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THE SERVICES SECTOR, SMALL AND MEDIUM-SIZED ENTERPRISES AND EMPLOYMENT:

THE CASE OF SWITZERLAND

Addendum

The following communication, dated 25 September 2013, from the delegation of Switzerland, is being circulated to the Members of the Council for Trade in Services.

I. INTRODUCTION AND QUESTIONS

1. In September 2011 Switzerland presented a paper concerning small and medium-sized enterprises (SMEs) in Switzerland's tertiary sector.¹ The paper analyzed the importance of SMEs with regard to employment and identified the three most important sub-sectors in Switzerland's services industry. Additionally, the submission illustrated the relative importance of these three sub-sectors for employment in the services sector in general.

2. Other relevant questions remained open, such as the relationship between the size of an SME and its importance for employment, respectively its capacity to create jobs. The same counts for the different sub-sectors – an important question here is: Which sub-sectors are the most effective in creating new jobs in the long-term perspective? To find answers to that question a different set of statistical data had to be chosen, since the previously used data would not allow to differentiate as much as needed.² Therefore, the data used in the present submission are based on an exact establishment census. Twelve sub-sectors have been analyzed: 1) Artistic, Entertainment and Recreational Services; 2) Distribution Services; 3) Educational Services; 4) Financial and Insurance Related Services; 5) Health Related and Social Services; 6) Hotels, Restaurants, Gastronomy in general; 7) Housing and Real Estate; 8) Information and Communication Services; 9) Other Economic Services (e.g. car rental, travel agencies, etc.); 10) Other Services (e.g. professional associations, lobbies, building repairs, etc.); 11) Professional Services and 12) Transport and Storage Services.

II. WHICH SIZE OF ENTERPRISE FOR WHICH SERVICES SUB-SECTOR?

3. An examination of the three size classes of SMEs³ in the different services sub-sectors in Table 1 indicates which sub-sector is dominated by which size of SME.

¹ The Services Sector, Small and Medium-sized Enterprises and Employment: the Case of Switzerland (S/C/W/340). For information about SMEs in Switzerland and their activities in the field of e-commerce see: The Services Sector, Small and Medium-Sized Enterprises and their activities related to Electronic Commerce: the Case of Switzerland (S/C/W 345).

² All statistical data provided by Federal Statistical Office, Neuchâtel, Switzerland.

³ There is no common definition of what constitutes an SME. In Switzerland the following definition is most commonly used: Enterprises with (a) 0 to 9 FTEs are micro-sized enterprises; with (b) 10 to 49 FTEs are small-sized enterprises and with (c) 50 to 249 FTEs are medium-sized enterprises (FTE means Full-Time-Equivalent).

Table 1: Percentage share of the three different size classes in Switzerland's SMEs sub-sectors in 1995 and 2008, always rounded to one decimal figure

Nr.	Subsector	Year	0-9 FTEs	10-49 FTEs	50-249 FTEs
1)	Artistic, Entertainment and Recreational Services	1995	88.5	10.1	1.5
		2008	84	13.8	2.2
2)	Distribution Services	1995	87.5	11.1	1.3
		2008	86	12.4	1.5
3)	Educational Services	1995	67.3	23.3	9.4
		2008	77.3	17	5.6
4)	Financial and Insurance Related Services	1995	80.7	14.7	4.6
		2008	78.8	17.8	3.4
5)	Health Related and Social Services	1995	86.1	9.5	4.4
		2008	79.3	14.6	6.1
6)	Hotels, Restaurants, Gastronomy in general	1995	78.1	20.3	1.6
		2008	80.8	17.6	1.6
7)	Housing and Real Estate	1995	90	8.6	1.4
		2008	91.1	8	0.9
8)	Information and Communication Services	1995	88.3	9.9	1.9
		2008	87.6	10.5	1.8
9)	Other Economic Services (e.g. car rental, travel agencies)	1995	85.9	11.5	2.6
		2008	84.5	13	2.6
10)	Other Services	1995	93.9	5.6	0.7
		2008	91.8	7.3	0.9
11)	Professional Services	1995	91.9	7.4	0.7
		2008	91.7	7.5	0.8
12)	Transport and Storage Services	1995	82.1	15	2.9
		2008	79.9	16.5	3.6

4. Table 1 shows a stable picture for both years under consideration and for all sub-sectors. All twelve sub-sectors are strongly dominated by micro-sized businesses with less than ten FTEs. These companies are followed by the mid-sized ones within the world of SMEs and the bigger ones with fifty or more FTEs are clearly placed at the bottom. In a cross-sectoral comparison, the three sub-sectors that have a higher amount of big SMEs are 3) Educational Services, 4) Financial and Insurance Related Services and 5) Health Related and Social Services. But this does not affect the class ranking within the subsector. It is reasonable to conclude that SMEs are primarily micro-sized enterprises. After having identified that no sub-sector shows a noticeable particularity with respect to the distribution of the three size classes, sub-sectors should be identified which show a noticeable "instability" respectively a significant growth or decrease in institutional unities over the observed period. Such findings will allow us to draw several conclusions, such as the correlation between the change in number of entities and structural adjustments in the various industries or the number of entities and the changes in respect of employment figures. A closer look at the employment figures will be provided further down in this document.

III. TRENDS IN THE NUMBER OF ENTITIES PER SIZE OF ENTERPRISE

5. To identify the various changes in number of entities by size of SME in the twelve sub-sectors, this section will examine for each sub-sector the years 1995 and 2008, as these years mark the beginning and the end of our sample period.

Table 2: Development in the number of entities from 1995 to 2008 with respect to the different size classes, expressed as a percentage, rounded to one decimal figure

Nr.	Subsector	0-9 FTEs	10-49 FTEs	50-249 FTEs	Total
1)	Artistic, Entertainment and Recreational Services	-0.9%	+43.3%	+59%	+4.6%
2)	Distribution Services	-9.2%	+3.4%	+5%	+7.6%
3)	Educational Services	-13.7%	-45.1%	-55.1%	-25.5%
4)	Financial and Insurance Related Services	+83%	+128%	+37.2%	+85.2%
5)	Health Related and Social Services	+3.4%	+59%	+47%	+5%
6)	Hotels, Restaurants, Gastronomy in general	+10.7%	-7.2%	+9.5%	-45.9%
7)	Housing and Real Estate	+55.7%	+44.2%	+2%	+54.4%
8)	Information and Communication Services	+89.6%	+103%	+89.7%	+91%
9)	Other Economic Services (e.g. car rental, travel agencies)	+50%	+71.6%	+50.9%	+52.6%
10)	Other Services	-5.2%	+26.3%	+27.2%	-3.2%
11)	Professional Services	+26%	+28.7%	+44.6%	+26.4%
12)	Transport and Storage Services	+1.7%	+15.1%	+29.5%	+5.4%
	Total	+9%	+16.7%	+16.7%	

6. Table 2 shows an inconsistent picture which demonstrates that the SMEs are a heterogeneous economic phenomenon. For all three size classes no regularity can be identified and no size class can be considered as "the outperformer" within the world of SMEs in Switzerland's services sector. This finding underlines the fact that the success and economic strength of the SMEs as a whole category of enterprise in many sectors is due to their unique mix of different companies with different sizes. The cumulated percentage growth in the various sub-sectors shows that in most sub-sectors a significant increase in institutional entities since 1995 has been registered. Only two sub-sectors among these twelve suffered a significant loss in their number of business entities: 6) Hotels, Restaurants, Gastronomy in general and 3) Educational Services. Normally, a declining growth in one size class in a sub-sector has been compensated by other size classes. Micro-sized enterprises with less than ten FTEs and medium-sized enterprises with less than fifty FTEs are widely considered as the fundament or "backbone" of the SMEs by absolute numbers of individual entities. However, based on the percentage growth in number of individual entities this assessment cannot really be confirmed. This finding might be explained by the nature of many SMEs. Many of them produce niche products or very specialized high-tech products which require high flexibility, lean organization structures and the ability to quickly meet consumers' needs. This key requirements are naturally to be found much more pronounced among the smaller companies within the SMEs in general. The relatively inconsistent picture within the SMEs could also be interpreted as an implication of the natural business life cycle – SMEs may fluctuate between the different size classes over the years, a fact which underlines the unstable picture.

7. The paragraphs above shed some light on the number of individual entities within the SMEs in Switzerland. Despite the fact that no significant regularities could be found, it is obvious that some sub-sectors performed better than others. The best performers with respect to the creation of new business entities from 1995 to 2008 have been sub-sector 8) Information and Communication Services, 4) Financial and Insurance Related Services and 7) Housing and Real Estate. But how is the development with regard to the employment figures? Because of the nature of the definition of what constitutes an SME, it is not possible to draw any solid conclusion from the number of entities to the effective employment figures. The following paragraphs demonstrate the development in employment for the different size classes within the SMEs and the services sub-sectors in general.

IV. SMALL AND MEDIUM-SIZED ENTERPRISES AND THEIR ABILITY TO CRATE JOBS

Table 3: Development in employment from 1995 to 2008 with respect to the different size classes, expressed as a percentage, rounded to one decimal figure

Nr.	Subsector	0-9 FTEs	10-49 FTEs	50-249 FTEs	Total
1)	Artistic, Entertainment and Recreational Services	+11%	+39.2%	+55%	+32.4%
2)	Distribution Services	-10.5%	+3.4%	+12.5%	-0.5%
3)	Educational Services	-20.9%	-45%	-55%	-48.2%
4)	Financial and Insurance Related Services	+72.2%	+131%	+30.5%	+70.1%
5)	Health Related and Social Services	+5.3%	+47.6%	+42.4%	+32.7%
6)	Hotels, Restaurants, Gastronomy in general	+3.7%	-8.2%	+12.1%	+0.1%
7)	Housing and Real Estate	+54.3%	+37.4%	+14.6%	+39.7%
8)	Information and Communication Services	+85.1%	+112.7%	+71.7%	+89.6%
9)	Other Economic Services (e.g. car rental, travel agencies)	+54.5%	+69.5%	+51.1%	+57.8%
10)	Other Services	-1.9%	+26.7%	+34.5%	+11.5%
11)	Professional Services	+18.2%	+34%	+46.4%	+27.1%
12)	Transport and Storage Services	+6.5%	+15.3%	+32.3%	+19%
	Total per size class	+7%	+10%	+18.1%	
	Grand Total				+13.4%

8. Tables 2 and 3 indicate that the total number of entities and employees during the period of review move in parallel. Additionally, Table 3 illustrates that with regard to the growth in employment three sub-sectors performed best, these are the sub-sectors 8) Information and Communication Services, 4) Financial and Insurance Related Services and 9) Other Economic Services. In total, the growth in employment in the segment of SMEs over the period of review is plus 13.4 percent.

V. SMEs VS LARGER COMPANIES: A COMPARISON

9. The consideration of the different sub-sectors in Table 3 compared to Table 4 below indicates that SMEs normally have a stronger growth in employment than larger companies. This can in particular be seen in the three sub-sectors 8), 4) and 9). However, in the sub-sector 2) Distribution Services SMEs obviously had to suffer from a harder competitive pressure, while in other sectors they could grow but were outperformed by the larger entities, such as in the sub-sectors 10) Other Services and 11) Professional Services.⁴

10. Globally, the growth in employment in the segment of larger companies for the period of review is 6.4 percent. Thus, with a growth of 13.4 percent between 1995 and 2008, SMEs in Switzerland performed more than twice as strongly as larger companies.

⁴ Note that no reason could be found for the negative figures in the Education sector in all sizes of entities.

Table 4: Development in employment from 1995 to 2008 for companies with 250 or more FTEs, expressed as a percentage, rounded to one decimal figure

Nr.	Subsector	≥ 250 FTEs
1)	Artistic, Entertainment and Recreational Services	+16%
2)	Distribution Services	+14%
3)	Educational Services	-60.1%
4)	Financial and Insurance Related Services	+0.1%
5)	Health Related and Social Services	+32.9%
6)	Hotels, Restaurants, Gastronomy in general	+7.2%
7)	Housing and Real Estate	- * ⁵
8)	Information and Communication Services	+3.6%
9)	Other Economic Services (e.g. car rental, travel agencies)	+0.7%
10)	Other Services	+90.6%
11)	Professional Services	+74.5%
12)	Transport and Storage Services	-10.9%
Total		+6.4%

VI. THE INFLUENCE OF STATE-OWNED ENTERPRISES

11. Questions may be raised concerning the reliability of raw statistical figures presented in previous sections, including the issue of the statistical "significance". In addition, in the services sector the usually important presence of state-owned service suppliers on the market should be kept in mind. The statistical series used in this paper provide details relative to the juridical form or entities, and permits, to some extent, to segregate "governmental and semi-governmental entities", defined to include entities of the central, regional and local administrations, entities of state-approved churches (e.g. caritative food serving premises and pilgrims' lodging), of public foundations, co-operatives, and associations. In Switzerland, the sub-sectors where the number of FTEs in such government-owned service suppliers is highest compared to "privately organized entities" are the following:

- Artistic, Entertainment and Recreational services (e.g. national parks, operas, stadiums)
- Education Services (e.g. schools and universities),
- Financial and Insurances Related Services (due to the existence of cantonal banks for instance),
- Health Related and Social Services,
- Transport Services (e.g. school buses, railways, cable cars, airports), and
- Other Services.

12. Now, the question, which cannot be answered with the available data series, is whether the employment across sizes-classes of single entities is distributed differently and evolved differently in the governmental segment compared to the private segment. If the answer were positive, then this would create a bias in the analysis to the extent that changes in the government segment is typically determined by policy decisions and not by the market.

⁵ * Random error, no data available.

VII. CONCLUSION

13. In Switzerland's third sector, most SMEs are small businesses with less than ten FTEs. The prevalence of entities with more than 49 FTEs is comparatively rare – on average, less than three percent.

14. The sub-sectors which performed best among SMEs with regard to employment between 1995 and 2008 are 8) Information and Communication Services, 4) Financial and Insurance Related Services and 9) Other Economic Services. SMEs have a stronger growth in employment than big companies: between 1995 and 2008 SMEs performed more than twice as strong as larger companies.
