

## Transkript der Audiodatei

### "Doing business under difficult conditions – These framework conditions help Entrepreneurs"

#### Moderator

Hello everyone, I'm Susanne Schlepphorst, researcher at Institut für Mittelstandsforschung in Bonn. Today we talk about the difficult conditions under which entrepreneurs run their businesses. That is, currently, we are living in a time of multiple crises that make the environment challenging for entrepreneurs. These challenges pile up and follow each other at an ever faster pace. We additionally talk about the framework conditions that entrepreneurs need to cope with the current situation. To find solutions, we called on renowned researchers from all over Europe to present their research results at the International Roundtable on SMEs. Professor Welter, you are the president of Institut für Mittelstandsforschung Bonn and professor at the University of Siegen. What do you think of the current EU SME strategy launched by the European Commission? Does it support SMEs in the institute?

#### Prof. Dr Dr h.c. Friederike Welter

A few weeks ago, we looked at the SME relief package, which had been published by the European Commission in September. And what we see there is again a focus on short-term relief measures. We also see a pronounced focus on strengthening the long-term competitiveness and resilience of SME, which kind of contradicts the focus on short-term relief packages. And we see which actually fits together with what the German government is trying to achieve to promote a fair and SME-friendly business environment. And I think that is becoming way more urgent nowadays, because with the climate neutrality aim, what we tend to do is add more regulatory burdens, or let's say more regulations, which could become regulatory burdens to the table. What's positive with this relief package is basically that we see goals in there that are suitable to support small businesses, proposals for simplifying taxes, for better regulation, digital regulation, improving

access to finance and support throughout the whole lifecycle. That is to be applauded. That is good. Negative is this focus on sometimes very detailed, very small-scale measures, and that these, let's say, relief measures are not temporary right from the beginning. So that is basically because what could happen is that they become permanent over time.

**Moderator**

Mr. Schneider, you are also working at IfM Bonn. In one of your recent studies, you analysed the barriers that SMEs face in public tenders. What results did you come to?

**Sebastian Schneider**

When an SME is even interested in a public procurement tender, they have to look at suitable offers. And we first see that they are unaware of public tenders. They don't even know that they exist. In step two, when they look at the requirements they have to take, they also find barriers, which is when the specification of the services is too detailed, they don't find any scope for innovation. The time frame for the provision of the services is too narrow.

**Moderator**

What challenges do SMEs face in the next step?

**Sebastian Schneider**

SMEs find it to be very hard to compile all the documents. They say it's a very high effort because documents are often not uniform. The language is unclear. It's a very legal lingo they sometimes do not understand. There's a lack of contact options for questions and also the platforms are not always the same and are non-uniform.

**Moderator**

What could be done to improve the situation of SMEs?

**Sebastian Schneider**

In the first step, we see, for example, that a centralised free online platform would be useful. A proactive approach by the contracting authorities would help. When it comes to the second step, examination of the requirements, it would be helpful to examine special regulations, for example for innovative companies to check whether the reference and certificates can also be fulfilled by small companies, or the use of functional tenders, for example, which are not described and can be used more freely.

**Moderator**

And what could be done to improve the situation of SMEs in steps three and four?

**Sebastian Schneider**

In the third step, we see that pre-qualification databases and the increased use of them would help. The forward digitalization and implementing a once-only principle is good when it comes to compiling the documents and creating and better training of SMEs when it comes to participating would also be a step. In part three, a revision of regulations on late payments as it is introduced on the European level would be good. The use of dynamic purchased systems like it is used, for example in Rotterdam, could help the contracting authorities to reduce work and the provision of feedback can be helpful.

**Moderator**

Dr Peter Bex you are from Zira Consulting, located in the Netherlands, you and Professor Wittberg from the Fachhochschule des Mittelstands in Bielefeld apply a new approach to calculate and visualise the true bureaucratic burden of small and medium-sized companies in the Netherlands. Could you please explain how your method works?

**Dr Peter Bex**

The idea of the project we had is not to find out how bad it actually is. The thing is, we wanted to know what the difference between different sectors is. Why is there a difference? What can we learn from that? Also, from the perspective of

the indicator companies? And on the other side, we wanted to know, of course, what the regulatory burden is about in a quantitative way, in cost and but also in a qualitative way, how they experience, and what hindrances do they have. But the most important thing is, and as mentioned, I was developing the standard cost model 20 years ago already. The idea was not just to measure. The idea is to find solutions, solutions to problems for SMEs. So, everything we do in this project focuses on where we can find the buttons to push to reduce the burdens in a quantitative way or to improve it for the better regulation we want to improve. So, that's the outcome of the project. We always say we don't want a model and a methodology just to know what the problem is. We want to find out where we find solutions. So, keep that in mind when I'm telling the story about the six projects. So, to give you a slight idea about projects, we had in actually the sectors, we had six sectors, and actually for these sectors, we found out we were listing what are the obligations in the regulation. And then it's very interesting to see that a lot of these obligations are general obligations. And all companies do have to comply with that. Keep in mind that all these companies, do have employees. So that was one of the basic things. We had indicator companies, and we identified indicator companies as having personnel from a certain account. And we found out then the different sectors and focused on that part. So, the general obligations are, of course, a lot of obligations by having employees, because they all are the same. Then you also have certain sector-specific obligations in the project, of course, because a hairdresser has not a lot of sector-specific obligations. They might work with some hazardous materials and substances, but from a hotel perspective, you see a lot of differences. And that's why we also choose in Germany the hotel with a cafe and a restaurant and a hotel. So, then you have all the obligations in place. So, these are actually a very important indicator company because a lot of things come together over there. And what you see is that there are sector-specific obligations. So that makes this project also interesting. All solutions, we found on the level of the general obligations, will impact all SMEs, and all specific sector obligations will have an effect on the sector itself. And also a little bit broader, because if they come in place for other sectors, you still have solutions for them.

### **Moderator**

What solutions do you recommend, Dr Bex?

**Dr Peter Bex**

There are six things I want to mention. First of all, we've seen in the project that SMEs suffer more from regulatory burdens than larger companies. We can see that within the project we had some larger SMEs and some smaller SMEs, and even within them we can see those differences. The regulatory burden increases when they have to depend on third parties. Keep that in mind, because the accountants, but also some solicitors, they make the business of regulation, and that costs money. So be aware of that. It's a business model then the combination of regulatory cost and workability. We have seen that stimulating creativity to come up with solutions. What can we do? Can we distinguish between SMEs and larger companies as well? And on the other side, we can also make it much more the monitoring much more understandable, because everybody can see the company, everybody can see where the impact is, what's the effect and how it works. We can put it on a website, and we can show what the impact of regulatory burdens is, but also what we can do to monitor that and reduce it. Also, good to mention, for the governments in place, 30 to about 50% of the obligations do not cause any burdens. It's good. It's there. That's also very good to know. We need regulations.

**Moderator**

We now come to another important subject, the labour market and migration. Why is it interesting for migrant women to become self-employed? Professor Günther, you and your team investigated this question at the WHU-Otto Beisheim School of Management in Vallendar, near Koblenz, in cooperation with the DIW Berlin.

**Prof. Dr Christina Günther**

And as we know from the entrepreneurship literature, yes, being self-employed might offer a lot of opportunities, and that's also true for migrant women. But the picture is not that clear, because, on the one hand, there might be additional opportunities in additional markets that these individuals could address. But on the other side, female migrants might also be subject to stigmatisation. They may end up as necessity entrepreneurs, and as we also heard, they might be particularly strongly affected by limited access to finance.

**Moderator**

So, what exactly does this mean for income and life satisfaction?

**Prof. Dr Christina Günther**

So, in terms of income, there is a penalty for migrants. In terms of lower income, there is a penalty of being a woman, and there is this additional factor that we are specifically interested in when these two characteristics come together. So being a migrant and a woman at the same time, you have an additional penalty in your income, which amounts to about 7%. In terms of life satisfaction, we again have a specific effect for being a migrant. We have a specific effect, reducing the effect of being a woman. And then there is this extra effect when these two characteristics intersect. So being a woman and being a migrant, reduces your life satisfaction even further by another 10%. So, penalties are all over the place. When we then looked into the two different subsamples. So instead of looking just at migrants and women and their intersection, we also had a look at how does that situation look like for migrant women who are employed as compared to those who are self-employed? Because remember, we wanted to understand whether being self-employed becoming an entrepreneur might be a solution to escape these discrimination effects that I just explained. And indeed, what we find is that self-employed migrant women are better off than their employed migrant counterparts. So, what we actually find is the additional factor that I talked about of being a migrant and a woman of about 7%. That additional penalty does not exist anymore when migrant women are self-employed, so they actually fare better, and we see that for the income penalty, but we also see that for the life satisfaction penalty. So, in general, what we could say is that self-employed migrant women only suffer from the discrimination that they would suffer from anyways because they are a migrant or a woman, but there is not this extra effect that they have to suffer from. So self-employment allows them to escape that part of the discrimination in the labour market.

**Moderator**

The Covid-19 pandemic has had a profound impact on entrepreneurs. Professor Rouse, you are a researcher at the Manchester Metropolitan University in the UK and you analysed the pandemic situation in the UK. What did you find out?

**Prof. Dr Julia Rouse**

On March 26, 2020, a week after announcing a job retention scheme, a furlough scheme for the employed, we waited for a week with bated breath to see whether there would be any sort of provision for the self-employed. And the chancellor, the now prime minister announced the self-employment income support scheme. And this is really quite a generous scheme for those who are eligible. So, we didn't know at that time, but it ended up having five waves. And essentially the self-employed received up to 80% of their income, up to an earnings threshold through the COVID period. The rules change very variously in different waves of the scheme, but that's the basic principle. People earning over 50,000 pounds from any source of income were excluded from the scheme, but the established self-employed were included in this scheme. They were also allowed to keep trading. And we were pleased about that because we advised early on that in order to innovate, there was no good in making all of these businesses retrench. But equally, it posed the risk of overcompensating some businesses and rules became more stringent in later waves to try to manage that and get people to declare that they were definitely suffering from a reduced income in order to receive the benefit.

**Moderator**

What did this mean for the self-employed?

**Prof. Dr Julia Rouse**

Well, we estimated that in the first round of the report of the self-employment income support scheme, whilst three and a half million self-employed were included, around 880,000 were excluded. And these exclusions were to do with eligibility rules. So, we don't really have a reliable way for the self-employed to declare their self-employment from their nascent period through into early trading in the UK. And the government chose to use the cutoff of whether or not you had submitted a self-assessment that's a tax return form in the period and the tax year that was in year prior to Covid. So, if you were trading up to April 2019, so more or less a year before the scheme was developed. If you started your business in that next year, or if you'd started your business even previous to that, maybe two or three years ago, but hadn't come into profit until the last year before COVID

you were excluded from the scheme. In addition, the government chose to exclude people for whom self-employment is a second job, where they got the minority of their income from self-employment. And because of this tax form issue. That also meant that they excluded people for whom self-employment had been a second job up to April 2019, but for whom businesses had grown and it had become their main job during the last year. They were also excluded from the scheme. In addition, these same workers were largely excluded from claiming any sort of sick pay if they had Covid or if they were self-isolating. So we had this situation where we had a majority of self-employed who were well protected, but a large number of self-employed who were excluded.

### **Moderator**

So, thank you all for your interesting contributions. We look forward to hearing more about your research findings on SMEs and entrepreneurship in future podcasts of IfM Bonn. If you are interested in further research of Institut für Mittelstandsforschung Bonn, please visit our website [www.ifm-bonn.org](http://www.ifm-bonn.org).