



Eurofound

Restructuring in SMEs: France

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Definition of SME

Until recently, there was no single official definition of what constitutes a small and medium enterprise (SME) in France. For a long time, French statistics have mainly used the threshold of 500 employees, especially in the manufacturing sector. The only clear distinction is made between SMEs and ‘very small businesses’ (*Très Petites Entreprises*, TPE) with fewer than 20 employees. Also, although there is a general agreement that an SME is an independent business, official statistics do not always distinguish between independent SMEs and subsidiaries of larger groups (OSEO, 2007).

The French law on the modernisation of the economy (*loi de modernisation de l'économie*, LME), which came into force in August 2008, introduced a definition of SME consistent with the European definition (that is, a firm employing up to 250 people, and with either revenues not exceeding €50 million or a balance-sheet total of a maximum of €43 million). In spite of the introduction of this new definition, some surveys and studies on SMEs continue to use definitions or thresholds other than the above.

Background

As in many other European countries, SMEs are the backbone of the economy in France. As of 1 January 2009, there are over 3,100,000 SMEs in France (operating in the industry and service sector), of which over 60% are sole proprietorships and another 32% are micro-enterprises (that is, with fewer than 10 employees) (see Table 1). SMEs dominate mostly in the retail and wholesale trade, transport, and the hotel and restaurants sectors; they are also numerous in some manufacturing industries as well as construction.

Table 1: *Share of SMEs by number of employees and sector (as of 1 January 2009) (in thousands)*

Sector	Number of employees ('000)					
	0	1–9	10–49	50–99	100–249	250 and >
Manufacturing, mining and others	96.3	89.9	31.2	4.3	3.0	1.9
Construction	224.4	175.2	28.3	1.7	0.7	0.3
Trade, transport, hotels and restaurants	5,395	374.6	60.0	6.0	3.1	1.6
Information and communication	63.1	21.8	5.4	0.7	0.4	0.3
Financial intermediation and insurance	77.2	37.4	4.0	0.4	0.3	0.4
Real estate activities	134.6	32.6	2.5	0.2	0.2	0.1
Support to enterprises	311.3	137.6	24.0	2.4	1.4	0.8
Education, health and social work	329.6	60.5	7.7	1.7	0.54	0.2
Other service activities	135.5	65.5	4.33	0.4	0.2	0.1
Total	1,911.5	995.2	167.5	17.84	9.9	2,051

Source: INSEE, *répertoire des entreprises et des établissements (Sirene)*.

Note: activities are coded according to NAF (nomenclature d'activités française) rev. 2.

The most recent employment data by enterprise size and status go back to the end of 2007.

Around that time, 17 million people were employed in France in the industry, trade and service sector; 54% were employed in SMEs with independent legal status; the remainder was distributed between subsidiaries of groups (11%) and larger enterprises (35%) (OSEO, 2010).

Table 2: Number employed by size of enterprise in 2007 (in thousands)

	Enterprises with independent status in 2007							Subsidiaries 20–249	Large enterprises 250 and >
	0	1–3	4–9	10–19	20–49	50–249	Total SMEs (0–249)		
Salaried employees	-	1,275	1,857	1,236	1,491	1,169	7,029	1,826	5,995
Non-salaried employees ¹	1,245	675	212	32	8	1	2,172	28	-
Number employed	1,245	1,950	2,069	1,268	1,499	1,170	9,201	1,854	5,995

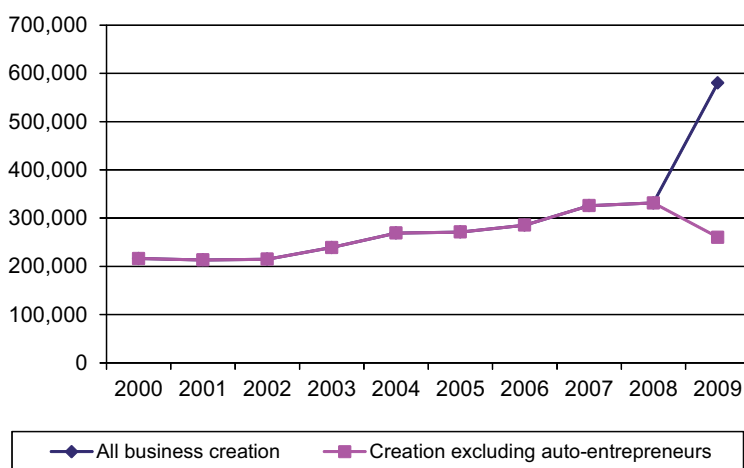
Source: *Minefe – DGCIS – 2010 – fichier Ficus*

As of 31 December 2009, 26.1% of employees of TPEs worked part-time, 11.2% were employed on a temporary contract and 8.4% had a subsidised contract (for example, professional contract, apprenticeship or training contract) (Dares, 2011). In larger enterprises (with more than 10 employees), 6.8% of employees had a temporary contract and 16.1% worked part-time (Dares, 2011).

According to INSEE data, some 322,000 jobs disappeared in 2009 across all enterprises (308,000 full-time equivalent jobs) (Dares/INSEE, 2010). SMEs of all sizes cut their workforce, albeit to a lesser extent smaller businesses with fewer than 10 employees (OSEO, 2011a).

INSEE data also shows that business creation in 2009 increased over 75% to a total of 580,200 new enterprises in the non-farm sector, compared to 331,400 in 2008. However, this increase is mainly due to 320,000 enterprises created under the new 'auto-entrepreneur' status for independent workers, which had been introduced by the French law for the modernisation of the economy (LME). Excluding auto-entrepreneurs, business creation in actual fact declined by more than 20% compared to the previous year. It is not possible to determine whether this result is due to the recession or substitution effects.

Figure 1: Number of business creations by year (2000–2009)

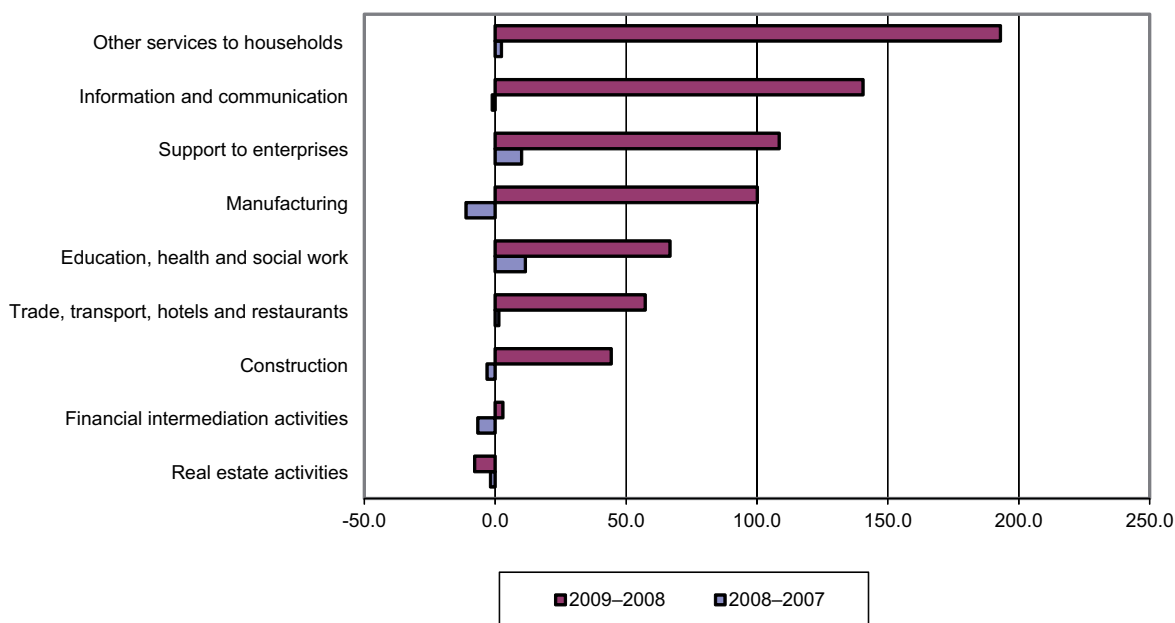


Source: *INSEE, répertoire des entreprises et des établissements (Sirene), 2000–2009*

¹ Business owners, family collaborators, and other employees are not paid on a salary basis.

The rise in business creation concerns nearly all sectors with the exception of the real estate sector. In 2009, the highest increase in business creation is recorded in the services to private households sector, information and communication and support services to enterprises sector. Taking these three sectors together, they account for 39% of the total business creation in 2009 and 48% of creation under the ‘auto-entrepreneur’ status. Business creation also increased in the manufacturing sector, representing 5% of the total business creation in 2009 and 4.5% of the creation under the ‘auto-entrepreneur’ status.

Figure 2: Evolution in the creation of new businesses by sector, 2008–2009



Source: INSEE, *répertoire des entreprises et des établissements (Sirene)*

The share of business creation with at least one employee is 13.2 % in 2009 compared to 12.6 % in the previous year. In the category of new businesses with at least one employee, there are, on average, three employees. The average number of employees across all sectors is close to that recorded in 2008, with the highest number in the industry sector (4.9 in 2009 compared to 4.6 in 2008).

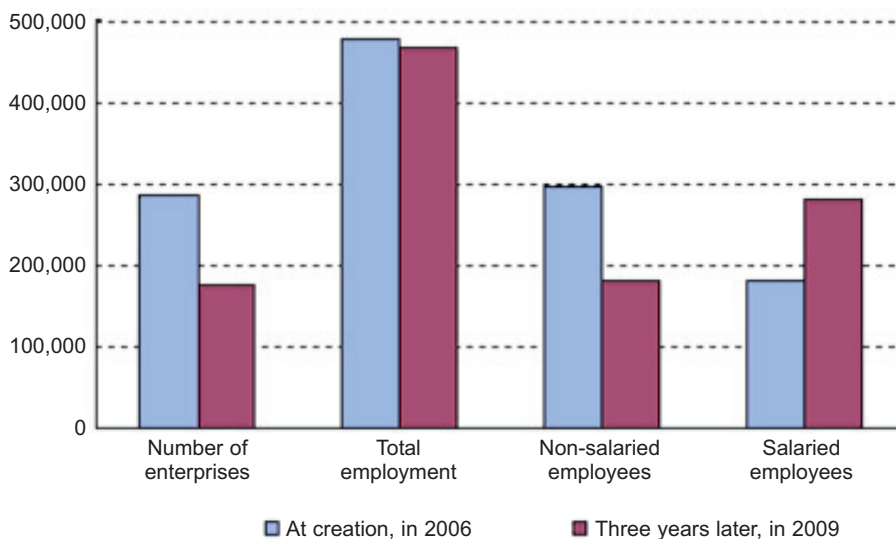
Table 3: Business creation and number employed by sector, 2008–2009

Sector	Business creation without employees (total in 2008) (%)	Business creation without employees (total in 2009) (%)	Business creation excluding auto-entrepreneurs in 2009 (%)	Average number of employees in 2008 (if at least one employee)	Average number of employees in 2009 (if at least one employee)	Distribution of business creation in 2009 (%)
Manufacturing	82.2	92.4	85.3	4.6	4.9	5.1
Construction	77.1	88.4	76.7	2.9	3.1	13.9
Trade, transport, hotels and restaurants	85.4	91.8	84.3	2.8	2.8	28.4
Information and communication	93.6	97.8	92.9	2.6	3.0	5.2
Financial intermediation and insurance	91.7	93.4	92.3	2.7	2.5	2.1
Real estate activities	95.2	96.9	96.2	2.0	2.1	2.7
Support to enterprises	91.9	96.6	91.1	3.4	3.3	21.6
Education, health and social work	96.7	98.3	96.4	3.2	3.1	8.7
Other service activities	89.8	96.7	85.0	2.2	2.2	12.3
Total	87.4	94.1	86.8	3.0	3.0	100

Source: INSEE, *répertoire des entreprises et des établissements (Sirene)*.

In terms of business longevity, 34% of enterprises created in 2006 had closed down after three years of activity (INSEE, 2011). Enterprises created in 2006 employed 477,000 people at start: 296,000 non-salaried employees (business owner, family collaborators, etc.) and 181,000 salaried employees. Some 137,300 jobs (salaried employees) were created by enterprises which continue to exist in 2009, whereas 68,500 jobs (salaried employees) were lost due to closures.

Figure 3: Changes in number of enterprises created in 2006 and number employed



Source: INSEE, *enquête Sine 2006, interviews in 2006 and 2009*.

Note: enterprises in the non-farm sector, created in the first semester of 2006.

Although French SMEs are a primary driver of economic growth in the country, little is known about the employment and organisational effects of restructuring operations in SMEs.

There are, however, a number of surveys providing a picture of the difficulties encountered by SMEs in the current economic climate, their intentions to recruit or dismiss staff. Taking all the results together, there emerges a tendency among SMEs to hold on to their staff in spite of the economic and financial difficulties. The smaller the enterprise the more reluctant it is to consider a workforce reduction.

There are also surveys and studies exploring the main reasons behind certain types of restructuring (for example, outsourcing, offshoring/delocalisation). However, some of them were carried out before the current recession. Therefore, in some cases, the drivers of restructuring identified in these studies may be different from those emerging in the context of the economic crisis.

In recognition of the importance of SMEs to the French economy, the French government has recently enacted several incentive measures applicable to SMEs in an effort to relaunch the economy and boost employment. In 2008, the French government launched a €22 billion plan of which €17 billion was allocated through commercial banks and another €5 billion was allocated through OSEO², a government agency responsible for providing assistance and financial support to SMEs (Euractiv, 2010).

During the recession, many SMEs have faced a sharp decline in orders, which has generated liquidity problems. At the same time, French banks have been tightening their loan conditions since the beginning of the recession in terms of both volume and rates. Some of the recent measures introduced by the government to support SMEs are aimed at enhancing SMEs' cash flow and facilitating access to bank loans and credit.

² OSEO is a public body controlled by the Ministry of Economy and Industry and set up to support French SMEs. Already active before the crisis, OSEO has become the cornerstone of the special assistance programme for the SMEs launched in 2008. OSEO brings together ANVAR (French innovation agency), BDPME (SME development bank) and the SME agency, around a mission of general interest supporting the regional and national policies.

Relevance of different types of restructuring for SMEs

The amount of information available on the different types of restructuring identified by the European Restructuring Monitor³ (internal restructuring, offshoring/delocalisation, merger/acquisition, outsourcing, relocation, bankruptcy/closure and business expansion) is variable and, in some cases, limited or non-existent. This is, for example, the case for relocation processes (that is, when the activity stays within the same company but is relocated to another location within the same country). Statistical data often comes from surveys with a limited sample so it is not possible to generalise results. It should be also borne in mind that different types of restructuring may be overlapping and are not exclusive. Nonetheless, information on interrelationships between different restructuring processes is not available in French sources.

Internal restructuring

According to INSEE data, some 322,000 jobs disappeared in 2009 across all enterprises (308,000 full-time equivalent jobs) (Dares/INSEE, 2010). SMEs of all sizes cut their workforce, albeit to a lesser extent smaller businesses with fewer than 10 employees (OSEO, 2011a).

A survey conducted by IPSOS in April 2009 questioning 804 French companies of between one and 500 employees provides some insight into the expectations about future adjustments to the workforce due to the crisis. The majority of responding SMEs expected to keep their workforce (72%). Medium-sized enterprises (200–249 employees) tended to be more pessimistic at the time of the survey: 38% feared a reduction to their workforce.

Overall, measures aimed at reducing the employment levels appear to be the last resort to ensure the survival of the business. In relation to expectations of future business expansion, 76% of the enterprises employing between 50 and 199 were less optimistic whereas 34% of medium-sized enterprises (200–249 employees) and 46% of larger enterprises (250–499 employees) expected to grow (IPSOS, 2009).

Another recent survey⁴ carried out by KPMG investigated the range of strategies adopted by European SMEs to cope with the negative effects of the crisis and found that 57% of French SME managers opted for internal restructuring and cost reduction strategies (KPMG, 2010). Fusions and acquisitions were more marginally considered by respondents in the survey. In terms of future prospects, 69% of French SMEs expected to engage in internal restructuring over the next two years. Only 11% foresaw a hiring new staff (compared to an EU average of 22%). At the same time, 71% reported that they intended to keep their staff. Regarding the future outlook for their business, SMEs tended to be somehow positive at the time of the survey and, on balance, 59% expected a recovery in 2010.

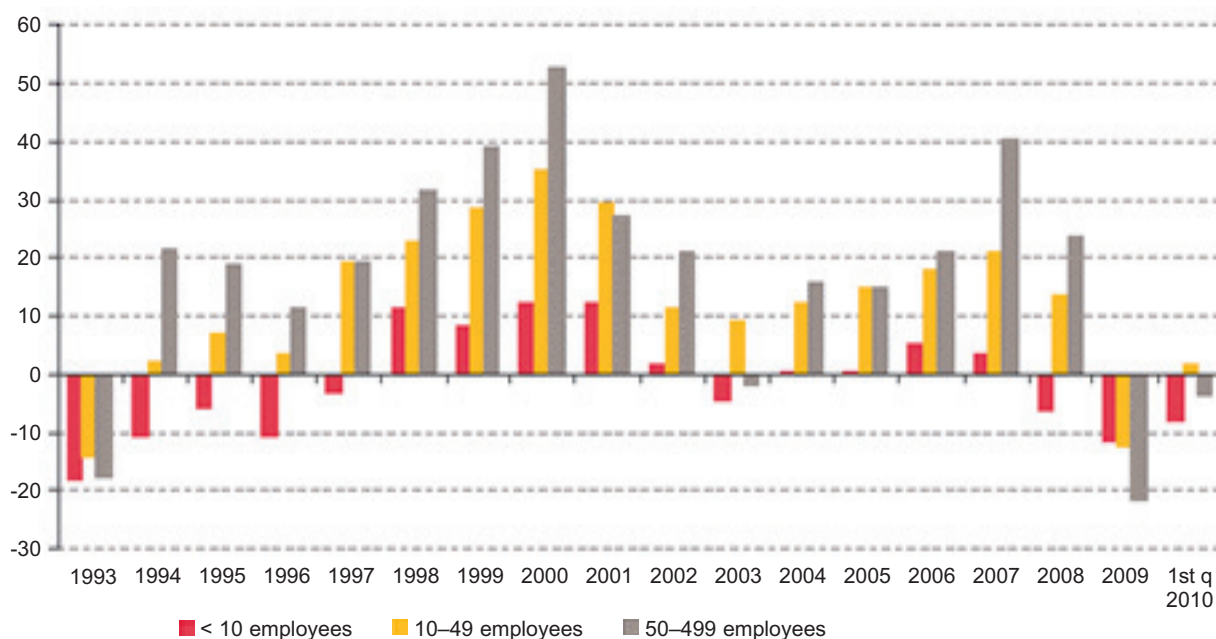
According to the 2010 OSEO report on SMEs, there is little workforce adjustment between 2008 and 2009 (OSEO, 2010). During a period of recession, the adjustment of employment levels tend to occur with some delay and workforce fluctuations is somehow less prominent than fluctuations in activity; hence the personnel costs remained stable in this period. The industry sector is an exception to this general trend: here the workforce reduction is significant (-2.1 %) and there is a decrease in personnel costs of over 3%.

³ <http://www.eurofound.europa.eu/emcc/erm/index.htm>

⁴ The survey was conducted by OpionWay on behalf of KPMG using a sample of 3,200 managers of SMEs (50–999 employees) in European countries (Denmark, Belgium, France, Italy, Ireland, Spain and the UK) from 28 October to 17 November 2009.

Using a sample of 30,000 SMEs employing between 1 and 500 employees, the conjuncture survey conducted by OSEO investigated business owners' opinions on job prospects over the next six months. With the partial recovery of the economy, respondents were less pessimistic than in 2009 (especially businesses with 10–49 employees), when they hit their lowest since 1993 (Figure 4) (OSEO, 2011a).

Figure 4: *Job prospects by size of enterprise (May 1993 to May 2010) (% business owners saying that they will hire new staff - % of business owners saying that they will reduce their workforce)*



Source: OSEO, 2011a

Mergers/acquisition

Over the past 10 years, there has been an upward trend in business concentration driven by changes in the economic context and, more recently, the global recession. Since the 1990s, seven out of 10 SMEs have acquired or merged with other businesses. This trend is particularly marked in the industrial sectors most reliant on exports – particularly construction, metallurgy, and manufacturing (notably chemical, machinery and electrical products). These sectors were particularly hit by the sharp decline in global demand in 2008-2009 (OSEO, 2011a).

In terms of expectations of acquiring another business, the TNS Sofres survey carried out in 2006 (on behalf of Norton Rose) reveals that almost one third of the 200 managers of French SMEs surveyed envisaged the acquisition of another enterprise in the coming two years. Only 4% expects a reduction of operations of mergers and acquisitions (Norton Rose, 2007).

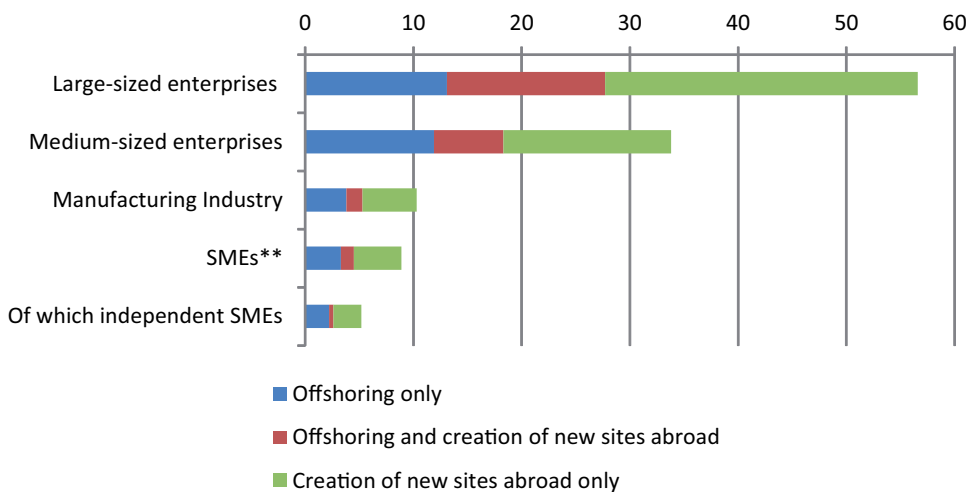
Offshoring/delocalisation

In the context of globalisation, SMEs are faced with the offshoring phenomenon as much as larger companies. Nevertheless, many French SMEs choose to maintain their activities in their home country because, on the one hand, their business is rather dependent on the local market and, on the other hand, they are committed to preserve local employment. In particular the sense of belonging to the local community may be stronger for smaller companies – with closer work relations between employees and employers – than for bigger companies.

SMEs are generally well established in the local community while the decision of offshoring implies a move out of the country. The offshoring of all or part of the activities may result in loss of control and decision-making power, possible decline in the quality of products or lower productivity than in the country of origin. At the same time, SMEs are inevitably subjected to the constraints imposed by the market which demand lower prices and more competitiveness (Fontagné and Lorenzi, 2005).

In terms of the extent of offshoring among SMEs, a 2008 study conducted on French enterprises with more than 10 employees operating in the manufacturing sector, shows that fewer than one SME out of 10 offshored their activities to another country between 2003 and 2005 compared to more than half of large enterprises and one medium-sized enterprise out of three (see Figure 5) (SESSI, 2008). According to the study, while offshoring activities abroad is generally driven by the need or the wish to reduce the workforce in the home country, the creation of new sites abroad responds to the need to expand to new markets and eventually decrease transport/logistics costs.

Figure 5: Offshoring and creation of new sites* abroad by size of enterprise (%)



Source: SESSI (*Service des études et des statistiques industrielles*), 2008

*the category 'creation of new sites only' includes only offshoring without reduction of activities in France.

** SMEs with 10–250 employees.

Another survey conducted in 2005 by Mergermarket et Remark on behalf of Norton Rose found that 22% of managers of SMEs reported having offshored their activities in the last five years⁵. Among those who reported that they intended to offshore their activities, 25% indicated that the target country for their offshoring would be preferably one of the EU Member States (Les Echos, 2005).

⁵ Survey carried out among 50 managers of SMEs (with a turnover of €15–250 million euro) and some 50 financial intermediaries dealing with SMEs on a regular basis.

Bankruptcy/Closure

The number of bankruptcies increased throughout 2009 with more than 63,000 enterprises going into administration or liquidation. The overall 14% increase in bankruptcies from 2008 to 2009 mainly concerned SMEs, representing 93% of all bankruptcies in 2009. SMEs with more than 10 employees have been most affected by the surge in bankruptcies – in total, 4,253 of these enterprises entered bankruptcy procedures in 2009 (that is an increase of 45% compared to 2008). However, the first half of 2010 showed some signs of recovery with a significant decline in business failures (OSEO, 2010). This trend in bankruptcies concerns mainly larger SMEs which have been particularly affected in 2009. The incidence of bankruptcy also varies across sectors: real estate, manufacturing and transport are the sectors most affected (OSEO, 2009).

The French market research company Altares publishes, in cooperation with Deloitte, regular data on bankruptcies. According to Altares data, the insolvency of SMEs has sharply increased in the summer 2008 with a peak in 2009 of about 63,000 insolvency procedures. The number decreased slightly in 2010 and, since then, it has remained stable (Table 4).

Table 4: *Number of insolvencies by year (2007–2011)*

2007	2008	2009	2010	2011
50,362	56,861	62,991	59,614	59,614

Micro-enterprises without employees and small companies with fewer than 10 employees account for 93% of all bankruptcies (54,000). In 2011, SMEs with 10–49 employees appear to be less hit by the bankruptcy. Yet they account for 3,800 insolvency procedures – 1,000 more than in 2007. Among the SMEs with more than 50 employees, 409 have filed for bankruptcy in 2011, 10% more than in 2010. Over the last five years, the increase has been 41%. Enterprises with more than 100 employees are particularly affected by the increase of insolvency (by 14% in 2011) (Altares, 2012).

Outsourcing

A survey conducted among 127 French enterprises of all size between September and October 2010 by the **Cegos Observatory** shows that 82% of French enterprises outsource at least an activity partially or completely. This share is higher for large enterprises (90%) than for SMEs (78%). Also, enterprises in the service sector (87%) tend to outsource activities to a greater extent than in the industry (77%). The outsourced activities concern mainly information services, logistics and production. One in two enterprises outsources information services and logistics while one in three enterprises outsources their production activities and HR. Finally, the reasons stated by the enterprises for re-internalising the activities are the lower quality of outsourced services, the increase in costs and the lack of flexibility or responsiveness of service providers (**Chef d’Entreprise.com**, 2011).

Business expansion

A survey conducted by Ifop (on behalf of FIDUCIAL) on job prospects among 1,007 managers of smaller businesses⁶ between January and February 2011 found that about 14% smaller enterprises (TPE) expected to increase their workforce in 2011; of these, 63% noted that the expected job creation would concern production activities (**Ifop/Fiducial**, 2011).

⁶ 0–19 employees (excluding self-employed).

The OSEO conjuncture survey carried out in the second semester of 2010 reveals that jobs were mainly created by innovative SMEs and those exporting abroad. These enterprises also envisaged taking on more staff in 2011 (OSEO 2011b). About 36% of innovative SMEs expected to hire new staff in 2011 against only 7% that expected to reduce their workforce (OSEO, 2011b). This trend continued in the following two semesters (OSEO, 2011c; OSEO, 2012).

In November 2011, 28% of the surveyed SMEs announced an increase of their workforce compared to the end of 2010 while only 15% reported a reduction of their headcounts (OSEO, 2012). The SMEs that have created jobs in 2011 are those operating in manufacturing (+19), services to enterprises (+18), wholesale (+14) and transport sector (+12). In terms of size of the enterprise, in the second semester of 2010, the recruitment of new staff concerned mainly SMEs with 100–500 employees. In 2011, with the renewal of economic activity, recruitment continued particularly in the SMEs with 10–249 employees (OSEO, 2011c; OSEO, 2012).

With regard to internalisation, a survey conducted in 2007 by market research company CSA on behalf of ACFCI (Assembly of French Chambers of Commerce and Industry, *Assemblée des Chambres Françaises de Commerce et d'Industrie*) among 500 managing directors of French SMEs⁷ (with 20–500 employees) found that 27% of the surveyed SMEs import products from abroad, another 22% export their products and only 10% have establishments in other countries. Some 78% of all SMEs (importing, exporting or with establishments abroad) have trade relations mainly with countries of the eurozone. Only 20% of respondents reported being interested in scaling up their activities and developing abroad. In terms of sectors, SMEs operating in the manufacturing sector (40%) are the most interested in the internalisation of their activities (ACFCI-CSA, 2007). To explain their lack of interest in developing activities in other countries, the respondents mention external constraints (34%) – e.g. the complexity of the financial environment or regulatory constraints. Internal constraints are also considered by the respondents – particularly the lack of familiarity with the market (17%) and insufficient language skills (18%). Finally 23% mentioned the difficulty in accessing public aids and subsidies to internationalise their activities.

⁷ In this survey the sample includes firms with 20–49 employees (68% of the entire sample), 50–99 employees (18%), 100–199 employees (9%), 200 to 249 employees (2%) and 250–500 employees (3%).

Drivers of restructuring

Since late 2008, the main driver of restructuring in French SMEs is the recent financial crisis combined with continued pressure to increase competitiveness in an increasingly globalised economy. However, the drivers of restructuring vary according to the type of restructuring and possibly the sector of activity (that is, whether the company operates in a competitive or declining sector).

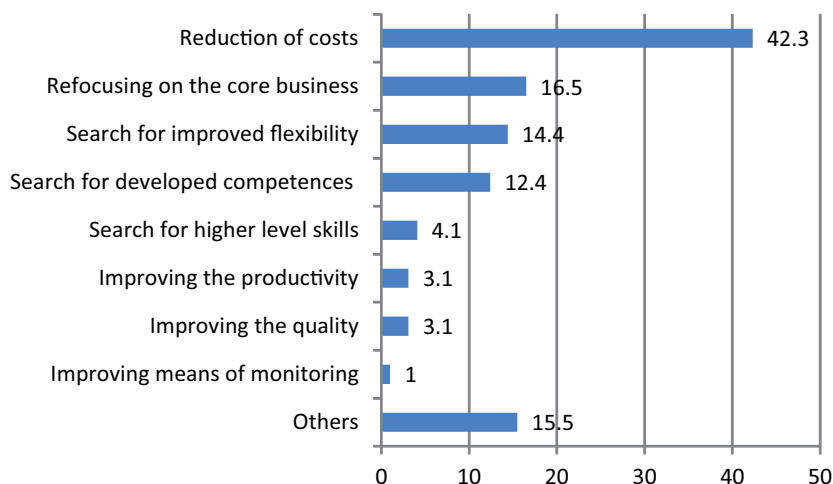
Due to the recession, clients and suppliers delayed their payments and this has had a negative impact on the cash flow of many companies, especially SMEs. Payment delays are considered the main reason of bankruptcies. Some 25% of bankruptcies of French SMEs resulted from delays in payment from clients (Altares, 2009). Average payment delays in France (67 days) are the longest in Europe.⁸

To remedy this situation, the French law for the modernisation of the economy (LME), introduced in August 2008, has reduced the delays of payment in France. By law, clients and suppliers are now required to pay their invoices within 60 calendar days from the issue date of the invoice or alternatively by the end of the month in which the date of invoice plus 45 days falls. Sectoral agreements may be concluded to reduce or lengthen payment delays.

It appears that the LME had contributed to the shortening of the actual payment periods. Payment delays measured in terms of the duration of the suppliers' payment period decreased by 6.1% between 2007 and 2009 (OECD, 2012).

With regard to outsourcing, a KPMG survey carried out in 2005 among 200 SMEs (with a turnover between €7–75 million) unveiled some of the reasons for outsourcing activities. The main driver is generally the reduction of costs; however, the objective is also to improve the company strategy, the organisation and its performance (KPMG, 2005). Less added value activities tend to be outsourced more than core business activities in order to keep in-house expertise.

Figure 6: *Reasons for outsourcing activities cited by surveyed managers of SMEs (%)*



Source: KPMG, 2005

⁸ Dossier de présentation de la LME (Press file on presentation of the Law on modernisation of economy), Ministry of the Economy.

The KPMG survey also explored reasons for offshoring/delocalising activities to another country. The 35.9% surveyed SMEs that have already delocalised some of their activities explained the offshoring in terms of acquisition of new markets (78%), internationalisation of markets (53%) and reduction of costs (42%). Also, the survey found that smaller SMEs are less inclined to delocalise their activities compared to bigger SMEs.

More recent research sheds light on intentions, reasons and risks associated with the delocalisation of activities of SMEs. A French study (Gallego, 2009 as cited in Gallego and Mahé de Boislandelle, 2011) conducted on three SMEs operating in the manufacturing industry points to 10 main reasons for offshoring activities to another country. The SMEs investigated in the study envisaged to offshore activities respectively to Tunisia (company case Méta), Bulgaria (company case Vini) and China (company case Pétro).

The three SMEs cited the same four reasons for offshoring: expansion to new markets, low production costs, expansion of production lines and search for expertise. For Pétro and Vini the profitability of low added value production and emulation of competitors are also drivers for offshoring activities.

Table 5: *Reasons for offshoring/delocalising (study of three French SMEs)*

Reasons	Méta	Pétro	Vini
Low production costs	X	X	X
Pressure from clients		X	
Expansion to new markets	X	X	X
Expansion of production lines (mass-production)	X	X	X
Offshoring of competitors		X	X
Less demanding social legislation abroad	X		X
Search for expertise	X	X	X
Profitability of low added value production		X	X
Labour shortage in the country of origin			X
Insufficient production capacity		X	

Source: Gallego, 2009 as cited in Gallego and Mahé de Boislandelle, 2011

As a follow up to this study, a survey among 123 people in 41 French SMEs was carried out to explore further the reasons for offshoring/delocalising activities (Gallego, 2009 as cited in Gallego and Mahé de Boislandelle, 2011).

The reasons for offshoring/delocalising given in the survey do not have the same weight and three reasons are more often cited: the low production costs, the expansion to new markets and the search for new expertise. Some of the reasons may be specific to SMEs. For example the search for new expertise may be motivated by the more limited resources of SMEs to invest in skills development and the difficulty they have to free up time of existing workers for the development of new competences/skills.

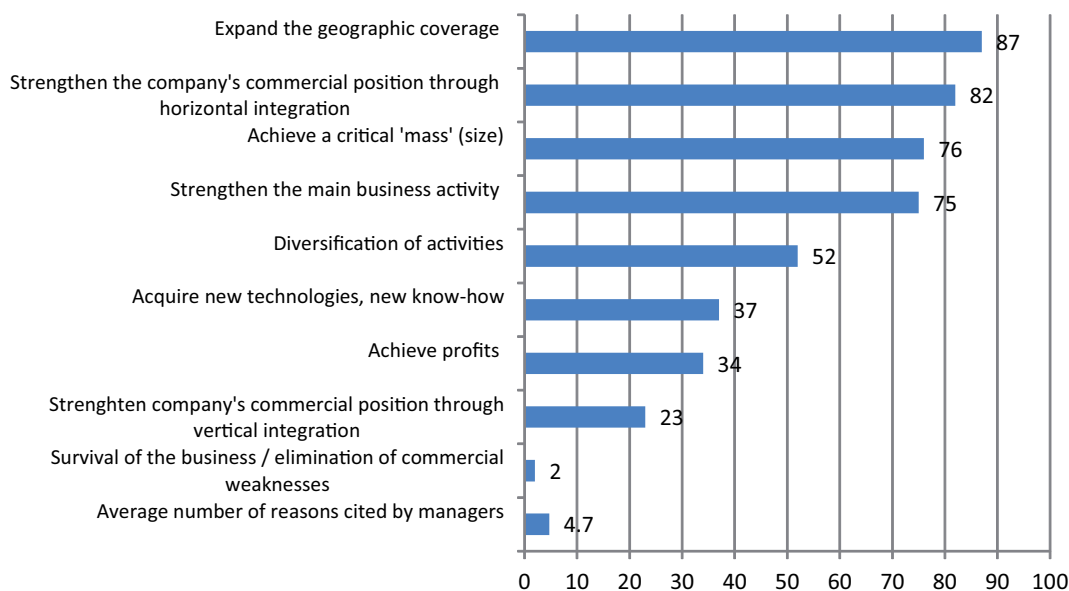
Table 6: Reasons for offshoring/delocalizing (survey-based questionnaire among 41 French SMEs)

Reasons	Frequencies
Low production costs	71.5%
Expansion to new markets	31.7%
Search for new expertise	20.3%
Emulation of competitors	15.4%
Pressure from clients	13.8%
Profitability of low added value production	13%
Profitability of mass production	12.2%
Labour shortage in the country of origin	12.2%
Insufficient production capacity	3.3%
Less demanding social legislation abroad	3.3%

Source: Gallego, 2009 as cited in Gallego and Mahé de Boislandelle, 2011

Some insight into the main driving forces behind mergers and acquisitions comes from a survey among managers of SMEs⁹ (n=200) carried out in 2006 by the international market research company TNS Sofres on behalf of Norton Rose. Almost a third of respondents foresee the acquisition of another company over the next two years. They motivate their choice by the desire to extend their geographic coverage, expand their business or the size of the enterprise. The diversification of business activities is also cited by one in two managers (Norton Rose, 2007).

Figure 7: Reasons given by managers of SMEs for plans of merger or acquisition (%)



Source: Norton Rose, 2007

⁹ In this survey the sample includes firms with 50–199 employees (80% of the entire sample); 200–499 employees (15.5%); and 500–999 employees (4.5%).

Another 14% of managers reported that they intend to sell or transfer their business over the next five years. The reasons relate mainly to the concentration in their sector of activity (well established competitors in the sector), the competitive context and a change in management within their company, principally related to the departure of the manager. The transfer of the business within the family is not often cited as a reason.

Distinctive characteristics of restructuring in SMEs

Anticipation, planning and preparation of restructuring events

Various French studies have explored the issue of anticipation of restructuring (for example, Aubert, 2002; Viet, 2003); however, there is no explicit focus on the needs of and the tools available specifically to SMEs.

SMEs have generally limited financial and human resources to anticipate restructuring. Especially in the case of small family business, business owners are often not prepared or trained enough to cope with rapid change. There are, however, measures and schemes related to anticipation, planning and preparation of restructuring for SMEs at national, regional and territorial level. The main problem is that information on such schemes is not so easily available and the bureaucratic procedures to access financing are often time consuming and complicated.

At national level, OSEO provides subsidies (through a regional network) to support innovation and growth for SMEs and facilitate access to financing.

At regional level, there is a range of schemes to help SMEs to foster innovation, job creation and skills development. These are, however, not explicitly designed for the anticipation of restructuring. Such schemes include:

- regional subsidies for job creation;
- schemes supporting the sharing of training programmes and facilitating the collaboration between SMEs operating in the same sector;
- skills and competences development programmes supported by the region;
- subsidies to support innovation within the innovation regional strategy (SRI).

Box 1: Example of regional subsidies targeting SMEs

1) Auvergne regional council

Regional fund for business consolidation (*Fonds regional pour l'ancrage des entreprises, FRAE*): this regional fund provides financing to SMEs for development projects that have a positive impact on the regional economy (in terms of added-value, job creation and investments). In 2008, €4 million was allocated to help SMEs and another €2 million earmarked in 2009.

Regional fund for employment (*Fonds regional pour l'emploi, FRE*): this instrument facilitates the access to financing for SMEs. It also helps SMEs to increase their own capital.

Regional aid to increase own capital (*Aides regionales aux fonds propres, ARFP*): this is an instrument to support business creation or transfer. The region earmarks €2.3 million each year for business creation and transfer).

Innovation for economic development (*Innovation au service du developpement economique*): the region supports innovation chain leading to the creation of innovative enterprises, technology transfer and R&D of regional SMEs as well as regional competitiveness poles.

At company level, the anticipation of restructuring is mainly done through HR planning with strong emphasis on the development of the versatility and multi-skilling of the staff as well as the provision of continuous vocational training.

Anticipation is also done through the strategic workforce planning (*GPEC, Gestion prévisionnelle des emplois et des compétences*). The law for social cohesion of 18 January 2005, created a three-year obligation for companies with 300 employees and more to negotiate a strategic workforce planning. This entails a proactive and preventive management of human resources through the development of tools to anticipate changes in jobs and skills and to support employees. Although this is not a legal obligation for SMEs, some smaller companies also implemented the strategic workforce planning.

According to the French intersectoral joint social partners' organisation which focuses on SMEs, **AGEFO PME**, some 52% companies with over 200 employees have implemented or would be interested in setting up strategic workforce planning compared with 21% in the other small businesses (AGEFOS PME, 2009).

It should be noted that SMEs willing to implement a strategic workforce planning can avail of free consultation (for the duration of five days) from the national agency for the improvement of working conditions (ANACT, *Agence nationale pour l'amélioration des conditions de travail*). One of their experts offers skills assessment and proposes a number of actions for follow up. There are also public aides for companies with less than 300 employees to benefit from external consultancy and assistance in the elaboration of a strategic workforce planning. To do so, the company should sign an agreement (for a maximum duration of a year) with the regional business, consumption, competition, labour and employment directorate (DIRECCTE, *Direction régionale des entreprises, de la concurrence, de la consommation, du travail et de l'emploi*) (**L'Entreprise.com**, 12 March 2012).

Managing restructuring

In France, dismissal procedures on economic grounds vary according to the number of dismissals and the size of the enterprise. Overall, the French labour law imposes strict requirements that can make collective dismissals expensive and time consuming. Restricting the analysis of existing dismissal procedures for SMEs only, three different scenarios can be envisaged.

1. **Individual dismissal on economic grounds.** This follows similar procedures which apply to the individual dismissals on personal grounds – preliminary interview, notification sent by registered letter detailing the reasons of the dismissals to the employee, notification sent to the labour inspectorate and usually to the personnel delegates or the works council.
2. **Small-scale dismissals involving the dismissals of two up to a maximum of nine employees on economic grounds within a 30-day period.** This entails an information-consultation procedure (meeting) with the works council or personnel delegates. The affected employees should be offered the possibility to avail of the occupational transition contract (*Contrat de transition professionnelle, CTP*) or the **Personalised Reclassification Assistance Agreement** (*Convention de reclassement personnalisé, CRP*). The latter has been recently replaced by the **Professional Securing Contract** (*Contrat de sécurisation professionnelle, CSP*).
 - The CTP was introduced by the French government in April 2006. The CTP guarantees affected employees (in companies with fewer than 1,000 employees) a protective status as a vocational trainee during 12 months, remunerated at the level of 80% of their previous gross pay ('occupational transition allowance', which is awarded during the period in which the employee is not in paid economic activity). During 12 months, those concerned can alternate between support measures (additional support is provided by a subsidiary of the National Association for Adult Vocational Training), training and periods of work in companies or public bodies (with a fixed-term contract of a maximum of six months that can be renewed once) (EIRO, 2009).

- The Personalised Reclassification Assistance Agreement scheme (CRP), which was introduced by an inter-sectoral agreement in 2005 (EIRO, 2005), applies to redundant employees in companies with a workforce under 1,000. Under the CRP scheme, employees receive specific compensation equivalent to 80% of their former gross wage for the first three months (that is, 95% of their net wage). For the next five months, this benefit is reduced to 70% of their previous gross wage (or 85% of their net wage) (EIRO, 2005). Previously, this type of protection was offered only to employees in large companies with redundancy plans. As of September 2011, the CRP has been replaced by the CSP.
3. **Collective dismissals on economic grounds.** In companies with a workforce of 50 or more people, the dismissal of 10 or more employees (within a 30-day period) requires the employer to establish a social plan or ‘job preservation plan’ (*plan de sauvegarde de l’emploi, PSE*) whose objective is to avoid or reduce the number of dismissals and facilitate the reassignment of those employees whose dismissal is unavoidable. The plan must be presented to the personnel delegates or works council as well as the departmental labour market authorities. During the process, various consultation meetings are held with the personnel delegates or works council depending on the number of employees being dismissed, the organization of the business, the response of the shop committee, and whether union representatives are to be dismissed. Before proceeding with the dismissals, the employer must take into account pre-defined criteria such as social characteristics, family responsibilities, seniority, age, disability and professional qualifications. Upon careful examination of the plan, departmental labour market authorities can approve or reject it. Consultations on alternatives to redundancy, such as redeployment or retraining, are also required by law (article L. 1233-4) and all measures to avoid further dismissals should be detailed in the social plan (e.g. reduction or adjustment of working hours, etc.). This requirement also applies to companies with fewer than 50 employees, which must send this information to their personnel delegates or works council. The French Labour Code sets out a number of rules to prevent companies from staggering many waves of dismissals over time. For example, in companies with over 50 employees that dismiss more than 10 employees over a consecutive three-month period without exceeding 10 or more dismissals during any 30-day period, further dismissals on economic grounds over the next three months are subject to stricter procedural requirements. The employees concerned by collective dismissals are given priority when rehiring during one year.

During the recession, an increasing number of SMEs have declared bankruptcy. However, some companies managed to stay in business in spite of heavy headcount reductions. This is the case of the two French SMEs – *Eurodecad* and *Solic group* – which are part of the Eurofound study. In both cases the companies initiated insolvency procedures while, at the same time, proceeding with collective dismissals on economic grounds.

In France, the insolvency procedure consists in the examination of the case by the competent Commercial Court. If there is some evidence that the business can survive, the court appoints an administrator who takes co-charge of the management during the so-called observation period (*periode d’observation*) which generally last six months (up to a maximum of 18 months). During this time, regular review meetings are held to assess closely the state of the business. By the end of the observation period, a continuation plan is presented to the Commercial Court which, if it can, approves it. Alternatively the court can approve a sale plan which involves the sale of the company to third parties and proceeds of the sale are used to pay creditors. If a new investor is not found, the company’s assets are sold as a block or separately.

Other times, restructuring can take the form of an amicable settlement procedure without the recourse to liquidation procedures. This applies when a company has not reached the stage of cessation of payments. In this case, the Commercial Court appoints a conciliator for a maximum period of three months, to promote the functioning of the business and seek an agreement with the creditors.

In terms of management of restructuring there are various other instruments that SMEs can avail of. For example, both large firms and SMEs can make recourse to the short time work scheme (‘**chomage partiel**’, partial unemployment) in

periods of low capacity in an attempt to avoid or delay redundancies. In December 2008, social partners renegotiated the collective agreement on partial unemployment and agreed to increase the state-funded hourly compensation for short-time workers from €2.44 to €3.64 per hour for employees in SMEs (with fewer than 250 employees) and from €2.13 to €3.33 for all workers in larger companies.

Another possibility for companies struggling with lower demand in periods of crisis is to change the weekly working time according to workload peaks. The law on social democracy and working time reform of July 2008 made it possible for companies to negotiate the amount of overtime, which had until then been set at sectoral level, and introduced the **annualisation of working time**, allowing for variations in the weekly working time to adjust to market fluctuations.

Actors involved

The formal parties involved depend on the type of restructuring and procedures set out in French labour law (as described above). In the case of collective dismissals (involving 10 or more dismissals) the key actors are the works council or personnel delegates and the departmental labour market authorities. The latter are responsible for ensuring that the company complies with procedural requirements in the negotiation and implementation of the social plan. They may make proposals to modify or expand the plan, and the employer must respond to those proposals in writing.

Possibly due to the fact that unionisation is generally low in SMEs, there is no information available on the level of involvement of works councils or trade unions in restructuring processes.

In the case of liquidation and bankruptcy procedure, the involved actors are the competent Commercial Court which is responsible for opening and overseeing the proceedings and finally approving – if it can – a continuation plan or alternatively a sale plan. The court also appoints an administrator (from a list of authorised professionals) who co-manages the company for a maximum duration of 18 months.

The French government also plays an important role in providing instruments for both managing and anticipating restructuring through government agencies supporting SMEs. A case in point is OSEO, which provides funding for technology transfer and innovative technology-based projects, guarantees funding granted by banks and equity capital investors, and supports investments alongside the banks. Equally important is the role of regional authorities, which provide a range of instrument to support innovation, business expansion and job creation, and training provision with a view to boost the competitiveness of SMEs.

There are other types of actors that do not have a legal (and compulsory) status, like consultants, family and friends. In the case of French SME *Eurodec* the managing director made recourse to the consulting company for the provision of training, skills assessment and job search assistance to redundant employees. The costs were entirely covered by the departmental labour authority. Also, the assistance of a labour lawyer and accounting expert was regarded as essential for the positive outcome of the restructuring itself. However, no recourse to the expertise of consultants was made for the preparation and implementation of the business diversification plan.

Main challenges and constraints facing SMEs in restructuring

Because of their size and the more limited access to instruments and resources to anticipate and manage restructuring quickly and efficiently, SMEs are often more vulnerable than larger companies to cyclical economic downturns (Triomphe et al., 2009). It is also argued that French SMEs often have difficulties in obtaining financing and access to credit (Triomphe et al., 2009). Using firm-level data Bach (2010) found that French SMEs are faced with severe credit constraints and inadequate access to credit. Bach identified credit constraints for SMEs on the basis of an evaluation of the impact of a lending program (CODEVI) targeting small businesses in some key sectors in the mid-nineties.¹⁰

The European Central Bank (ECB) survey on access of finance to SMEs (with up to 250 employees)¹¹ as well as larger firms with more than 250 employees conducted between October 2011 and March 2012 reveals that over half of the responding French SMEs (54%) reported that their need for bank loans had remained unchanged over the preceding six months. A large majority of SMEs (79%) reported that they had applied for a bank loan and obtained it – bank loan rejection rates were higher among micro-enterprises (13%). Also, 12% of the surveyed French SMEs reported an improvement in the availability of bank loans (new loans or renewals of existing loans) in the period from October 2011 to March 2012. For 54% of SMEs the situation remained unchanged. In the same period, 31% of French SMEs perceived a deterioration in the availability of bank loans. The reported deterioration is at the same level of 2009 (first half) at the time after the Lehman Brothers bankruptcy.

Table 7: *Availability of bank loans to French firms (SMEs and large firms) in 2009–2012*

		Improved	Remained unchanged	Deteriorated	Not applicable	Don't know
First half of 2009	Large firms	13	57	16	15	0
	SMEs	11	53	30	2	3
	Micro	13	46	37	1	4
	Small	11	56	27	3	3
	Medium	10	60	26	2	2
Second half of 2009	Large firms	20	56	24	1	0
	SMEs	9	62	23	6	1
	Micro	13	51	28	4	2
	Small	7	65	23	4	0
	Medium	7	67	17	8	1
March to September 2010	Large firms	41	39	14	6	0
	SMEs	17	57	19	6	1
	Micro	18	52	24	3	2
	Small	17	58	18	7	0
	Medium	15	61	15	8	1

¹⁰ Initially only firms belonging to industrial sectors were eligible, and after 1993 wholesale trade firms became eligible; finally, in January 1996, retail trade firms (excluding supermarkets) were made eligible to CODEVI loans.

¹¹ Micro enterprises with 1–9 employees, small-sized firm with 10–49 employees and medium-sized firm with up to 250 employees.

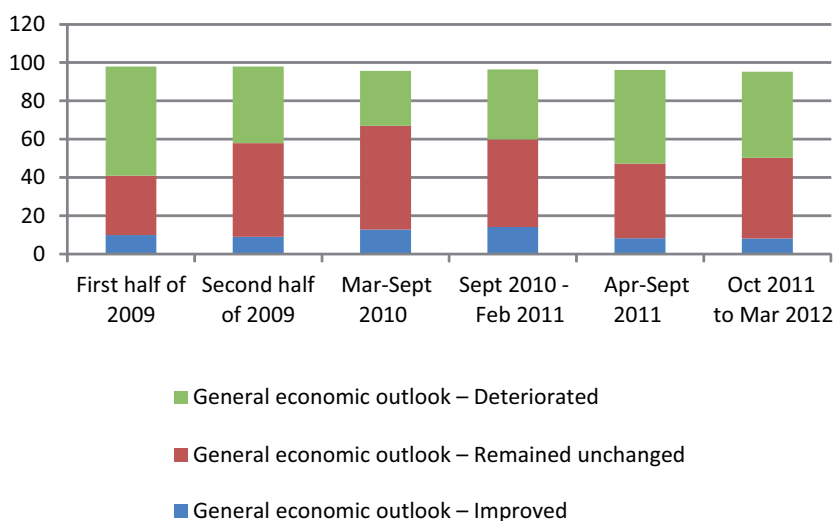
		Improved	Remained unchanged	Deteriorated	Not applicable	Don't know
September 2010 to February 2011	Large firms	24	45	22	9	0
	SMEs	12	55	25	9	0
	Micro	10	51	36	4	0
	Small	17	56	21	5	0
	Medium	8	59	17	16	0
April to September 2011	Large firms	10	48	28	14	0
	SMEs	15	49	29	5	1
	Micro	11	43	37	9	0
	Small	14	52	28	3	2
	Medium	20	51	24	5	1
October 2011 to March 2012	Large firms	17	43	29	11	0
	SMEs	12	54	31	2	1
	Micro	10	56	33	0	1
	Small	14	52	29	3	2
	Medium	11	53	31	4	0

Source: *European Commission/European Central Bank, 2009–2012*

According to the most recent ECB survey, French SMEs' expectations were not that optimistic as regards future developments in access to finance for the coming six months. Some 29% of the surveyed SMEs expected a further deterioration of their access to bank loans in the coming six months (April to September 2012) while only 13% responded that they expected an improvement.

Turning to the factors affecting the deterioration in the availability of external financing, French SMEs referred in particular to the worsening of the general economic outlook; however, the percentage is decreasing from the previous survey round (45%, down from 49%) in the previous survey period from April to September 2011). This factor is, however, less negative in 2011 and 2010 survey rounds than in early 2009, when the downturn in economic activity was much more severe (Figure 9).

Figure 9: Change in perceived general economic outlook having an impact on the availability of external financing to French SMEs

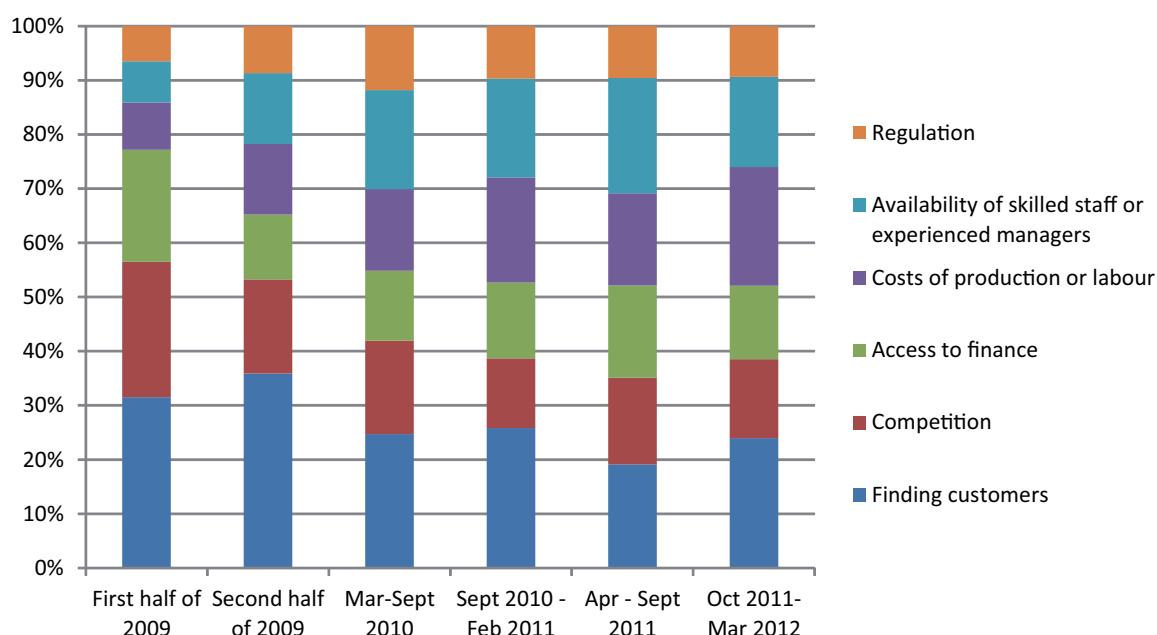


Source: European Commission/European Central Bank, 2009–2012

Also, compared to 2009, in this last survey round an increasing number of SMEs perceive a worsening in their access to public financial support and willingness of banks to provide a loan.

The ECB survey also shows that the most pressing problem facing French SMEs was finding customers across all survey waves. The most recent survey reveals that some 23% French SMEs chose this reply compared to an average of 27% for countries in the euro zone. In the same period the next most serious problem appeared to be the cost of production or labour which was reported by 21% of French SMEs (against an average of 14% for the euro zone SMEs). This was less of an issue in the previous survey rounds. The availability of skilled labour competition has moved up in the ranking of SMEs’ most severe problems since the first 2009 survey (Figure 10).

Figure 10: Main problems French SMEs are facing (% of respondents)



Source: European Central Bank, 2009–2010
 Note: DK/ NA answers omitted

Also the already mentioned Ifop survey conducted between January and February 2011 indicates that lack of financial resources as a reason to postpone recruitment plans. Some 33% of respondents (800,000, TPE) report that they intended to do so due to limited financial resources, slowdown in economic activities, and high charges on wages. For 53% of businesses that envisaged keeping their staff or remaining with no employees, the reduction of charges on wages is the main reason for not recruiting.

Also, a key challenge for French SMEs in the process of restructuring is the limited access to market financing. In 2009, 400 French SMEs employing between 50 and 250 people had stock market listings. This accounts for only 0.6% of all SMEs in this category. Of the total, 280 SMEs were listed on the free market and another 114 were listed on **Alternext**, which is a special organised market created in 2005 to facilitate access to financial markets for SMEs. On Alternext, entry conditions are made simpler. For example, the period on which past accounts are analysed is limited to two years (instead of three). This allows emerging companies to be quoted more rapidly than on free markets. Nonetheless, Alternext is far behind its British counterpart AIM (Alternative Investment Market) both in terms of capitalisation as in terms of companies quoted on the market (Chertok, de Malleray and Pouletty, 2009).

Business support from public and private sources

Supply

At the 2010 Salon Planète PME – the annual gathering of the French small and medium enterprises (SMEs) – organised by CGPME (SMEs' general confederation, *Confédération générale du patronat des petites et moyennes entreprises*), the French President Nicolas Sarkozy said that 'SMEs are the driving force of the French growth [...] the main sources of employment' (Le Figaro, 2010). Even before the beginning of the crisis the French government had started to adopt a range of incentive measures to favour SMEs' growth and expansion. This was done by easing tax and procurement payment procedures, strengthening pro-investment measures and creating and extending loan and guarantee schemes for SMEs.

The French law of 21 August 2007, regarding labour, employment and purchasing power (TEPA) established a package of measures for SMEs, including new incentives for employees to accept overtime (that is, hours worked above the statutory 35-hour working week) (pme.service-public.fr, 2007). The compensation for overtime hours incurred is not subjected to social security contributions and income tax, and the reduction in employee contributions cannot amount to more than 21.5% of the employee's total compensation. Another measure included in the TEPA is a reduction of wealth tax charge (l'impôt de solidarité sur la fortune, or ISF) equal to 75% of the investments made by a taxpayer in non-public SMEs with a maximum of €50,000 (pme.service-public.fr, 2007).

In addition to the TEPA, the French law for the modernisation of the economy (LME) introduced in August 2008, includes a range of measures applicable to SMEs with the aim of stimulating economic growth and job creation (see Box 2).

Box 2: LME key measures to favour SMEs

- Simplification of the administrative procedures for the set-up of small companies and introduction of a new auto-entrepreneur simplified regime for the self-employed.
- Exemption of social security contributions for small companies (with fewer than 10 employees) increasing their workforce.
- Reduction of payment terms for commercial invoices from 90 to maximum 60 days from the billing date or 45 days from the end of the month (with possible exceptions in case there is a specific industry agreement) with the aim of improving SMEs' liquidity. In the absence of any specific agreement between the parties, the payment term is capped to 30 days.
- Increase in OSEO's budget in 2008 and 2009 (€5 billion) to finance SMEs or issue guarantees to their lenders. The opening of a new refinancing facility of €2 billion with *Caisse des Dépôt et Consignations*. Another €2 billion were added for bank loans to SMEs. Moreover, a new guarantee fund (€70 million) was set up to guarantee short term loans to SMEs, provided they were converted into mid/long-term loans. This fund will be able to guarantee €1 billion worth of loans.

- Reduction of transfer duties on the sale and transfer of businesses with a view to encourage acquisitions, particularly by family members or employees.
- Creation of the French Small Business Act (Pacte PME France) which applies to hi-tech SMEs and stipulates that on an experimental basis and for a period of five years, public buyers can reserve a share (up to 15%) of the procurement contracts for innovative SMEs or treat them preferably upon equivalent offers.

Source: Ministry of the Economy, Finance and Industry (*Ministère de l'Économie, des Finances et de l'Industrie*); Government portal (<http://www.gouvernement.fr/premier-ministre/une-enveloppe-de-20-milliards-d-euro>)

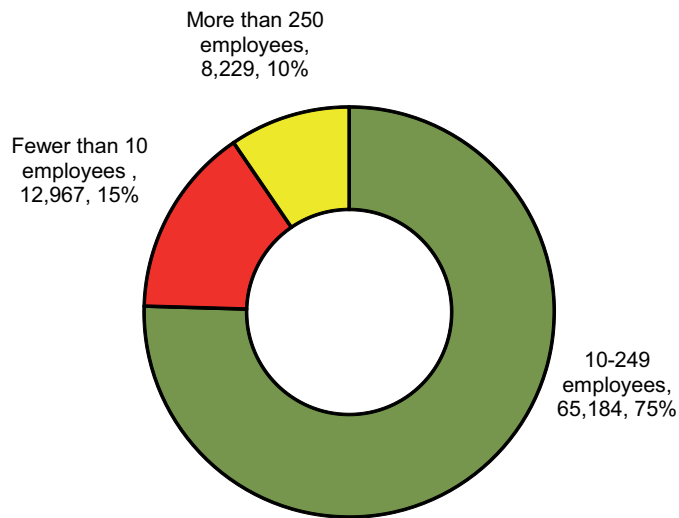
A boost to innovation was given with the enlargement of the scope of the research tax credit (*crédit d'impôt recherché*): since January 2008, French innovative companies can benefit from the tax credit equal to 30% of the research and development expenses. According to CGPME, the research tax credit has become a symbol of the 'good regulatory framework' which, however, is not well known by SMEs (Euractiv, 2010).

The French 2009 finance law (*loi de finances pour 2009*) has also abolished the minimum annual corporate tax (*imposition forfaitaire annuelle*) over a period of three years, which had to be paid by all companies subject to corporate tax (including SMEs) if their revenue was equal to or exceeded €400,000. As of 1 January 2010, the local business tax on productive investments (*taxe professionnelle*) has also been suppressed and replaced by an alternative tax (that is, *CET, contribution économique territoriale*) up to a maximum of 3% of the added value (pme.service-public.fr, 2010).

Due to the difficulties of SMEs in accessing market financing, the French government also introduced new credit mediation structures (*mediation du crédit*) to help SMEs to obtain credit loans from banks and ease their cash flow problems. In October 2008, the French government nominated a credit mediator, René Ricol. His task is to ensure that banks pass on financing to companies facing temporary economic difficulties (including SMEs). According to information released by the office of the mediator for credit, 33,372 requests for assistance (4,535 in 2011) have been filed since November 2008 – in many cases with a positive outcome. Two out of every three cases ended with an agreement between a company and a bank, which saved overall about 260,000 jobs. In 2011, 96% of accepted requests for assistance concerned enterprises with fewer than 50 employees (**Médiation du crédit aux entreprises**, 2012).

It is difficult to measure the impact of the newly introduced measures in terms of overall job creation and prevention of business failures. According to OSEO figures, on the whole, 8,215 enterprises entered into guarantee agreements between 1 October 2008 and 30 June 2009 (OSEO, 2009). As of 30 June 2009, 5,556 had benefited, at least in part, from OSEO guarantees. These 5,556 enterprises employed over 86,000 people (see Figure 10).

Figure 11: Distribution of enterprises that benefited from OSEO guarantees by size



Source: OSEO, 2009

According to estimations, OSEO support has had a direct impact on the preservation of jobs for 80% of enterprises which benefited from an OSEO guarantee. These enterprises made adjustments to their workforce in order to survive in the market during the crisis throughout 2009.

Also, in 2009, nearly one enterprise out of five made recourse to the short-time work scheme (*chomage partiel*, partial unemployment) and one enterprise out of three opted for temporary contracts when recruiting new staff (OSEO, 2009). Nearly 30,000 jobs were saved, representing 33% of the workforce of enterprises that have benefited from an OSEO guarantee. Approximately 24,500 jobs were saved in enterprises which had avoided the closure thanks to OSEO guarantees.

The impact of the new provision introduced by the LME on payment delays was also evaluated in a survey carried out in 2010 by CGPME using a sample of 118 enterprises. For 73% of respondents, large enterprises and state-owned enterprises are those causing such delays. All in all, 81% of SMEs responded that the introduction of the new cap to payment terms in the LME has not contributed to improve their liquidity (CGPME, 2010).

Drawing from another recent survey conducted by KPMG, more than half of the French SMEs managers (52%) are overall satisfied with the support measures introduced by the government since 2008 to alleviate the negative consequences of the crisis on their businesses. In particular, 58% of respondents had a positive opinion of OSEO supported grants and schemes (KPMG, 2010).

Public support to SMEs is also channeled through the already mentioned competitiveness poles which have been established since 2005 to boost innovation, employment and business growth at local and regional level. Part of this funding often comes from European funds. It is not clear, however, to what extent these structures are effective and functional. According to the *Eurodecals* case study, interventions put in place through the competitiveness poles are not well coordinated and the logic of the family business tends to prevail.

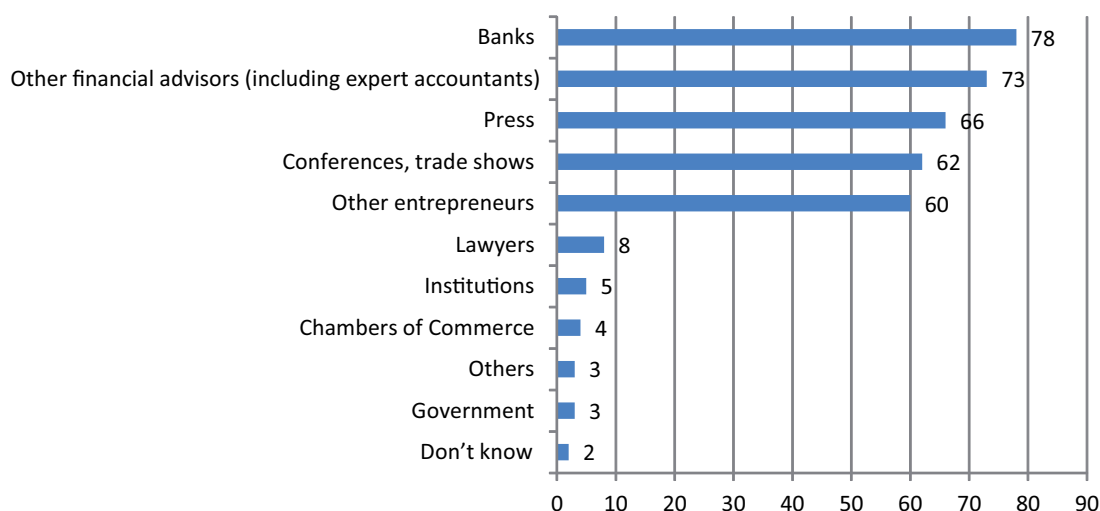
With regard to private support, there are plenty of consultancies and organizations that offer assistance to SMEs in the process of restructuring. However, the main problem is the limited financial resources available to SMEs especially in a context where a business is struggling to survive.

Demand

Very little is known about the demand side of business support for SMEs. It may be the case that this would depend on the type and characteristics of the restructuring as well as the expertise and resources available.

The already mentioned Norton Rose survey on SMEs (n=200) found that 25% of respondents considered that they are not well informed about financing offered to SMEs. According to them, banks and financial advisors are the most reliable sources of information (Norton Rose, 2007).

Figure 12: *Most reliable information sources about financing to SMEs (%)*



Source: *Norton Rose, 2007*

Note: Multiple answers are possible.

According to the Norton Rose survey 15% of the respondents reported to have turned to private equity firms for financial support. Another 20% said that they have made contacts with such firms without concluding yet any agreement with them. Overall, they considered that the support of private equity firms is required to acquire a new business, to finance the growth of the company or to allow the business owner or managing director to step down and move away from its capital.

The two French company cases of bankruptcy – *Eurodecad* and *Solic group* – investigated in this research highlighted the need to make recourse to the expertise of an accountant and legal expert due to the complexity of French labour law and liquidation procedures. Public aids are, however, available for availing of external consultancy for the provision of assistance to redundant employees (for example, training, skills assessment, assistance in finding employment, etc.). The costs can be partly or entirely covered by the departmental directorate for labour, employment and training. The other French company case of business expansion pointed to the lack of financial resources for external assistance and consulting in the preparation and implementation of their growth and expansion strategy.

Outcome of restructuring events

French SMEs have more limited access to financing and other instruments to manage restructuring than larger companies. For this reason, the restructuring processes initiated by SMEs often lead to layoffs. This is in spite of the closer work relations between employer and employees in SMEs than in bigger firms.

Nonetheless, it should be noted that layoffs in SMEs are the last resort after attempting to shed costs through other means. This also emerges from the French company cases gathered in this research whereby the business owners sought to cut all supplementary costs, reduce working time (through recourse to the French short time work scheme) and access to financing in an effort to avoid layoffs.

As a result of the restructuring process some of the SMEs surveyed adopted a business diversification strategy by broadening the range of products produced or services provided. Special emphasis has been given to HR planning, continuous training and multi-skilling of their employees. According to experts, the adoption of a diversification strategy may indeed lead to a better spreading of risks but not necessarily to enhanced efficiency and profitability (Gallego and Mahé de Boislandelle, 2011). Another possibility is to focus on the core business by focusing on one or a few activities. This would result in resource sharing which will lead to a reduction of production costs (Gallego and Mahé de Boislandelle, 2011).

Other strategies are also possible. For example, when a company is confronted with a limited market, it may opt for an internalisation strategy by exporting its products abroad (Torres, 2002). This may allow an SME to increase sales and spread risks (through their presence in other countries). This strategy is particularly encouraged by public authorities (through, for example, tax exemption, etc.) provided that the company operates in a competitive sector (Gallego and Mahé de Boislandelle, 2011). With a view to be more competitive, SMEs may also share resources and develop synergies with other SMEs (whether competitors or not). Clustering and cooperation between firms in the form of the so-called local production systems (*SPL, Systèmes Productifs Locaux*) has been encouraged by the government since 1998. In 2009, the French government launched the **grappe d'entreprises policy** to promote further the cooperation between SMEs, innovation institutions and competitiveness poles (OECD, 2010).

In terms of effects of restructuring on employees, there is a lack of specific information regarding SMEs. Most literature explores general issues without taking into account the size of the business. There are interesting findings from research, which, however, does not focus exclusively on employees in SMEs, but shows that accompanying measures for redundant workers such as the Personalised Reclassification Assistance Agreement (CRP) and the Occupational Transition Contract (CTP) have positive effects: affected workers that have benefited from these measures appear to have a less fragmented career path and are more likely to find a new job after two years since they have been laid off (Beaujolin-Bellet and Schmidt, 2012).

Conclusions and policy issues

According to CGPME, the French industry body representing SMEs, government policies should be directed at creating the conditions for SMEs to develop their activities and create new jobs. In CGPME's view, the main obstacles preventing the growth of SMEs remain the high costs of social security contributions, the red tape, limited social dialogue and strict labour code (CGPME, 30 November 2010).

In particular, the SME industry body highlighted the need to reduce the cost of labour in France and called for a rise in value added tax (VAT) and a rise in the general social contribution in return for lower employer contributions. In this regard, they advocated reintroducing a provision initially included within the framework of the government's 2008 stimulus plan (and abandoned for budgetary reasons in June 2010), granting employers exemption from their employer contributions when recruiting individuals on a full- or part-time basis, applicable to very small companies of fewer than 11 employees or TPEs.

In the meantime, France's MEDEF employers' confederation proposes additional measures to support job creation in SMEs, especially TPEs.

Box 3: MEDEF's five proposals to help SMEs to create jobs

- Eliminate social security contribution charges ('*zéro charge*') on each job created by smaller enterprises.
- Give a more prominent role to *Pole Emploi* (the French national employment agency) and assist small enterprises in their efforts to create jobs.
- Lighten the burden on employers to encourage them to hire, hence remove unnecessary constraints imposed by the State on employers in matters of job creation (for example, strict quotas set on traineeships).
- Encourage vocational education and training to secure career paths.
- Set up an observatory on the evolution of job offers to provide some insight into the requirement for a better match between skills and business demands.

Source: **La Tribune**, 15 February 2011.

Due to the low levels of unionisation in SMEs¹³ – most notably in the smaller businesses – trade unions exert a limited influence on the debate around the policies and instruments supporting restructuring in SMEs. In the context of the crisis, the proposals put forward by trade unions – which are not necessarily SME-specific – tend to revolve around the importance of anticipation (support for vocational guidance and retraining), the development of transferable skills and the need to make career paths secure (EIRO, 2009).

According to some experts, French SMEs are too reliant on subsidies and tax exemptions and they have difficulties with growth. Other alternative forms of financing should be facilitated (for example access to the stock market). The difficulty of SMEs in accessing funding to increase equity capital is often highlighted by experts (**Financer les PME**, 2011), as well as business owners in all three French company cases in this research.

¹³ With regard to workforce representation in SMEs, the legal thresholds are 10 employees for workforce delegates and 50 employees for works councils and union delegates.

The French case studies in this research highlight the need to be vigilant at all times and monitor continuously the fluctuations of market demand. The rapid adjustment of the business strategy is regarded as an essential condition to respond to continuous change in an increasingly globalised economy.

Also, the emphasis should shift from management to anticipation of restructuring with a view to invest, grow and adjust quickly to changing circumstances. The strategic cooperation and networking with other firms – for example through competitiveness poles and other forms of clustering of enterprises – could be instrumental to reach a critical size with a view to export more and confront the challenges of globalisation.

Finally, it is equally important that business owners and managers acquire the appropriate skills and technical competencies to manage and anticipate restructuring processes. It is often the case that managers fail to develop an effective strategy for competing in the market. When the restructuring is unavoidable, they are not prepared to deal with it effectively and are often not well informed on the business support measures available.

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