Many people are currently under the illusion that in the developed economies multi-national companies account for most of the economic performance and innovation of a country. The truth is, though, that large-scale enterprises (LSEs) only account for an almost negligible share of the total number of enterprises in an economy. In the EU-27 the lion’s share of companies in the non-financial business economy are small and medium-sized enterprises (SMEs, for a definition see box on page 2) – making up 99.8% of the roughly 20 million firms. Moreover, various recent studies demonstrate that it is not only their sheer number that is important when it comes to SMEs. SMEs on average account for 50% of GDP in high-income countries, and in the OECD countries about 75% of the formal workforce are employed by SMEs. In 2008, SMEs on average were responsible for 57.9% of value added and accounted for 67.4% of employment in the EU-27. Moreover, between 2002 and 2008 employment at SMEs grew at an average of 1.9% per year (creating 9.4 m jobs in total), while employment at LSEs grew by only 0.8% per year.

1 The data used in this part of the report is published in the ‘SME Performance Review’ by the European Commission in cooperation with its contractor EIM Business & Policy Research. The Small Business Statistics (SBS) data by Eurostat, available for 2002-2006, has been used together with EIM’s ‘now-casting procedure’ in order to gain reasonable values for 2007 and 2008. In addition, forecasts of the number of enterprises have been made for 2009 and for employment and production until 2011.

2 Ayyagari et al. (2007).

3 Beck et al. (2008), Dietrich (2010).
In the Netherlands a similar picture prevails. 99.6% out of the total 864,000 Dutch companies in 2010 were SMEs, according to the EU definition.\(^4\) In the non-financial business economy 537,000 SMEs accounted for 67.2% of total employment (in 2008). This indicates that there are relatively more LSEs and that they account for a larger share in total employment in the Netherlands compared to the EU-27. On the contrary, value creation by SMEs was considerably above the EU-27 average in 2008. With a proportion of 62.2% of total value added, Dutch SMEs achieve 4.3 percentage points more than the EU average. Surprisingly, at 52.8%, the share in value added in Germany is 5.1 percentage points lower than the EU-27 average.\(^5\) An additional category of company closely related to SMEs (often even considered to be the same) are family businesses. Family businesses are of significant importance for many European countries, including the Netherlands and Germany and constitute large parts of SMEs. In the Netherlands 69.2% of all firms can be defined as family businesses. This indicates how important SMEs and family businesses are for the Netherlands and other economies in Europe and worldwide. No wonder that politicians are becoming more and more interested in their role in restoring the growth of their national economies.

### Economic situation

In the last three years, just like most economies, the SME sector had to cope with the consequences of the financial and economic crisis. In 2009 the economic downturn peaked, with the EMU economy contracting by 4.1% but recovering to 1.7% in 2010. Deutsche Bank forecasts GDP growth in the eurozone to come in at 1.5% in both 2011 and 2012 (Netherlands 1.5%, respectively 1.6%).

The predictions for SME growth by the SME Performance Review show that the crisis will also have various implications for Europe’s SMEs. For instance, total value added in the SME sector declined by 5.5% in 2009, returned to growth rates of 0.9% in 2010 and looks set to grow by 1.9% in 2011. Furthermore, the 2009 drop hit small and medium-sized enterprises with large declines of around 6%, while micro enterprises were hit more moderately (-4.6%). By comparison, LSEs also suffered a strong, 6.5% drop in total value added in 2009.\(^6\)

We attribute this structural difference to the higher domestic orientation of micro enterprises. Medium-sized and large enterprises on average export a higher share of their production. Thus, the huge drop in foreign trade in 2009 had more severe consequences for these enterprises. In 2010 and the following years, though, exports were and will be a driver of the recovery and therefore larger firms will recover faster than smaller firms. While total value added in the SME sectors of the EU-27 economies dropped in the crisis year 2009 and then gradually recovered, employment declined in all periods covered. Regarding the SMEs, employment dropped at annual rates of 1.5% from 2009 to 2011. The pattern of decline in employment is similar to that in value added. Although, larger firms experienced higher declines during the crisis, employment also recovered faster thereafter and is expected to grow again in medium-sized firms in 2011. This can be attributed to the more stable nature of employment in the SME sector.

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5. EC (2009): SBA Fact Sheet Germany.
For the Netherlands Deutsche Bank expects economic growth in line with the rest of Europe in the next years. As Eurostat and EIM do not provide forecasts for the national SME sectors using the EC definition, we have to rely on EIM’s forecasts based on its own SME definition. EIM expects the growth in value added for Dutch SMEs to follow a similar pattern as for the EU SMEs in total. Dutch LSEs grew slightly more slowly than Dutch SMEs between 2006 and 2008. Contrary to the development in the EU, the decline in value added in 2009 was worse for SMEs than for LSEs in the Netherlands. Since the decline was more pronounced at SMEs with 100 to 249 employees than at smaller SMEs in the EU, the use of different definitions is not the obvious reason. Furthermore, Dutch LSEs are recovering at rates well above those registered for Dutch SMEs in 2010 and 2011. This could in part be due to the more narrow definition used by EIM, because in the EU the recovery is expected to take place faster for SMEs with more than 100 employees.

SMEs are not only regarded as important for the economic performance of a country because they make up most of the businesses and employment, but also because they have huge potential for innovation. In order to be able to compete with larger firms, SMEs in developed countries are often focussed on niche strategies involving high product quality, responsiveness to consumer needs and flexibility.

**Sector distribution and employment**

Dutch SMEs, like European SMEs, make up the majority of firms across all sectors of the non-financial business economy. Only in one of these sectors do SMEs account for less than 99% of all firms, i.e. SMEs make up only 95.6% of the electricity, gas and water supply sector. A look at the distribution of SMEs and LSEs across sectors reveals that most of the non-financial SMEs are active in the wholesale and retail trade sectors (32% of SMEs) and the business activities sector (about 31%). By contrast, LSEs are relatively active in the manufacturing sector (around 31% of LSEs). In the case of SMEs the distribution of enterprises across sectors is similar for the Netherlands, Germany and the EU in total. In Germany and the EU more LSEs are active in the manufacturing sector (in both cases nearly 50%) than in the Netherlands. This is also reflected in the distribution of value added across sectors. In the Netherlands, the highest share of value added by SMEs is found in the wholesale and retail trade and business activities sectors (in both cases around one-third). LSEs in the Netherlands create the highest share of value added in the manufacturing sector (around 30%). The same holds true for the EU and Germany, although manufacturing is relatively more important in terms of value added in these countries. In Germany, manufacturing contributes over 50% to the value added of LSEs. Moreover, manufacturing is equally important as the wholesale and retail trade and business activities sectors for SMEs in Germany and the EU.

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7. The dataset consists of realised values up to 2007 and forecasts from 2008 onwards until 2011.
9. Comprises, according to the NACE classification, mining and quarrying, manufacturing, electricity, gas and water supply, construction, wholesale and retail trade, hotels and restaurants, transport, storage and communication and real estate, renting and business activities. We combine the mining and construction sectors.
10. Eurostat, DB Research.
As regards the employment numbers and shares, the picture becomes more diverse. The conclusion that SMEs in the Netherlands on average account for 67.2% of total employment hides substantial heterogeneity in employment across sectors and firm size. On the one hand, for instance, SMEs account for 87.5% of employment in the hotels and restaurants sector. On the other hand, they make up only 12.7% of employment in the electricity, gas and water supply sector. This finding is not surprising because in the hotels and restaurants sector a large number of medium-sized enterprises is commonly observed in Germany and other EU countries as well. At the same time, the energy sector is usually characterised by a high concentration of employment in a few firms with great market power. The distribution of employment by sector is no less diverse. While for LSEs in Germany and the EU in total the manufacturing sector accounts for the highest share of employment, the wholesale and retail trade and business activities sectors are relatively more important for SMEs. For the Netherlands the manufacturing sector plays a significantly minor role as regards employment, while the business activities sector is more important, especially for LSEs.

**Family businesses**

Shifting the focus from quantitative to qualitative, i.e. stating that it is the type of ownership that matters for the culture and the strategy of a company, we now take a look at family businesses. In the Netherlands, family businesses play a significant role as regards innovative potential and the international trading profile of the economy. Therefore, family businesses are of great importance for the Dutch economy.

According to a recent study, 69.2% of all incorporated businesses in the Netherlands (excluding the self-employed) can be defined as family businesses. In comparison to other European countries this is on the same level as the United Kingdom and Belgium, which have relatively low shares of family businesses in an international comparison. France, for instance, is slightly above this level at 75%, while Germany, at 95%, has the highest overall share of family businesses. Concentrating on the Netherlands, 99.75% of all family businesses have less than 200 employees, meaning that the majority of family businesses can also be defined as SMEs, according to the EC’s definition. As regards the distribution of family businesses across sectors, the highest shares of family businesses can be found in the agricultural (87%) and wholesale trade (79%) sectors, while the lowest share, at 43%, can be found in the financial sector.

Family businesses are said to have a greater interest in continuity and therefore focus more on stability, instead of short-term maximisation of shareholder value. Empirical evidence supports this view: 74% of non-family businesses agree strongly that growth is an important business goal, while only 63% of family businesses do so. 91% of family businesses agree that continuity is an important goal. This fact stresses the importance of the question of succession for SMEs and family businesses in the Netherlands, as well as in Germany. On the one hand, a business transfer can foster innovation and have a positive impact on a firm’s development owing to the successor’s different perspective. On the other hand, there might be substantial obstacles to succession. In family

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11 Flören et al. (2010); we will refer to this study throughout this section.
businesses in particular, there might not be a qualified successor in the family. Another obstacle could be succession taxes that might make a continuation of the business impossible. Moreover, due to an aging population in most developed countries, an increase in the number of potential business transfers combined with a decrease in the number of potential successors is expected to worsen the situation.\textsuperscript{12} The study on which we rely in this section finds that 40% of Dutch firms have experienced a transfer in their business history. 6% state that they were planning a transfer in 2009. Of the family businesses, 73% are owned in the first generation, 16% in the second and about 10% in a later generation. If we assume that companies have not been shut down, options of MBI, MBO and PE seem to have been used. This is rather reasonable given the often limited pool of potential successors from inside the family.

In terms of financial performance there are no significant differences between family and non-family businesses. However, significant differences between family and non-family businesses are found in the literature as regards social responsibility indicators. Family businesses are engaged in socially responsible actions, such as donations, significantly more often than non-family businesses.

**Integrated in the world ...**

Business in the Netherlands is one of the most active in the world regarding international trade and investment. The share of exports in GDP in the Netherlands amounts to an astonishing 80%, while by comparison Germany, as one of the largest net exporters in the world has a share of only 50%.\textsuperscript{13} The statistics, though, are likely to have an upward bias because of re-exports, i.e. goods that are on transit through the Netherlands and are counted into the Netherlands’s trade statistics, although their final destination is another country. Statistics Netherlands\textsuperscript{14} estimates that re-exports account for about 50% of Dutch exports and 15% of German exports. The Netherlands are by far Europe’s largest re-expoter, which is in part due to the importance of the port of Rotterdam for Europe’s trade with other continents.

**... SMEs tap international markets**

Nonetheless, in the light of globalisation, internationalisation is becoming more important for SMEs all over the world. On the one hand, international trade in goods and services leads to fiercer competition in a firm’s domestic market. On the other hand, it offers domestic firms an ever-increasing number of opportunities to extend the pool of potential customers beyond their national borders.\textsuperscript{15}

Of course, most of the determinants of international trade favour large enterprises when it comes to international activity, but given the number of SMEs in most economies it is only a small step towards realising the role small and medium-sized enterprises should be playing in international trade and investment. Therefore, we take a huge interest in the degree of internationalisation of Dutch SMEs.

A look at the figures on international activity confirms our expectations regarding the significance of SMEs in the international

\textsuperscript{12} EU Family Businesses Country Fiche: The Netherlands.
\textsuperscript{13} Christian Melzer: Mehr als Tulpen, Fußball und ein großer Hafen, Börsenzeitung, 05.02.2011.
\textsuperscript{14} Mellens et al. (2010): Re-exports: international comparison and implications for performance indicators.
\textsuperscript{15} Review: Internationalisation of Dutch SMEs, EIM, 2009.
trade relations of the Netherlands. In total, 38% of all Dutch SMEs are involved in international trade and investment. 27% of SMEs import products, for example to use them as intermediate products. 19% of Dutch SMEs export their products. Moreover, 13% are involved in international cooperation and 4% directly invest in foreign firms. Because being involved in international markets in today’s globalised economy is crucial for the growth and development potential of a firm, and exports are the primary way for SMEs to tap international markets, we mainly focus on the export performance of Dutch SMEs.

In 2007, SMEs exported goods with a total value of around EUR 225 bn, while for LSEs the figure was only about EUR 160 bn. This shows that from 1995 to 2007 trade for both SMEs and LSEs increased steadily. SMEs even managed to extend the lead in absolute terms. The share of SME exports in total exports averaged around 55% in the 1995-2007 period, ranging from 51% to 59%. For LSEs the figure was about 39% on average, varying from 37% to 40%. The absolute number of SME exporters in the Netherlands increased from roughly 56,000 to 73,000 between 1995 and 2007. Hence, exporting SMEs make up around 99.9% of all exporting firms. The EIM’s SME Export Index attempts to depict the development of direct exports by Dutch SMEs in relative terms. The year 2000 is taken as the base year, in which the index’s value is set to 100. From 1995 to 2007 the index for SMEs rose by 115%, from 75 to 156. For LSEs the index rose by 133%, from 63 to 148. This means that while from 1995 to 2000 LSE exports grew faster than SME exports, SMEs were able to increase their share in total exports from 2000 to 2007. Over the whole time period, though, LSEs have been gaining export share vis-à-vis SMEs.

The most important trade partners of Dutch SMEs are its neighbouring countries, Germany and Belgium, followed by France and the United Kingdom. About 25% of Dutch SMEs’ exports go to Germany, which is by far the most important destination of SME exports. In total 80% of SME exports go to the EU. This fits in with observations in other countries, including Germany, which reveal that SMEs concentrate their trading activities on countries in their geographical neighbourhood since trade barriers are lower there for various reasons.

Figure 11 shows the international activities of SMEs in four of the most important sectors in detail. It reveals that over 50% of SMEs in the wholesale sector and nearly 40% of SMEs in the manufacturing sector export their products to foreign markets, which is well above the average of 19% for all sectors. Overall, the wholesale sector has the highest share of internationally active SMEs (81%), directly followed by manufacturing with nearly 60%. Some Dutch SMEs are also active in FDI or have formal cooperations with firms abroad. With nearly 40% of SMEs in the wholesale sector involved, international cooperation is an important way to establish international trade relations as well. With an average of 4% of SMEs, foreign direct investment is the least used way of internationalisation for Dutch SMEs. Nonetheless, FDI structures provide an important insight into SMEs’ internationalisation as well. On average, firms involved in FDI in the last three years invested EUR 150,000, varying from 15% with foreign direct investments of less than 10,000 to 13% investing more than EUR 1 m abroad. The purpose of most

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17 On average 6% of exports could not be matched to a size class.
of these investments was to establish a company’s own production lines and sales offices abroad. R&D and procurement play a minor but also significant role.\(^8\)

In an EU comparison of SMEs’ internationalisation\(^9\) it is found that, as regards imports, exports and FDI activities of SMEs, the Netherlands can only be ranked somewhere around the middle. This is surprising given the international orientation of the Dutch business world. The share of exporting SMEs is only slightly above the EU average. Seven countries, including Germany and Belgium, have significantly higher shares.

**Export intensity**

It was only in recent years that trade theory literature began to realise that individual firms are responsible for most of the international trade flows of a nation. New theories regarding firms as heterogenous with respect to their productivity, together with new extensive datasets on trade by firms provided new and valuable insights into the determinants of international trade flows and especially the role of exports. For a subset of European countries excluding the Netherlands the EFIGE finds that in all countries investigated export performance is positively related to the size of the firm, its productivity, its ability to innovate and the skill intensity of the workforce. Furthermore, it is found that the industrial structure in a country is responsible for most of the differences in internationalisation between countries.\(^10\) For Dutch firms it also holds true that only the most productive enterprises self-select into exporting and FDI activities. Moreover, evidence of the learning-by-exporting hypothesis, i.e. the fact that firms become even more productive by exporting, is found for Dutch firms.\(^11\)

Comparing the firm size hypothesis of the recent trade theory literature with data on the export intensity of Dutch SMEs\(^12\), i.e. the share of a firm’s turnover that is due to exports, we find this hypothesis confirmed as well. Developments of export intensity by firm size, as well as by industrial sectors is found to be subject to significant heterogeneity. For all firms it holds that the larger the firm, the higher the export intensity. The sectors in which the highest share of total sales is directly exported are the manufacturing and the transport and communications sectors with nearly 50%, followed by the wholesale trade (around 33%), business services (16%) and the agricultural and fishery (9%) sectors. Over the period examined, export intensity decreased in the transport and communications sector. It remained constant in agriculture and fishery. Wholesale trade, business services and manufacturing were the sectors in which export intensity increased in the period examined. Also, empirical evidence shows that export importance is highly correlated with the worldwide economic climate, i.e. it rises during booms and falls during recessions.

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\(^8\) EIM: MKB heeft internationale handelsgeest, 2010.
\(^9\) International comparison of the Internationalisation of SMEs (EIM, 2005).
\(^11\) Fox and Rojas-Romagosa (2010), Statistics Netherlands (CBS).
\(^12\) Gibcus, Tiggeloove and Verhoeven (2009).
Finance

There has been a lot of discussion concerning the role of SME finance and its linkage to the performance of the overall economy. Especially in the financial crisis of 2008/9, given the importance of the SME sector to most economies, interest in SMEs’ access to finance received increased attention, as there seems to be substantial positive correlation between the business-cycle and SMEs’ access to finance. While the direction of causality is less clear, it is hoped that better access to finance can enhance SME activities and therefore a country’s overall economic performance.

The recent financial crisis with its related decline in GDP in most European countries had negative effects on both the SMEs financial situation and access to new credit. In an international comparison, most of the literature on SMEs highlights the fact that their growth potential and development face restrictions because of higher external finance barriers and higher cost of credit for SMEs than for LSEs.\(^{23}\)

At 50%, the ratio of SME lending to GDP in the Netherlands is one of the highest in the world. According to a recent World Bank study, the average in high-income countries is 13% and in low-income countries only 3%. Overall, the ratios of outstanding loans to SMEs to total outstanding loans, as well as to GDP increase with economic development, indicating a more developed market for SME finance in more advanced economies.

SMEs and LSEs differ in many important ways that influence their financial needs. Variables such as ownership structure, legal structure and of course firm size determine a firm’s preferences regarding financial sources, as well as its chances to obtain finance from its preferred sources.

SMEs and LSEs also differ in terms of risk. While LSEs are more likely to be established firms, the SME sector comprises younger and growing firms. These firms are more likely to be under-capitalised and are by nature more risky for investors to invest in than established firms. Moreover, they have fewer securities which can serve as collateral to obtain credit. Because transaction costs are on average higher for smaller companies and they are less attractive to venture capitalists, SMEs are more likely to use short-term debt to finance their projects. This leads to a higher vulnerability of SMEs to finance problems. A comparison of the liability structure between the Netherlands and Germany shows that this is not so much the case for the Netherlands: For SMEs the percentage of long-term and short-term liabilities seems equal, while in Germany the percentage of short-term finance is higher on average than that of long-term finance. The finance structure in total differs more for Dutch LSEs compared with German LSEs. While Dutch LSEs have high equity ratios, German LSEs surprisingly seem to rely more on short-term finance. Furthermore, German LSEs have made large-scale provisions for liabilities in 2008.

An EIM study\(^{24}\) on the finance situation of Dutch SMEs provides further insight into the liability structure of SMEs. According to this study, bank loans are the most common source of debt, followed by supplier credit and leasing. Because SMEs are more entrepreneur-focused than larger firms, and these entrepreneurs are more reluctant to hand over power in the firm’s decision-making processes to third parties, SMEs make less use of IPOs and private-

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\(^{23}\) World Bank (2011).

equity funds. Concerning bank loans, the situation in late 2010 seemed to have improved since the peak of the crisis. In December 2010 48% of bank loans firms applied for were granted. This is an improvement compared with only 33% at the lowest point of the crisis, but still short of the 72% registered before the crisis.²⁵

Looking at established firms, credit requirements or credit demand varies across firms, with 39% requiring less than EUR 50,000, 41% requiring between EUR 50,000 and EUR 250,000 and only 6% requiring more than EUR 750,000 in 2009. Splitting up credit demand by credit purpose and looking at the development in 2010, increasing demand for finance reported by a growing share of interviewed firms in nearly all categories indicate an improving situation in the Dutch SME sector.

Furthermore, access to and choice of finance by firms is also dependent on their legal form. When choosing the legal form of an enterprise, factors such as the entrepreneur’s liability, taxes and costs play a role. Especially the question of liability is important for a firm’s financial sources. A look at the overall picture shows that 69% of all enterprises are sole proprietorship and companies without limited liability. This distribution is strongly influenced by the number of small firms. The majority of medium-sized and large enterprises is made up of limited liability companies.

An indicator of a firm’s financial situation is its equity-to-assets ratio. The equity ratio is also strongly dependent on the business cycle. In 2008, it dropped for large firms and increased slightly for medium-sized and small firms.²⁶ From 2002 to 2008 the equity ratio of medium-sized and large firms increased slightly, while it dropped for small firms due to a huge decline in 2002. A comparison across sectors shows a more diverse picture. While, for instance, the equity ratio of SMEs in business activities is higher than that of LSEs, the equity ratios in the agriculture and fishery sector as well as in the manufacturing sector are higher for LSEs. Internationally, firms in France, Belgium and the USA have higher equity ratios than firms in the Netherlands, while substantially lower equity ratios are registered in Germany. This is especially true of the manufacturing sector. Again, different legal and tax rules can play an important role in this context.

Conclusion

Regarding their significance for an economy, SMEs are often underestimated. They make a major contribution to employment and value added in the Netherlands. As for other advanced economies, they are a key growth driver for the Dutch economy. Overall, 38% of SMEs in the Netherlands are involved in international activities. Most of them are involved in international trade, but international cooperation and foreign direct investment are important as well. Germany is the most important trade partner of Dutch firms, accounting for about 25% of their exports. SMEs in the Netherlands were hit harder than LSEs by the economic contraction in 2009. The ongoing recovery is driven in large parts by export demand from emerging markets. Therefore, in order to speed up the recovery it would be advisable for SMEs to focus on their international trade relations. Furthermore, SMEs differ significantly from LSEs in terms of finance. Because investments in SMEs are likely to be more risky

²⁵ EIM: Financiering van MKB bedrijven, 2011.
²⁶ The BACH database defines firm size by turnover: Turnover small firms <EUR 10 m, medium-sized firms between EUR 10 and 50 m, large firms >EUR 50 m.
for an investor than investments in LSEs and SMEs have less equity, it is more difficult for them to obtain long-term finance. The financial situation of SMEs has improved following the crisis, with the share of granted bank loans rising and credit demand for nearly all investment purposes rising as well. The most common sources of external finance are bank loans, supplier credit and leasing. The financial situation of SMEs in terms of their equity ratio is largely procyclical. In an international comparison, SMEs in the Netherlands on average have a higher equity ratio than SMEs in Germany.

Challenges for SMEs and family businesses lie for example in succession issues and in their dependence on the business cycle. Entrepreneurs should plan their succession well ahead. Regarding the dependence on fluctuations in economic activity, long-term finance, e.g. by tapping the capital markets, could provide greater stability in crisis situations.

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