

State of SMEs Annual Report 2021

Entrepreneurs on the move



Dutch Committee for Entrepreneurship



06

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The Dutch Committee for Entrepreneurship consists of (from left to right) Barbara Baarsma, Harold Goddijn (chair), Diederik Laman Trip, Her Majesty Queen Máxima, Occo Roelofsen and Meiny Prins.

Preface

The Dutch SME sector has gone through an intensive and eventful period. The previous Annual Report, for 2020, was already different than usual. This year, too, the effects of the coronavirus pandemic are reflected in the figures for the SME sector.

For the most part, Dutch SMEs have demonstrated their resilience by making it through the pandemic. That deserves a compliment. However, there are also entrepreneurs who are facing serious problems. It is painful that these entrepreneurs have been affected by an event beyond their control.

Earlier this year, the Committee stated in its 'Strengthen entrepreneurial foundations' advisory letter that the time had come for changes in the business climate. In this annual report, we consider opportunities for improvement as well as the 'state' of SMEs.

Layout

Section 1 of this Annual Report uses key figures to present the 'state of the SME sector' and examines the growth potential of the SME sector.

The second section focuses on the prerequisites needed for sustainable growth: improving services for SMEs, entrepreneurship education and access to finance.

The third section deals with a number of factors that are decisive for entrepreneurs to grow sustainably, increase their resilience or maintain their position on the market: human capital, innovation, digitalisation and internationalisation.

Word of thanks

On behalf of the Committee, I would like to thank all those who have contributed to this Annual Report: in particular Statistics Netherlands (CBS) for the data, and Professor Justin Jansen and Dr Richard Haans of the Rotterdam School of Management for their analysis of the growth dynamics of the Dutch SME sector between 2007 and 2019. In addition, we are grateful to TechLeap.NL, the Small Business Index (Kleinbedrijf Index) and Stichting MKB financiering for providing additional data on the start-ups and scale-ups in the Netherlands, the micro businesses and the development of the alternative financing market.

Finally, we would like to thank the Ministry of Economic Affairs and Climate Policy for its efforts in the realisation of this Annual Report.

Harold Goddijn, chair

In brief

For the most part, Dutch SMEs have demonstrated their resilience by making it through the pandemic up to this point. That deserves a compliment. Many entrepreneurs were able to continue doing business, partly thanks to government support measures.

The impact of the pandemic varies greatly between businesses and sectors. Some businesses have grown during the crisis, others have survived despite adversity and there is a group of businesses that are facing serious problems.

This is the time to look forward again. Government measures have been terminated for most sectors, and the economy is improving. Both governments and entrepreneurs can start planning for the future again. Long-term investments are needed for the SME sector, especially in the areas of sustainability and digitalisation. This is the time for major changes. There are plenty of opportunities for businesses to grow and realise an increase in added value and productivity. Earlier this year, the Committee published the 'Strengthen entrepreneurial foundations' advisory letter.¹ It distinguishes three programme lines: investing in innovation and growth, labour mobility and improving entrepreneurship.

Sustainable growth is necessary for the continuity and long-term value creation of every SME. Growth is not the main goal, but growth in jobs and productivity provides the best starting point for SMEs. In line with RSM's contribution in this Annual Report, this can be called 'healthy growth', because it leads to more added value, profitability and investment opportunities and thus to the continuity of the SME.

Job growth without productivity improvement actually causes a decrease in results. The concept of healthy growth focuses on prosperity in the narrow sense and is primarily linked to gross domestic product (GDP). Growth for long-term value creation for a broad group of stakeholders goes beyond healthy growth and is directed towards 'prosperity at large'. This is sustainable growth, which can increase the social value of SMEs.

The transition to a sustainable and digital economy requires efforts and targeted investments. Changes are required in order to maintain a favourable position on the market and preserve competitiveness and sustainable growth potential. The development of new 'green' markets offers opportunities for entrepreneurs. Future-proof businesses respond promptly to technological developments and new business models. A timely response prevents high costs when governments are forced to take coercive measures. That is why it is important for businesses to think about and invest in sustainability now.

There are also other major challenges. Consider the increasing global shortage of raw materials, the recent rise in energy prices and the tight conditions on the labour market. This requires SME entrepreneurs to be flexible and to constantly adapt. That is certainly not easy.

SMEs are not alone in this respect. Public parties can strengthen entrepreneurship in the Netherlands and play a facilitating role in enabling SMEs to implement structural improvements. The SME Diagnostic Tool can assist entrepreneurs with this. Moreover, improvement of public and other services is necessary. The Committee encourages all parties to cooperate in this regard.

¹ Dutch Committee for Entrepreneurship (2021). *Strengthen entrepreneurship foundations (Versterk fundament ondernemerschap)*. 21 April 2021. Reference is also made here to the ten measures of the SME Recovery and Growth Plan (Dutch Committee for Entrepreneurship). (2020) *Investing in SME recovery and growth*. 26 August 2020.)

Access to finance must be improved. It is essential for SMEs to gain better access to capital in the form of both debt and equity. A robust and diverse financing market is needed, where alternative forms of financing are accessible in addition to bank financing. This is not only important for the entrepreneurs themselves, but also for the economic dynamics and the entire business ecosystem. The Committee proposes to strengthen the equity of SMEs by means of a fund.

Investments in human capital are needed, not only for the transition to a digital and sustainable economy, but also to increase labour productivity, to ensure that employees are versatile and sustainable and to reduce the mismatch on the labour market. Within the SME sector, a greater focus on lifelong learning is desirable. The Committee stresses the importance of entrepreneurship education (see the O2Lab programme, page 32).

Many sectors are struggling with staff shortages. Businesses must adapt with investments in labour-saving techniques. The Committee, together with the Social and Economic Council, is looking at how the infrastructure for labour mobility can be strengthened, taking the interests of both employees and employers into account.

The SME sector can benefit from innovations and internationalisation.

Regional differences are visible if we look at innovative companies and investments in research and development (R&D). Internationalisation can increase productivity. Moreover, during the pandemic, companies that engaged in international trade before the coronavirus outbreak have seen a higher turnover development than companies that only traded domestically.

Finally, this is the perfect time for further digitalisation. Digital frontrunners in the SME sector have come out of the pandemic in better shape than companies with little digitalisation. They will emerge from this crisis stronger. Some entrepreneurs have used the consequences of the pandemic to implement innovations and to digitalise. Many companies have been able to offer their products or services by means of e-commerce or an online platform. However, digitalisation is not only about e-commerce, but also about data-driven working methods and technologies such as machine learning and artificial intelligence. The Committee advocates scaling up the digitalisation programme for the SME sector.

1.

State of the SME sector



1.1 State of the SME sector

This section describes the state of the SME sector and looks back at the course of the pandemic in 2020-2021.

Summary

After one and a half years of coronavirus measures, the economy is in full swing again. Both before and during the pandemic, the SME sector was the foundation of the Dutch economy. Nevertheless, the pandemic has had a major impact. Some companies found themselves in a market that started growing due to the coronavirus, while others had to pull out all the stops to adapt to it. Large sectoral and other differences are visible in the consequences and impact of the crisis on entrepreneurs. Some SMEs developed liquidity problems, and their solvency came under pressure. For the SME sector as a whole, the deterioration of the solvency position remained limited.

Many entrepreneurs have made use of support measures. The support policy has kept many companies afloat and prevented bankruptcies and closures. At the same time, it has curbed the dynamism in the SME sector. Meanwhile, recovery is visible, and the economy is bouncing back. Business confidence has increased again in 2021. The improving economy has also led to a record number of vacancies in the SME sector.

Unless stated otherwise, the Annual Report covers companies with up to 250 employees in the so-called business economy. Business economy is a common term for a defined group of industries, which allows for an international comparison of, for example, SMEs in this group of industries. Companies in the agricultural and financial services sectors are not part of the business economy. It also does not include companies that are affiliated with public sectors, such as government, education, culture and health care.

In this Annual Report, some figures also highlight sectors that do not belong to the business economy. These include 'culture, sports and recreation' and 'other services'. These sectors have been added on a number of occasions because the associated figures paint a picture of the unique impact of the pandemic.

In addition, many figures distinguish between self-employed persons (1 person employed), micro businesses (2-9 persons employed), small businesses (10-49 persons employed), medium-sized businesses (50-249 persons employed) and large businesses (250 or more persons employed).

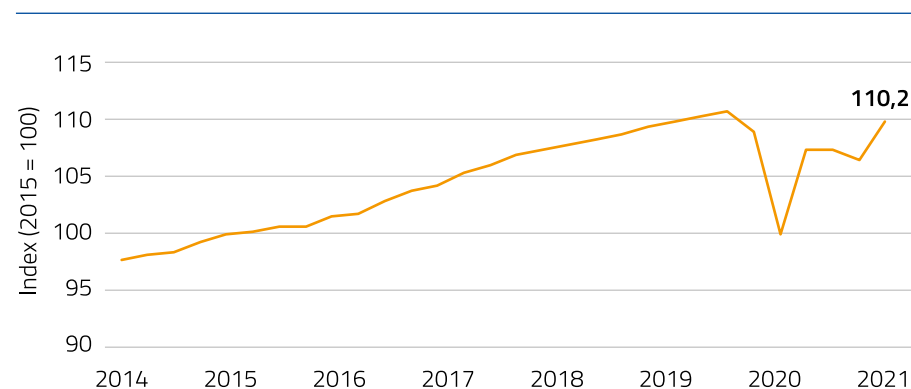
After one and a half years of coronavirus measures, the economy is booming again.

The gross domestic product (GDP) contracted sharply in 2020 and in the first half of 2021, but it bounced back after the lockdown was lifted in the second quarter (Figure 1.1).² The CPB Netherlands Bureau for Economic Policy Analysis predicts economic growth of 3.9% in 2021, followed by 3.5% growth in 2022.³

The CPB also warns of the continuing uncertainty of the coronavirus; in a pessimistic scenario, which takes the resurgence of the coronavirus into account, the economy will grow by 3.3% in 2021 and 2.2% in 2022. The pandemic is therefore still a decisive factor for economic growth. The aftermath of the crisis is affecting international supply chains; due to the pandemic, a shortage of raw materials has arisen. Now that world trade is picking up, raw material and transport prices are rising.⁴ In addition, there are shortages of key components, such as computer chips.

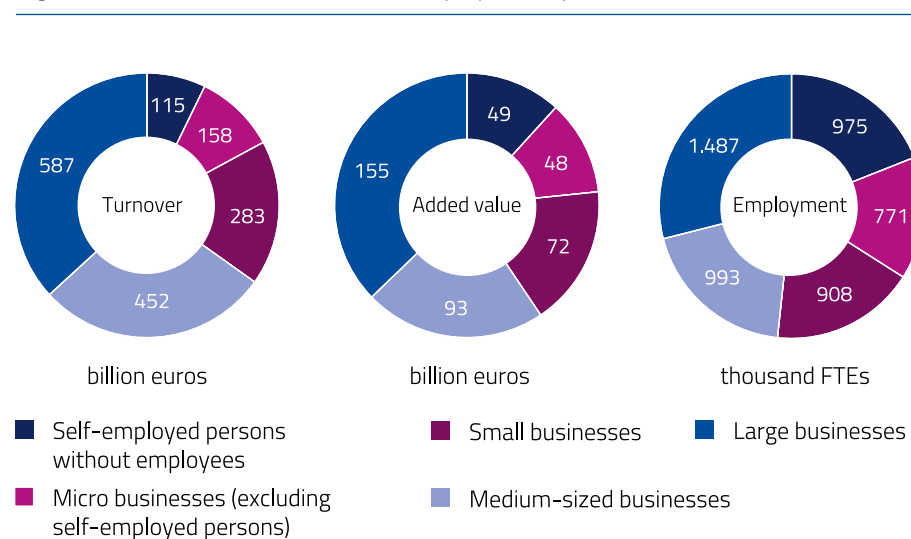
A recent development has been the increase in energy prices – among other things, because gas has become more expensive, the energy price in September 2021 was 19.4% higher than a year earlier. This increase is reflected in inflation: consumer goods and services were 2.7% more expensive in September than they were a year earlier.⁵ Therefore, there is still a lot of uncertainty in the market. These developments also affect the Dutch business community and require SME entrepreneurs to be flexible and adaptable.

Figure 1.1: Development of GDP. Period: 2014–2021.



Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Figure 1.2: Turnover, added value and employment by business size.*



*extrapolation

Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

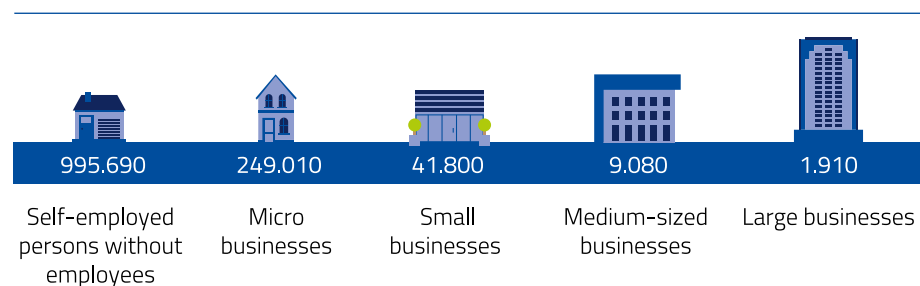
² See also: Statistics Netherlands. (2021). *Economy grows by 3.1% in the second quarter of 2021 (Economie groeit met 3,1% in tweede kwartaal 2021)*. 17 August 2021.

³ CPB. (2021). *Macro Economic Outlook 2022 (MEV)*. 21 September 2021.

⁴ OECD. (2021). *OECD Economic Outlook, Interim Report September 2021: Keeping the Recovery on Track*.

⁵ Statistics Netherlands. (2021). *Inflation rises to 2.7 percent in September (Inflatie stijgt naar 2,7 procent in september)*. 7 October 2021.

Figure 1.3: Number of SMEs by size category in 2021 (business economy).*



*provisional figures Q3 2021

Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Both before and during the pandemic, the SME sector was the foundation of the Dutch economy.

In 2020, SMEs accounted for 63% of the added value and 71% of employment in the business economy (Figure 1.2). The share of the SME sector in the total turnover is also high. SMEs are therefore an important factor where economic growth is concerned. Figure 1.3 shows the distribution of the number of businesses by size category in the third quarter of 2021.

The impact of the SME sector goes beyond material welfare. In recent years, the impact of economic activity on people and the environment has received more and more attention. Entrepreneurs respond to this, come up with innovative solutions to social challenges and are aware of their own ecological footprint. The social impact of business has increased significantly. This is reflected in technical and other innovations and start-ups, but also in the way 'entrepreneurship' is viewed. Entrepreneurship is a means of developing yourself, improving yourself and climbing the social ladder. Entrepreneurship can be a path to economic independence. The Impact Centre Erasmus identifies six themes in which entrepreneurs create social

value: 1) as an inclusive employer, 2) by encouraging employee development, 3) through innovation and sustainable business models, 4) by limiting their carbon footprint, 5) by supporting or participating in local organisations and 6) by playing a role in the community.⁶ The survey, in which 532 entrepreneurs were questioned, shows that entrepreneurs are very concerned with one or two of these six themes. The SME sector can therefore play an important role in increasing broad prosperity and contributes to well-being in society.

The pandemic has had a major impact. The crisis has severely tested the SME sector. Both business confidence and the number of unfilled vacancies reached a low point in 2020. The entire business economy was confronted with a slight decrease in turnover (-7.2%), added value (-2.2%) and employment (-2.3%) in 2020 compared to a year earlier.

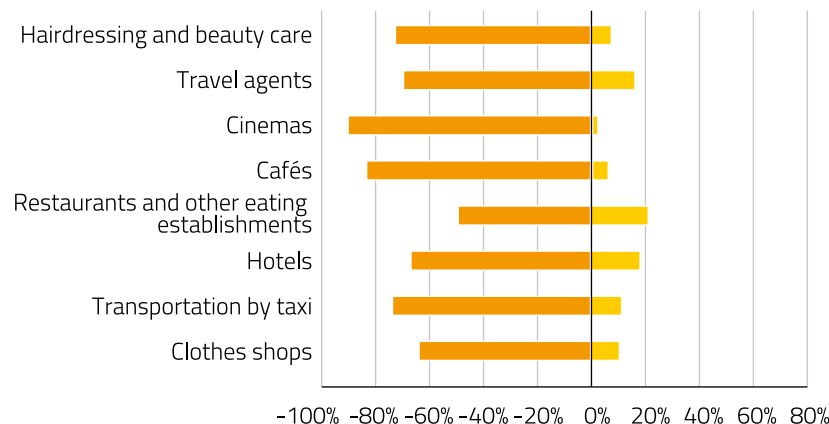
There are considerable differences between sectors. Not all sectors are equally affected, with some not being affected at all, and the duration of the loss of turnover differs per type of entrepreneur. The pandemic hit the 'hospitality', 'culture, sports and recreation', 'transport and storage' and 'other business services' sectors (including travel agencies) hardest. The 'hospitality' and 'other business services' sectors in particular suffered a major decline in turnover as a result of the restrictive coronavirus measures. In 2020, 73% of the hospitality industry and 82% of travel agencies belonged to the group of 'fast fallers'. Figure 1.4 shows that this trend continued in the first quarter of 2021, partly due to the restrictive measures. Closed hairdressing salons, beauty salons and clothes shops also suffered major turnover losses. This led, especially in these sectors, to an increase in companies with a liquidity shortfall.⁷ Relaxation of the measures resulted in turnover growth again in many affected sectors in the second quarter. Turnover continued to decline in a number of sectors in the second quarter; this applies to travel agencies, for example.

⁶ Impact Centre Erasmus. (2019). *The social value of entrepreneurs (De maatschappelijke waarde van ondernemers)*. See the survey for the interpretation and explanation of these six themes.

⁷ De Nederlandsche Bank N. V. (DNB): (2021). *The financial position of the Dutch SME sector one year after the COVID-19 outbreak (De financiële positie van het Nederlandse mkb één jaar na de Covid-19 uitbraak)*. 3 June 2021.

Figure 1.4: Fast fallers and fast risers. Period: First and second quarter 2021.

Fast fallers, first quarter 2021



Fast risers, second quarter 2021

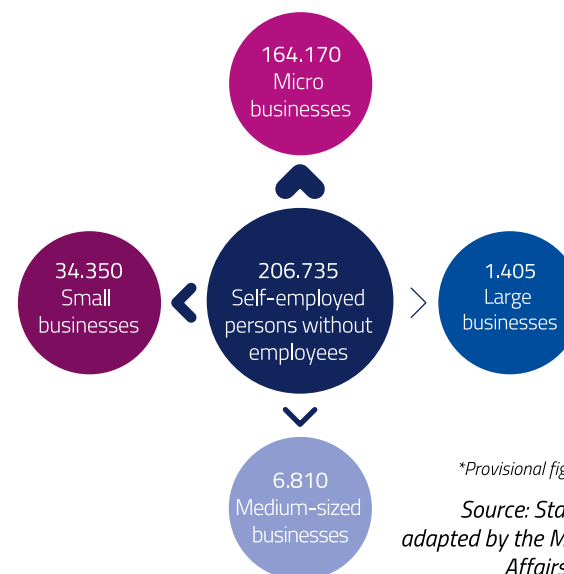


Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

For part of the SME sector, solvency has been put under pressure during the pandemic due to restrictive measures.

Before the pandemic, the solvency of the SME sector increased gradually between 2010 and 2019, with smaller companies on average having higher solvency than larger ones. The solvency remained more or less stable from 2018 to 2019, according to Statistics Netherlands. As a result of the measures limiting physical contact, the pandemic has led to a deterioration in solvency in a number of sectors. The most dramatic increase in the number of insolvent SMEs can be seen in those sectors that were most affected by the measures limiting physical contact: cafes and restaurants, travel agencies and the arts and culture sector were hit excessively hard.⁸ The decline in the solvency position of SMEs therefore varies greatly between and within sectors.

Figure 1.5: Number of businesses using at least one support measure, by size category.*

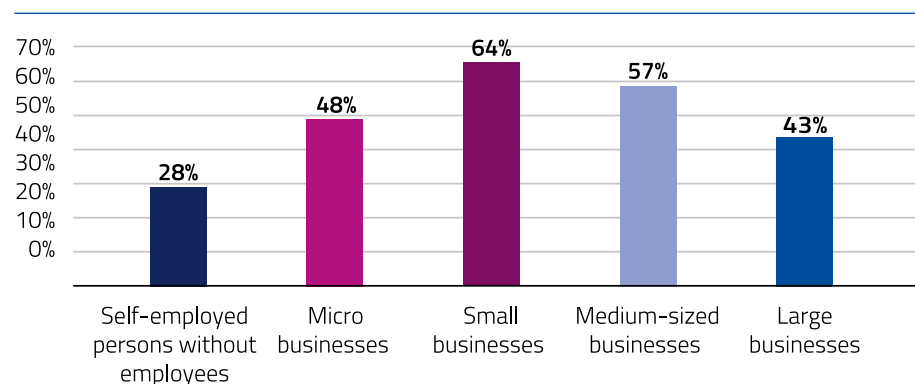


*Provisional figures as at 31 May 2021

Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

⁸ De Nederlandsche Bank N. V. (DNB): (2021). *The financial position of the Dutch SME sector one year after the COVID-19 outbreak (De financiële positie van het Nederlandse mkb één jaar na de Covid-19 uitbraak)*. 3 June 2021.

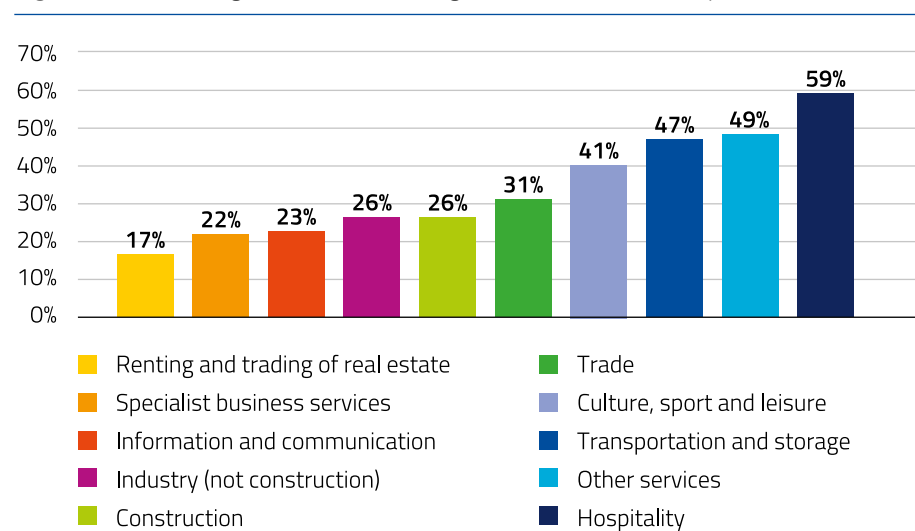
Figure 1.6: Percentage use of support measures by size category.*



*Provisional figures as at 31 May 2021

Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Figure 1.7: Percentage of businesses using at least one measure, by sector.*



*Provisional figures as at 31 May 2021

Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Many SMEs made use of the coronavirus support measures. The government helped to cushion the temporary blow for entrepreneurs with the support package and has implemented and expanded various support measures for entrepreneurs over the past year.⁹ In total, 620,275 businesses (including self-employed persons without employees) in a wide range of sectors benefited from at least one measure. Excluding self-employed persons, 206,735 businesses (Figure 1.5), half of the total number of businesses (excluding self-employed persons without employees) in the Netherlands, benefited from at least one measure. In absolute terms, micro businesses have been the main beneficiaries of the support measures. Relatively speaking, small businesses in particular received support, as 64% of small businesses have used government support (Figure 1.6). The need for support differs from sector to sector. Entrepreneurs in the 'hospitality', 'other services', 'culture, sports and recreation' and 'transport and storage' sectors in particular have benefited from the support measures (Figure 1.7).

The coronavirus support helped both the growing businesses and business that were doing less well. This is evident from CPB's economic analysis of the coronavirus support packages.¹⁰ Figure 1.8 shows that companies right across the board of growth and contraction are supported by the measures.¹¹ Both less viable companies and healthy and growing companies (in terms of employees and productivity) have made use of the support measures. This is certainly true for micro businesses. Roelandt et al. (2021) conclude that innovative companies have also made use of the measures.¹²

9 NOW-1.0, NOW-2.0, NOW-3.1, NOW-3.2 and NOW-3.3, Tozo-1,2&3, TOGS, TVL-1, TVL Q4 2020 and TVL Q1 2021, businesses that have been granted a tax deferral, Bmkb-C, KKC, GO-C, BL-C, COL, the measure for deferral of repayments and bridging loans implemented by Qredits and the compensation measures for chip potato growers and the ornamental plant sectors.

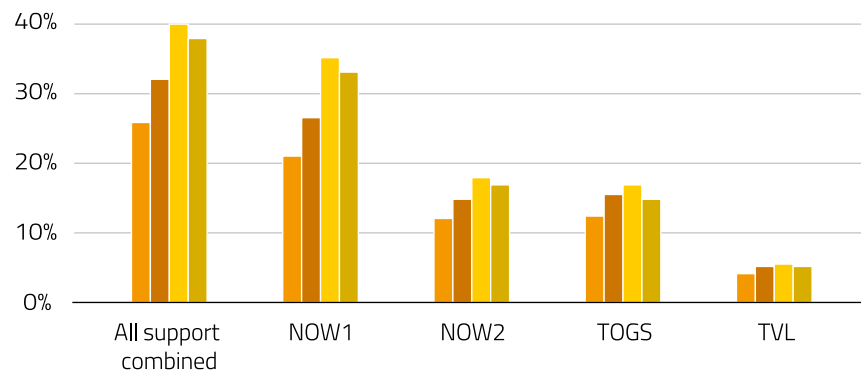
10 CPB. (2021). *Economic analysis of support package 2020 (Economische analyse steunpakket 2020)*. 28 September 2021.

11 From: Haans, R. and Jansen, J. (2021). *Growth Dynamics of Dutch SMEs 2007 – 2019 (Groeidynamiek van het Nederlandse mkb 2007-2019)*.

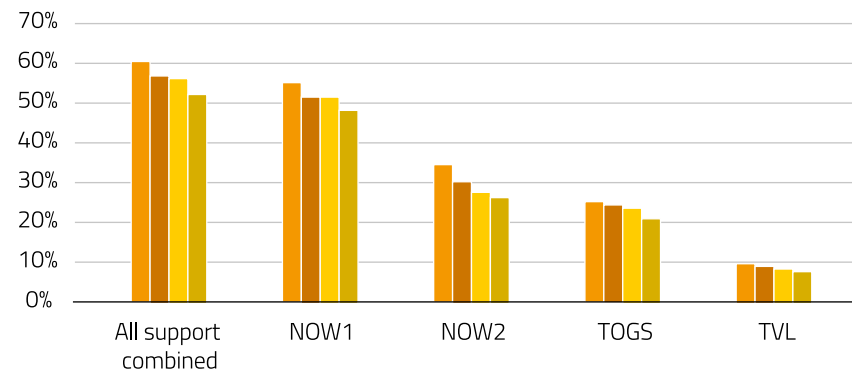
12 This is evident from the use of the WBSO R&D tax credit. The WBSO is a tax incentive measure with which the Dutch government compensates part of the payroll costs, other costs and expenses for research and development (R&D); Roelandt, T., H. van der Wiel, E. Brouwer and B. Bos. (2021). *Coronavirus support policy saves the weaker but also the innovative companies (esb.nu)*

Figure 1.8: Use of support measures by growth patterns and size categories.*

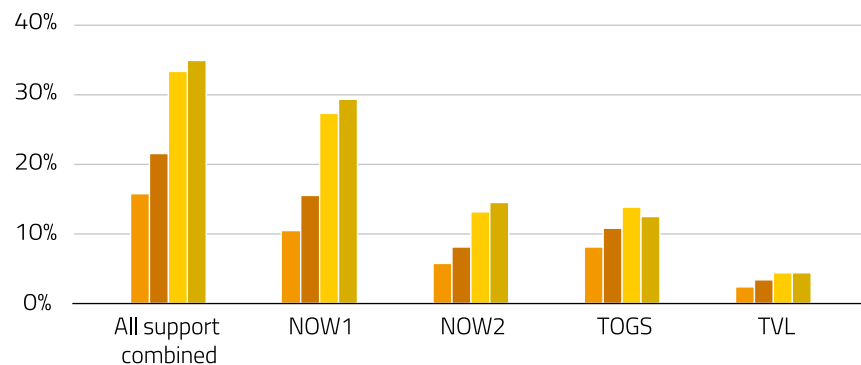
Growth patterns and use of coronavirus measures: all companies



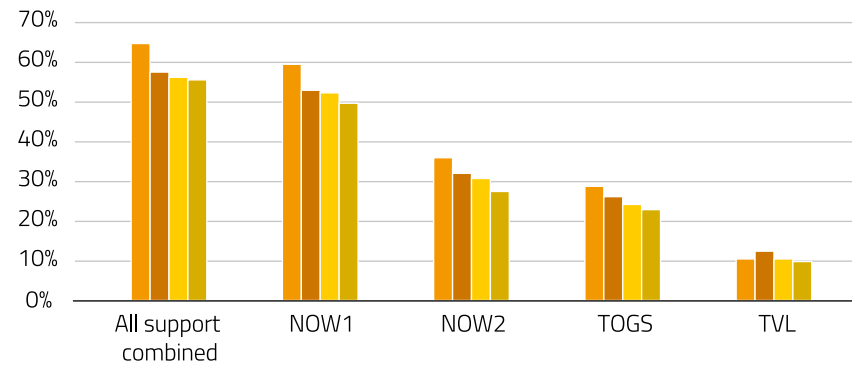
Growth patterns and use of coronavirus measures: small businesses



Growth patterns and use of coronavirus measures: micro businesses



Growth patterns and use of coronavirus measures: medium-sized businesses

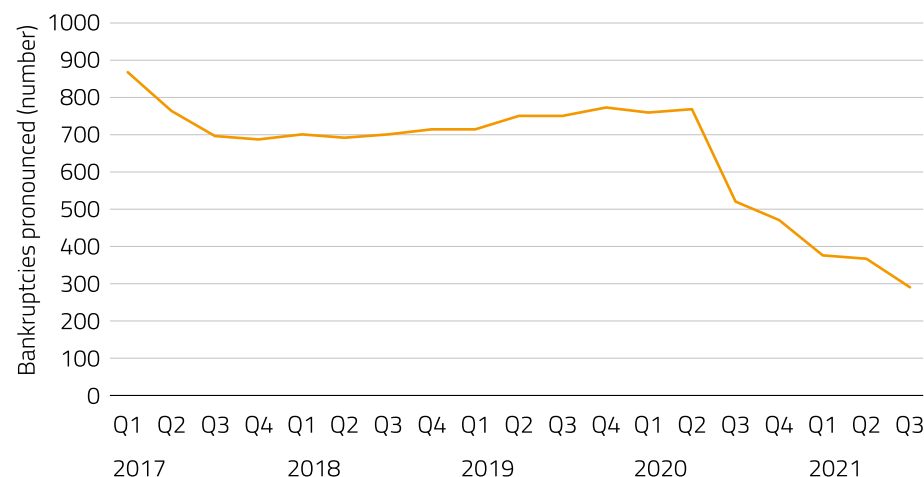


*Period: business demographic framework (2007-2019), coronavirus support measures (2020-2021)

Source: Statistics Netherlands, adapted by RSM



Figure 1.9: Number of bankruptcies pronounced in the SME sector (business economy).
Period: 2017 (Q1)-2021 (Q3).



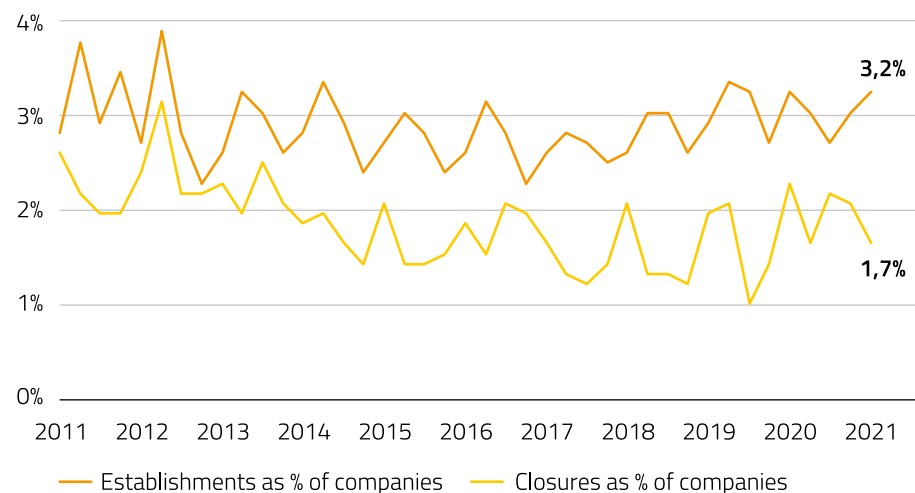
Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

The support and recovery package prevented major problems with the liquidity and solvency of businesses, according to an analysis by DNB. When the pandemic started, the emphasis was on limiting businesses' liquidity problems. These were largely addressed by the support and recovery package, as is visible from the low number of bankruptcies during the pandemic. Partly due to the support measures, the increase in the number of insolvent SMEs has also remained relatively limited.¹³

The support measures have also curbed economic market dynamics. The number of bankruptcies has fallen thanks in part to the support packages. In the fourth quarter of 2020, 472 SMEs were declared bankrupt, which is slightly less than half the number in the same period in 2019 (Figure 1.9). In 2021, the number of bankruptcies decreased even further to 294 SMEs in the second half of the year. The overall dynamics of business start-ups and closures within the SME sector appears to have declined only slightly (Figure 1.10). The change in business demographics between the fourth quarter of 2019 and the third quarter of 2021 shows that the number of businesses has shrunk significantly, especially in the hospitality sector (Figure 1.11). In other sectors, the number of companies actually increased. It is expected that, with the phasing out of support measures in the third quarter of 2021, bankruptcies will increase.

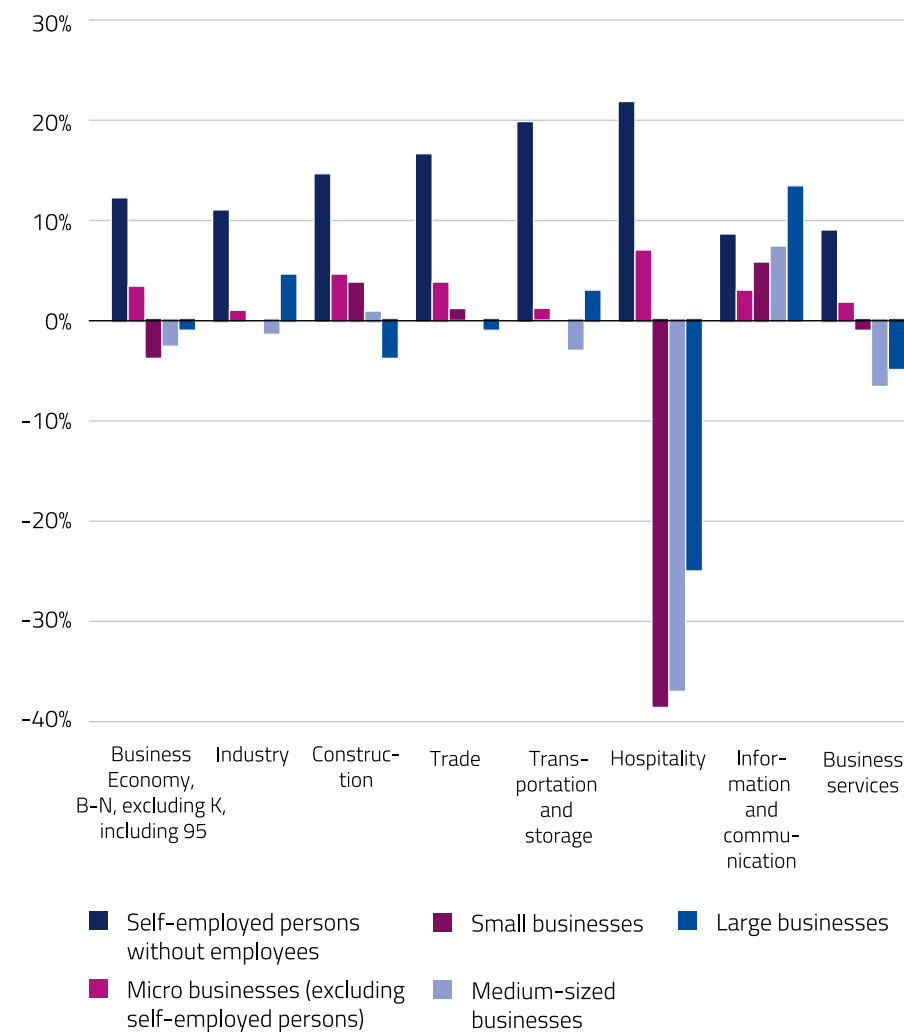
¹³ De Nederlandsche Bank N. V. (DNB): (2021). *The financial position of the Dutch SME sector one year after the COVID-19 outbreak (De financiële positie van het Nederlandse mkb één jaar na de Covid-19 uitbraak)*. 3 June 2021.

Figure 1.10: Development of closures and establishments as a percentage of the total number of companies. Period: 2011–2021.



Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Figure 1.11: Development of the number of companies per size category per sector. Period: Q4 2019 versus Q3 2021.



Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Small Business Index

The Small Business Index (Kleinbedrijf Index, KBI) is a joint initiative of Qredits, ONL voor ondernemers and the Digital Business & Media Knowledge Centre of HU University of Applied Sciences Utrecht. The Small Business Index is a survey that is conducted 4 times a year among a panel of 5,000 entrepreneurs. Of these entrepreneurs, 97% have fewer than ten employees. Below is a summary of the Small Business Index figures for the second quarter of 2021.

'Turnover and continuity improving strongly, but concerns are not over yet.'¹⁴

The small business sector is proving its resilience after a very bad first quarter in 2021. The realised second-quarter figures show a clear improvement. Turnovers are rising sharply, as is the payment discipline. Business confidence is rising to +28. The continuity expectation has also risen sharply to 62%. Only 4% of companies expect to close in the next six months.

Entrepreneurs are thinking about expanding their workforce again. Start-ups in particular indicate that this is the case. The position of start-ups is clearly improving compared to the first quarter of 2021. There is a clear demand for fresh capital among a quarter of all entrepreneurs.

The low margins of 40% of entrepreneurs remain a cause for concern. The innovation ratio is still below the level at the end of 2020. In the third quarter of 2021, entrepreneurs expect to invest even less. The business salaries of 38% of entrepreneurs also remain below the welfare level. This very low pay is more common in the hospitality sector, among start-ups and among self-employed persons without personnel. As of June 2021, just over a quarter of entrepreneurs is technically bankrupt, i.e. their losses will exceed their equity.

Stress among entrepreneurs is falling to an average level, with the exception of the hospitality sector and entrepreneurs without employees. These entrepreneurs are in worse shape overall. The percentage of entrepreneurs with a high stress score – between 75 and 100 – is only slowly decreasing from 25% to 20% of the population.

The entire Small Business Index report can be found on the website: Small Business Index Q2 2021.

¹⁴ Van Teeffelen, L. en E. Renssen. (2021). *Turnover and continuity improving strongly, but concerns not over yet (Omzet en continuïteit verbeteren sterk, maar zorgen nog niet voorbij)*. KBI Q2 2021, Qredits/HU/ONL.

Most companies have endured the crisis well, whether due to support measures or not. Some have even been able to use the crisis to grow and seize new opportunities. Now that the economy is picking up again, a number of companies may recover. The turnover of industry and hospitality is consequently bouncing back. In the second quarter of 2021, industry turnover was 19.8% higher than a year earlier. In the hospitality sector, 76% belong to the group of 'fast risers' after the lifting of the lockdown. The improved conditions have also had a positive effect on construction (+9%).¹⁵ Micro construction businesses in particular have reaped the benefits, achieving the greatest growth (+14.1%) in the second quarter. Around 40% of small and medium-sized businesses say they expect their turnover to increase in the next three months.¹⁶ Section 1.2 of this Annual Report, on 'The growth potential of the SME sector', provides greater insight into the turnover and productivity development of the SME sector.

Business confidence reached its highest level since 2008 in the third quarter of 2021.¹⁷ That is striking – in the spring of 2020, business confidence was still at its lowest level ever recorded. The greatest difference in the SME sector can be seen in the hospitality sector (Figure 1.13). Business confidence rose sharply there; for the first time, hospitality entrepreneurs are optimistic again. In other sectors, too, entrepreneurs were more positive about turnover, staffing levels and profitability. This does not apply to the construction industry. The negative sentiment in the construction industry is related to concerns about order books and the difficulty of finding personnel.¹⁸ The COEN survey shows that, now that most restrictive measures have disappeared, most entrepreneurs think they will need little or no recovery time to return to the same capacity level as before the crisis (Figure 1.14).

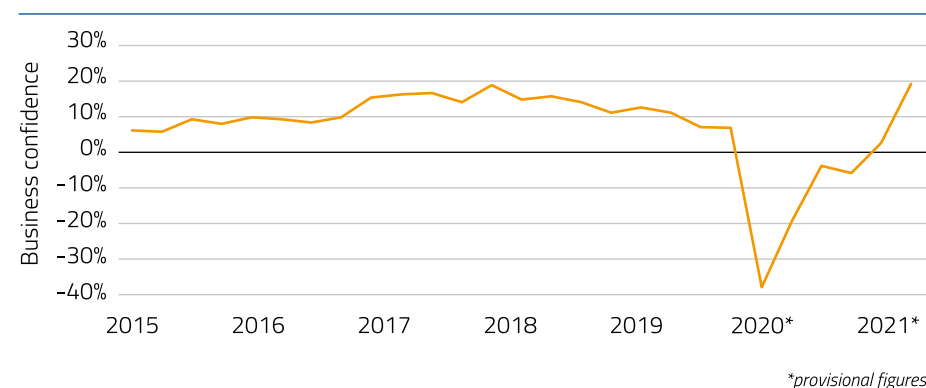
¹⁵ Statistics Netherlands. (2021). *Turnover in construction more than 9 percent higher in second quarter of 2021* (*Omzet in de bouw ruim 9 procent hoger in tweede kwartaal 2021*). 19 August 2021.

¹⁶ Statistics Netherlands. (2021). *COEN Business Survey Netherlands (third quarter)*. 30 September 2021.

¹⁷ Business confidence of the total non-financial business sector. Figures 1.12 and 1.13 show the business confidence of the total non-financial SME sector.

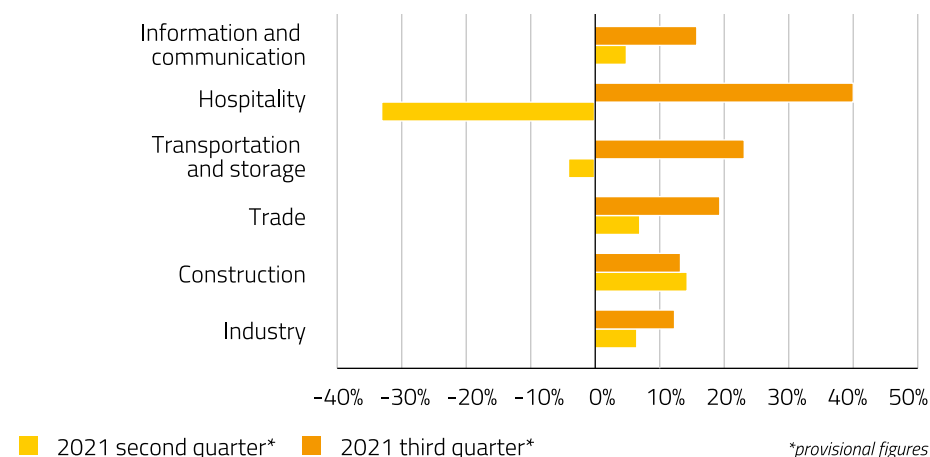
¹⁸ Statistics Netherlands (CBS), Economic Institute for the Construction Industry (EIB), Dutch Chamber of Commerce (KVK), Dutch Federation of Small and Medium-Sized Businesses (MKB-NL), Confederation of Netherlands Industry and Employers (VNO-NCW). (2021). *COEN Business Survey Netherlands, third quarter 2021 (kvn.nl)*.

Figure 1.12: Business confidence among total SME sector, excluding financial or utility companies. Period: 2015–2021.



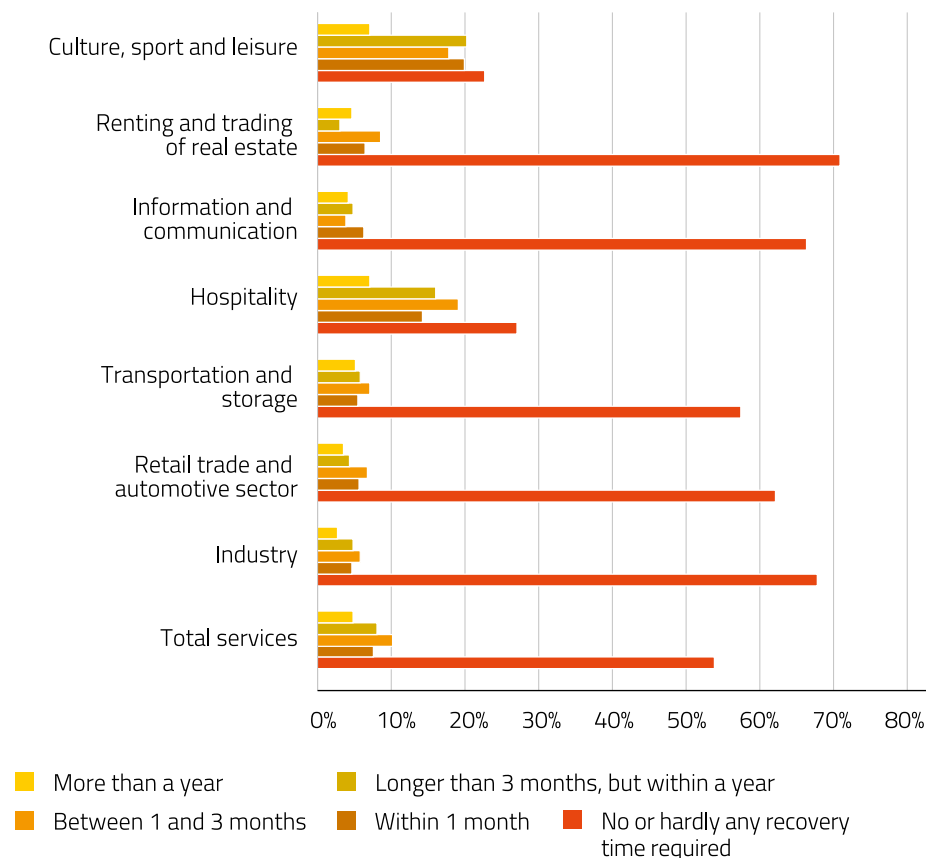
Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Figure 1.13: Development of business confidence among SMEs, excluding financial or utility companies, by sector. Period: Second and third quarter 2021.



Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

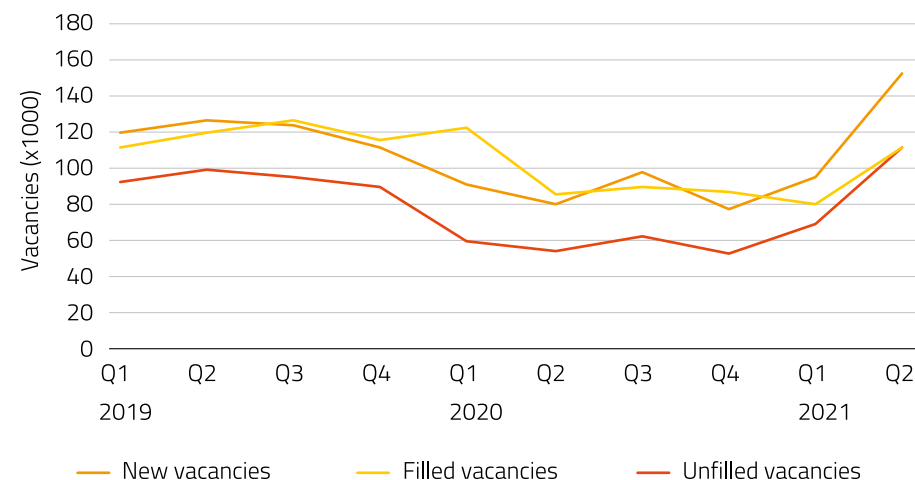
Figure 1.14: If all coronavirus measures are relaxed, how quickly can your company return to the same capacity level as before the pandemic? Period: 2021, Q3.*



*5 to 250 persons employed in the SME sector

Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Figure 1.15: Vacancies in trade, transport and hospitality. Period: 2019 (Q1)–2021 (Q1).



Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

The improving economy is resulting in a record number of vacancies in the SME sector. The support policy in 2020 prevented a sharp rise in unemployment.¹⁹ The CPB analysis shows that at least 65,000 people kept their jobs in 2020 as a result. This is also creating tension in the labour market.²⁰ At the end of the second quarter of 2021, there were over 187,000 vacancies in the SME sector. This is the highest number of vacancies since measurement began in 2011. The largest vacancy growth can be seen in the 'trade, transport and hospitality' sector (Figure 1.15), where the number of vacancies increased by almost 10,000, to almost 34,000. Entrepreneurs therefore see

¹⁹ CPB. (2021). *Economic analysis of support package 2020 (Economische analyse steunpakket 2020)*. 28 September 2021.

²⁰ Statistics Netherlands. (2021). *More vacancies than unemployed in second quarter (Meer vacatures dan werklozen in tweede kwartaal)*. 17 August 2021.

the 'labour shortage' as a major obstacle, especially in the 'construction' and 'transport and storage' sectors. See also Section 3.1 of this Annual Report on 'Human capital and labour mobility'.

Entrepreneurs are currently facing a lot of uncertainty. This section showed how the SME sector is faring. Although the economy is growing again, entrepreneurs are faced with rising commodity and gas prices and, as a result, rising inflation. At the same time, these businesses are still recovering from the crisis and its major impact on entrepreneurs.

Partly because of the support measures, dynamics are limited. There are fewer bankruptcies than expected. The ecosystems have for the most part been preserved. Consequently, many jobs have been preserved and the impact of the pandemic on unemployment has been limited. There is also a downside. Healthy market dynamics are important, give companies room to start up, restart or stop and lead to a productive deployment of people and resources. Now that the economy is doing better again, it is important to restore the balance.

The figures show that many companies are well on the way to recovery, but also that some sectors, especially those that have been hit the hardest, are still struggling to keep their heads above water. It is important to seize opportunities for sustainable growth. This requires a business climate that provides sufficient space for the SME sector to flourish. The next section looks at the growth potential of the Dutch SME sector.

1.2 The growth potential of the SME sector

This chapter provides insight into the growth potential – in terms of productivity, turnover and jobs – of the SME sector during the pandemic.²¹

Summary

The productivity development between 2019 and 2020 is different for the SME sector and large businesses. In terms of turnover development, compared to large companies, the SME sector managed to make it through the pandemic relatively well. Productivity growth in the SME sector has a major impact on added value for the Dutch economy.

Analysis by the Rotterdam School of Management shows that cooperation with customers in the innovation process is the most decisive factor for healthy growth. Investments are also an important factor, and this requires specific competences and skills among Dutch SMEs. The government has a role to play in driving this growth in productivity and jobs.

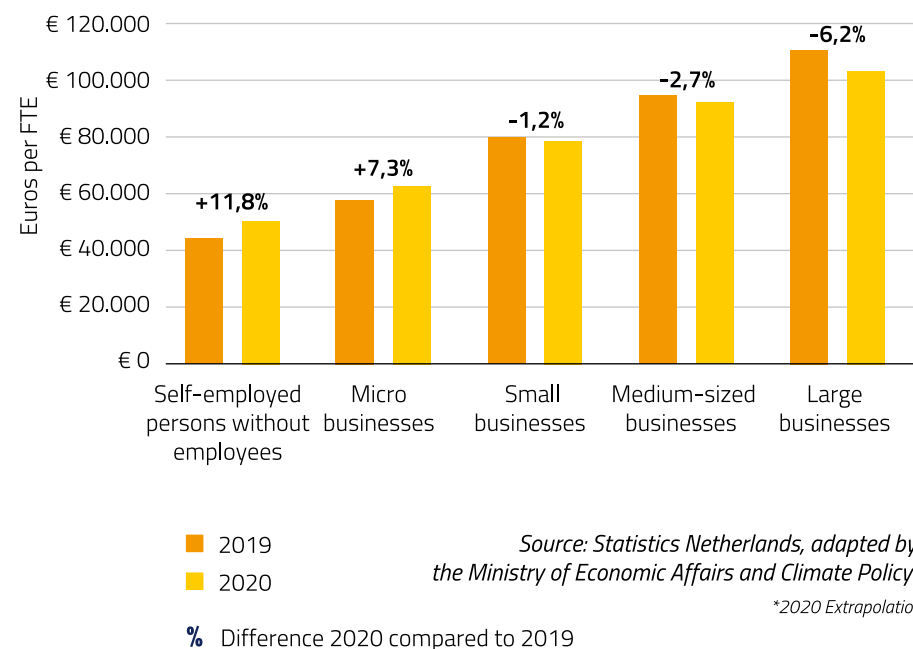
Sustainable growth is necessary for the continuity and long-term value creation of every SME. A focus on the climate and energy transition and the transition to a circular economy is of great importance in this regard.

The term 'productivity' is used in this Annual Report to refer to the earning capacity of businesses. The productivity of a business is the equivalent of the added value per full-time job (FTE). A business with higher productivity adds more value to the economy and thus to the growth potential for the Netherlands. For the business itself, it means having a buffer and being better able to withstand competition. Higher productivity means that entrepreneurs can achieve better performance with the same resources.

²¹ All turnover figures are exclusive of government support. For the added value, and thus the productivity figures, the amounts of support received are included. Labour volume FTEs includes people for the entire duration of their contract, even if they were at home due to the pandemic.

The productivity development between 2019 and 2020 is different for the SME sector and large businesses. Between 2019 and 2020, self-employed persons and micro businesses showed a slight increase in productivity (added value per FTE), while small, medium-sized and large businesses showed a slight decrease (Figure 2.1). The productivity of the SME sector (including self-employed persons) increased in relative terms between 2019 and 2020 in every sector. Large businesses are experiencing a decline in productivity, especially in the 'industry', 'automobile trade and repair', 'transport and storage' and 'business services' sectors. In absolute terms, productivity in large businesses remained higher than in the SME sector (Figure 2.2).

Figure 2.1: Development of productivity by size category. Period: 2019 and 2020.



In terms of turnover development, the SME sector has come through the pandemic relatively well. In 2020, self-employed persons and micro businesses experienced an increase in turnover, while small and medium-sized businesses experienced a slight decrease. For large businesses, the decline in turnover was considerably larger (Figure 2.3). In particular, the 'industry', 'automobile trade and repair', 'transport and storage', and 'business services' sectors saw a substantial decline in relative terms. With the exception of the 'transport and storage' sector, the turnover of large businesses in 2020 was greater than that of SMEs in absolute terms (Figure 2.4).

Figure 2.2: Development of productivity by sector: SMEs versus large businesses. Period: 2019 and 2020.

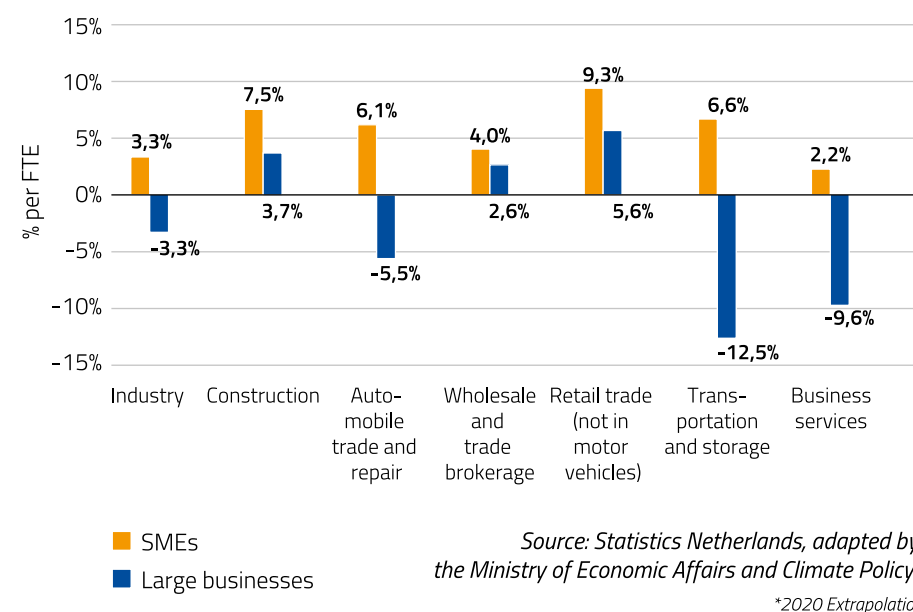
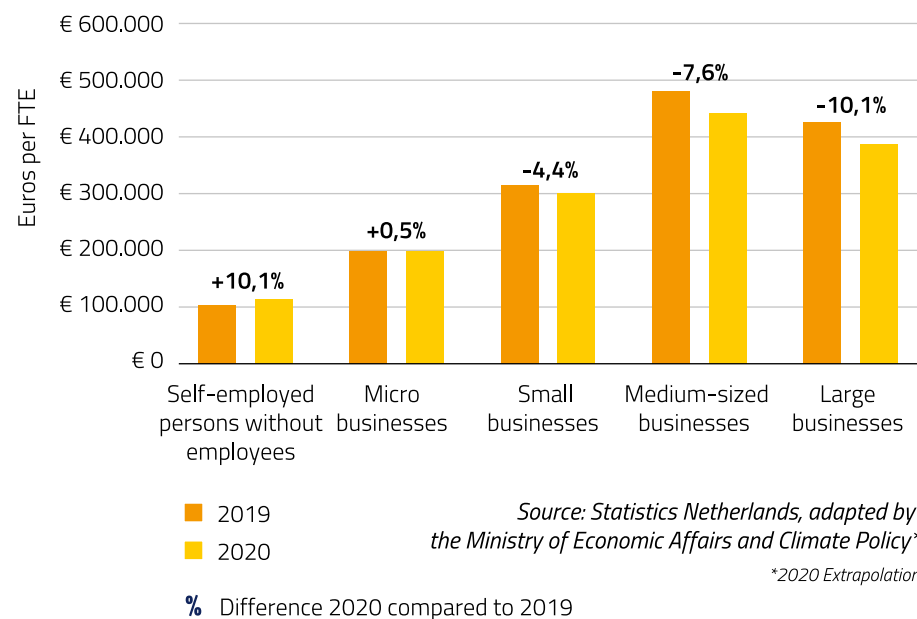
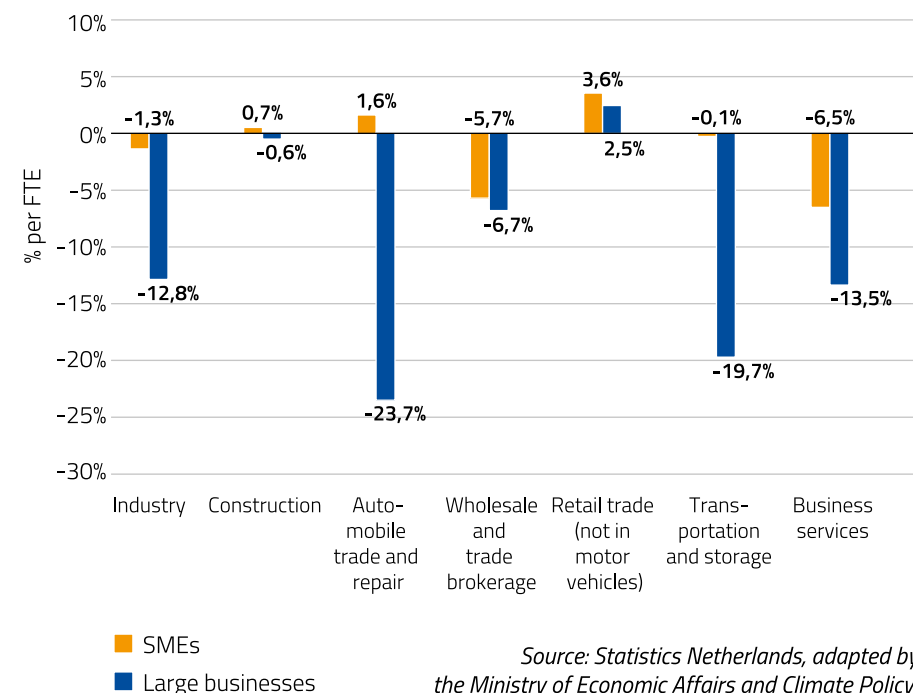


Figure 2.3: Turnover per FTE by size category. Period: 2019 and 2020.



Turnover and productivity developments between 2019 and 2020 paint a positive picture. The SME sector proved to be sufficiently resilient and agile to mitigate the impact of the pandemic, with the help of government support measures. At the same time, there are growth opportunities for the SME sector that are currently not or insufficiently exploited. The 'Growth Dynamics of Dutch SMEs 2007-2019' analysis by the Rotterdam School of Management (RSM) shows that the number of SMEs achieving growth in productivity and jobs has decreased in recent years, returning to the same level as in 2011.

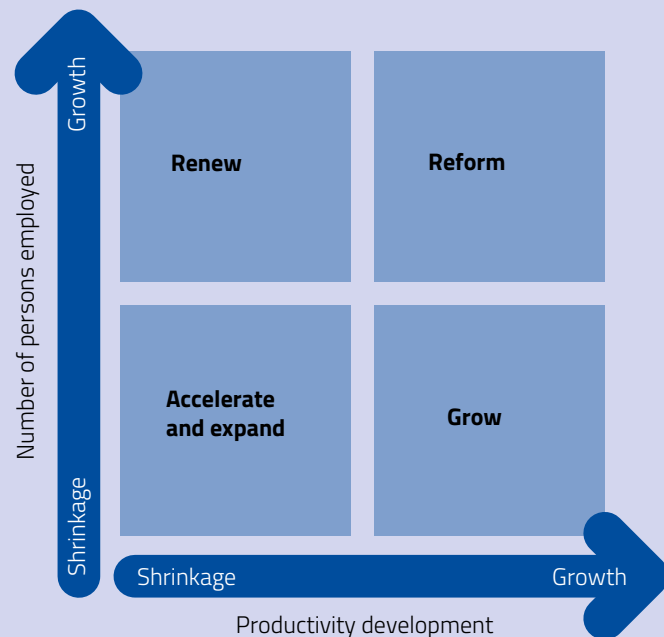
Figure 2.4: Development of turnover per FTE per sector (delta turnover per FTE 2020 vs turnover per FTE 2019).



Growth segments: productivity and jobs

In the context of this Annual Report, the Rotterdam School of Management (RSM) has conducted research into the growth dynamics of SMEs between 2007 and 2019. SMEs can be divided into four growth segments. A distinction is made here between productivity growth and growth in employment (number of persons employed). Each segment has different needs.²²

Figure 2.5: Four growth segments with core needs of SMEs.



Growth is not the main goal, but growth in jobs and productivity (the upper right segment) does provide the best starting point for Dutch SMEs. In line with RSM's analysis, this can be called 'healthy growth', because it leads to more added value, profitability and investment opportunities and thus to the continuity of the SME. Job growth without productivity improvement actually causes a decrease in results.

RSM's research in the 2020 Annual Report showed considerable dynamics within the SME sector. It also showed that SMEs follow different growth paths.²³ Experience shows that businesses that stand still or shrink in certain phases of their existence can become more productive later on. To this end, it is important that they make use of the opportunities to strengthen their productivity.

RSM's analysis is a follow-up to the 'Growth Dynamics of Dutch SMEs' study in the 2020 Annual Report.²⁴ The analysis provides in-depth insights into the growth dynamics of Dutch SMEs between 2007 and 2019. The full report has been published on the 'State of the SME sector' website.

The analysis shows, among other things, that cooperation with customers in the innovation process is a decisive factor in achieving productivity growth and growth in jobs. Due to data limitations, it is not yet clear how this relationship will impact on cooperation with other parties, such as suppliers. Firstly, this only concerns suppliers of equipment, materials, components or software. Secondly, no distinction is made here between *business-to-business* (B2B) and *business-to-costumer* (B2C), whereas it is obvious that the supplier-customer relationship is reciprocal especially in the B2B segment. Further research is needed to better understand the ways in which these parties can work together.

²² Dutch Committee for Entrepreneurship, *Investing in SME recovery and growth (Investeren in herstel en groei van het mkb)*, 26 August 2020. Four segments are identified in this: Renew, Reform, Accelerate and expand, Grow.

²³ Haans, R., G. Criaco, and J. Jansen. (2020). 'Final report Growth dynamics of Dutch SMEs' ('Eindrapportage Groeidynamiek van het Nederlandse mkb'). In: Dutch Committee for Entrepreneurship. (2020). *Doing business is looking ahead. State of SMEs Annual Report 2020*.

²⁴ See Dutch Committee for Entrepreneurship. (2020). *Doing business is looking ahead (Ondernemen is vooruitzien). State of SMEs Annual Report 2020*.

Growth Dynamics of Dutch SMEs 2007-2019

Dr. Richard Haans and prof.dr. Justin Jansen
Rotterdam School of Management

Dutch SMEs face significant challenges. The world is changing rapidly. Online business is the new normal. At the same time, society is ageing and new socio-technological developments are shaping the new landscape of many SMEs. Action is therefore essential. SMEs will not only have to realise new opportunities for growth by responding better to the changing needs of existing and new customers, but will also need to invest in the productivity of the organisation. Healthy growth of Dutch SMEs requires investments in digitalisation. Furthermore, new revenue models will need to be developed. Companies must not be afraid to look for new ways of serving the market.

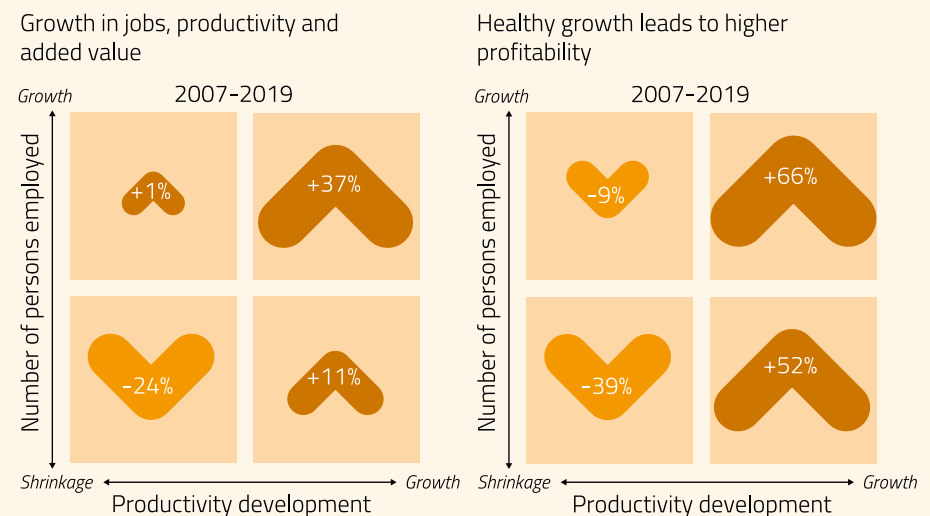
The research methodology in brief

For this study, various micro data files were used, collected and validated by Statistics Netherlands (CBS) during the period 2007-2019. The use of productivity data implies that all enterprises in the data are public or private limited companies; self-employed persons are not included. The analyses of innovation and investment concern representative samples of small and medium-sized businesses and therefore do not include micro businesses. All reported figures are based on regression models and are adjusted for the time period, the sector and the size category of the business.

Healthy growth as a foundation for short and long-term success

Achieving growth in both jobs and productivity – healthy growth – is the foundation for the success of Dutch SMEs, both in the short and the long term. Healthy growth not only leads to higher added value for SMEs but also to greater profits. These improvements in results then create opportunities for SME entrepreneurs to invest in long-term success through the development of new technology, digitalisation, the strengthening of partnerships and the application of new business models.

Figure 2.6: Growth segments: productivity and jobs.



Source: Statistics Netherlands, adapted by RSM

The number of SMEs growing in productivity and jobs has remained the same over the past ten years

The relative number of SMEs achieving healthy growth has, despite an upturn during 2011-2017, decreased over the recent period and is now at the same level as in 2011. Thus, the resilience and agility of SMEs have not increased, and SMEs still appear to be highly dependent on the economic cycle.

Achieving healthy growth: first bigger and then smarter

Healthy growth can be achieved through certain development paths. Most SMEs first grow in jobs, and then grow in both jobs and productivity: by means of smarter operations, achieving efficiencies and increasing the productivity of employees and processes in addition to maintaining growth in jobs.

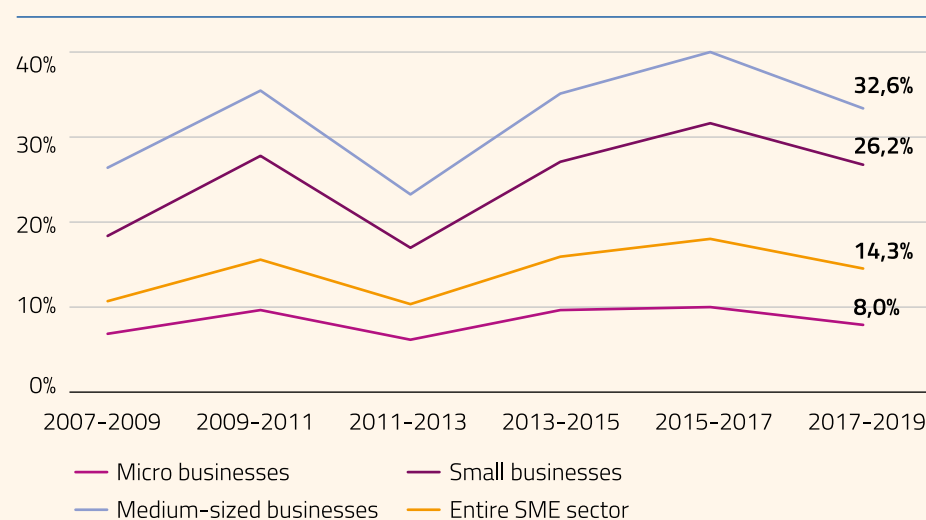
Investments are important, but competences and skills are even more important

Investments help to achieve healthy growth, but investment alone still yield relatively little in terms of new jobs and productivity improvements. Investments in knowledge and technology must be applied to new products, services or earning models, and this requires specific competences and skills among Dutch SMEs.

Still not often applied, but cooperation with customers is crucial for healthy growth

Co-creation with customers is an extremely important breeding ground for SMEs in order to realise new growth opportunities and to increase productivity. It ensures future-proofing and helps SMEs to better understand and combine emerging technologies and changing customer needs. It is also important, for example, in the implementation of process improvements and the way in which value is added, in an effective and efficient manner. Co-creation is thus an important foundation for future growth in both jobs and productivity. Partnerships with other parties, including suppliers (of equipment, materials, components or software), do not have a clear effect on the path to job and productivity growth. Data limitations preclude deeper insights into these partnerships: further research is needed to better understand the consequences of these partnerships.

Figure 2.7: Percentage of Dutch SMEs moving towards growth in jobs and productivity. Period: 2007-2019.



Source: Statistics Netherlands, adapted by RSM

Support from the national government is an important driver

Government support in the innovation process has been shown to be an important driver of growth in jobs and productivity. Support from national governments, in particular, appears to play a role in this. For local and regional support for innovation – partly due to their limited use, combined with a limited sample in these analyses – it cannot yet be determined whether they make a direct contribution to healthy growth. Moreover, the granularity of the data used is limited: further research is needed to evaluate whether or not specific instruments contribute to healthy growth.

Dutch SMEs on the move for substantial growth in added value

Targeted interventions and support are necessary to increase the agility and resilience of Dutch SMEs. By encouraging the development of the right skills and activities, significant steps forward can be made in job creation, productivity growth, added value and profitability.

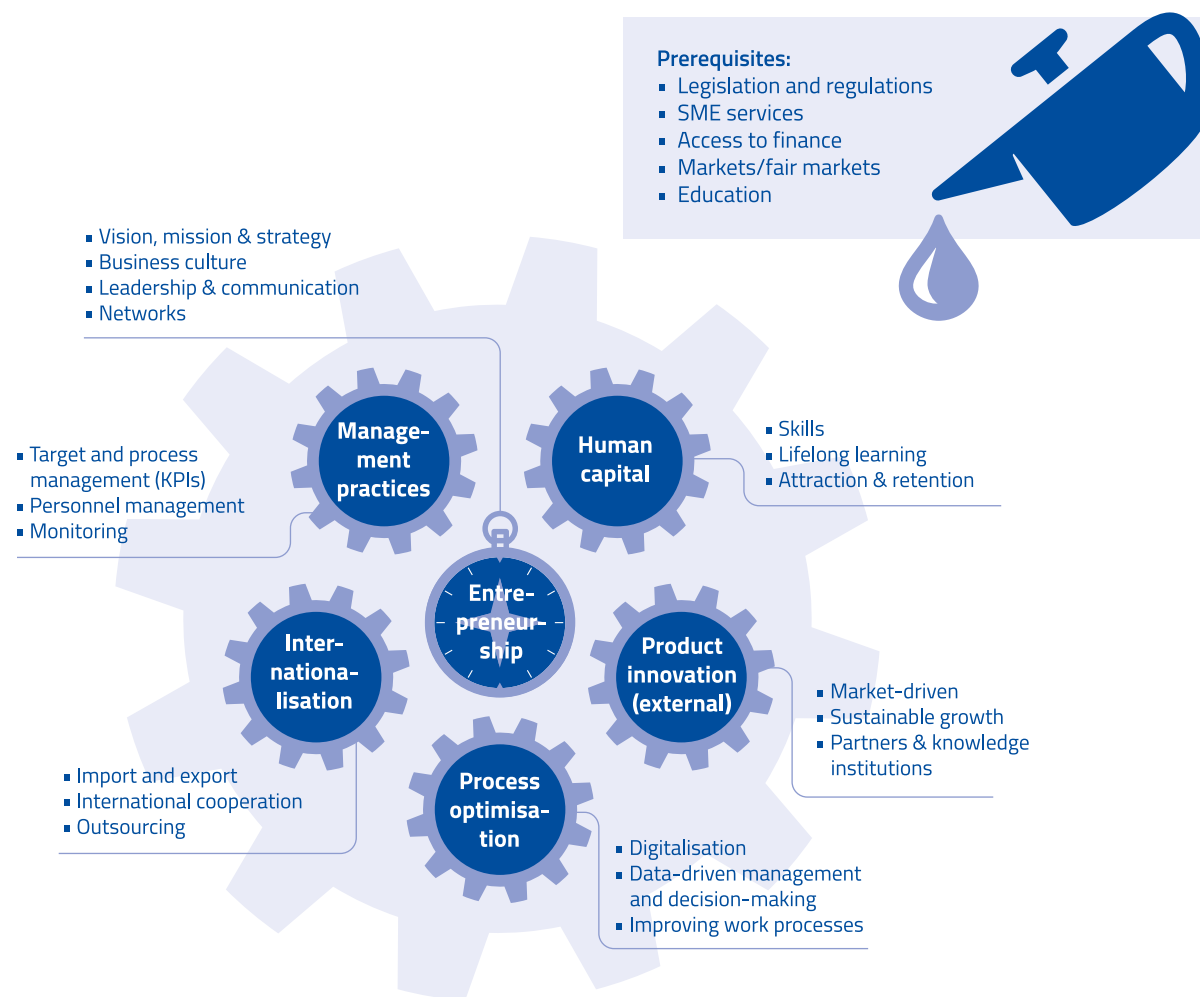
For example, if about 10 percent of Dutch SMEs, i.e. about 45,000 SMEs, were to collaborate with customers during the innovation process, internationalise and focus on product or process innovation, this would collectively create almost 15,000 FTEs in new jobs, EUR 1.3 billion in extra productivity, EUR 11.7 billion in extra added value and EUR 670 million in extra profitability for SMEs.²⁵

Figure 2.8: SMEs on the move. What is the result?

10% additional SMEs that will carry out	Current use	Additional jobs (in FTEs)	Additional productivity (in million €)	Additional added value (in million €)	Additional net result (in million €)
Innovation cooperation with customers	6.60%	3,318.90	295.87	2,624.36	150.67
Process innovation: Logistics	9.11%	2,091.03	186.41	1,653.45	94.93
Innovation assistance from national government	20.16%	2,963.27	264.16	2,343.16	134.52
Product innovation: New for the market	22.08%	2,019.29	180.01	1,596.72	91.67
Product innovation: New for the business	21.70%	1,959.91	174.72	1,549.77	88.97
Export	60.69%	2,304.40	276.35	2,115.80	124.09
Import	89.77%	2,818.29	222.15	2,122.99	120.87
Investment in communication equipment (in €; 1 SD = €3.386)	1,124.21	858.4	76.52	678.76	38.97
Investment in computers (in €; 1 SD = €23.595)	11,101.61	829.37	73.93	655.81	37.65
Investment in buildings (in €; 1 SD = €185.541)	46,053.50	412.52	36.77	326.19	18.73
Investment in other tangible assets (in €; 1 SD = €236.756)	101,263.40	1,111.70	99.1	879.06	50.47

25 These calculations are based on 37,757 additional micro businesses, 5,726 additional small businesses and 1,253 additional medium-sized businesses – given that 85% of the roughly 450,000 Dutch SMEs are micro businesses, about 13% are small businesses and about 3% are medium-sized businesses (source: MKB in Beeld 2021). The innovation and international activities are measured as present or absent, where the ‘present use’ is the percentage of businesses that currently perform the activity and the economic effects come from the number of businesses that would newly perform these activities. The investments, on the other hand, are average amounts in euros – the economic effects here come from the scenario in which the additional businesses all invest one standard deviation more.

Figure 2.9: Model for sustainable productivity growth.



Now that the economy is doing well again, businesses must look to the future.

There are opportunities for entrepreneurs to increase the earning power of their business, but also great challenges. RSM's 'Growth dynamics of Dutch SMEs 2007-2019' analysis has already identified a number of 'buttons' that entrepreneurs can press in order to realise an increase in added value, productivity and growth in jobs. These buttons are also represented in the model for sustainable productivity growth.

The 2019 Annual Report presented the model for sustainable productivity growth.²⁶ This analysis model shows which buttons entrepreneurs can press in order to increase the earning capacity of their business. The model shows policymakers which factors are important for improving the earning capacity of businesses.

²⁶ Dutch Committee for Entrepreneurship (2019). *Investing in growth potential (Investeren in groeivermogen)*. State of SMEs Annual Report 2019.

Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Sustainable growth is necessary for the continuity and long-term value creation of every SME. The concept of 'healthy growth' (see RSM analysis 'Growth dynamics of Dutch SMEs 2007-2019') focuses on prosperity in the narrow sense and is primarily related to gross domestic product (GDP). Growth that aims for broad prosperity, that creates long-term value for a broad group of stakeholders, goes beyond healthy growth. This is sustainable growth. It can increase the social value of SMEs.

A focus on the climate and energy transition and the transition to a circular economy is of vital importance in order to be able to grow sustainably, but also to maintain a favourable position in the market. The need for sustainability is growing, as is society's attention to the ecological footprint of businesses. In order to secure their earning capacity in the medium and long term, entrepreneurs must make their premises, vehicle fleet and processes sustainable. More and more actors in the ecosystem, including customers, employees and suppliers, attach importance to participating in the climate and energy transition. Moreover, governments are forced to take binding and other measures, which also affect the SME sector.

A feasible and affordable transition lies partly in the decisions SME entrepreneurs make during natural investment and replacement moments. It is important that entrepreneurs take sustainability into account when making investments and changes in their business. According to research by the European Investment Bank, 49% of Dutch SMEs already made investments in this field in 2020. This is well above the European average of 38%. Compared to large businesses, investments are lagging behind, as 69% of Dutch large businesses have already made investments to counteract climate change. Moreover, in 2020, only 6% of all investments by the Dutch SME sector were intended for more efficient use of energy. This is a low percentage compared to other European countries.²⁷

The development of new 'green' markets also offers opportunities for entrepreneurs.

The transition to a sustainable economy requires efforts and targeted investments, but it also produces opportunities. Dutch SMEs develop innovative, sustainable technologies that contribute to the transition. The government can stimulate this development, not only by taking measures in the field of sustainability, but also by improving services. In addition, financing for sustainable investments needs to be made more accessible.

Sections 2 and 3 of this Annual Report discuss prerequisites and factors for entrepreneurship, thereby building on previous analyses. In the SME Recovery and Growth Plan (2020), the Committee noted, on the basis of the four growth segments, that different businesses have different needs. The plan contained 10 measures for the recovery and growth of the SME sector.²⁸

Earlier this year, the Committee recommended a programmatic approach in its 'Strengthen entrepreneurship foundations' advisory letter. In particular, attention was drawn to:

- a new facility to strengthen the equity base of the wider SME sector;
- structural facilities for labour mobility within and towards the SME sector;
- streamlining public and other services to entrepreneurs.²⁹

Section 2 of this Annual Report focuses on the prerequisites for the SME sector in order to be able to do business effectively, such as SME services, entrepreneurship education and access to finance. Section 3 subsequently offers insight into a number of factors that enable entrepreneurs to grow sustainably, such as human capital, innovation, digitalisation and internationalisation.

²⁸ Dutch Committee for Entrepreneurship (2020). *Investing in SME recovery and growth (Investeren in herstel en groei van het mkb)*. 26 August 2020.

²⁹ See also: Dutch Committee for Entrepreneurship (2021). *Strengthen entrepreneurship foundations (Versterk fundament ondernemerschap)*. Advisory letter. 21 April 2021.

²⁷ EIB. (2021). *European firms and climate change 2020/2021: Evidence from the EIB Investment Survey*.

2.

Prerequisites for entrepreneurship



2.1 Strengthening the prerequisites for entrepreneurship

Although the signs of an economic upturn are positive, it continues to be important to strengthen the prerequisites for entrepreneurship, also in view of the major challenges faced by the SME sector.

Summary

Partly in view of the major challenges faced by the SME sector, strengthening the prerequisites for entrepreneurship remains important.³⁰ The SME Diagnostic Tool can assist entrepreneurs in the choices they make. Public and other services to SMEs can be improved. Better information on legislation and regulation is also essential. Governments and other parties will benefit from more scientifically based knowledge, experience and insights into developments in the SME sector in order to facilitate sustainable SME growth and innovation. The Committee furthermore stresses the importance of entrepreneurship education.

To help entrepreneurs gain a better understanding of their own possibilities, the free SME Diagnostic Tool has been developed.³¹ This allows entrepreneurs to gain greater insight into the status of their business in comparison to their peers. Entrepreneurs who use the tool receive an advisory report on their online visibility, creditworthiness, customer rating and industry developments. They are also offered guidance in the form of a personal consultation, training, coaching, tools and inspiration. This can help entrepreneurs to make the right choices and to be prepared for the future.

³⁰ The Committee advocates a national programme. See also: Dutch Committee for Entrepreneurship (2021). *Strengthen entrepreneurship foundations (Versterk fundament ondernemerschap)*. Advisory letter. 21 April 2021.

³¹ *The SME Diagnostic Tool* was developed by Qredits and the Dutch Chamber of Commerce, with a grant from the Ministry of Economic Affairs and Climate Policy.



Public and other services to SMEs can be improved. There are many organisations and partnerships, in various fields, as the 2020 Annual Report showed.³² The Committee indicated that the landscape of private and public parties supporting entrepreneurs should be reviewed: does it still meet the needs of the entrepreneurs, is it efficient and effective and how can cohesion and cooperation be strengthened? The Committee has announced that it will issue an opinion on these matters.

In 2021, KplusV conducted a study into the current landscape of the services provided by governmental and semi-governmental organisations to the Dutch SME sector. The main question is: 'how can cooperation between governmental and semi-governmental organisations be strengthened in such a way that entrepreneurs have quicker and more focused access to information and advice, so that they can be helped to make timely decisions to keep their business healthy, to make it healthy again or, if necessary, to cease their operations before things get worse?'

The study identifies the needs of the SME sector and the cohesion and cooperation in service provision, to see if this still meets the needs of the SME sector. The study covers:

- the perspective and needs of the SME sector;
- the supply of information and advice;
- the mismatch between supply and demand;
- cooperation between support organisations.

The study focuses on the entrepreneur's 'journey' through the landscape of services: various SME entrepreneurs' search for information and advice. The supply of public and semi-public organisations has been identified, including the overlap, fragmentation and gaps in service provision. The report analyses what is going well, but it also identifies bottlenecks. There is room for improvement in the areas of coordination and direction, findability and accessibility and mutual cooperation.

The study shows that there is indeed a need for improvements in the provision of services. The Committee uses the report to enter into dialogue with the various stakeholders and will issue an opinion to the Minister of Economic Affairs and Climate Policy at a later date.

Better, more understandable and comprehensive information on the specific obligations arising from legislation is needed. This is a plea that also emerges from various studies into the regulatory burden. Reducing the regulatory burden is also a way of strengthening entrepreneurship and making it more attractive. The black book on regulatory burden ('Regeldruk: Zand in de motor') compiled by MKB-Nederland lists specific bottlenecks and problems encountered by entrepreneurs that require a solution by the various levels of government.³³

Scientifically based knowledge, experience and insights into the developments in the SME sector are needed to facilitate sustainable growth and innovation.

The pandemic has reinforced the need for up-to-date data and has given an impetus to cooperation between public and private data providers. Deepening knowledge is possible because more and more data are becoming available from public, semi-public and commercial organisations. The Committee has encouraged the Ministry of Economic Affairs and Climate Policy, building on the annual State of the SME sector report, to make better use of the available data, to connect it together and to cooperate closely with the relevant partners, including knowledge partners. The Ministry has taken the initiative to establish a knowledge platform.

³² Dutch Committee for Entrepreneurship (2020). *Doing business is looking ahead (Ondernemen is vooruitzien)*. State of SMEs Annual Report 2020.

³³ MKB-Nederland. (2021). *Regulatory Burden: The Sand in the Engine (Regeldruk: Het zand in de motor)*, July 2021.

Entrepreneurship education: O2LAB

On the initiative of the Dutch Committee for Entrepreneurship, the Netherlands Enterprise Agency has been working on the O2LAB programme on behalf of the Ministry of Economic Affairs and Climate Policy since April 2019. This programme focuses specifically on strengthening, embedding and stimulating entrepreneurship and entrepreneurial skills among the working population and entrepreneurs in and through education. The aim is also to strengthen SME entrepreneurs' own learning cultures with regard to their entrepreneurship and entrepreneurial skills. After all, sound business practice forms the basis for innovation, labour productivity and economic growth. Strengthening the learning culture, including entrepreneurial competences, is essential for this.

Entrepreneurial competences such as creativity and perseverance can be trained. The goal of O2LAB is to encourage more entrepreneurs to follow entrepreneurship training, to bring about an increase in entrepreneurial skills among the working population, to increase motivation among pupils/students and entrepreneurs to follow entrepreneurship education and to make entrepreneurship education part of the curriculum.

In this respect, O2LAB opts for a practical demand-oriented approach that realises a stronger connection between education, research, working and entrepreneurship and that facilitates the exchange of knowledge about entrepreneurship education.

Good education aligned to practice is a prerequisite for personal and economic growth. Learning and continuing to train in entrepreneurial competences helps in this respect. Many good initiatives have been established to this end in recent years.

The Dutch Committee for Entrepreneurship underlines the importance of entrepreneurship education. O2LAB provides a national platform for everyone interested or involved in entrepreneurship education.

The O2LAB programme has led to 'Getting started with EntreComp in education, Guide to Entrepreneurial Competences' (*Aan de slag met EntreComp in het onderwijs, Handreiking voor Ondernemerscompetenties*), which can be ordered online via the website of Boom hoger onderwijs.

More information about O2LAB can be found on the website of the *Netherlands Enterprise Agency*.

2.2 Access to finance

This chapter examines the bottlenecks in access to finance for SMEs.

Summary

Easy access to finance is crucial for the SME sector. Structural bottlenecks in the field of SME financing remain an obstacle to investment. The SME sector (especially micro and small businesses) is experiencing difficulties in raising finance. The Committee proposes to strengthen the equity of SMEs by means of a fund. Furthermore, the limited availability of pre-seed and venture capital for start-ups represents a problem. For scale-ups (growth companies) with large capital requirements, it is a challenge to raise larger 'tickets' in Europe.

Bank loans are the most important source of external finance for the SME sector.

In the first quarter of 2021, an amount of €123.8 billion in bank lending was outstanding.³⁴ The importance of alternative (non-bank) financing for the SME sector has been increasing in recent years. The total volume of non-bank financing in 2020 amounted to €2.4 billion and involved 39,490 loans.³⁵ The vast majority were credit facilities of less than €1 million. Figure 4.1 provides insight into the size and development of the various forms of non-bank financing. In addition, the volume of venture capital investments in the Netherlands increased from €627 million in 2019 to €901 million in 2020.³⁶

34 De Nederlandsche Bank N. V. (DNB): (2021). *Lending by large Dutch banks to small and medium-sized businesses (Quarter)* (Kredietverlening Nederlandse grootbanken aan Nederlands midden- en kleinbedrijf (Kwartaal)). 3 September 2021.

35 Stichting MKB Financiering. (2021). *Non-bank financing study 2020* (Onderzoek non-bancaire financiering 2020).

36 NVP. (2021). *Venture capital investments* (Investeren venture capital).

Figure 4.1: Volume and development of non-bank financing 2019–2020 in millions of euros.

Form of non-bank financing	2019	2020	Growth (%)
Credit unions	5.7	19.3	239%
SME Exchange	26.2	21.3	-19%
Real estate finance	105.3	205.7	95%
Direct Lending	230.5	212.8	-8%
Crowd funding	308	277	-10%
Factoring	474	442	-7%
Lease	1,400	1,200	-13%
Total	2,552	2,402	-6%

Source: Stichting MKB Financiering, adapted by the Ministry of Economic Affairs and Climate Policy

The SME sector is experiencing obstacles in raising loan capital. This is evident from research by Dialogic and from the most recent Finance Monitor by Statistics Netherlands: the smaller the business, the less successful it is in attracting financing.³⁷ For example, only 7% of micro businesses successfully apply for

37 Dialogic. (2019). *SME finance market policy approach study* (Onderzoek beleidsaanpak mkb-financieringsmarkt).

financing.³⁸ Rejection rates are relatively high in the Netherlands compared to other countries in Europe. Dutch banks granted 15% fewer loan applications to businesses in 2017/2018 compared to banks in the Eurozone. Possible explanations for this are that businesses do not apply because they expect the application to be rejected, that mortgages are more interesting for banks than business loans and that there is no register in which lenders can view information about the creditworthiness of businesses.³⁹ In addition, the share of the alternative finance market is still limited, and so the competition on the supply side of the market is inadequate.

The consequence of limited access to debt capital is that SMEs have less opportunity to invest in productivity-enhancing innovations. This is hampering the growth potential of the SME sector. Access to capital is badly needed to provide perfectly healthy businesses with opportunities for sustainable growth. At the request of the government, the Committee has produced an advisory letter to find a solution to this problem.⁴⁰

The Committee proposes to strengthen the equity of SMEs by means of a fund. This will provide businesses with more financing options and make them less dependent on bank financing. This concerns venture capital for SMEs that are perfectly healthy, with sufficient potential for value creation, but which are limited in this due to their equity position. The envisaged fund can provide subordinated loans with tickets ranging from €250,000 to €5 million, combined with coaching and advice. Market players and industry associations can act as distribution partners. The fund is aimed at private financiers. In the start-up phase, a mobilising role by the government is necessary. The Committee advocates a step-by-step approach.⁴¹

There are also specific problems on the financing market for businesses with a higher risk profile: start-ups and scale-ups. The availability of pre-seed and venture capital is relatively limited.⁴² This hampers the financing of businesses with a higher risk profile and restricts the continued growth of SMEs with high growth potential. These are often start-ups and scale-ups. Start-ups have a relatively hard time finding external financing; their success rate is 55%.⁴³ As a result, promising innovations get stuck in the 'valley of death'.⁴⁴ This is a challenge in particular for knowledge-intensive start-ups developing high-tech innovations.⁴⁵ Although an increase in venture capital investment has been visible in recent years, the Netherlands lags behind the European leaders in terms of per capita investment in start-ups.⁴⁶ This calls for additional stimulation of early-stage financing options, with a specific focus on access to venture capital for university start-ups in order to promote the efficient commercialisation of scientific knowledge for the market.

Start-ups are young, innovative, technology-driven and scalable companies with international growth ambitions. Scale-ups are growing start-ups. Start-ups and scale-ups create new markets and dynamism in the economy. The successful development of key and other technologies, and especially their scalable application in lucrative business models, can lead to new frontrunners in new markets. The emergence of successful start-ups and scale-ups on Dutch soil is therefore crucial for Dutch competitiveness and for jobs in the future.

38 Statistics Netherlands. (2021). *Finance Monitor 2020 (Financieringsmonitor 2020)*.

39 In its '*SME financing from a European perspective*' ('*Mkb-financiering in Europees perspectief*') report, CPB investigated the causes of the relatively low reported probability of lending in the Netherlands compared to the Eurozone as evidenced by the ECB SAFE Surveys in 2019. This relatively low reported probability of lending has been ongoing for years.

40 See also: Dutch Committee for Entrepreneurship (2021). *Strengthening equity advisory letter (Briefadvies versterking eigen vermogen)*. 1 November 2021.

41 See also: Dutch Committee for Entrepreneurship (2021). *Strengthening equity advisory letter (Briefadvies versterking eigen vermogen)*. 1 November 2021.

42 Dialogic. (2019). *SME finance market policy approach study (Onderzoek beleidsaanpak mkb-financieringsmarkt)*.

43 Statistics Netherlands. (2021). *Finance Monitor 2020 (Financieringsmonitor 2020)*.

44 See: KplusV. (2020). *Risk Capital in the Early Phase. Capitalising on untapped potential (Risicocapitaal in de Vroege Fase. Onbenut potentieel verzilveren)*. 14 December 2020.

See also: ACTI. (2019). *Let a thousand flowers bloom: sowing for tomorrow's economy (Laat duizend bloemen bloeien: zaaien voor de economie van morgen)*.

45 AWTI. (2020). *The key to continued growth of knowledge-intensive start-ups (De sleutel tot doorgroei van kennisintensieve start-ups)*.

46 Atomico. (2020). *The State of European Tech 2020*.

It is a challenge for growth companies in Europe to meet their capital requirement. Various reports by the European Investment Bank (EIB), the World Economic Forum (WEF) and McKinsey, among others, show that there is a shortage of large-scale venture capital investments in the scale-up phase throughout Europe.⁴⁷ Larger financing rounds are often dominated by foreign, mainly US, investors.⁴⁸ As a result, economic potential is leaking away from the Netherlands to other parts of the world and opportunities are not being exploited.

⁴⁷ EIB. (2019). *Investment report 2019/2020: Accelerating Europe's transformation*; World Economic Forum. (2020). *Bridging the Gap in European Scale-up Funding*; McKinsey. (2020). *Europe's start-up ecosystem: Heating up, but still facing challenges*. 11 October 2020.

⁴⁸ Atomico. (2020). *The State of European Tech 2020*.



3.

Factors for sustainable growth



3.1 Human capital and labour mobility

This section looks at human capital as an important factor for the SME sector to achieve sustainable growth. Labour mobility – the movement of workers on the labour market – is important for moving human capital to sectors with labour shortages.

Summary

The pandemic has caused a decline in the number of jobs, particularly as a result of the contraction in the hospitality sector. The coronavirus support package broadly prevented a sharp rise in unemployment, and after the lifting of the second lockdown, job growth quickly picked up again. Employees mostly stayed where they were during the coronavirus period; employers were able to keep paying them due to government support. Nevertheless, the impact of the crisis in a number of sectors and for employees with flexible contracts has been enormous. The number of self-employed persons also reached its highest point ever.

In spring 2021, the tension on the labour market was high; there were more vacancies than unemployed people. Staff shortages appear to be a structural trend due to the ageing of the population. Companies will have to adapt with investments in labour-saving techniques and lifelong learning (LLL). Investments by employers in the continuing development of their staff are needed, not only for the transition to a digital and sustainable economy, but also to increase labour productivity, in order to ensure that employees are versatile and sustainable and to reduce the mismatch on the labour market. Participation in lifelong learning (LLL) is still too limited within the SME sector. It is also increasingly important to have sufficient qualified human capital for successful large-scale transitions of sustainability and digitalisation.

During the past year, the Dutch Committee for Entrepreneurship and the Social and Economic Council (SER) have together – physically and digitally – made working visits to various regions and discussed experiences with work-to-work pathways. The temporary and supplementary crisis services, with regional mobility teams, can be a prelude to a structural strengthening of the stimulation of labour mobility. It is not only about finding new jobs after leaving old jobs, but also about lifelong learning. The Committee, together with the SER, is looking into possibilities for improvement.

The pandemic caused a decline in the number of jobs, which was mainly the result of the contraction in the hospitality sector. After the second lockdown was lifted, the number of jobs increased again. Prior to the pandemic, there was a long period of employment growth. The growth in the number of jobs in the business economy levelled off during 2019 and the beginning of 2020. During the two lockdowns, the number of jobs fell sharply, reaching its lowest point in the first quarter of 2021. In particular, the number of jobs in the ‘hospitality’ and ‘rental and other business services’ sectors declined. In other sectors, there was no sharp decline. In the second quarter of 2021, there was a large increase in the number of jobs. This effect is largely explained by the reopening of the hospitality sector. Figure 5.1 shows the percentage development.

For people who lost their jobs or were at risk of losing their jobs in the crisis, the third recovery package (autumn 2020) included supplementary crisis services by regional mobility teams to guide people towards new jobs. In the regional mobility teams, employers' associations, trade unions, municipalities and the Employee Insurance Agency (UWV) work together with educational institutions and the Foundation for Cooperation on Vocational Education, Training and Labour Market (SBB).⁴⁹

The coronavirus support package prevented a sharp rise in unemployment.

According to model simulations by the CPB Netherlands Bureau for Economic Policy Analysis, unemployment would have been between 0.7 and 2 percentage points (65-180 thousand unemployed) higher on average in 2020 without the three largest support measures: the Temporary Emergency Bridging Measure for Sustained

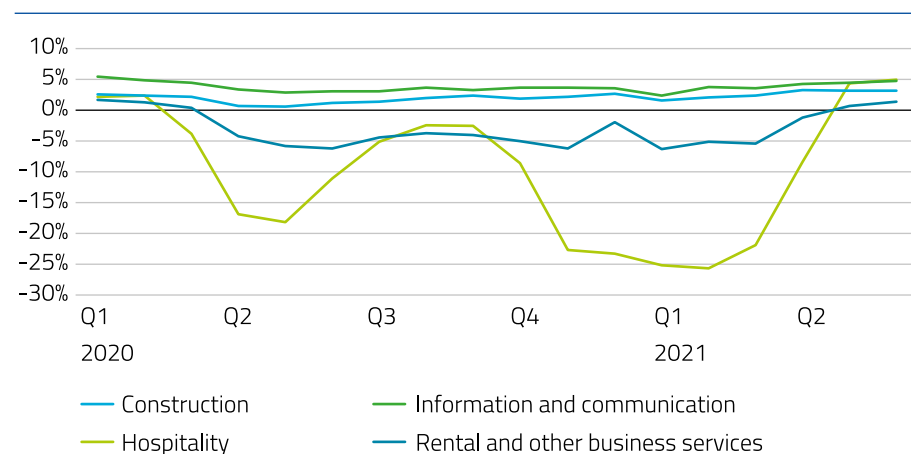
Figure 5.1: Development of jobs in the SME sector, entire business economy. Period: 2019-2021.



Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

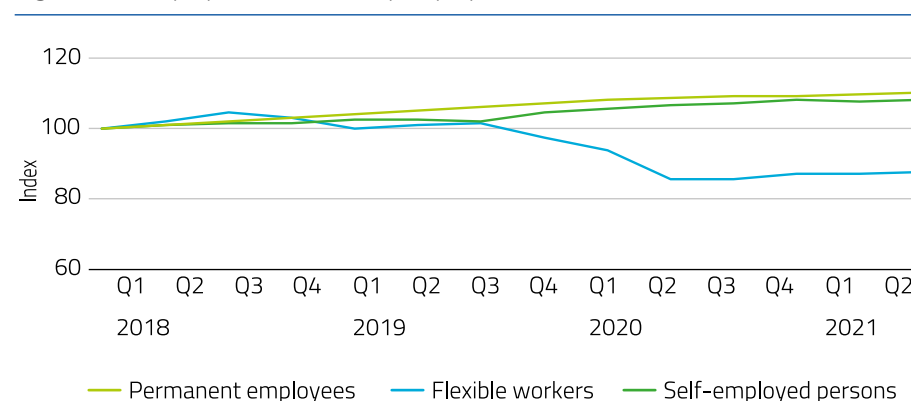
⁴⁹ See: Parliamentary papers II, 2020/21, 35420, No. 228. Letter to Parliament on the elaboration of the supplementary social package. 30 November 2020.

Figure 5.2: Development of jobs in the SME sector, per sector. Period: 2020-2021



Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Figure 5.3: Employed labour force by employment status. Period: 2018-2021.



Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Employment (NOW), the Reimbursement Fixed Costs (TVL) and the Temporary Bridging Scheme for Self-Employed Professionals (Tozo).⁵⁰ Jobs in the travel industry, hospitality and culture and sports sectors in particular are supported by the NOW measure.⁵¹ The NOW measure ensured that employees could remain in employment, as the government continued to pay most of them. CPB argues that the NOW measure has reduced the incentive for labour mobility; the measure temporarily disrupted the natural dynamics.

The number of self-employed persons continues to increase. In the third quarter of 2021, there were 1,582,065 self-employed persons, the highest number ever.⁵² Within the business economy as well, the number of businesses with a single employee has never been as high as it is now: 995,690 entrepreneurs are self-employed persons. This is 62,990 more than a year earlier.⁵³ This increase may be explained by the decrease in employment in the affected sectors. Another explanation may be that, due to the pandemic, people have found working independently to be attractive. The number of employees with a flexible contract was already declining just before the pandemic (Figure 5.3).

The number of people employed in the SME sector is decreasing. A comparison between 2019 and 2020 shows a slight decrease in the number of persons employed in micro, small and medium-sized businesses (Figure 5.4). The small business sector is experiencing a larger outflow than inflow. In the medium-sized and large business sector, the inflow was greater than the outflow (Figure 5.5). A possible explanation is that medium-sized and large businesses can offer better working conditions, such as higher pay and a permanent contract.

50 CPB. (2021). *Economic analysis of support package 2020 (Economische analyse steunpakket 2020)*. 28 September 2021.

51 Employee Insurance Agency (UWV). (2021). *UWV Labour Market Forecasts 2021 – 2022 (UWV Arbeidsmarktprognoses 2021-2022)*. 10 June 2021.

52 This concerns all economic activities.

53 These are quarterly figures for the number of businesses with a single employee. These figures therefore differ from the annual figures in Figure 5.3 concerning the number of persons employed by size category. Source: Statistics Netherlands. (2021). *Statline – Businesses; sector (Statline - Bedrijven; bedrijfstak)*. 15 July 2021.

Figure 5.4: Employed persons (x1,000) by size category. Period: 2019 and 2020.*

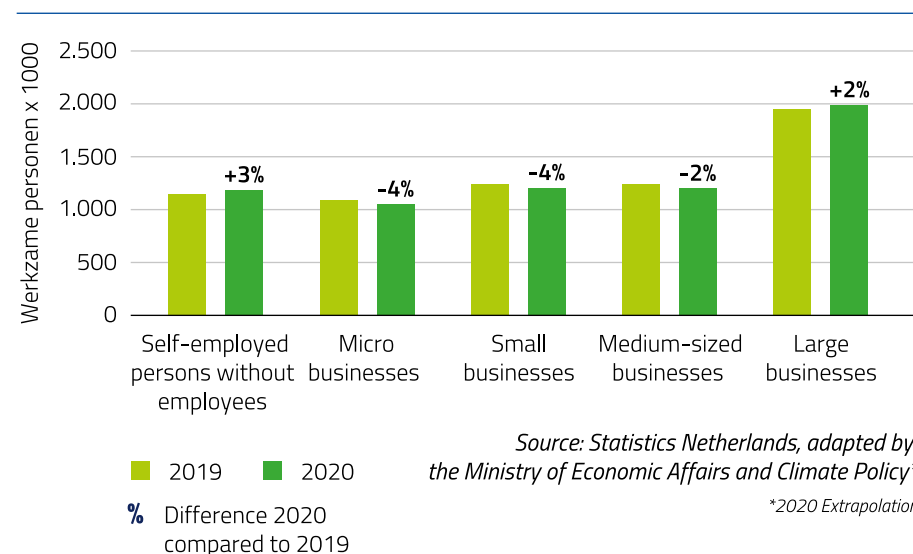
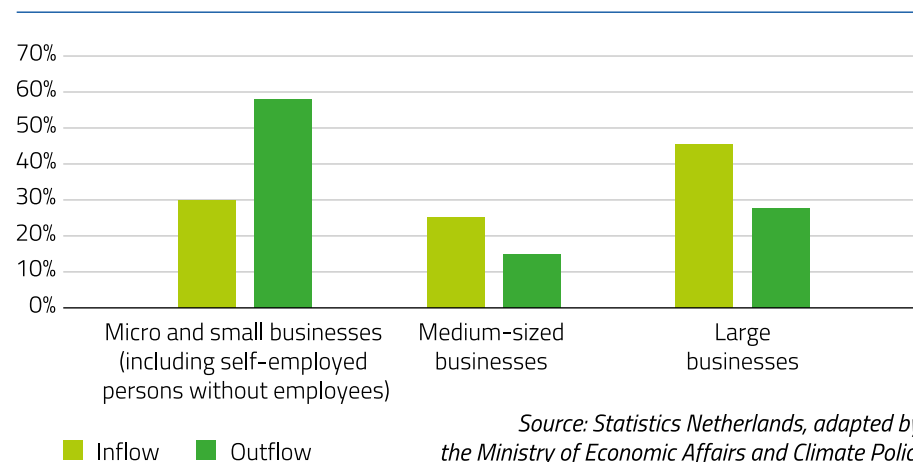
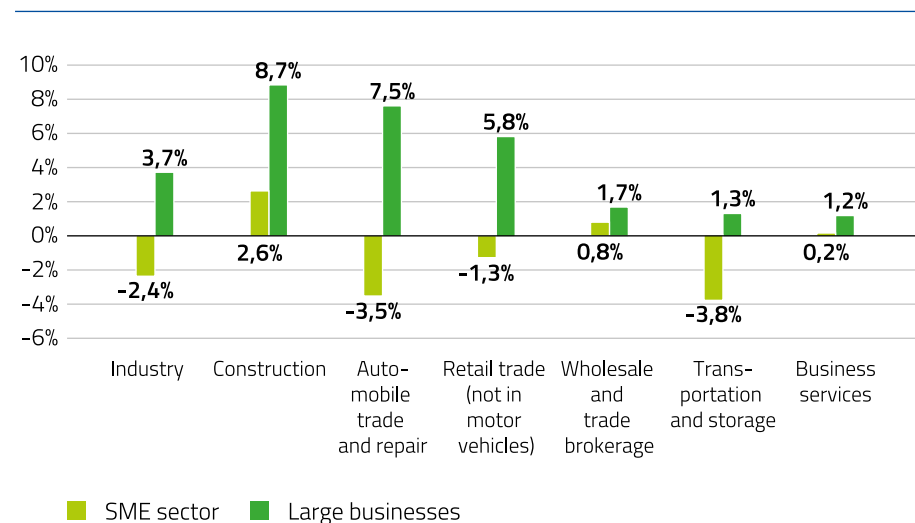


Figure 5.5: Inflow and outflow of non-employed or self-employed persons into employment and vice versa, by business size Period: 2019-2020.



Large businesses seem to be better at retaining staff. In each large business sector, there is a relative increase in the number of persons employed, while in the SME sector, there is a relative decrease in 'industry', 'automobile trade and repair', 'wholesale and trade brokerage' and 'transport and storage' (Figure 5.6). Micro and small businesses may therefore be harder hit by the labour shortage. Staff shortages force businesses to compete on working conditions. Businesses are becoming increasingly reluctant to cut back on their workforce.⁵⁴ CBS figures show that the top 10% of the most productive companies are more likely to offer employees a permanent contract (Figure 5.7).

Figure 5.6: Ontwikkeling aantal werkzame personen, mkb vs grootbedrijf, per sector. Periode: 2019 vs 2020.

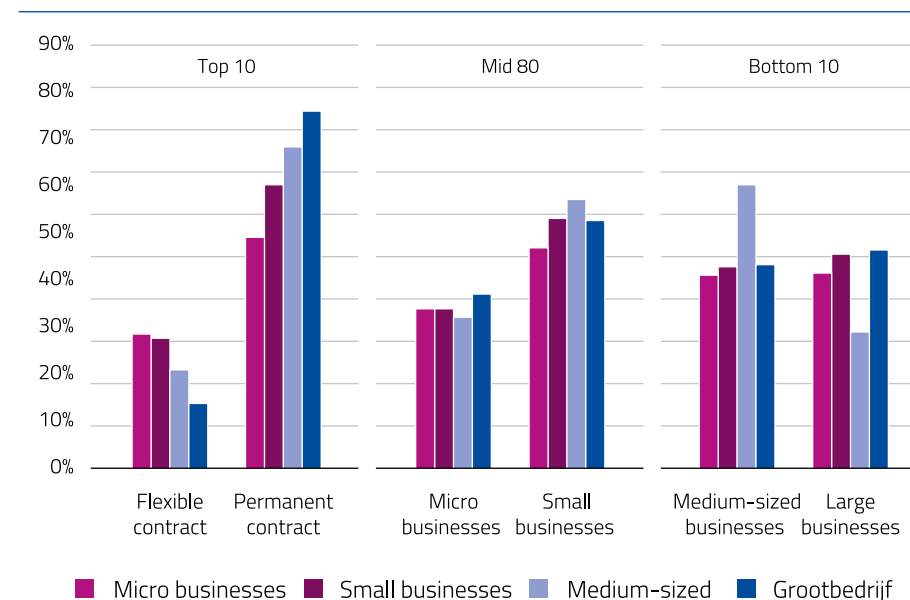


Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

⁵⁴ De Nederlandsche Bank N. V. (DNB): (2021). *Economic Developments and Prospects (Economische Ontwikkelingen en Vooruitzichten)*, June 2021, no. 21.

In the spring of 2021, the number of vacancies was higher than the number of unemployed people. This is the first time this has happened since the beginning of the CBS measurements in 2003. In the second quarter of 2021, there were 106 vacancies for every 100 unemployed people (Figure 5.8). Especially in the 'trade', 'transport and storage' and 'hospitality' sectors, there has been an enormous spike in the number of vacancies, most of them in 'trade'. In all sectors, the vacancy rate increased during the second quarter of 2021 (Figure 5.9). According to the Employee Insurance Agency, occupational categories within the business economy are very tight: 'technical professions', 'ICT professions' and 'transport and logistics professions'.⁵⁵

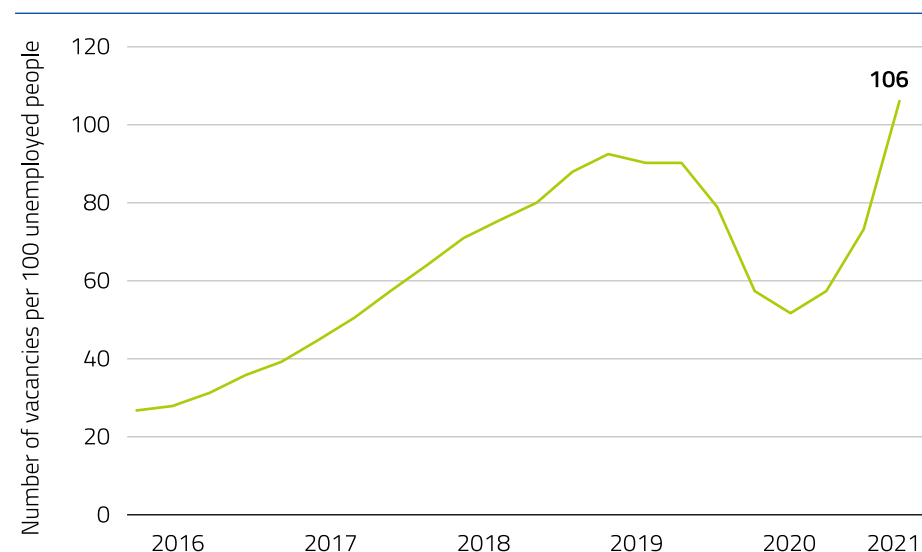
Figure 5.7: Distribution of types of contract per business group. Period: 2019.



Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

⁵⁵ Employee Insurance Agency. (2021). *Tension Indicator dashboard (Dashboard Spanningsindicator)*, second quarter 2021.

Figure 5.8: Vacancies per 100 unemployed people. Period: 2019-2020.

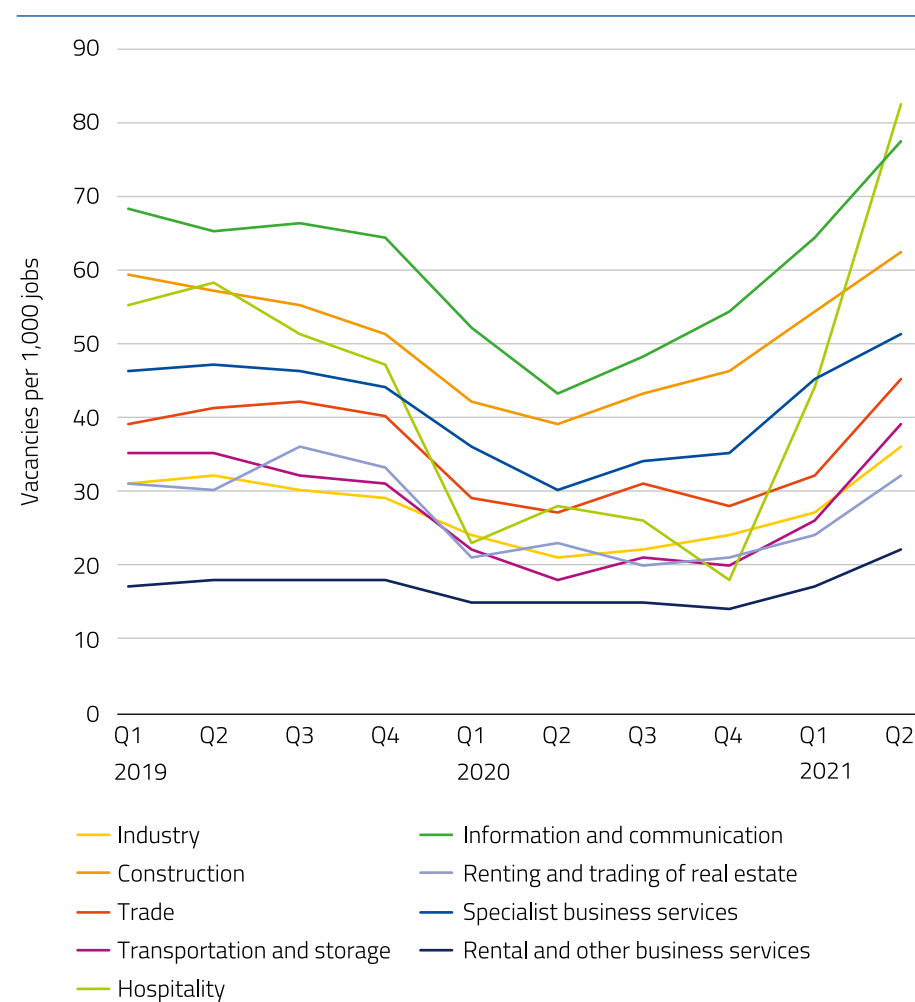


Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

In particular, there is a demand for specific skills that are required for sustainability and digitalisation. Staff shortages are problematic for the digital and green transition. ICT professionals are needed to utilise the productivity potential of the SME sector. In addition, technical staff are necessary for a future-proof SME sector that can keep up with the transition to a green economy. The labour market is changing faster than before, and the workforce needs to adapt more quickly. Retraining and refresher training are important. In the past year, the government has established an incentive scheme for retraining in promising professions in ICT and engineering.⁵⁶

⁵⁶ See Parliamentary Papers II 2020/21, 32637, No. 469. *Publication of grant scheme for retraining in promising professions in ICT and engineering*. 6 July 2021.

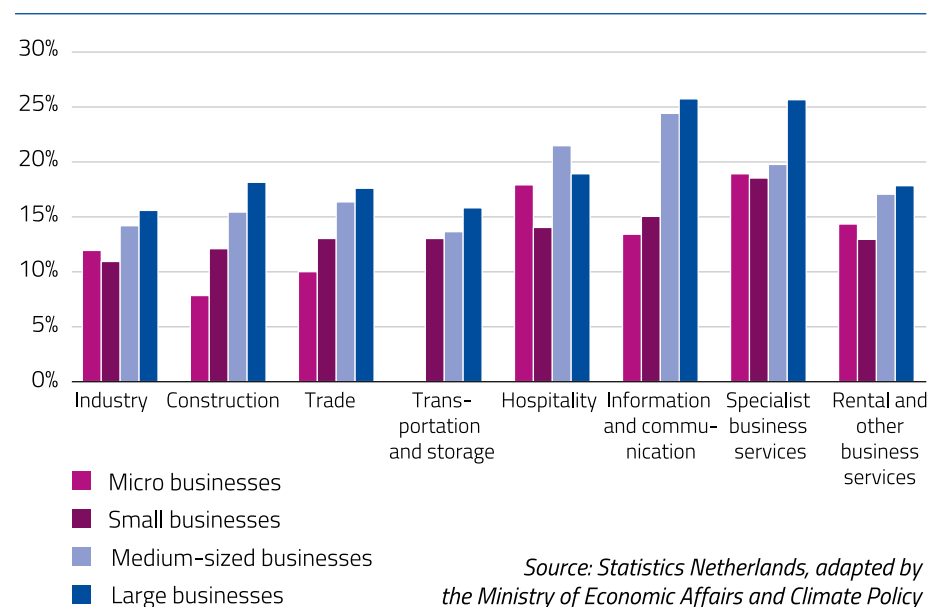
Figure 5.9: Vacancy rate per sector (vacancies per 1,000 jobs). Period: 2019 (Q1) 2021 (Q1).



Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

‘Lifelong learning’ is essential but is still insufficiently embedded in the SME sector.⁵⁷ Large businesses have been leaders in the field of lifelong learning for years, while SMEs (especially the micro and small business categories) lag behind in the statistics (Figure 5.10). During the pandemic, there has even been a slight decrease. Throughout the business economy and among the various size categories, there has been no substantial increase in participation in lifelong learning over the past ten years (Figure 5.11). Continuing development of skills contributes to making employees agile and sustainably employable, reducing the mismatch in the labour market and increasing labour productivity. The SME sector could improve its position

Figure 5.10: Participation in lifelong learning by size category and sector, employees aged 25-65 years. Period: 2020.

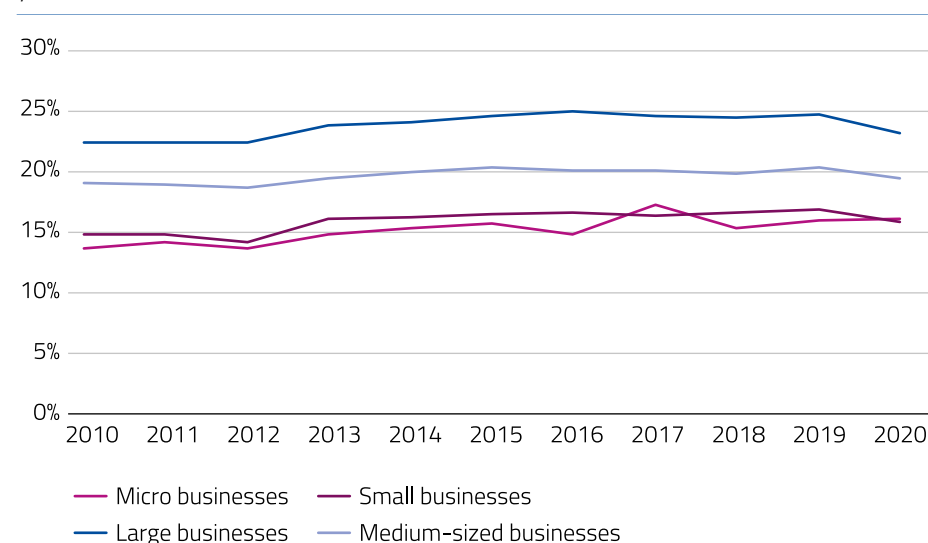


⁵⁷ ‘Lifelong learning’ includes all education and courses that people aged 25 to 65 are taking or have recently taken (past four weeks). This can include formal education and/or non-formal educational activities such as courses, workshops or private lessons.

as an employer relative to large businesses by placing a greater focus on employee development. Partly in view of the shortage on the labour market, the SME sector could manifest itself more as a training provider, for example by providing apprenticeships.

In addition to lifelong learning, investing in labour-saving technologies is becoming increasingly important. The shortage of personnel is forcing businesses to find smart ways of saving labour. In other words, it is becoming even more urgent for SMEs to increase their productivity. An example from the hospitality sector is the QR order system. In more and more catering establishments, customers are ordering from menus on their smartphones. Investing in automation and technology allows employees to work more efficiently, thereby reducing demand for labour. Section 3.2 of this Annual Report goes into more detail on increasing productivity through innovation and digitalisation.

Figure 5.11: Participation in lifelong learning by size category, employees aged 25-65 years. Period: 2010-2020.



3.2 Internationalisation, innovation and digitalisation

This section discusses internationalisation, product and process innovation and digitalisation as possible factors for achieving sustainable growth and increasing the resilience of a business.

Summary

Internationalisation offers entrepreneurs opportunities to increase turnover and reduce costs. Businesses that engaged in international trade before the coronavirus epidemic have seen a higher turnover development per full-time job (FTE) during the pandemic than businesses that only traded domestically. Companies are experiencing barriers to entering foreign markets, such as costs, risks and a lack of knowledge and understanding.

Previous Annual Reports have already shown that investments in innovation are lagging behind. There are large differences between provinces and regions when it comes to innovative businesses, the degree of investment in research and development and the number of start-ups and scale-ups.

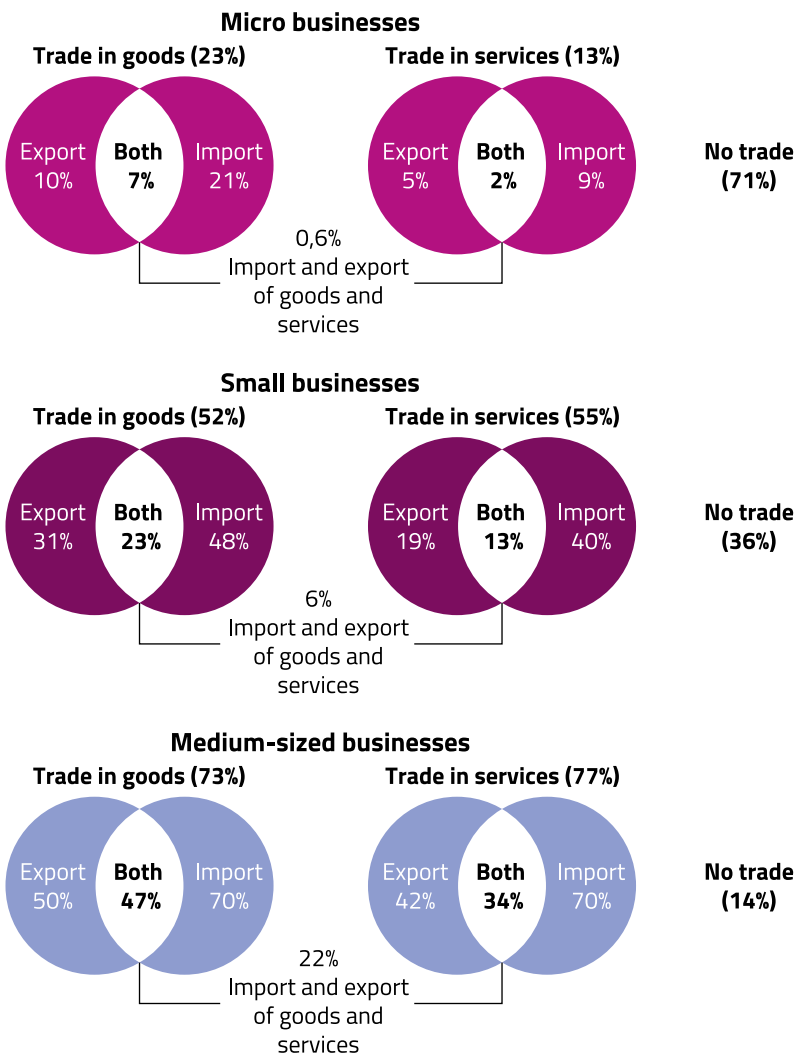
During the pandemic, many businesses, by necessity or otherwise, have changed their business operations and made use of digital opportunities. However, part of the Dutch SME sector still makes little use of digital technologies. The Committee advocates scaling up the digitalisation programme.

Internationalisation

Internationalisation offers entrepreneurs opportunities to increase turnover and reduce costs. It is well known that businesses that trade internationally are more productive. This is again evident from the RSM analysis 'Growth Dynamics of Dutch SMEs 2007-2019' (see Section 1.2 in this Annual Report on 'The growth potential of the SME sector'). Conversely, more productive companies are more active on the international market. These factors are also associated with better business performance in terms of market share, profitability and a higher probability of business continuation.

There are two sides to the relationship between international trade and productivity. On the one hand, the step to becoming internationally active entails certain costs, sometimes indirect or intangible. Businesses can only overcome and recover these costs by means of more productive business processes. On the other hand, by exporting or importing, businesses can come into contact with foreign customers and competitors. This can be a source of knowledge and innovation and provide competitive pressure to maintain market share.

Figure 6.1: Trade in goods and services by size category. Period: 2019.



Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

The figures show that, relatively speaking, only a small proportion of SMEs actually expand their imports or sales to new regions. The relative share of businesses importing and exporting goods and services increases per size category (Figure 6.1). At the same time, it can be seen that, in absolute terms, more self-employed persons and micro businesses export their goods or services, or are starting to do so, than small and medium-sized businesses (Figure 6.2). This can be explained by the fact that the number of self-employed persons and micro businesses in the Netherlands is considerably larger than the number of small and medium-sized businesses (see Figure 1.3 in Section 1.1 ‘State of the SME sector’).

There are various aspects to internationalisation: exporting or importing goods and services, international cooperation – for example in the field of innovation – foreign and other investments or attracting foreign and other investors, and international outsourcing of labour. This Annual Report confines itself to the import and export of goods and services.

Figure 6.2: Number of exporters and export start-ups by size category.



% Percentage of export start-ups of total exporters ■ Exporters ■ Export start-ups

Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Businesses that traded internationally before the coronavirus epidemic have seen a higher turnover development per FTE during the pandemic than businesses that did not trade internationally. That is the conclusion from an analysis by Statistics Netherlands.⁵⁸ This analysis looked at the extent to which differences occurred in international trade and productivity, before and after the appearance of the coronavirus. Exporters have maintained their turnover per FTE better in the aftermath of the pandemic, but businesses with more exports (i.e. that are more dependent upon foreign turnover) have had more difficulty. In this particular crisis, there was an ideal amount of export and a point past which more exports created more problems. For importers, the development of turnover per FTE was even higher than for non-importers. For these businesses, the development of turnover per FTE was higher if more was imported (greater dependence on foreign purchases).

During the pandemic, there was thus a balancing act. On the one hand, international traders were potentially more productive and thus better equipped to withstand a negative economic shock. On the other hand, dependence on other countries was accompanied by additional vulnerabilities (e.g. restrictions on international travel and trade and the impact of the crisis on global production chains).

Businesses experience barriers to entering foreign markets, such as costs, risks and a lack of knowledge and understanding. Internationalisation, especially the trade in goods, can have a negative impact on the climate. Entrepreneurs who want to become more sustainable will want to reduce the negative side effects of internationalisation. In this century, trade in goods is expected to decentralise and automate, while trade in digital and other services is expected to expand further.⁵⁹ In addition, there is the emergence of 'regionalisation', with stronger links between trading partners within the region, but weaker links between regions and shorter chains. This will also have an impact on the Dutch SME sector.

⁵⁸ The analysis by Statistics Netherlands can be found on the 'State of SMEs' website.

⁵⁹ See also: Denkwerk. (2021). *Globalancing: how the Netherlands can navigate in a regionalising world.* (Globalanceren: hoe Nederland kan navigeren in een regionaliserende wereld).

Figure 6.3 shows the main trading partners of the Dutch SME sector for the import and export of goods and services. Germany ranks first. The share of the SME sector (including self-employed persons) in the commercial value is relatively large, especially where neighbouring countries are concerned.

Figure 6.3: Most important trading partners.

Most important trading partners for export of goods by SMEs (2020)		
	Commercial value of SME sector (million euros)	Share of SME sector (%)
1. Germany	50,101	68%
2. Belgium	24,232	66%
3. France	16,130	65%
4. United Kingdom	15,344	68%
5. United States of America	8,636	45%

Most important trading partners for import of goods by SMEs (2020)		
	Trade value of SME sector (million euros)	Share of SME sector (%)
1. Germany	33,545	61%
2. China	20,661	80%
3. Belgium	15,925	57%
4. United States of America	10,966	55%
5. France	7,115	71%

Figure 6.3 (continued): Most important trading partners.

Most important trading partners for export of services by SMEs (2019)		
	Commercial value of SME sector (million euros)	Share of SME sector (%)
1. Germany	10,495	57%
2. United Kingdom	8,742	43%
3. Belgium	5,797	64%
4. France	4,923	54%
5. Ireland	4,002	68%

Most important trading partners for import of services by SMEs (2019)		
	Commercial value of SME sector (million euros)	Share of SME sector (%)
1. Germany	9,341	50%
2. United Kingdom	8,944	42%
3. Belgium	5,561	60%
4. France	5,064	62%
5. Ireland	3,062	37%

Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Product and process innovation

This Annual Report talks about product innovation and process innovation. Product innovation is the improvement and renewal of existing products and the development of new products for current and new target groups. Process innovation is the improvement of organisational and other work processes, data-driven management and decision-making and digitalisation: the utilisation of digital opportunities and the use of new and existing technologies.

SMEs can increase their growth opportunities if they can apply investments in knowledge and technology to new products, services or business models.

Nevertheless, investments in innovation are lagging. This was also evident in previous years.⁶⁰ A majority of businesses in the SME sector are not realising any product or process innovation. Medium-sized businesses are more innovative than small ones: 51% of medium-sized businesses in the Netherlands are innovative, compared to 33% of small businesses.⁶¹ Most process innovations are implemented in administration and information processing or communication (Figure 6.4).

In the provinces of Flevoland, Overijssel, Gelderland and Limburg, a large share of SMEs are innovative (Figure 6.5). North Brabant and North Holland (which also include Brainport Eindhoven and the Amsterdam region, respectively) are average performers in this respect. Many start-ups are also established in the latter region (Figure 6.12). The picture is different for medium-sized businesses: while North Brabant has the highest percentage of medium-sized businesses that innovate, North Holland scores lower in this regard.⁶² A caveat to these figures is that a clustering of innovative companies also attracts other, non-innovative activities.

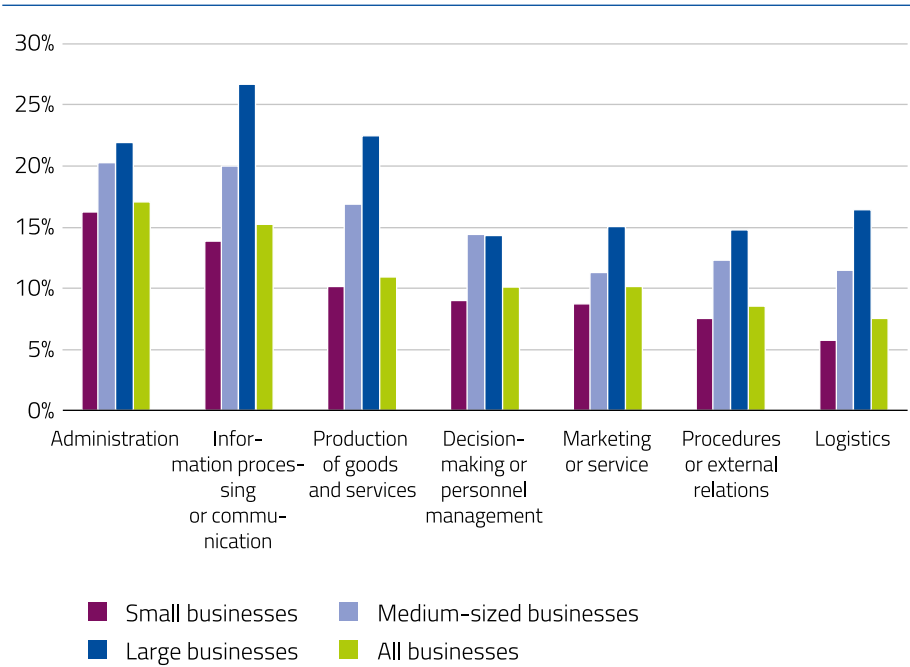
60 See also: Dutch Committee for Entrepreneurship (2020). *Doing business is looking ahead (Ondernemen is vooruitzien)*. State of SMEs Annual Report 2020.

61 Besides the business economy sectors, these figures also include the following sectors: 'agriculture, forestry and fishing' and 'financial activities and insurance'. Source: Statistics Netherlands. (2021). *Regional economic key figures for the SME sector (Regionaal economische kengetallen mkb)*.

62 Statistics Netherlands. (2021). *Regional economic key figures for the SME sector (Regionaal economische kengetallen mkb)*.



Figure 6.4: Type of process innovations by size category. Period: 2018.

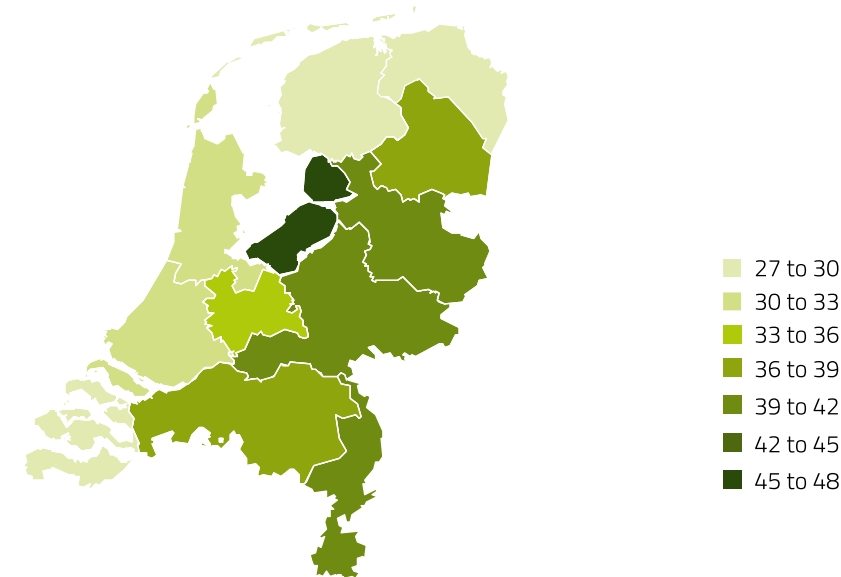


Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

In a region that has many innovative businesses in absolute terms, the relative share of innovative businesses may not be as high.

There are differences between sectors and provinces where investment in research and development (R&D) is concerned. Businesses with high productivity invest in R&D with the aim of improving and innovating and developing new products. Companies in the 'industry' sector spend the most on their own R&D. In the 'specialised business services', 'trade' and 'construction' sectors, the SMEs'

Figure 6.5: Share of innovative businesses (number of innovative SMEs divided by total number of SMEs). Period: 2016-2018.

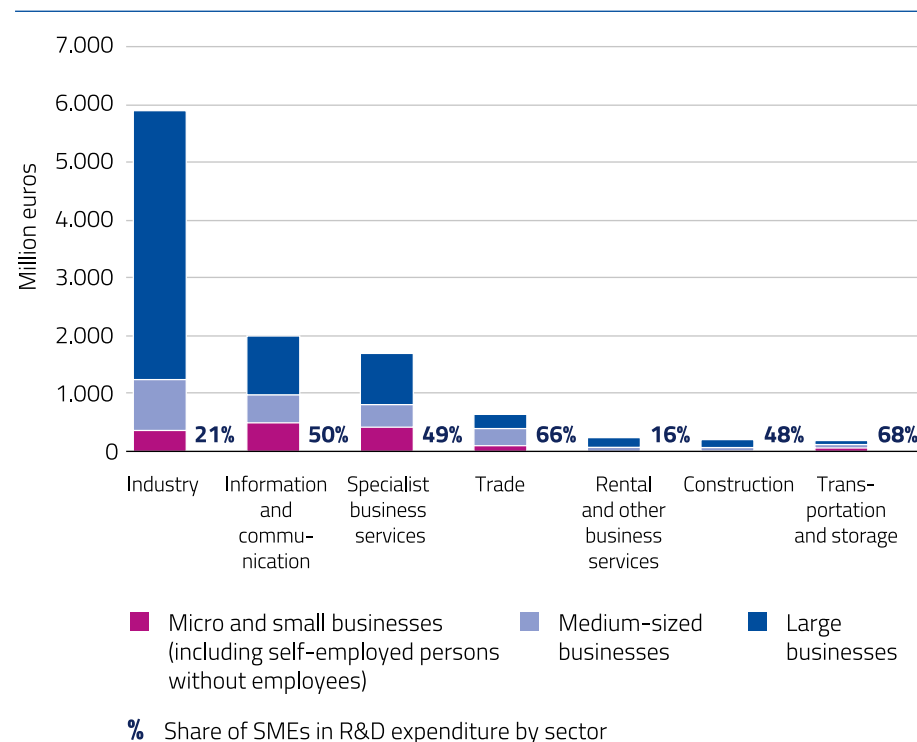


Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

own R&D expenditures are larger than those of large businesses (Figure 6.6). This is striking, because securing financing for R&D projects is often difficult in the SME sector.

In some sectors, investments in R&D appear to be more natural than in others. In the 'industry' sector, most R&D personnel are employed by businesses with more than 50 employees. In the 'information and communication', 'specialised business services', 'trade' and 'construction' sectors, relatively more R&D personnel are employed by SMEs than by large businesses (Figure 6.7).

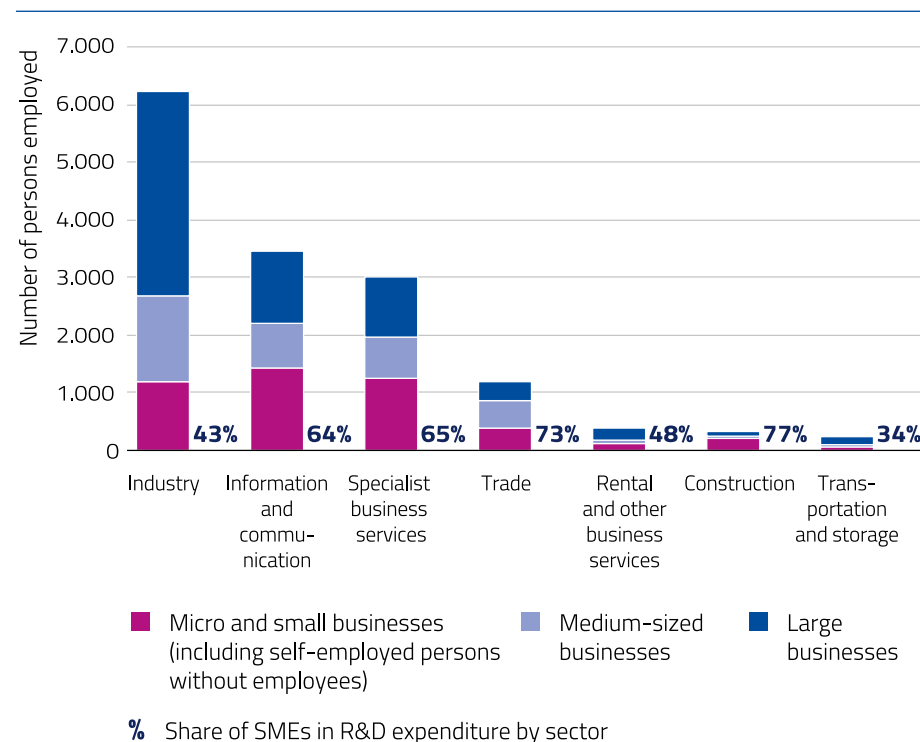
Figure 6.6: Own R&D expenditure by sector and size category. Period: 2019.



Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

The SME sector's expenditure on R&D outsourced to third parties abroad has decreased in recent years, while R&D outsourced to third parties in the Netherlands has increased (Figure 6.8). This suggests that the market for R&D in the Netherlands is growing. The R&D expenditure of SMEs per capita is highest in North Brabant and North Holland. The provinces of Zeeland, Friesland and Drenthe have the lowest R&D expenditure (Figure 6.9).

Figure 6.7: R&D personnel by sector and size category. Period: 2019.

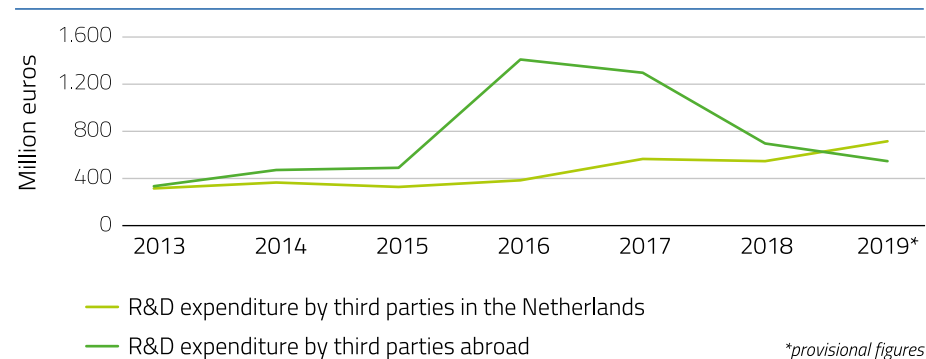


Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

The transition to a sustainable and digital economy requires increased investment in R&D.

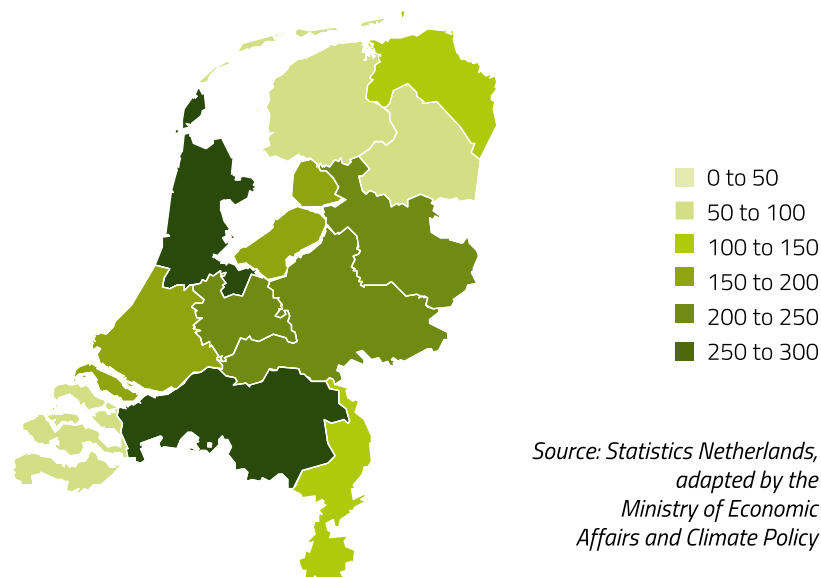
By investing in R&D, businesses can acquire the necessary knowledge and insights to make products and processes more sustainable and digital. Moreover, these insights can be used to respond in a timely manner to new business models and technological developments.

Figure 6.8: R&D expenditure (in the SME sector) by third parties in the Netherlands and abroad. Period: 2013-2019.*



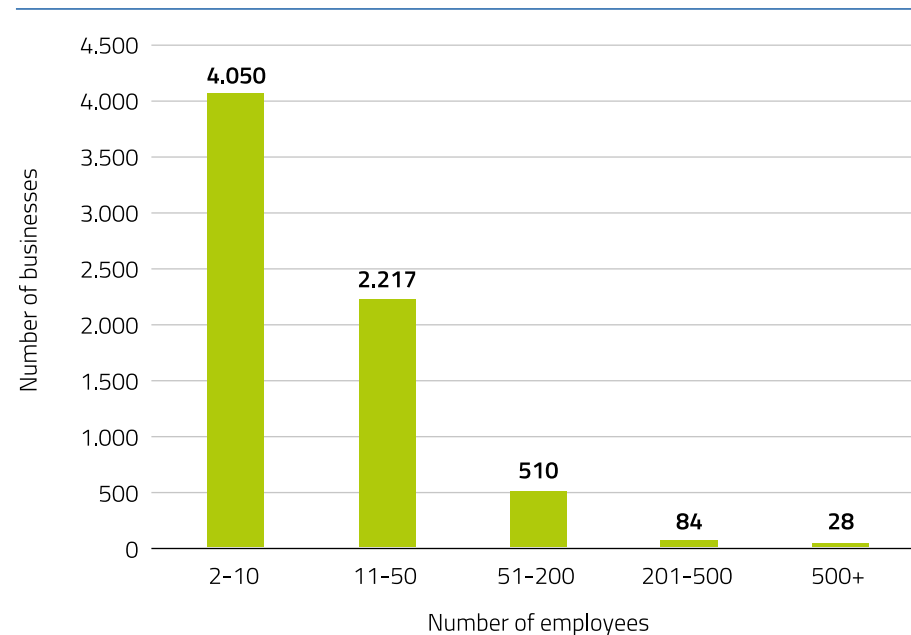
Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Figure 6.9: The SME sector's R&D expenditure per capita by province. Reporting year: 2018.



Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Figure 6.10: Number of start-ups and scale-ups by number of employees. Reference date: 1 September 2021.



Source: Techleap.NL, adapted by the Ministry of Economic Affairs and Climate Policy

Many but not all innovations derive from R&D. Product innovations can also derive from cooperation with customers. There are great opportunities here for the SME sector: co-creation with customers during the innovation process can significantly increase earning power (see Section 1.2 on 'The growth potential of the SME sector'). Businesses can create new propositions and services together with their customers by involving them in the early stages of the innovation process or product design.

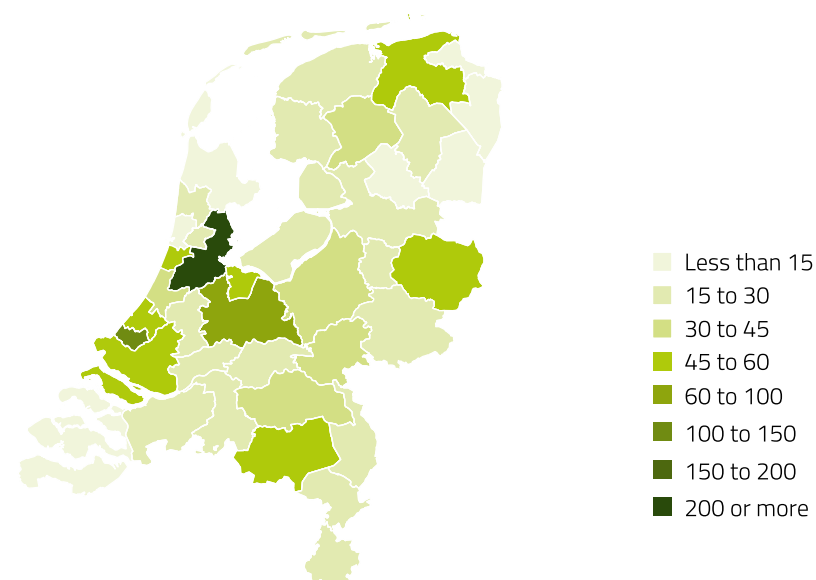
Figure 6.11: Number of start-ups and scale-ups by age (number of years since establishment). Reference date: 1 September 2021.



Source: Techleap.NL, adapted by the Ministry of Economic Affairs and Climate Policy

The number of start-ups and scale-ups differs per region. There are more than 6,700 start-ups and scale-ups in the Dutch SME sector. A majority of the start-ups and scale-ups employ ten or fewer people (Figure 6.10), and the differences in the numbers of start-ups and scale-ups by age are not particularly large (Figure 6.11). By far the most start-ups and scale-ups per 100,000 inhabitants are located in the Amsterdam region. The Delft and Westland region also has many start-ups and scale-ups. The regions of Zeeuws-Vlaanderen, Delfzijl and surroundings and Oost-Groningen have the least start-ups and scale-ups in relative terms (Figure 6.12).

Figure 6.12: Number of start-ups and scale-ups per 100,000 inhabitants by COROP region. Reference date: 1 September 2021.



Source: Techleap.NL, adapted by the Ministry of Economic Affairs and Climate Policy

The regional differences in terms of innovative companies and investments in R&D call for a regional perspective on stimulating innovations.

It remains important to support innovations so that the SME sector can grow sustainably. There are various initiatives to stimulate sustainable growth, mostly through digitalisation, human capital and investment. Initiatives are taken by the national government, but also by provincial, regional and municipal authorities and social partners. To ensure that the initiatives reinforce one another, a coherent plan with scope for action is needed.⁶³

⁶³ See also: Dutch Committee for Entrepreneurship (2021). *Strengthen entrepreneurship foundations (Versterk fundament ondernemerschap)*. Advisory letter. 21 April 2021.

Digitalisation

The transition to a digital economy is one of the biggest changes of our time.

It is important to now create the right incentives for the economy to recover and grow sustainably. Digitalisation is an important factor in this regard. Digitalisation creates new services, new entrants, new markets and new applications. This is the time to promote digitalisation in the SME sector.

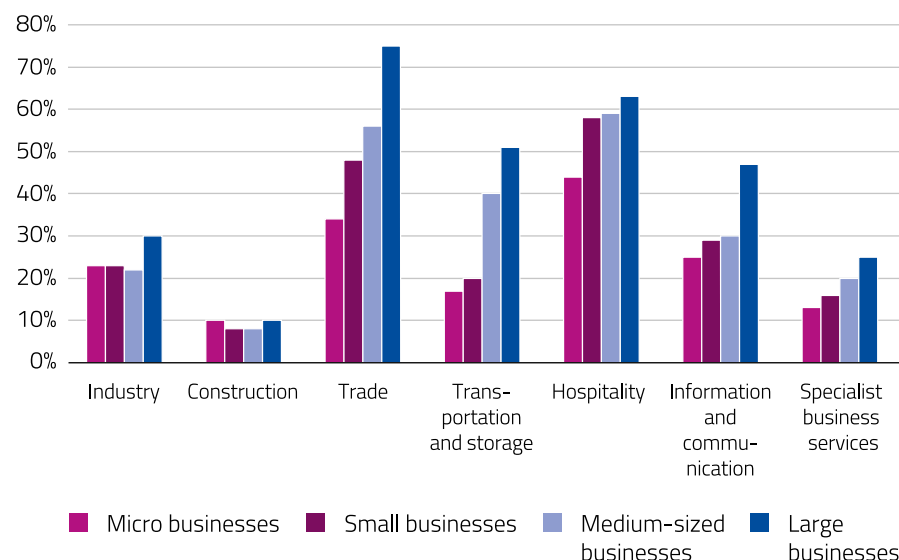
This Annual Report defines digitalisation as the utilisation of digital opportunities and the use of new and existing technologies. Digitalisation influences the way of working and contributes greatly to making business processes more efficient.

During the pandemic, many businesses, by necessity or otherwise, changed their business operations and made use of digital opportunities. A large group felt the need to quickly scale up digitalisation. For many businesses, working from home meant the adoption of new communication technologies. Online sales in the retail sector also rose sharply. Nevertheless, the figures show that, in 2020, SMEs continued to digitalise less than large businesses. The proportion of businesses that order, book or reserve online is increasing in most sectors by size category (Figure 6.13). In 2020, particularly businesses in the 'trade', 'transport and storage' and 'hospitality' sectors used e-commerce channels (Figure 6.14). Online platforms generated turnover in the hospitality sector in particular (Figure 6.15). The previous Annual Report showed that one in five entrepreneurs consider online collaboration, working from home and greater use of digitalisation to be sustainable changes for the future.⁶⁴

⁶⁴ Dutch Committee for Entrepreneurship (2020).

Doing business is looking ahead (Ondernemen is vooruitzien). State of SMEs Annual Report 2020.

Figure 6.13: Percentage of businesses that allow customers to order, book or reserve via website. Period: 2020.

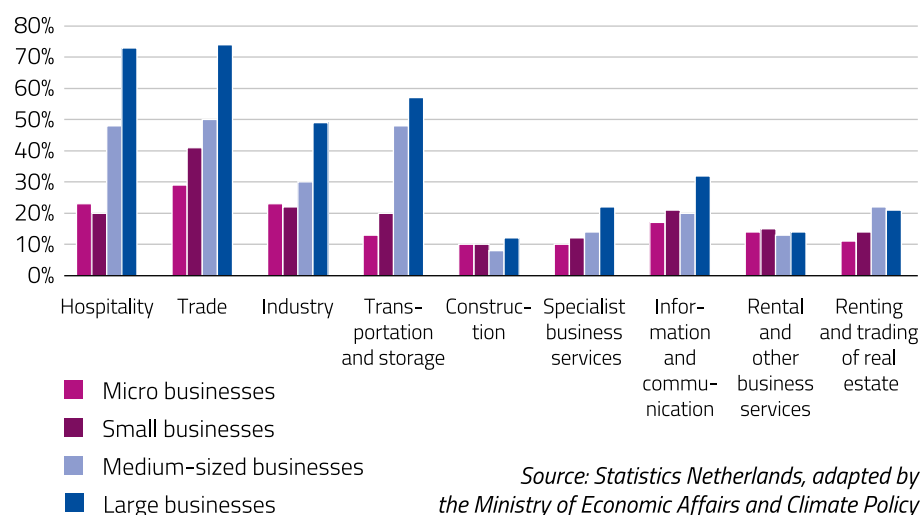


Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Digital frontrunners in the SME sector achieved better results during the coronavirus crisis than those who lagged behind in this area.⁶⁵ This is evident from research conducted by the Connected Commerce Council. The 45% of digital frontrunners who use more than 10 digital tools did significantly better than the 17% that lagged behind. The frontrunners also performed significantly better where loss of income was concerned (1.4 times), and they hired new employees more often (5.2 times). It is to be expected that the lead of digital frontrunners will partly be of a structural nature.

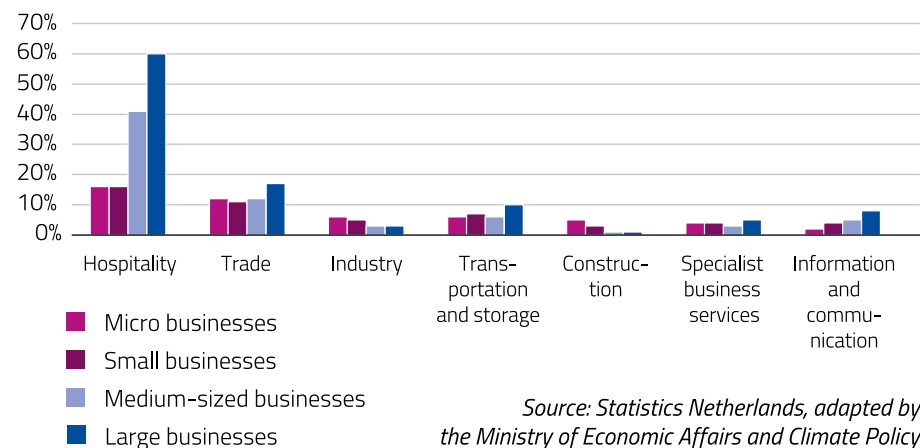
⁶⁵ Connected Commerce Council. (2021). *Digitally driven: Netherlands. The European SME sector. Transformation, innovation and resilience during the pandemic (Digitaal gedreven: Nederland. Het Europese midden- en kleinbedrijf (MKB). Transformatie, innovatie en veerkracht tijdens de coronacrisis).* March 2021.

Figure 6.14: Percentage of businesses using e-commerce for sales. Period: 2020.



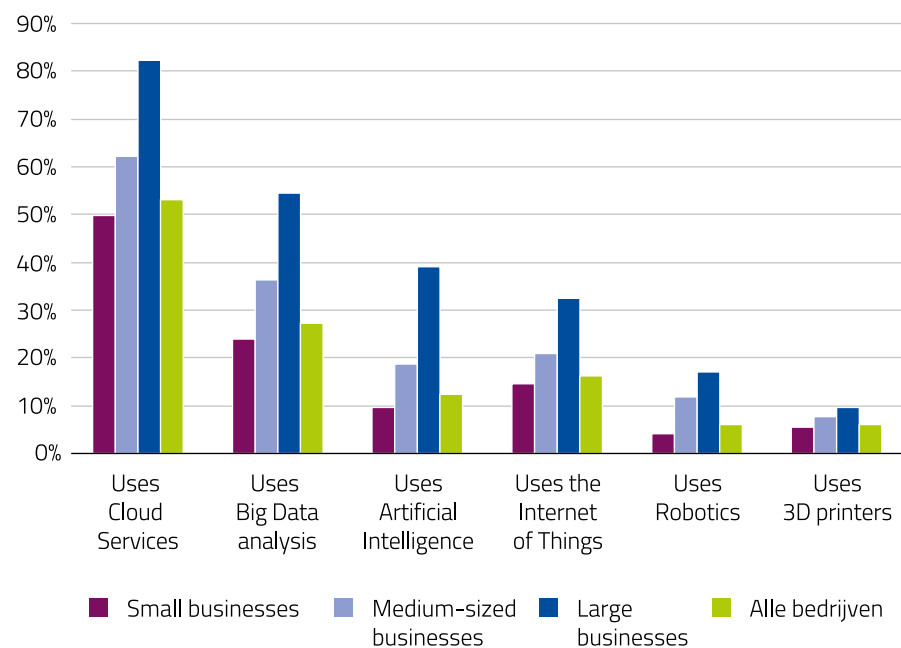
Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Figure 6.15: Percentage of businesses that generate turnover through an online platform. Period: 2020.



Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

Figure 6.16: Percentage of businesses using digital or other technologies. Period: 2020.



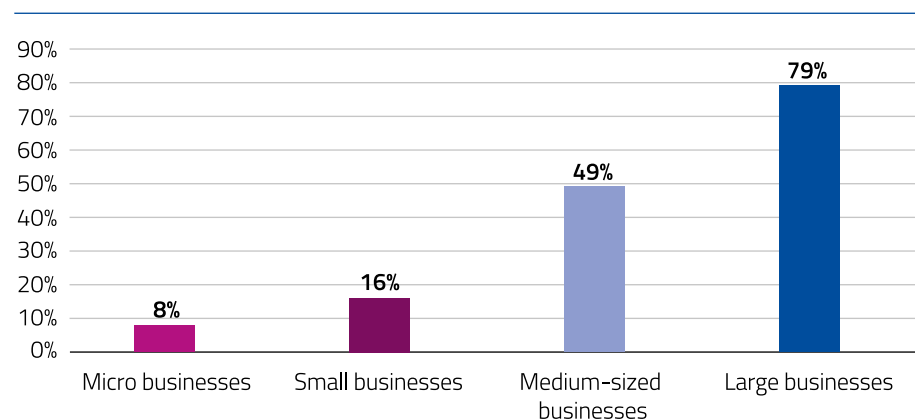
Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

A portion of the Dutch SME sector still makes little use of digital technologies.

Among other things, this is because it lacks the knowledge to select digital solutions and implement them successfully. It remains a challenge for the SME sector to follow up while doing so is still worthwhile. Especially entrepreneurs of smaller businesses often do not have the time, knowledge and resources to handle these developments themselves in addition to their day-to-day activities.⁶⁶ This has implications for the future viability of these businesses.

⁶⁶ Dutch Committee for Entrepreneurship (2020). *Investing in SME recovery and growth (Investeren in herstel en groei van het mkb)*. 26 August 2020; Kantar (2020). *Flash poll on digitalisation in the SME sector (Flitspeiling digitalisering mkb)*.

Figure 6.17: Percentage of businesses employing ICT specialists. Period: 2020.



Source: Statistics Netherlands, adapted by the Ministry of Economic Affairs and Climate Policy

An example: in 2020, a majority of businesses were using cloud services, which can be partly explained by the shift to working from home, mostly online. The use of other technologies such as big data analysis and AI technologies is lagging behind (Figure 6.16). Furthermore, larger businesses more often employ ICT specialists (Figure 6.17).

The Committee advocates scaling up the digitalisation programme for the SME sector. New initiatives should be aimed at increasing the adoption of digital applications in the SME sector. Many SMEs have less scope for action to apply digitalisation than large businesses and the frontrunners. By scaling up the digitalisation programme, further divergence between large businesses and frontrunners and the so-called 'broad' SME sector can be reduced. The new

initiatives should focus on reducing imperfections in the market, including the ICT market, which are related to 'information asymmetry', allowing businesses in the lead group to make better decisions about implementing strategic innovations than businesses lagging behind this lead group. In addition, the learning culture at the organisational level and among management and staff is limited, which means that SMEs and entrepreneurs do not sufficiently innovate (see Section 3.1 on 'Human capital and labour mobility'). Finally, current government policy is mainly aimed at stimulating R&D, with the idea that other businesses will also benefit by adopting innovations (spillover effect). This effect seems to be limited, because many businesses still experience barriers to adopting existing technologies, including the lack of financing opportunities (see Section 2.2 on 'Access to finance').

The Committee has previously proposed measures to increase the adoption capacity for digital applications in the SME sector.⁶⁷ In Singapore, the government has developed a successful approach through which entrepreneurs have demonstrably accelerated the digitalisation of business processes.⁶⁸ The proposal is to adopt this international best practice in the Netherlands. The Singaporean approach has three components:

- sector-specific roadmaps that take entrepreneurs through the digitalisation of their business one step at a time. The roadmaps highlight ICT solutions and categorise them into three digital maturity levels;
- a Digiscan, in which the position of the entrepreneur on the roadmap is determined and advice is given on follow-up steps;
- a subsidy facility that compensates the purchase price of productivity-enhancing digitalisation products.

Investments in retraining and refresher training of personnel towards the future labour market, including the digital labour market (see Section 3.1 on 'Human capital and labour mobility'), are also necessary.

⁶⁷ Dutch Committee for Entrepreneurship (2020). *Investing in SME recovery and growth (Investeren in herstel en groei van het mkb)*. 26 August 2020.

⁶⁸ The 'SMEs go digital' programme from Singapore. For more information, see the website of *Infocomm Media Development Authority, a Singapore Government Agency*.

Glossary

Labour productivity › the value added per full-time equivalent (FTE). This expresses how much value is added per hour worked.

Broad SME sector › the broad SME sector is also called the 'innovative SME sector'. Frontrunners and businesses that are lagging behind are not included in the definition.

Gross domestic product (GDP) › the total added value of all goods and services produced in the Netherlands.

Business economy › the business economy is formed by businesses in private sectors, with the exception of the financial and agricultural sectors. Private businesses active in public sectors such as education, culture and health care do not belong to the business economy.

Business cycle › the short-term economic growth fluctuations. A boom occurs when the economy grows at an above-average rate, and a bust occurs when the economy grows at a below-average rate.

Venture capital › capital provided to businesses with high growth potential, high return and/or a high risk character.

Equity › the difference between the assets and liabilities of a business.

Large businesses › businesses with 250 or more persons employed.

Small businesses › businesses with 10 to 49 persons employed.

Liquidity › the extent to which a business can meet its current payment obligations.

Micro businesses › businesses with two to nine persons employed.

Medium-sized businesses › businesses with 50 to 249 persons employed.

Pre-seed › pre-seed is financing in the earliest phase of the life of the business. In this phase, there is often only an idea for a product or service, and pre-seed is used to finance its development.

Productivity › see: labour productivity.

Risk capital › see: venture capital.

R&D personnel › personnel fully or partially assigned to research and development (R&D) activities.

Scale-up › a growing start-up.

Start-up › a young and innovative technology-driven business with a scalable business model and international growth ambitions.

Fast fallers › businesses whose turnover decreased by more than 20 percent in this period compared to the same period a year earlier.

Solvency › the ratio of equity to debt.

Fast risers › businesses whose turnover increased by more than 20 percent in this period compared to the same period a year earlier.

Added value › the value of a product or service (sale) minus the purchase costs incurred. This therefore concerns the value added to a product or service during a production process.

Vacancy rate › the number of vacancies as a percentage of the number of jobs of employees.

Earning capacity › the ability of companies to add value and continue to add value in the future.

Loan capital › the loan capital of a business consists of its payment obligations or debts.

Employment › employment is a broad term to express the demand for labour (both filled and unfilled jobs). In this Annual Report, unless otherwise stated, employment is defined as the number of jobs filled, expressed in FTEs.

FTE › full-time equivalent. One full-time equivalent corresponds to a full-time working week of one employee. Two part-time employees with half a job each together therefore constitute one FTE.

Colophon

Sender

Dutch Committee for Entrepreneurship

The Committee consists of the following members:

Harold Goddijn, chair

Her Majesty Queen Maxima

Occo Roelofsen

Diederik Laman Trip

Meiny Prins

Barbara Baarsma

Secretariat:

Ministry of Economic Affairs and Climate Policy

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