countries.

Favourable tax treatment to foster job creation

The *crédit impôt recherche* (research tax credit), established in France in 1983, among other expense categories can be applied to the costs (including social charges) of employees with the appropriate technical skills dedicated to R&D projects. More than 15,000 businesses have received the research tax credit, declaring €18.39 billion of research expenditure in 2011. Total tax relief for recipients amounts to €5.17 billion (Ministère de l'éducation nationale, de l'enseignement supérieur et de la recherche, 2014).

In Sweden, the 2012 VAT reduction on restaurant and catering services is estimated to have created 9,200 new jobs in one year after its implementation (an increase of about 7%) (Tillväxtanalys, 2014). This was against an initially estimated long-term impact on employment of just under 6,000 full-time jobs at the annual cost per job of SEK 0.6 million (approximately €63,000) in reduced tax revenues (Lagrådsremiss, 2011).

[34] Information on Almi is available at http://www.almi.se/English/

In Ireland, Italy, Romania, Slovenia and the United Kingdom, the possibility of enhancing SMEs' participation in public procurement and reducing delays in payments from public authorities are addressed under the subject of improving SMEs' financial situation.

Three-quarters of Member States at least indirectly relate the reduction of the administrative burden to the job creation potential in SMEs. The most important aspect of this is the simplification of the legal framework or administrative procedures – including ex-ante evaluations to limit a potential negative impact on SMEs of new legislation or procedures, the reduction of administrative steps required and the increased use of electronic communication. In some countries, specific bodies have been established with the aim of reducing red tape for SMEs.

Specific bodies responsible for reducing administrative burden

In 2012, the Danish government established the Virksomhedsforum, a business forum addressing administrative burdens and simpler rules. The forum aims to renew business regulation in close dialogue with the business community by encouraging SMEs to suggest changes to administration. The forum proposes simplification without changing the objectives of the regulations. The government is obliged to either follow the proposals or to explain in detail why they are not being pursued (European Commission, 2014g).

In 2006, the Normenkontrollrat (National Regulatory Control Council) was established in Germany as an independent body to provide the government with constructive criticism, advice and support in implementing the Bureaucracy Reduction and Better Regulation programme.[35] The programme aims to measure and reduce costs for businesses associated with existing information obligations. It also seeks to improve transparency about such costs at an early stage in the process of drafting new laws.

In Malta, the Better Regulation Unit aims to simplify administrative and regulatory burdens by promoting a regular review and updating of legislation to ensure that it is clear, understandable, up-to-date and user-friendly. Furthermore, a commissioner has been appointed to examine existing procedures and to recommend ways to improve or eliminate them. The commissioner has also been tasked with reducing existing bureaucratic procedures by 25% through improved use of ICT and through the streamlining of information obligations across government entities.

Initiatives to improve SMEs' access to information related to legal, taxation or labour market issues and on public support instruments are also in train.

Supporting SMEs' access to information

Enterprise Finland is a joint effort by public business-service organisations for better coordination of existing policy initiatives to support enterprises and the agencies behind them.[36] It gathers information, services and tools for companies, thereby replacing the rather fragmented measures for SMEs with a more coherent strategy.

[35] Information on Nationaler Normenkontrollrat is available at http://www.normenkontrollrat.bund.de/Webs/NKR/EN/About_Us/_node.html

[36] Information on Enterprise Finland is available at https://www.yrityssuomi.fi/en/

The Maltese platform BusinessFirst.com.mt provides information to help business people plan, start, manage, grow or close down their business. It also helps them to navigate the relevant legal and regulatory frameworks and ensures that they benefit from opportunities or incentives.

In about 70% of the Member States, innovation and internationalisation form part of the public discussion on SMEs' job creation potential, either directly or indirectly. This discussion deals either with the provision of financial support (grants, subsidies and tax reliefs) or the improvement of companies' capacities to engage in innovation or internationalisation (for example, by providing access to information and required skills or facilitating networking with external actors). It also touches on the intention to enhance 'modern industries'.

Supporting innovation and industrial diversification

In Estonia, the GameFounders accelerator was launched in 2012 (see, for example, Enterprise Estonia, 2012). The initiative offers start-up capital (up to €15,000), high-level mentors for three months and a global contact network to individuals and teams who want to establish a business in the gaming industry.

In Italy, the Smart & Start Italia programme, launched in December 2014, supports start-ups that have a high-tech innovative business idea, that develop products, services or solutions in the digital economy, or that exploit commercial opportunities resulting from research.[37] The support consists of an interest-free loan to cover up to 70% of capital investment and operating costs related to starting up (or 80% for certain groups of founders). In certain regions, only 80% of the loan has to be repaid. Participating start-ups are also supported through technical and managerial mentoring.

At European level, the European Regional Development Fund fosters innovation and internationalisation among SMEs.[38] Some of the thematic objectives address SMEs, particularly research and innovation, the low-carbon economy and ICT. A total of €57 billion or around 20% of funding will be dedicated explicitly to SMEs. These investments will help SMEs to access finance; benefit from advice, information and networking opportunities; enhance their international activities; exploit new sources of growth such as the green economy, sustainable tourism, health and social services, and cultural and creative industries; invest in human capital; and forge valuable links with research centres and universities to promote innovation.

A number of members of the European Association of Craft, Small and Medium-sized Enterprises (UEAPME) were involved in the COLLECTIVE Project, the main aim of which was to solve the major constraints relating to SME innovation by feeding the innovation ecosystem. The project sought to develop conditions for the creation of communities through a bottom-up approach, supporting each phase of the innovation process by providing SME associations with an ICT operational platform named iCOMMUNITY. This tool aimed to facilitate the innovation process, fostering collaboration among SMEs and triggering structured proactive actions. The project received funding from the EU's Seventh Framework Programme.

---

[37] Information on Smart & Start Italia is available at http://www.smartstart.invitalia.it/site/smart/home/smartstart-italia.html

[38] Information on the European Regional Development Fund is available at http://ec.europa.eu/regional_policy/en/funding/erdf/

Developing innovation and internationalisation capacities

Business network contracts, introduced in Italy in 2009, allow companies to develop joint strategies aimed at innovation by detailing rights and obligations of each cooperation partner without having to establish a new company. They are supported by tax reliefs and incentives.

In Finland, the Vigo Accelerator Programme is a public–private initiative that encourages serial entrepreneurs and experienced business leaders to establish private venture accelerators. It aims to create new start-ups with growth potential in Finland and to accelerate the growth and internationalisation of its target companies. The accelerators offer their business expertise, funding and contact networks.

Some of the instruments available amount to comprehensive packages addressing a wide range of general SME issues, including an explicit or implicit focus on job creation. At EU level, for example, the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) implements the Small Business Act, with a planned budget of €2.3 billion from 2014 to 2020.[39] While there is no explicit reference to job creation, the aim is to foster job creation by improving the competitiveness of SMEs. COSME supports reducing administrative and regulatory burdens, promoting entrepreneurship, improving access to new markets, increasing internationalisation and innovation, and facilitating access to finance, information and networking opportunities for SMEs.

Comprehensive SME support

Estonia launched a pilot grant scheme 'Skills and innovation: Support for the development plan of a growing enterprise' to support innovation, the development of new products and services, personnel development, and internationalisation. The target group includes fast-growing, exporting and viable SMEs (European Commission, 2014h).

In Ireland, the government launched a network of more than 30 local enterprise offices in 2014 to provide better support for start-ups and small businesses.[40] Specific attention is paid to the job creation potential of micro-enterprises and small enterprises by providing advice on administrative procedures and taxation, mentoring and training, internationalisation support and access to public funding. The Small Firms Association (SFA) welcomed this one-stop-shop approach to service provision, which included the establishment of a web portal providing easy access to relevant information.

Labour-market-related issues for SMEs mainly refer to the reduction of labour costs – an issue raised in about two-thirds of the Member States. In this context, discussions centre around employment incentives, such as reduced social security contributions and wage subsidies, for specific types of SMEs (notably start-ups, OPEs and micro-enterprises) and also for specific sectors or for specific types of workers, particularly young people and disadvantaged groups.

---

[39] Information on COSME is available at https://ec.europa.eu/easme/en/cosme.

[40] Information on the local enterprise offices is available at https://www.localenterprise.ie/.

Employment subsidies

In Austria, since 2009, OPEs that hire for the first time or for the first time in at least five years are eligible for a subsidy of 25% of the gross wage up to a certain amount for a maximum of one year. The job created must be subject to full social insurance liability, must last for at least two months and must extend to at least 50% of the statutory or collectively agreed weekly working time. Moreover, the new employee must have been unemployed before being recruited. The number of supported employees has increased significantly from 100 in the first half of 2009 to 720 in 2014 (BMASK, 2013). Three months after the support ends, almost 75% of the participants are still in employment, 20% are unemployed or in training, and about 7% are outside the labour force (source: Arbeitsmarktservice Österreich).

In Cyprus, the Subsidised Employment Scheme for the Hotel, Food and Tourism Industry, implemented by the Ministry of Labour, Welfare and Social Insurance in 2013, aims to combat unemployment (with a target of 6,000 new jobs) as well as to further enhance the quality of services provided by the industry through the recruitment of qualified staff. The scheme subsidises 40% of the wage costs of new staff during the first eight months of employment if the employment period lasts at least 12 months, or 30% of the wage for the first 5 months if the employment period lasts at least 7 months.

Since 2005, in the framework of the Danish Videnpiloter (Knowledge Pilots) programme, SMEs mainly within the technology, manufacturing and service sectors receive a subsidy of about €1,500 per month for 6–12 months (up to half of the wage) if they recruit graduates from universities or business schools. Knowledge pilots have proven to be able to overcome different problems in SMEs, such as administration, production and product-development shortcomings.

In 2013, Slovenia introduced a temporary incentive for the employment of young people. Employers that conclude an indefinite employment contract with a person younger than 30 years of age who has been unemployed for at least three months are exempt from employers' contributions (pension, disability, health, parental protection and unemployment insurance) for the first two years of employment. As the intended objective of 7,000 new jobs was not achieved by the end of 2014 (with about 2,400 new jobs supported), the measure was extended to the end of 2015.

About 70% of Member States consider training and skills development in the context of job creation. This debate in part concerns raising employers' and employees' awareness of the necessity of (further) education.

German awareness raising on skills shortage

In 2012, the German Federal Ministry for Economic Affairs and Energy, the Federal Ministry of Labour and Social Affairs and the Federal Employment Agency jointly launched the Fachkräfte-Offensive (Qualified Professionals Initiative).[41] The programme seeks to raise awareness about the economic dangers of a skilled labour shortage. It also provides information on innovative and sustainable ways to attract and retain qualified workers in the future.

Other issues discussed in relation to training and skills development are the possibilities of providing public support (for example, in Belgium, Cyprus and Latvia) and adjusting legal and institutional frameworks to provide SMEs with the skills they require (for example, in Bulgaria, Italy and the United Kingdom).

Improving the skills landscape

In Bulgaria, an employers' organisation suggested improving the legal regulation of distance learning, which is increasingly popular, to allow for a better combination of work and further education, particularly for young people. As of the spring of 2015, this measure had not been accepted by the government. In parallel, a trade union discussed adapting education programmes in woodworking and furniture production to the needs of the sector's SMEs, establishing specialised school classes in regions where this sector is dominant and enhancing internships and opportunities for better cooperation between educational institutions and employers' organisations.

The Work in Estonia programme, launched in April 2015, aims to attract qualified foreigners to move to work in Estonia.[42] The programme runs a website and social media channels advertising job offers suitable for English-speaking foreigners. It also provides information on registration procedures, employment contracts, social protection, finding accommodation and similar measures for various types of migrants (EU and non-EU citizens, short and long stay).

In Italy, *istituti tecnici superiori* (higher technical schools) have been established as post-secondary education institutions to ensure that education provision better suits the skill needs of Italian SMEs in strategic sectors. Training courses are also planned and funded at regional level and by organisations established by social partners through collective agreements.

In several countries, specific groups of workers are targeted by qualification programmes – for example, young people in Austria. Some programmes also explicitly cover management and leadership skills required to upscale businesses.

[41] Information on the Fachkräfte-Offensive is available at http://www.fachkraefte-offensive.de/DE/Die-Offensive/Kampagne/hintergrund-der-kampagne-info.html.

[42] Information on the Work in Estonia programme is available at http://www.workinestonia.com.

Management training to foster job creation

Enterprise Ireland's Leadership 4 Growth programme aims to foster economic and employment growth in SMEs by enhancing the leadership and strategic capabilities, ambitions, and confidence of owners and managers.[43] With the assistance of a business coach, the owner or manager develops and implements a strategic framework and applies core leadership concepts in the SME over a 12-month period. The programme brings together a group of 20–30 people and with the help of different tools and interventions (including peer learning, mentoring and access to internationally successful role models) encourages participants to further develop their business. The participants are invited to use this time to take a step back from daily business issues and to focus on the company's future. Another approach is the Platform 4 Growth programme, which provides six growth modules (finance, leadership and people, innovation, sales and marketing, operations, and strategy) through an online hub.[44] Participants are also supported by peer learning, access to advisors and industry experts, and workshops.

Finally, about one-third of the Member States address the flexibility of employment relations in the context of job creation in SMEs. Labour market reforms were recently implemented in the Czech Republic, France, Hungary, Italy and the Netherlands. In Lithuania (where minor adjustments have already been implemented) and Spain, debates have been ongoing, with employers' representatives generally voting for more flexibility while trade unions remain opposed in defence of labour protection.

At EU level, in the framework of setting out policy actions in areas where SMEs could create growth and jobs, support welfare and maintain stability, UEAPME highlights the importance of creating well-functioning and modern labour markets, with flexible contractual arrangements and access to skills and qualifications to guarantee a supply of suitably trained workers (UEAPME, 2014).

Policy debate on employment relations

In France, the Small Business Act, launched in 2015, comprises 18 reforms. Some of the reforms address employment issues, such as reform of collective dismissals, the use of fixed-term contracts and apprenticeship training. There are also discussions about a 'project contract', which allows employers to hire employees to work on a specific project without dismissal procedures at the end of the contract, to avoid the administrative load. Furthermore, a 'single employment contract' is being considered, to avoid labour market division between permanent and fixed-term contracts. This contract would increase employees' rights and protection against dismissal progressively over several years, so that employers might be less reluctant to hire employees as it would be easier to dismiss them in an economic downturn. However, the social partners are reluctant to negotiate such a measure.

[43] Information on the Leadership 4 Growth Programme 2016 is available at http://www.enterprise-ireland.com/EI_Corporate/en/funding-supports/Company/Esetablish-SME-Funding/Leadership-4-Growth-Programme.html.

[44] Information on the Platform 4 Growth Programme is available at http://www.enterprise-ireland.com/EI_Corporate/en/Management/Leadership-and-Management-Development/Platform4Growth-Programme.html.

Table 7 summarises the different strands of national debates within the overarching theme of SMEs and their job creation potential.

Table 7: Scope of national policy debates on job creation in SMEs, EU28

	Explicit focus	Business-related issues				Labour-market-related issues		
		Access to finance	Administrative issues	Innovation	Internationalisation	Labour costs	Training, skills development	Employment relations
Austria	X	X	X	X	X	X	X	
Belgium		X		X	X	X	X	
Bulgaria	X	X	X	X	X	X	X	
Croatia		X		X	X	X	X	
Cyprus		X	X	X	X	X	X	
Czech Republic		X				X		X
Denmark			X	X		X	X	
Estonia		X	X	X	X		X	
Finland	X	X	X	X	X			
France		X	X	X	X		X	X
Germany		X	X	X	X		X	
Greece								X
Hungary		X	X			X		X
Ireland	X	X	X	X	X		X	
Italy		X	X	X	X	X	X	X
Latvia		X	X		X	X	X	
Lithuania		X	X			X	X	X
Luxembourg		X	X	X	X			
Malta		X	X			X	X	
Netherlands		X	X	X	X			X
Poland		X	X	X			X	
Portugal	X	X		X	X	X	X	
Romania		X	X			X		
Slovakia	X			X		X	X	
Slovenia		X	X			X		X
Spain	X	X	X	X	X	X	X	X
Sweden	X	X	X	X		X	X	
United Kingdom	X	X	X	X	X	X	X	

Source: Eurofound, based on contributions of its network of European correspondents

Conclusions and policy pointers

7

The current project has sought to identify types of SMEs that are more dynamic in job creation and to establish the drivers of employment growth in SMEs as well as the barriers to it. The research shows that this is not a straightforward issue, as job creation is influenced by a range of factors. Some factors relate to the economic, institutional and administrative environment in which SMEs operate, while others relate to individual company characteristics. Furthermore, while some elements are directly linked to employment development within companies, others influence it in a more indirect way. Despite these complexities, the following profile of SMEs with good job creation potential can be derived from the research.

Profile of an SME job creator

Company characteristics

- Young
- Innovative
- International
- Located in an urban area
- Well performing and competitive, resulting in increased workload
- Well financed
- Willing and able to invest
- Ambitious and prepared to grow (including its structure)
- Run by sufficient and qualified managers
- Attractive in the labour market

Business environment

- Sufficient demand
- Tolerable competition
- Entrepreneurship regarded positively
- Favourable legislation and taxation regime
- Manageable labour costs
- Effective public administration
- Suitable public support
- Sufficient access to finance
- Sufficient and matching labour supply

Ideally, all these characteristics should be fulfilled at the same time to result in job creation, but this is rarely the case in practice. It follows that companies or environments that do not fully match the profile above can give rise to job creation, illustrating that in practice it depends on how the different factors interact with each other. Nevertheless, it is important to highlight that it is a combination of different elements that determines job creation in SMEs and that these elements should be considered as a whole rather than focusing on individual dimensions (such as the age of the company exclusively, as is currently done in fostering start-ups with the intention of creating jobs).

The current research has yielded specific conclusions and policy pointers that could help to foster job creation activities among SMEs in Europe. These are outlined below.

Joint consideration of SMEs and job creation in public policy and supports

Both job creation and SMEs rank high on the policy agenda at EU and Member State levels, but the two issues are rarely brought together explicitly. Consequently, raising awareness about the need for a more explicit focus on job creation in SMEs as a precondition for better targeted strategies and action is recommended. This also implies a need for further research and collection of micro data as specific information remains limited – particularly regarding a better characterisation of SME types that are more dynamic job creators (including elements of the business model, business strategy and owner–manager characteristics).

Furthermore, while this report discussed the topic of job creation *in* SMEs, the issue of job creation *by* SMEs outside the enterprise should be better explored as well, including the effects of SME outsourcing or cooperation on employment in other companies or on self-employment. Observable trends towards networks of self-employed result in the creation of work rather than jobs (understood as salaried employment) and can be assumed to have significant economic and labour market effects that are not yet well explored.

Similarly, cross-SME job creation deserves further consideration, as there is general agreement that agglomerations such as business clusters or industrial districts are relevant for SME development. However, these topics are rarely discussed in terms of their employment effects. In addition, more attention could be paid by policymakers to the recently emerging new employment forms such as employee sharing, where the fragmented HR needs of several (small and medium-sized) companies are combined to establish a permanent, full-time employment relationship between one employee and a group of employers; policymakers could view such forms of employment as an instrument to foster job creation by SMEs, resulting in a win–win situation for workers and companies (Eurofound, 2015b).

A main finding of this research is that job creation in SMEs is never driven or hampered by any single element but is instead directly or indirectly influenced by a variety of factors internal and external to the company, which should be addressed equally in public policies. Providing comprehensive SME support packages covering the main issues related to the job creation efforts of SMEs is recommended. This support should also include offering forms of management training that are useful and easily implemented for SMEs, taking into account their more limited financial and time resources. Practical training is recommended, with the involvement of mentors or coaches, peer learning, online courses and other flexible forms of training, as well as assistance to SMEs to 'help themselves' rather than having to rely on external actors.

Support should also be tailor-made for specific types of companies within the SME sector. In particular, the profile of the 'job-creating SME' identified here could be considered in the design

and implementation of public policy. A specific focus should be placed on those SMEs that achieve significant economic growth but show stable to modestly growing employment levels. These SMEs seem to be the best candidates for creating additional jobs.

In parallel, some of the SME types with more limited employment development should be better explored. For example, it could be relevant to better understand the differences among those OPEs that create jobs and those that do not. This could be important as OPEs constitute a substantial share of SMEs but seem to be a rather heterogeneous population – including as regards their job creation behaviour. In addition, employment development in family businesses or following business transfers and successions could be better investigated. Although the dynamism of job creation seems to be more limited in such cases, the inherent employment retention aspect is significant in the longer run but explored very little so far. In this context, the most recent research finding of job creation emerging in waves across the company life cycle of 'extraordinary prolific job creators', interrupted by phases of employment stability or even reduction, could be followed up in future research.

Furthermore, one-stop shops for public support and the coordination of action of various actors at local level would be helpful for SMEs to identify the avenues of support that are most suitable for their specific situation.

In general, investigating further 'what works' in practice would be beneficial for more cost-effective public support – that is, identifying good practices and encouraging cross-country exchange of lessons learned.

Finally, job creation in SMEs should not be discussed exclusively in the context of employment, social or SME policy. As employment growth is determined by a combination of heterogeneous factors that are interrelated and influence each other, more attention to other policy fields could be beneficial. Regional policies, for example, could incorporate such discussions, as location has been identified as a significant factor in SMEs' job creation efforts. Similarly, as there is some evidence that instruments established in the field of industrial policy (such as greening initiatives) have some effects on job creation, this link could be examined in more depth. The digital agenda could also be an interesting area in which to consider the employment potential of SMEs.

Favourable economic and business environment

Although this project has focused explicitly on employment growth rather than economic growth in SMEs, it has been highlighted repeatedly that good macroeconomic or sector development, steady levels of demand and favourable economic development of companies are important preconditions for job creation. This has already been recognised by several governments, which offer demand-oriented public support such as investment incentives or tax reductions but also take steps to improve SMEs' access to public procurement or to treat them as providers of products and services for public authorities. However, so far, little is known about the effectiveness of such instruments and this should be better evaluated. On the basis of such evaluations, a European-wide exchange of lessons learned and good practices is recommended.

The competitive situation equally influences SMEs' economic performance and their associated job creation. In this context, the shadow economy can be assumed to affect smaller companies more keenly than larger ones. Accordingly, initiatives to reduce the shadow economy could have important effects for employment growth in SMEs.

The general business environment was also identified as a significant determinant of job creation – that is, any institutions, regulations and procedures relating to SMEs' activities. Although a range of improvements has already been made in the Member States, there is room for further progress regarding the effectiveness and responsiveness of public administration. SMEs, particularly the most innovative ones, often face procedures designed for 'standard cases'; such procedures are frequently not flexible enough and do not fit these companies' needs. Similarly, available public support might not perfectly fit these companies' specific needs. One solution in this context could be to better assist SME organisations in their work with companies. These organisations are best suited to identify companies' needs and suitable support. Therefore, ensuring a high level of transparency and accessibility of such organisations is recommended, as well as securing sufficient funding for them to provide their services.

Other beneficial factors for enhancing job creation in SMEs could include cutting red tape and adjusting administrative procedures to SME particularities, especially by speeding up procedures and decisions. In this context, it would also be important to explore whether potential differences in procedures or other framework conditions (including taxation or registration obligations) contribute to differences in job creation behaviour across Member States or sectors. Furthermore, the level of complexity and stability of business legislation should take into account SMEs' more limited resources to achieve compliance.

Management support

Due to the important role of the owner–managers in job creation in SMEs, policy measures could also better support these individuals. Initiatives to improve the image of entrepreneurship could contribute to a greater willingness among Europeans to start up businesses and to accept the risks associated with entrepreneurship. Reducing the stigma of failure could help to foster a better approach to risk-taking (both by entrepreneurs and investors). In turn, this could be beneficial for SMEs' growth ambitions – an aspect that has been found to be key for job creation. Also important is fostering the skills and capacities needed to run and grow a business, which highlights the relevance of entrepreneurship education and providing leadership skills, not only in business schools but also in technical education and in lower levels of the education system, as management competences have been shown to be a significant determinant of job creation.

Interestingly, the current project could not identify much research on the demographic characteristics of owners or managers who are more dynamic job creators, other than skill levels and experience. Further studies explicitly linking gender, age, nationality, personal backgrounds or personality traits of owners or managers, for example, could be helpful to better understand the job creation behaviour of SMEs and to adjust the education system and support instruments accordingly.

While there is general agreement that young companies create more jobs than older ones, more information is required to clearly define what 'young' means. It primarily refers to the period of time in which a company has been in existence – for example, the first year of existence, the first 5 years or the first 10 years. However, the type of company creation should also be considered – for example, a 'real' start-up versus a spin-off or merger and acquisition. It can be assumed that both aspects make a difference regarding the type of support that is needed. On the basis of this more in-depth knowledge, early-phase support beyond the widely offered start-up support already granted could assist companies in their early development phase. This might help to improve the survival rates and sustainability of companies and hence jobs. Approaches could include establishing business mentor programmes to assist young companies to think about their company's future development in realistic terms.

In addition, SMEs' innovation and internationalisation activities have been found to be related to employment growth. In both fields, a wide range of public support is already available. Learning more about the effectiveness of such measures would help to ensure the best use of public funds. In this context, it would be beneficial to explore the types of innovation and internationalisation that have the highest job creation effects as well as the types of support that result in the highest number of additional jobs that are sustainable in the long term.

Access to finance is a recurring challenge for SMEs, and it influences their job creation efforts. On this basis, offering funding sources that provide an alternative to traditional banking credit, such as venture capital or business angels, would be beneficial. At the same time, there needs to be greater awareness among SMEs about the benefits of more diversified funding, with assistance offered to them for approaching and convincing potential investors.

Labour-market-related issues

From a labour market perspective, even if an SME is willing and able to hire additional staff, it can only do so if suitable candidates are available and accessible. Accordingly, and in spite of already ongoing initiatives, further adjustment of the education system to SMEs' HR needs is advisable – particularly as regards innovation and internationalisation skills as well as transversal skills such as problem solving and teamwork. Specific attention could be paid to the regional level, to adjust local training offers to the local business structure. Furthermore, cooperation between education providers and SMEs could be better supported as regards the transition from school to work – for example, by encouraging cooperation between universities and SMEs to exchange information about graduates and vacancies.

It is also important that SMEs are considered as an attractive employer in the labour market. Image campaigns counteracting the sometimes prevailing picture of SMEs as old-fashioned and unfavourable employers could help these companies to enhance their competitive position in the labour market. Examples from Germany show, however, that such initiatives take time to evolve and result in changes in workforce mentality.

As is often highlighted, SMEs require specific skills that are often difficult to provide through general education systems. As a result, apprenticeships, internships and on-the-job training in SMEs could be better supported, for example through training subsidies. The benefits of such measures would be twofold: SMEs would get the opportunity to train workers according to their needs but without assuming the full costs; and young people or those further from the labour market would get a chance to enter or re-enter the labour market.

In general, greater awareness should be raised among SMEs about the variety of potential recruitment channels, notably online tools such as job search platforms and social media, as well helping them to decide which channel is more suited to a specific vacancy. The support of public employment services, particularly at local level, could be scrutinised regarding their effectiveness for SMEs. Cooperation between SMEs and universities could also be encouraged more – not only in the field of innovation, but also regarding recruitment and transition from education to work.

Labour law and non-wage labour costs are also highlighted as important determinants of SMEs' job creation capacities. Accordingly, it needs to be ensured that the level of complexity, flexibility and stability of labour regulations is not a burden to SMEs while also providing sufficient protection for workers and preventing abuses. In addition, the relationship between the characteristics of labour legislation and the emergence of networks of self-employed (rather than the hiring of salaried

workers) or specific forms of employment (such as zero-hours contracts or other forms of casual work) could be better explored.

It should also be explored whether non-wage costs as well as wage levels (as settled, for example, in collective agreements) can be borne by SMEs. For example, the development of total wage costs compared to productivity levels could be analysed.

Finally, employment subsidies should be scrutinised regarding their deadweight and displacement effects, and they should be targeted at specific groups of workers to foster their labour market integration.

Table 8: Summary of research conclusions and related policy pointers

Conclusions	Policy pointers
In spite of the high priority given to both job creation and SMEs, these two issues are not very often explicitly combined in policy discussion.	More explicit focus on better-targeted strategies and action
	More focused research for better-informed policies
	Consideration of job creation outside the enterprise by SMEs (outsourcing, clusters, employee sharing)
Job creation in SMEs is driven or hindered by a combination of various factors.	Comprehensive SME support packages combining various support elements, one-stop shops, evaluations and exchange of good practices
	Support measures that consider the specific needs of the SMEs with the highest potential to create jobs; more tailor-made support
	Consideration of job creation in SMEs in various policy areas
Macroeconomic or sector development and demand are prerequisites to job creation in SMEs.	Evaluations and exchange of good practice regarding demand-oriented public support (for example, investment incentives, tax incentives, public procurement)
	Initiatives to reduce the shadow economy
Regulatory burden, legislation and taxation can hamper job creation in SMEs as the limited available resources that could be used for company development are 'blocked'.	Further reduction of red tape
	Adaptation of procedures and institutions to the needs of 'non-standard' businesses
	Strengthening the role of SME organisations
	Reduction of complexity and increase of stability of business legislation
An active growth strategy and managers' intention to create jobs is key for job creation in SMEs	Improvement of image of entrepreneurship; giving second chances and destigmatising failure to create a sound level of risk-taker culture
Owner–managers with management and leadership skills are more likely to create jobs.	Improvement of entrepreneurship education and inclusion in 'non-business'-oriented curricula
Young SMEs are dynamic job creators.	Support that is not only relevant for start-up but also for early-phase entrepreneurship to improve survival rates and sustainability of the company and jobs; for example, business mentor programmes
Innovative and international SMEs are dynamic job creators.	Evaluations and exchange of good practice in relation to innovation and internationalisation support
Having financial resources is a precondition for job creation in SMEs.	Provision of alternatives to traditional banking credit
	Raising awareness of more diversified funding strategies among SMEs
Access to skilled labour is a challenge for SMEs.	Better alignment of education system and SME needs, including innovation and internationalisation competences and transversal skills
	Image campaigns to strengthen SMEs' image as attractive employers
	Support of training in SMEs
	Familiarisation of SMEs with recruitment channels used for specialists and provision of access to them (including cooperation with universities and social media)
Labour law and labour costs can limit job creation in SMEs, particularly young ones.	Reduced complexity and rigidity and increased stability of labour legislation as well as abuse prevention
	Evaluations and exchange of good practice regarding employment subsidies

Bibliography

Aaltonen, S., Heinonen, J., Kovalainen, A. and Luomala, K. (2009), *Työllistämisen esteet, mahdollisuudet ja aikeet pk-yrityksissä*, Employment and entrepreneurship 49/2009, Ministry of Employment and the Economy, Helsinki.

Accenture and Oxford Economics (2011), *Driving public entrepreneurship: Government as a catalyst for innovation and growth in Europe*, study conducted on behalf of the Government of the Future Centre.

Advisory Group for Small Business (2011), *The voice of small businesses – A plan for action*, Cork, Ireland.

Allegrezza, S., Ben Aoun-Peltier, L., Dubrocard, A. and Larue, S. (2013), *Access to finance of independent SMEs in Luxembourg. The consequences of the crisis*, Statec, Luxembourg.

Ardic, O., Mylenko, N. and Saltane, V. (2011), *Small and medium enterprises: A cross-country analysis with a new data set*, Policy Research Working Paper 5538, World Bank, Washington DC.

Audretsch, D. B. (2003), *Entrepreneurship: A survey of the literature*, Enterprise Papers No. 14/2003, Directorate-General for Enterprise and Industry, European Commission, Brussels.

Bachinger, K., Dörflinger, A., Eidenberger, J., Gavac, K., Hölzl, K., Ratzenböck, V. et al (2013), *Fünfter Österreichischer Kreativwirtschaftsbericht. Schwerpunkt Kreativwirtschaft als Regionaler Faktor*, creativ wirtschaft austria, WKO, Vienna.

Bacq, S., Chantal, H., Hoogendoorn, B. and Lepoutre, J. (2011), *Social and commercial entrepreneurship: Exploring individual and organizational characteristics*, EIM research report.

Barrett, R. and Mayson, S. (eds.) (2008), *International handbook of entrepreneurship and HRM*, Edward Elgar, Cheltenham, UK.

BBVA (Banco Bilbao Vizcaya Argentaria) (2014), *Yo Soy Empleo contribuye a la creación de 5.000 puestos de trabajo*, web page, 3 June, accessed 28 October 2015.

BDI (Bundesverband der Deutschen Industrie) (2013), *BDI-Mittelstandspanel, Ergebnisse der Online-Mittelstandsbefragung Frühjahr 2013*, IfM Bonn and TNS Emnid, Bonn.

BIS (Department for Business, Innovation and Skills) (2012), *Graduate recruitment to SMEs*, final report, London.

BIS (2013a), *SMEs: The key enablers of business success and the economic rationale for government intervention*, London.

BIS (2013b), *Small business survey 2012: SME employers*, London.

BIS (2013c), *Small business survey 2012: Estimates for women-led, minority ethnic group (MEG) led and social enterprises in the UK*, London.

BMASK (Bundesministerium für Arbeit, Soziales und Konsumentenschutz) (2013), *Aktive Arbeitsmarktpolitik in Österreich 1994–2013*, Vienna.

BMWi (Bundesministerium für Wirtschaft und Energie) (2014), *Engpassanalyse 2014, Fachkräfteengpässe in Unternehmen, in vielen Berufsgattungen bestehen seit Längerem Engpässe*, Berlin.

Bornhorst, F. and Arranz, M. R. (2014), *Growth and the importance of sequencing debt reductions across sectors*, International Monetary Fund (IMF), Washington DC.

Broughton, A., Foley, B., Ledermaier, S. and Cox, A. (2013), *The use of social media in the recruitment process*, Acas, London.

Brun, M. and Chai, F. (2012), *High-growth SMEs*, Quarterly Selection of Articles No. 25, Banque de France, Paris.

Bryant, H. (2008), 'Big in smalls', *Financial Management*, July/August, pp. 32–33.

Burke A. E., FitzRoy, F. R. and Nolan, M. A. (2002). 'Self-employment wealth and job creation: The roles of gender, non-pecuniary motivation and entrepreneurial ability', *Small Business Economics*, Vol. 19, No. 3, pp. 255–270.

BusinessEurope (2014), *Unleashing the growth and job creation potential of SMEs*, strategy paper, Brussels.

Calvo, J. L. (2006), 'Testing Gibrat's law for young, small and innovative firms', *Small Business Economics*, Vol. 26, No. 2, pp. 117–123.

Carroll, M., Marchington, M., Earnshaw, J. and Taylor, S. (1999), 'Recruitment in small firms: Processes, methods and problems', *Employee Relations*, Vol. 21, No. 3, pp. 236–250.

Castellanos, A., Sandoval, A., Abando, J., Garra, A., Marín, F., Legazkue, I. et al (2008), *Creación, superviviencia, crecimiento e internacionalización de las PYME jóvenes en España: 1995–2006*, Dirección General de Política de la Pequeña y Mediana Empresa, Madrid.

Cedefop (2009), *Modernising vocational education and training*, *Volume 2*, Office for Official Publications of the European Communities, Luxembourg.

Cosh, A., Hughes, A. and Weeks, M. (2000), *The relationship between training and employment growth in small and medium-sized enterprises*, Centre for Business Research and Department of Applied Economics, University of Cambridge, UK.

Criscuolo, C., Gal, P. N. and Menon, C. (2014), *The dynamics of employment growth: New evidence from 18 countries*, OECD Science, Technology and Industry Policy Papers No. 14, OECD Publishing, Paris.

CRWG (Canadian Research Working Group on evidence based practice in career development) (2010), *Career development in SMEs*, Ottawa.

De Kok, J .M. P., Uhlaner, L. M. and Thurik, A. R. (2006), 'Professional HRM practices in family owned-managed enterprises', *Journal of Small Business Management*, Vol. 44, No. 3.

De Kok, J. M. P., Ichou, A. and Verheul, I. (2010), *New firm performance: Does the age of founders affect employment creation?*, EIM research report, Zoetermeer, the Netherlands.

De Kok, J. M. P., Vroonhof, P., Verhoeven, W., Timmermans, N., Kwaak, T., Snijders, J. et al (2011), *Do SMEs create more and better jobs?*, European Commission, Brussels.

De Kok, J. M. P., Deijl, C. and Veldhuis-Van Essen, C. (2013a), *Is small still beautiful? Literature review of recent empirical evidence on the contribution of SMEs to employment creation*, International Labour Organization (ILO), Geneva.

De Kok, J. M. P., Liebregts, W., Som, O. and Neuhaeusler, P. (2013b), *The impact of the economic crisis on European SMEs. Does a country's innovativeness affect the reaction of enterprises to a major economic crisis*, Zoetermeer, the Netherlands.

Department of Jobs, Enterprise and Innovation, UK (2015), *Review of Microfinance Ireland*, Dublin.

De Wit, G. and Timmermans, N. G. L. (2008), *High-growth SMEs. Evidence from the Netherlands*, research report published under the SCALES-initiative (Scientific Analysis of Entrepreneurship and SMEs), Zoetermeer, the Netherlands.

De Wit, G. and De Kok, J. M. P. (2014), 'Do small businesses create more jobs? New evidence for Europe', *Small Business Economics*, Vol. 42, No. 2, pp. 283–295.

DGPYME (Dirección General de Industria y de la Pequeña y Mediana Empresa) (2006), *Análisis de crecimiento en la Empresa Consolidad Española*, Fundación Banesto e Instituto Universitario de Empresa, Madrid.

Dietz, M., Röttger, C. and Szameitat, J. (2011), *Betriebliche Personalsuche und Stellenbesetzungen, Neueinstellungen gelingen am besten über persönliche Kontakte*, IAB-Kurzbericht, No. 26/2011, Nuremberg, Germany.

Dietz, M., Kubis, A., Leber, U., Müller, A. and Stegmaier, J. (2013), *Kleine und mittlere Betriebe im Wettbewerb um Fachkräfte,* IAB-Kurzbericht 10/2013, Institut für Arbeitsmarkt- und Berufsforschung, Nuremberg, Germany.

Dörflinger, C., Gavac, K., Hölzl, K. and Talker, C. (2011), *Ein-Personen-Unternehmen (EPU) in Österreich. Ein- und Ausblicke*, KMU Forschung Austria, Vienna.

Dörflinger, C., Dörflinger, A., Gavac, K. and Vogl, B. (2013), *Familienunternehmen in Österreich. Status Quo 2013*, KMU Forschung Austria, Vienna.

Drăgan, I. and Isaic-Maniu, A. (2013), 'Criza economică şi barometrul antreprenorial', *Romanian Statistical Review*, No. 7.

Dumas, A. (2006), *Pourquoi nos PME ne grandissent pas*, Institut Montaigne, Paris.

DWP (Department for Work and Pensions), UK (2014), *Small employer recruitment practices. Qualitative research into how small and medium-sized enterprises select candidates for employment*, Research Report No. 855, London.

DynaM (2014), *Dynamiek op de Belgische Arbeidsmarkt. Juni 2012 – juni 2013*, web page, accessed 28 October 2015.

ECB (European Central Bank) (2013), *Survey on the access to finance of small and medium-sized enterprises in the Euro area*, Frankfurt.

Eesti Pank (2010), *Rahapoliitika ja Majandus. Hetkeseis ja ettevaade*, 2/2010, Tallinn.

Egebark, J. and Kaunitz, N. (2013), *Do payroll tax cuts raise youth employment*, IFN Working Paper No. 1001, Research Institute of Industrial Economics, Stockholm.

Employment Service of Slovenia (Zavod Republike Slovenije za zaposlovanje) (2014), *Poročilo o Izvajanju Ukrepa, Spodbujanje Samozaposlovanja, v obdobju od leta 2007 do leta 2013*, Ljubljana.

Enterprise Estonia (2012), *The startup Estonia programme to support the first European game-field business accelerator GameFounders.com*, web page, 5 July, accessed 28 October 2015.

Ernst & Young (2015), *Mittelstandsbarometer Österreich und Europa, Jänner 2015, Befragung von 6.000 mittelständischen Unternehmen in Europa*, Vienna.

Estonian Chamber of Commerce and Industry (2010), *Eesti ettevõtete ekspordiprobleemide uuring*, Tallinn.

Estonian Institute of Economic Research (2013), *Eesti loomemajanduse olukorra uuring ja kaardistus*, Tallinn.

ETUC (European Trade Union Confederation) (2013), *Framework of actions on youth employment*, Brussels.

ETUC (2015), *Towards a European strategy for quality employment*, position adopted by the Executive Committee of 10 and 11 March 2015, Brussels.

Eurofound (2012a), *Born global: The potential of job creation in new international businesses*, Publications Office of the European Union, Luxembourg.

Eurofound (2012b), *Fifth European Working Conditions Survey,* Publications Office of the European Union, Luxembourg.

Eurofound (2012c), *Public measures to support self-employment and job creation in one-person and micro enterprises*, Dublin.

Eurofound (2013a), *Restructuring in SMEs in Europe*, Publications Office of the European Union, Luxembourg.

Eurofound (2013b), *Quality of employment conditions and employment relations in Europe*, Dublin.

Eurofound (2013c), *Public policy and support for restructuring in SMEs*, Dublin.

Eurofound (2014), *Drivers of recent job polarisation and upgrading in Europe: European Jobs Monitor 2014*, Publications Office of the European Union, Luxembourg.

Eurofound (2015a), *Youth entrepreneurship in Europe: Values, attitudes, policies*, Publications Office of the European Union, Luxembourg.

Eurofound (2015b), *New forms of employment*, Publications Office of the European Union, Luxembourg.

European Commission (undated), *Jobs, growth and investment, creating jobs and boosting growth – without creating new debt*, web page, access 15 November 2015.

European Commission (2003), *Commission recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises*, 2003/361/EC, Brussels.

European Commission (2005), *First employee: Obstacle to growth – Recruiting the first employee*, Report of the expert group, Brussels.

European Commission (2008), *'Think small first' – A 'Small Business Act' for Europe*, COM(2008) 394 final, Brussels.

European Commission (2009), *Overview of family-business-relevant issues: Research, networks, policy measures and existing studies*, final report of the expert group, Brussels.

European Commission (2013), *A recovery on the horizon? Annual report on European SMEs 2012/2013*, Publications Office of the European Union, Luxembourg.

European Commission (2014a), *A partial and fragile recovery. Annual report on European SMEs 2013/2014*, Publications Office of the European Union, Luxembourg.

European Commission (2014b), *Employment and social developments in Europe 2014*, Publications Office of the European Union, Luxembourg.

European Commission (2014c), *2014 SBA fact sheet – Sweden*, Brussels.

European Commission (2014d), *PES to PES Dialogue Conference on targeted service for employers, Executive summary*, 11–12 March, Brussels.

European Commission (2014e), *The contribution of newly founded firms to job growth*, thematic paper, Mutual Learning Programme, Brussels.

European Commission (2014f), *A European strategy for more growth and jobs in coastal and maritime tourism*, COM(2014) 86 final, Brussels.

European Commission (2014g), *2014 SBA fact sheet – Denmark*, Brussels.

European Commission (2014h), *2014 SBA fact sheet – Estonia*, Brussels.

European Commission (2015), *Investment plan for Europe: New SME initiative to unlock more than €3.2 billion of cheaper credit for Spanish companies*, press release, IP/15/3682, 26 January, Brussels.

Falk, M. (2013), *Innovation und Beschäftigung. Neue Ergebnisse auf Basis der Innovationserhebung verknüpft mit Leistungs- und Strukturerhebung*, Austrian Institute of Economic Research (WIFO), Vienna.

Federation of Finnish Enterprises (2014), *PK-yritysbarometri 2/2014*, Helsinki.

Federico, S. (2012), *Industry dynamics and competition from low-wage countries: Evidence on Italy*, Banca d'Italia Working Paper No. 879, September, Rome.

15min (2013), *Daugiausiai darbo vietų Lietuvoje sukūrė investuotojai iš JAV ir Danijos*, web page, accessed 28 October 2015.

Forfás (2013), *Social enterprises in Ireland: Sectoral opportunities and policy issues*, Dublin.

Forth, J., Bewley, H. and Bryson, A. (2006), *Small and medium-sized enterprises: Findings from the 2004 Workplace Employment Relations Survey*, Department of Trade and Industry, London.

Gavac, K., Fürst, C., Robubi, A. and Tobon, A .A. (2014), *Konjunkturbericht – Gewerbe und Handwerk Österreich. Gesamtjahr 2013 und 1. Quartal 2014. Spartenergebnisse*, KMU Forschung Austria, Vienna.

Girard, B. (2002), 'Les PME sont-elles responsables du faible contenu en emploi de la croissance?', *Gérer et Comprendre*, No. 70, December.

Halabisky, D. (2012), *Entrepreneurial activities in Europe – Youth entrepreneurship*, OECD Employment Policy Papers No. 1, OECD Publishing, Paris.

Halldin, T. (2012), 'Born globals', *Globaliseringsforum Rapport*, No. 3, Entreprenörskapsforum.

Hammermann, A. and Stettes, O. (2014), *Lebensphasenorientierte Personalpolitik, Theoretisches Konzept und empirische Evidenz*, IW-Analysen, No. 97, Cologne.

Harding, R. (2006), *Social entrepreneurs specialist summary 2006*, Global Entrepreneurship Monitor (GEM), London Business School, London.

Harris, R. and Li, Q.C. (2007), *Born global companies: Evidence from FAME and CIS*, final report submitted to UK Trade and Investment (UKTI), April.

Hart, M. and Anyadike-Danes, M. (2014a), *Moving on from the 'Vital 6%' – ERC Insight*, February, Enterprise Research Centre, Coventry and Birmingham, UK.

Hart, M. and Anyadike-Danes, M. (2014b), *UK's hidden growth champions – ERC Insight*, June, Enterprise Research Centre, Coventry and Birmingham, UK.

Hart, T. and Barratt, P. (2009), 'The employment of graduates within small and medium sized firms in England', *People, Place & Policy Online*, Vol. 3, No. 1, pp. 1–15.

Henley A. (2005), 'Job creation by the self-employed: The roles of entrepreneurial and financial capital', *Small Business Economics*, Vol. 25, No. 2, pp. 175–196.

Hölzl, W. (2009), 'Is the R&D behaviour of fast-growing SMEs different? Evidence from CIS III data for 16 countries', *Small Business Economics*, Vol. 33, No. 1, pp. 59–75.

Ibsen, R. and Westergaard-Nielsen, N. (2011), *Job creation by firms in Denmark*, IZA DP No. 5458, Institute for the Study of Labor, Bonn.

ibw (Austrian Institute for Training Research in the Economy) (2014), *Apprenticeship: Dual vocational education and training in Austria – Modern training with a future*, Federal Ministry of Economy, Family and Youth, Vienna.

Ichou, A. (2010), *Modelling the determinants of job creation: Microeconometric models accounting for latent entrepreneurial ability*, EIM Business and Policy Research, Zoetermeer, the Netherlands.

ILO (International Labour Organization) (2013), *Enfrentar a crise no emprego em Portugal*, Centre for Social Studies, University of Coimbra, Portugal.

INE (Instituto Nacional de Estadistica) (2015), *Quarterly Spanish national accounts, base 2010 – Second quarter of 2015*, press release, 27 August, Madrid.

Infelise, F. (2014), *Supporting access to finance by SMEs: Mapping the initiatives in five EU countries*, ECMI Research Report No. 9, Centre for European Policy Studies, Brussels.

Insee (Institut National de la Statistique et des Études Economiques) (2014), 'Créateurs d'entreprises: Avec l'auto-entreprenariat, de nouveaux profils', *Insee Première*, No. 1487, February.

Institute for Family Business (2014), *The UK family business sector*, London.

Istat (Istituto Nazionale di Statistica) (2013), 'Il sistema delle imprese italiane: Competitività e potenziale di crescita', *Rapporto annuale 2013. La situazione del paese*, Rome.

Istat (2014), *Rapporto annuale 2014. La situazione del paese*, Rome.

Johanson, J. and Vahlne, J.-E. (1990), 'The mechanism of internationalization', *International Marketing Review*, Vol. 7, No. 4, pp. 11–24.

Kaarna, R., Masso, M. and Mari, R. (2012), *Väikese ja keskmise suurusega ettevõtete arengusuundumused*, Poliitikauuringute Keskus Praxis, Tallinn.

KfW (2006), *KfW-Mittelstandspanel 2006, Mittelstand: Jobmotor der deutschen Wirtschaft*, Frankfurt.

Kirsipuu, M. (2011), *The role of family business in the Estonian economy*, Estonian Maritime Academy, Tallinn.

KMU Forschung Austria (2014), *Beschäftigungsrekord in KMU*, press release, Vienna.

Koryak, O., Mole, K., Lockett, A., Hayton, J., Ucbasaran, D. and Hodgkinson, G. (2015), 'Entrepreneurial leadership, capabilities and firm growth', *International Small Business Journal*, Vol. 33, No. 1, pp. 89–105.

KPMG (2010), *Les PME qui grandissent: Comment ces virtuoses de la croissance se sont adaptées pour traverser la crise*, Paris.

Lagrådsremiss (2011), *Sänkt mervärdesskatt på restaurang- och cateringtjänster*, Regeringskansliet.

La Moncloa (2015), *Spanish small- and medium-sized enterprises to benefit from loans guaranteed by European Investment Bank*, web page, 26 January, accessed 28 October 2015.

Lawless, M. (2013), *Age or size? Determinants of job creation*, Research Technical Paper, Central Bank of Ireland, Dublin.

Lawless, M., McCann, F. and McIndoe Calder, T. (2012), 'SMEs in Ireland: Stylised facts from the real economy and credit market', conference paper, *The Irish SME lending market: Descriptions, analysis, prescriptions*, Central Bank of Ireland conference, 2 March, Dublin.

Leonidou, A. C. and Samiee, S. (2012), 'Born global or simply rapidly internationalising? Review, critique, and future prospects', in Gabrielsson, M. and Kirpalani, V. H. M. (eds.), *Handbook of research on born globals*, Edward Elgar, Cheltenham.

Lever, M. H. C. and van Werkhoovem, J. M. (1996), 'Insider power, market power, firm size and wages: Evidence from Dutch manufacturing industries', *Labor Economics*, Vol. 3, pp. 93–107.

Levie, J. and Autio, E. (2013), *Growth and growth intentions*, White Paper No. 1, Enterprise Research Centre, UK.

Levy, C., Lee, N. and Peate, A. (2011), *Ready, steady, grow? How the government can support the development of more high growth firms. A joint cities 2020 and knowledge economy programme report*, The Work Foundation, Lancaster University.

Lopez-Sintas, J. and Martinez-Ros, E. (1999), 'The innovative behavior of Spanish enterprises and its impact on salaries', *Small Business Economics*, Vol. 13, No. 4, pp. 287–302.

Lugger, M. (2014), *Senkung der Lohnnebenkosten: 7 von 10 Betrieben würden mehr Personal einstellen*, press release, Vienna, 26 September.

Lukeš, M., Jakl, M. and Zouhar, J. (2014), *Global Entrepreneurship Monitor 2013. Podnikatelská aktivita v České republice*, Global Entrepreneurship Research Association.

Mäki, K. and Pulkkinen, T. (2000), *Barriers to growth and employment in Finnish small enterprises*, ICSB Brisbane, Brisbane.

Mandl, I., Gavac, K. and Hölzl, K. (2009), 'Ein-Personen-Unternehmen in Österreich', *Wirtschaft und Gesellschaft*, Vol. 35, No. 2, pp. 215–236.

Martikainen, M. and Nikkinen, J. (2005), *Suomalaisten pk-yritysten menestyminen ja kasvu – kasvun determinantit, innovatiivisuus ja eri yritysrakenteet. Suomen Yrittäjät*, Helsinki.

May-Strobl, E. and Haunschild, L. (2013), *Der nachhaltige Beschäftigungsbeitrag von KMU, Eine sektorale Analyse unter besonderer Berücksichtigung der FuE-und wissensintensiven Wirtschaftszweige*, IfM-Materialien No. 206, Bonn.

May-Strobl, E. and Wolter, H.-J. (2013), *Der Beschäftigungsbeitrag mittelständischer Exportunternehmen*, IfM-Materialien No. 220, Bonn.

Manyika, J., Lund, S., Robinson, K., Valentino, J. and Dobbs, R. (2015), *A labor market that works: Connecting talent with opportunity in the digital age*, McKinsey Global Institute.

MEF (Ministero dell'Economia e delle Finanze) (2011), *Gruppo di lavoro. 'Economia non osservata e flussi finanziari'. Rapporto finale sull'attività*, Rome.

Ministère de l'Éducation Nationale, de l'Enseignement Supérieur et de la Recherche (2014), *Développement et impact du crédit d'impôt recherche: 1983–2011*, Paris.

Ministry of Economy, Poland (2012), *Trendy rozwojowe sektora MŚP w ocenie przedsiębiorców*, Warsaw.

Ministry of Economy, Slovakia (2014), *Strategia vonkajsich ekonomickych vztahov Slovenskej republiky na obdobie 2014–2020*, Bratislava.

Ministry of Employment and the Economy, Finland (2011), *Kasvuyrityskatsaus 2011*, Helsinki.

Ministry of Employment and the Economy, Finland (2012), *Kasvuyrityskatsaus 2012*, Helsinki.

Ministry of Employment and the Economy, Finland (2014), 'Yrityskatsaus 2014 – Murroksia ja uudistumista', *Employment and Entrepreneurship*, 39/2014, Helsinki.

Muenzinger, I. (2010), *How can SMEs become more competitive on the graduate labour market?*, Working Paper No. 53, York Management School, University of York.

Muller, P., Caliandro, C., Gagliardi, D. and Marzocchi, C. (2015), *Annual report on European SMEs 2014/2015*, European Commission, Brussels.

Napier, G., Rouvinen, P., Johansson, D., Finnbjörnsson, T., Solberg, E. and Pedersen, K. (2012), *The Nordic growth entrepreneurship review 2012*, final report, Nordic Innovation Publication 2012:25, Oslo.

National Council of Private Small and Medium Enterprises in Romania (2014), *White paper for SMEs in Romania*, Bucharest.

Neumark, D., Wall, B. and Zhang, J. (2011), 'Do small businesses create more jobs? New evidence for the United States from the National Establishment Time Series, *Review of Economics and Statistics*, Vol. 93, No. 1, pp. 16–29.

Nickell, S., Vainiomaki, J. and Wadhwani, S. (1994), 'Wages and product market power', *Economica*, Vol. 61, pp. 457–473.

OECD (1997), *Small businesses, job creation and growth: Facts, obstacles and best practices*, OECD Publishing, Paris.

OECD (2002), *High-growth SMEs and employment*, OECD Publishing, Paris.

OECD (2005), *Oslo manual guidelines for collecting and interpreting innovation data*, OECD Publishing, Paris.

OECD (2010), 'Issues paper 1: Innovative SMEs and entrepreneurship for job creation and growth', conference paper, *'Bologna+10' High-level meeting on lessons from the global crisis and the way forward to job creation and growth*, OECD Working Party on SMEs and Entrepreneurship (WPSMEE), 17–18 November, Paris.

OECD (2013a), *Skills development and training in SMEs*, OECD Publishing, Paris.

OECD (2013b), *Job creation through the social economy and social entrepreneurship*, OECD Local Economic and Employment Development (LEED) Programme, OECD, Paris.

Ojasalo, J. (2003), 'Obstacles to being an entrepreneur in Finland. Results of an empirical study', in Gaulden, C. F. (ed.), *Proceedings of the Annual Conference of the Association for Small Business and Entrepreneurship (ASBE)*, 5–8 March, Houston, pp. 23–33.

Onkelinx, J. and Sleuwaegen, L. (2010), *Internationalization strategy and performance of small and medium sized enterprises*, Working Paper Research No. 197, National Bank of Belgium, Brussels.

Pickernell, D., Kay, A., Packham, G. and Miller, C. (2011), 'Competing agendas in public procurement: An empirical analysis of opportunities and limits in the UK for SMEs', *Environment and Planning C: Government and Policy*, Vol. 29, No. 4, pp. 641–658.

Poschke, M. (2010), *Entrepreneurs out of necessity: A snapshot*, IZA Discussion Paper No. 4893, Institute for the Study of Labor (IZA), Bonn.

PwC (2013), *Creating a lasting legacy*, Canadian supplement to the 2012/2013 PwC Global Family Business Survey, PricewaterhouseCoopers, Ontario.

Reinstaller, A. (coord.), Hölzl, W., Janger, J., Stadler, I., Unterlass, F., Daimer, S. et al (2010), *Barriers to internationalisation and growth of EU's innovative companies*, PRO INNO Europe: INNO-Grips II report, European Commission, Directorate-General for Enterprise and Industry, Brussels.

Rikama, S. and Huovinen, P. (2015), *Voimakkaasti kasvuhakuiset pk-yritykset*, Ministry of Employment and the Economy, Helsinki.

SAERG (Swedish Agency for Economic and Regional Growth) (2011), *Tillväxtmöjligheter och tillväxthinder för svenska små och medelstora företag, Företagens villkor och verklighet 2011*, Stockholm.

SAERG (2014), *Förutsättningar för konkurrenskraftiga företag.* Företagens *villkor och verklighet 2014*, Stockholm.

Segnana, M. L. and Bernard, A. (2012), 'L'offshoring e le imprese manifatturiere italiane', in Antonelli, G., Maggioni, M., Pegoretti, G., Scazzieri, R. and Zoboli, R. (eds.), *Studi in onore di Alberto Quadrio Curzio*, Il Mulino, Bologna.

Serti, F. and Tomasi, C. (2008), 'Self-selection and post-entry effects of exports: Evidence from Italian manufacturing firms', *Review of World Economics*, Vol. 144, pp. 660–694.

Smith, A. D. and Rupp, W. T. (2004), 'Managerial challenges of e-recruiting: Extending the life cycle of new economy employees', *Online Information Review*, Vol. 28, Issue 1, pp. 61–74.

Stadlober, H. (2014), *A business in the sun*, inventures publishing, Vienna.

Starczewska-Krzysztoszek, M. (2012), *Szanse i zagrożenia dla rozwoju mikro, małych i średnich przedsiębiorstw*, Polish Confederation Lewiatan, Warsaw.

Startup Lithuania (2013), *VšĮ Versli Lietuva*, 2014.

Statistics Denmark (2008), *International sourcing: Moving business functions abroad*, Copenhagen.

Statistics Lithuania (2009), *Smulkiojo ir vidutinio verslo sąlygų tyrimas 2009*, Vilnius.

Statistik Austria (2012), *Endbericht Zur Europäischen Innovationserhebung 'CIS 2012'*, Vienna.

Storey, D. J., Saridakis, G., Sukanya, S., Edwards, P. and Blackburn, R. A. (2010), 'Linking HR formality with employee job quality: The role of firm and workplace size', *Human Resource Management*, Vol. 49, No. 2, pp. 305–329.

Šukytė, D. (2010), 'Barriers for SMEs development in Šiauliai', *Management: Multidisciplinary problems and possible solution. Economic and management concerns 2010*, Vilnius, pp. 604–610.

ŠÚSR (Štatistický úrad Slovenskej republiky) (2012), *Inovačná aktivita v podnikoch v SR 2008–2010*, Bratislava.

Swedish Agency for Growth Policy Analysis (2014), *Sänkt moms på restaurang- och cateringtjänster*, Stockholm.

Szalavetz, A. (2015), *Extending the definition of born globalness – Case study of an unconventional Hungarian start-up*, conference paper, World Congress of Comparative Economics, June, Rome.

Tansky, J. and Heneman, R. (eds.) (2006), *Human resource strategies for the high-growth entrepreneurial firm*, Information Age Publishing, Greenwich, Connecticut.

Tillväxtanalys (2014), *Sänkt moms på restaurang och cateringtjänster – Delrapport avseende effekter på företagsnivå*, web page, 31 January, accessed 28 October 2015.

Tornikoski, E., Saarakkala, M., Varamäki, E. and Kohtamäki, M. (2011), 'Pk-yrityksen kasvutekijät ja kasvun hallinta: Viitekehys kasvun haasteiden tunnistamiseksi', *Finnish Journal of Business Economics*, No. 1, pp. 11–32.

UEAPME (Union Européenne de l'Artisanat et des Petites et Moyennes Entreprises) (2013), *SMEs in Europe: Interest representation and access to finance in the past, present and future*, Brussels.

UEAPME (2014), *Crafts and SMEs 2020. SMEs mean jobs and growth*, Brussels.

UK Commission for Employment and Skills (UKCES) (2012), *UK Commission's employer perspectives survey 2012*, Evidence Report 79, UKCES, London.

UNCTAD (United Nations Conference on Trade and Development) (2014), 'Tax leakage and international governance of taxation', *Trade and development report 2014*, Geneva, pp. 171–179.

UNIZO (Union of Self-Employed Entrepreneurs) (2014), *Groei in de KMO*, UNIZO, Brussels.

Van Praag, C. M. and Cramer, J. S. (2001), 'The roots of entrepreneurship and labour demand', *Economica*, Vol. 68, pp. 45–62.

Vehmas, T. (2014), 'PK-yritykset ja työvoiman kohtaanto', *Employment and Entrepreneurship*, Vol. 47, Ministry of Employment and the Economy, Helsinki.

Vlach, J., Průša, L., Szabo, J. and Pavlíček, T. (2013), *Sociální a ekonomické postavení osob samostatně výdělečně činných v ČR v roce 2012*, VÚPS, Prague.

Wagner, J. (2002), 'The causal effects of exports on firm size and labor productivity: First evidence from a matching approach', *Economics Letters*, Vol. 77, pp. 287–292.

Werner, A. (2004), 'Arbeitsbedingungen in KMU eine multivariate analyse, Jahrbuch zur Mittelstandsforschung 1/2004', *Schriften zur Mittelstandsforschung*, No. 106, Wiesbaden.

Westhead P. and Cowling M. (1995), 'Employment change in independent owner-managed high-technology firms in Great Britain', *Small Business Economics*, Vol. 7, pp. 111–140.

Annex 1 – Statistical methodological notes

European Company Survey

The European Company Survey (ECS) has been carried out every four years since its inception in 2004–2005 as the European Establishment Survey on Working Time and Work-Life Balance (ESWT). The fieldwork for the third wave of the ECS was conducted between February and June 2013. Although the data were collected in the EU28 plus Iceland, the former Yugoslav Republic of Macedonia, Montenegro and Turkey, the analysis carried out in this report includes information about the EU28 only. In total, 23,904 observations were analysed. The questionnaires were filled out by senior managers in charge of personnel. All establishments with 10 or more employees in all sectors were sampled – except those in the NACE Rev. 2 categories A (agriculture, forestry and fishing), T (activities of the household) and U (activities of extraterritorial organisations and bodies). For comparative reasons, establishments from the public sector were excluded from analysis in this report.[45] Table A1 summarises the variables used for analysis.

Table A1: List of explanatory variables from third wave of ECS used in regression model to explain job growth

Variable	Categories
Type of company (ASINGLE/AHEADQU)	a. single company b. establishment – headquarters c. establishment – subsidiary
Size of establishment/company (SAMPLE_SIZE)	a. 10–49 employees b. 50–249 employees c. 250 and more employees
Age of establishment/company (AYEARSOP)	a. less than 2 years b. 2–9 years c. 0–49 years d. 50 years and more
Introduction of new product/service (BINNPRSE)	a. no b. yes
Introduction of new process (BINNOPROC)	a. no b. yes
Sector (NACE10)	a. industry b. construction c. wholesale d. transport e. financial services f. other
Difficulties in finding employees with the required skills (KOSKILL)	a. no b. yes
Difficulties in retaining employees (KORETEN)	a. no b. yes
Need to reduce staff (KOREDU)	a. no b. yes
Training	a. 1 if either more than 20% of employees received paid time-off from their normal duties to undertake training or 20% of employees have received on-the-job training b. 0 if less than 20% of employees received training
Financial situation: Since the beginning of 2010, has the financial situation of this establishment... (KFINANCH) (only companies which have been established before 2010)	a. improved b. stayed about the same c. worsened

Source: Third ECS

[45] All information about sampling methods, sampling size and weighting of data can be found online at https://www.eurofound.europa.eu/surveys/ecs/2013/ecsmethodology/index

Next to the descriptive statistics, multinomial regression was applied to model a single categorical dependent variable with three categories: an increase in employment size since the beginning of 2010; employment stayed about the same; or a decrease in employment in that period. The logistic coefficient is the expected amount of change in the logit for each one unit change in the predictor. The logit is what is being predicted; it is the odds of membership in the category of the outcome variable which has been specified (employment stayed about the same). The closer a logistic coefficient is to 0, the less influence the predictor has on predicting the logit.

Table A2 shows the results for the logistic coefficient (B) for each predictor variable for each alternative category of the outcome variable.

Table A2: Results of multinomial regression, third ECS, EU28

	B(SE)	95% CI for odds ratio		
		Lower	Odds ratio	Upper
Increased employment *versus* stayed about the same				
Intercept	-1.042(0.12)***			
Reference category – companies established up to 9 years				
10–49 years	-0.603(0.07)***	0.475	0.547	0.629
50+ years	-0.937(0.09)***	0.326	0.392	0.471
Difficulties in finding employees with the required skills	0.149(0.05)**	1.041	1.161	1.295
Difficulties in retaining employees	-0.036(0.09)	0.798	0.964	1.166
Need to reduce staff	-0.212(0.08)*	0.681	0.808	0.960
Introduction of new products or services	0.474(0.06)***	1.417	1.606	1.821
Introduction of new process	0.382(0.06)***	1.291	1.466	1.664
Reference category – situation worsened				
Stayed about the same	0.152(0.07)*	1.005	1.164	1.347
Improved	1.067(0.07)***	2.503	2.905	3.371
Industry	-0.272(0.07)***	0.657	0.761	0.882
Construction	-0.219(0.10)*	0.654	0.803	0.986
Wholesale	-0.300(0.07)***	0.637	0.740	0.860
Transport	-0.020(0.12)	0.770	0.979	1.246
Financial services	-0.114(0.14)	0.675	0.892	1.178
Training offered	0.446(0.09)***	1.300	1.564	1.881
Reference category – single companies				
Headquarters	0.297(0.07)***	1.164	1.346	1.557
Subsidiary	-0.220(0.09)*	0.661	0.802	0.972
Reference category – companies with 10–49 workers				
50–249 workers	0.053(0.06)	0.929	1.055	1.198
250+ workers	0.003(0.09)	0.840	1.003	1.198

	B(SE)	95% CI for odds ratio		
		Lower	Odds ratio	Upper
Decreased employment *versus* stayed about the same				
Intercept	-0.464(0.12)***			
Reference category – companies established up to 9 years				
10–49 years	-0.036(0.08)	0.816	0.964	1.138
50+ years	-0.081(0.10)	0.752	0.922	1.130
Difficulties in finding employees with the required skills	-0.257(0.05)***	0.689	0.773	0.867
Difficulties in retaining employees	0.192(0.09)*	1.006	1.212	1.460
Need to reduce staff	1.165(0.06)***	2.811	3.208	3.661
Introduction of new products or services	0.258(0.06)***	1.139	1.295	1.472
Introduction of new process	0.063(0.06)	0.934	1.065	1.215
Reference category – situation worsened				
Stayed about the same	-1.113(0.06)***	0.289	0.328	0.373
Improved	-0.945(0.07)***	0.335	0.389	0.451
Industry	0.172(0.07)*	1.017	1.188	1.389
Construction	0.183(0.10)	0.981	1.201	1.471
Wholesale	-0.068(0.08)	0.797	0.933	1.094
Transport	-0.091(0.13)	0.705	0.912	1.180
Financial services	0.210(0.15)	0.917	1.234	1.660
Training offered	0.006(0.08)	0.858	1.006	1.181
Reference category – single companies				
Headquarters	0.096(0.07)***	0.945	1.101	1.283
Subsidiary	0.063(0.09)*	0.878	1.065	1.292
Reference category – companies with 10–49 workers				
50–249 workers	0.506(0.06)	1.458	1.660	1.891
250+ workers	0.229(0.09)	1.049	1.258	1.509

*Notes: Only private sector is considered; p=.000., *p<0.05, **p<.01, ***p<0.001*
Source: Third ECS

Global Entrepreneurship Monitor

The Global Entrepreneurship Monitor (GEM) is carried out annually in more than 100 countries.[46] The survey is composed of two complementary tools – the Adult Population Survey (APS) and the National Expert Survey (NES). For the analysis for this report, the most recent available dataset of the APS, referring to 2011, was used for managers and owners of companies in selected EU Member States only – namely, in Belgium, Croatia, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, the Netherlands, Romania, Slovenia, Spain, Sweden and the United Kingdom. In total, 6,462 observations were analysed.

[46] More information is available at http://www.gemconsortium.org

Table A3: List of explanatory variables from GEM APS 2011 used in regression model to explain job creation plans

Indicator	Variable	Values	Changes in categories
Age of company	Manages and owns a business that is up to 42 months old (babybuso)	a. yes b. no	–
Size of company	Not counting the owners, how many people are currently working for this business? (omnowjob)	Continuous variable	a. micro and one person <10 employees b. SME between 10 and 250 employees c. large >250 employees
Sector	ISIC 4-digit code		a. Agriculture, hunting, forestry and fishing b. Manufacturing, mining and quarrying c. Construction d. Wholesale and retail trade, restaurants and hotels e. Transport, storage and communication f. Community, social and personal services g. Other
Manager's characteristics – subjective evaluation of skills	Do you have the knowledge, skill and experience required to start a new business? (suskill)	a. yes b. no	–
Riskiness of managers	Would fear of failure prevent you from starting a business? (fearfail)	a. yes b. no	
Innovation	Have the technologies or procedures required for this product or service been available for… (omnewtec)	a. less than a year b. between one and five years c. longer than five years	Indicator of innovativeness – based on factor analysis
	Right now, are there many, few or no other businesses offering the same products or services to your potential customers? (omcompet)	a. many business competitors b. few business competitors c. no business competitors	
	Will all, some or none of your potential customers consider this product or service new and unfamiliar? (omnewcst)	a. all b. some c. none	
Internationalisation	What proportion of your customers normally live outside your country? (omexport)	a. more than 90% b. 75%–90% c. 50%–75% d. 25%–50% e. 10%–25% f. under 10% g. none	a. no internalisation b. internalisation below 25% c. internalisation above 25%
Good investment opportunities	In the next six months, will there be good opportunities for starting a business in the area where you live? (opport)	a. yes b. no	

Notes: Standard sociodemographic variables were also included as age, gender and education level. The sample sizes for some countries were too small to include a country dummy variable to predict the manager's or owner's plans about employment size.
Source: GEM APS 2011

For the GEM, as for the ECS, a multinomial regression was conducted to predict the chance of future employment growth in the companies.

Table A4: Results of multinomial regression, GEM APS 2011, selected EU Member States

	B(SE)	95% CI for Odds Ratio		
		Lower	Odds Ratio	Upper
Plans to increase employment *versus* no plans to change employment				
Intercept	2.296(0.56)***			
Age	-0.029(0.00)***	0.964	0.971	0.978
Female	-0.202(0.08)*	0.692	0.816	0.964
Skills to start new business	0.423(0.13)*	1.184	1.528	1.972
Fear of failure	-0.275(0.08)*	0.642	0.759	0.898
Reference category – tertiary education				
Primary	-0.380(0.12)*	0.538	0.684	0.868
Secondary	-0.121(0.08)	0.745	0.886	1.053
Agriculture, hunting, forestry and fishing	-0.225(0.23)	0.505	0.798	1.260
Manufacturing	-0.100(0.22)	0.581	0.905	1.409
Construction	-0.176(0.22)	0.542	0.838	1.296
Wholesale and retail trade, restaurants and hotels	-0.081(0.20)	0.619	0.921	1.371
Transport, storage and communication	-0.347(0.23)	0.450	0.707	1.109
Community, social and personal services	-0.130(0.19)	0.595	0.878	1.294
Reference category – internationalisation above 25%				
Internationalisation equal to zero	-0.551(0.12)***	0.449	0.576	0.739
Internationalisation below 25%	-0.433(0.13)*	0.501	0.648	0.838
Reference category – large companies				
Micro and one-person companies	-1.537(0.49)*	0.082	0.215	0.565
Small and medium-sized companies	-1.238(0.50)*	0.107	0.290	0.783
Lack of innovativeness	-0.160(0.03)***	0.789	0.852	0.920
See good opportunities in the next six months	0.368(0.08)***	1.225	1.446	1.707
Company younger than 42 months	0.658(0.09)***	1.613	1.932	2.313
Decreased employment *versus* stayed about the same				
Intercept	0.062(0.72)			
Age	0.004(0.00)	0.994	1.004	1.014
Female	-0.212(0.11)	0.646	0.809	1.013
Skills to start new business	-0.332(0.14)*	0.545	0.717	0.945
Fear of failure	-0.297(0.11)**	0.595	0.742	0.926
Reference category – tertiary education				
Primary	0.025(0.15)	0.756	1.026	1.392
Secondary	0.083(0.12)	0.850	1.087	1.390
Agriculture, hunting, forestry and fishing	0.230(0.33)	0.651	1.259	2.436
Manufacturing	0.103(0.34)	0.569	1.109	2.161
Construction	0.046(0.33)	0.542	1.048	2.024
Wholesale and retail trade, restaurants and hotels	0.496(0.30)	0.897	1.643	3.012
Transport, storage and communication	-0.27(0.35)	0.374	0.758	1.535
Community, social and personal services	0.006(0.31)	0.548	1.007	1.851
Reference category – internationalisation above 25%				
Internationalisation equal to zero	-0.324(0.17)	0.511	0.723	1.022
Internationalisation below 25%	-0.139(0.18)	0.608	0.870	1.244
Reference category – large companies				

	B(SE)	95% CI for Odds Ratio		
		Lower	Odds Ratio	Upper
Micro and one-person companies	-1.424(0.61)*	0.071	0.241	0.811
Small and medium-sized companies	-0.521(0.63)	0.172	0.594	2.051
Lack of innovativeness	-0.045(0.05)	0.856	0.956	1.068
See good opportunities in the next six months	-0.279(0.12)*	0.591	0.756	0.966
Company younger than 42 months	-0.044(0.14)	0.713	0.956	1.282

*Notes: Only private sector considered; p=.000., *p<0.05, **p<.01, ***p<0.001*

Source: GEM APS 2011

National data on born global enterprises

For Austria, Estonia and Sweden, national data were used to analyse born global enterprises.

Table A5: Overview of national data used for born global analysis

	Austria	Estonia	Sweden
Type of data	Survey	Foreign trade data merged with business registry data	Survey (Företagens villkor och verkliget)
Periodicity	Data collection – May 2013	2000–2012	Data collection – November 2013 to March 2014
Sample size	About 2,500 responses	Data for about 22,700–77,000 SMEs (variation by year of analysis)	About 16,000 responses
Definition of young enterprises (considered as a subset of SMEs)	SMEs formed in 2007 or later	SMEs that have existed for five years or less	SMEs formed in 2008 or later
Definition of born globals (considered as a subset of young enterprises, and hence SMEs)	SMEs formed in 2007 or later that have an export share of at least 25% in 2012	SMEs that have existed for five years or less and that export at least 25% of turnover during at least two of these (maximum) five years of operation	SMEs formed in 2008 or later and that have an export share of at least 26% in 2013
Sector coverage	NACE Rev. 2 sectors B to N and S95	NACE Rev. 2 sectors A to S	SNI 2007 sectors B to S, excluding sectors K, L, O
Share of born globals among SMEs	4.8%	1% (in 2012)	1%
Remarks	Specific 'liberal' professions such as architects, legal and tax advisors are excluded	Only the export of physical goods that cross the Estonian border are included, so service exports in particular are not covered; intra-EU exports of small monetary values are excluded since Estonia's accession to the EU in 2004; due to these aspects, the full born global population is not captured	

Source: Author's compilation

Annex 2 – Providers of national contributions

Country	Organisation	Author
Austria	Austrian Institute for SME Research	Andrea Dorr Thomas Oberholzner
	Oxford Research	Anna Thoresson
	University of Vienna	Carina Altreiter
	Eurofound	Irene Mandl
Belgium	HIVA KU Leuven	Caroline Vermandere Guy Van Gyes
	Eurofound	Stefanie Ledermaier
Bulgaria	ISSK-BAS/IR Share	Ekaterina Markova
Croatia	Institute of Public Finance	Predrag Bejaković Irena Klemenčić
Cyprus	Cyprus Labour Institute (INEK-PEO)	Eva Soumeli
Czech Republic	Research Institute for Labour and Social Affairs (RILSA)	Aleš Kroupa
Denmark	Employment Relations Research Centre (FAOS), University of Copenhagen	Carsten Jørgensen
Estonia	Praxis Centre for Policy Studies	Anne Jürgenson Hanna-Stella Haaristo Helena Rozeik Miko Kupts
	University of Tartu	Jaan Masso
	Oxford Research AB	Anna Thoresson
	Eurofound	Stefanie Ledermaier Valentina Recalcati
Europe (policy analysis)	Institute for Employment Studies	Andrea Broughton
Finland	Oxford Research AB	Lisa Tönnes Lönnroos
France	IR Share	Frédéric Turlan
	Eurofound	Valentina Recalcati
Germany	Cologne Institute for Economic Research	Andrea Hammermann
	Eurofound	Stefanie Ledermaier
Greece	Labour Institute of Greek General Confederation of Labour (INE/GSEE)	Elena Kousta
Hungary	Policy Agenda	Pal Belyó Ambrus Kiss
Ireland	IRN Publishing	Roisin Farrelly
	Eurofound	Irene Mandl Stefanie Ledermaier Valentina Recalcati
Italy	Fondazione Giacomo Brodolini	Feliciano Iudicone
	Eurofound	Stefanie Ledermaier Valentina Recalcati

Country	Organisation	Author
Latvia	Economic Prognosis Centre (EPC) Ltd	Raita Karnite
Lithuania	Institute of Labour and Social Research	Inga Blaziene
	Eurofound	Valentina Recalcati
Luxembourg	IR Share	Vassil Kirov
Malta	Centre for Labour Studies	Jeannine Vassallo
Netherlands	Hugo Sinzheimer Institute	Robbert van het Kaar
	Eurofound	Stefanie Ledermaier Valentina Recalcati
Poland	Institute of Public Affairs	Marta Trawinska
Portugal	Centro de Estudos para a Intervenção Social (CESIS)	Heloísa Perista Janine Nunes
Romania	European Institute of Romania (IER)	Clara Volintiru
Slovakia	Institute for Labour and Family Research	Lenka Grandtnerova
Slovenia	Faculty of Social Sciences, University of Ljubljana	Barbara Rajgelj Barbara Luzar
Spain	IKEI Research and Consultancy (also coordination of the case study collection)	Antonio Corral Jessica Durán Iñigo Isusi
	Eurofound	Valentina Recalcati
Sweden	Oxford Research AB (also coordination of the analysis of national born global data)	Mats Kullander Anna Thoresson Jan Persson Henrik Twetman
	Swedish Agency for Economic and Regional Growth	Jonnie Nordensky
	Eurofound	Valentina Recalcati
United Kingdom	Institute for Employment Relations, University of Warwick	Sally Wright
	Small Business Research Centre (SBRC)	Robert Blackburn Hang Do
	Eurofound	Valentina Recalcati

Annex 3 – Overview of case studies

No.	Company name	Country	Start-up date	Sector of activity (NACE); products	No. of employees at time of interview	International activity	Innovation
1	ecoduna AG/ ecoduna produktions-GmbH	Austria	2010	Research and experimental development on biotechnology (M72.1.1); industrial-scale production of biomass (alga-culture)	30	Pilot projects in Germany and Denmark	Product innovation (one-off)
2	Fresnex	Austria	2012	Manufacture of steam generators (C25.3); mirror module using concentrated solar power (CSP) technology in small-scale applications	6	Internation-alisation starting now	Product innovation (one-off)
3	Evercyte	Austria	2011	Manufacture of pharmaceutical preparations (C21.2.0); licensing of single cell lines for research and screening procedures	12	More than 90% export quota	Product innovation (one-off)
4	Power Units	Austria	2008	Manufacture of electrical equipment (C27); three-phase electronic lamp power supplies	3	100%; niche product without any market or clients in Austria	Product innovations (several)
5	seamtec	Austria	2009	Production of electricity (D35.1); turbine control systems for hydro-electric power plants	6	Export quota 75%–90%; Germany, Switzerland, Romania, Ukraine, Turkey, Armenia, South America, Philippines, Indonesia, Japan	Product innovation (one-off)
6	*Wishes to remain anonymous*	Estonia	2009	Manufacture of electronic components and boards (C26.1); systems for growing houseplants	16	Almost 100% export share; office in the US	Product innovations (several)
7	Defendec	Estonia	2006	Computer programming, consultancy and related activities (J62.0); remote premises surveillance technology	25	90% of turnover generated in foreign markets, mainly outside the EU (including Singapore, the US, Mexico)	Product innovations (several)
8	Taxify	Estonia	2013	Computer programming, consultancy and related activities (J62); smartphone app connecting clients with licensed taxis around the world	28	50% of customers are foreign; export share of 15%	Product innovation (one-off)
9	Enigmedia	Spain	2011	Other research and experimental development on natural sciences and engineering (M72.1.9); cipher for protecting secure communication	24	30%–40% of turnover	Product innovation (one-off)
10	i-lanza	Spain	2008	Engineering activities and related technical consultancy (M71.1.2); complex heating, ventilation, air conditioning; design, development and execution	35	60%–70% of turnover generated in Europe, Africa, South America	Limited innovation activity; training to keep up to date with new technologies

No.	Company name	Country	Start-up date	Sector of activity (NACE); products	No. of employees at time of interview	International activity	Innovation
11	Irisbond	Spain	2013	Manufacture of other electronic and electric wires and cables (C27.3.2); eye-tracking based technique substituting a computer mouse	5	60% of turnover, with 75% forecast for 2015	Product innovation (one-off)
12	ProposalsFactory	Sweden	2012	Data processing, hosting and related activities (J63.1.1); software solutions for professional procurement	5	90%–95% of clients located outside Sweden, mainly in Europe but also worldwide	Product innovation (one-off)
13	SmartShake	Sweden	2009	Retail sale through mail order houses or through the internet (G47.9.1); shaker cups	20	Exporting to over 70 countries, mainly the US; more than 90% export share	Product innovation (one-off)
14	Zaplox	Sweden	2010	Computer consultancy activities (J62.0.2); mobile keys for operating doors with smartphones	12	–	Product innovation (one-off)
15	BBOXX	United Kingdom	2010	Manufacture of electricity distribution and control apparatus (C27.1.2); solar power engineering, manufacturing, sales	155	100%; products are tailor-made for developing countries	Product innovations (several)
16	KwickScreen	United Kingdom	2009	Manufacture of medical and dental instruments and supplies (C32.5); portable and retractable screens	11	30% exports, mainly the US but also Belgium, Italy, the Netherlands and Spain	Product innovation (one-off)
17	Plumis	UK	2008	Manufacture of fluid power equipment (C28.1.2); home fire sprinkle alternative	10	Exporting mainly to Finland (50%), the US and the Czech Republic (25% each)	Product innovations (several)

HOW TO OBTAIN EU PUBLICATIONS

Free publications:

- one copy:
  via EU Bookshop (http://bookshop.europa.eu);
- more than one copy or posters/maps:
  from the European Union's representations (http://ec.europa.eu/represent_en.htm);
  from the delegations in non-EU countries (http://eeas.europa.eu/delegations/index_en.htm);
  by contacting the Europe Direct service (http://europa.eu/europedirect/index_en.htm) or
  calling 00 800 6 7 8 9 10 11 (freephone number from anywhere in the EU) (*).

  (*) The information given is free, as are most calls (though some operators, phone boxes or hotels may charge you).

Priced publications:

- via EU Bookshop (http://bookshop.europa.eu).

TJ-AL-15-001-EN-N

The European Restructuring Monitor (ERM) annual report for 2015 explores the issue of job creation in small and medium-sized enterprises (SMEs). SMEs are increasingly recognised as a job engine for Europe. However, given the heterogeneity of the vast SME population, not all contribute equally to employment growth. This study seeks to identify which SME types are more or less dynamic job creators and to determine their main drivers and barriers for job creation. It also examines recruitment in SMEs, the extent of public debate on job creation in SMEs, and public support instruments available to SMEs that encourage them to create jobs. The study finds that SMEs that tend to create jobs are often young, innovative, internationally active, located in urban areas and run by skilled managers with the capacity to plan and realise active growth and investment strategies. However, a combination of both external and internal company factors, rather than individual characteristics, determines the job creation potential of these companies.

The European Foundation for the Improvement of Living and Working Conditions (Eurofound) is a tripartite European Union Agency, whose role is to provide knowledge in the area of social and work-related policies. Eurofound was established in 1975 by Council Regulation (EEC) No. 1365/75, to contribute to the planning and design of better living and working conditions in Europe.

Publications Office

ISBN 978-92-897-1434-1
doi: 10.2806/342142