



Eurofound

Restructuring in SMEs: Portugal

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Introduction

In 2011, the Portuguese economy was faced with stalled access to finance and the beginning of the implementation of the Economic and Financial Assistance Programme (EFAP). There had been a growth of economic activity in 2010, of 1.4%, largely due to the good performance of exports (with a growth rate of 8.8%) and a recovery of private consumption (growth rate of 2.1%). Afterwards, in the first quarter of 2011, there was an economic contraction of 0.6%.

The evolution of economic activity in Portugal was accompanied by a worsening of the labour market's main indicators. The number of people active in the labour market stagnated in 2010, and then fell in 2011. In the fourth quarter of 2011 the activity rate was 60.9% (61.5% in the first quarter of 2011). There was also a decrease in total employment (-1.5% in 2010). The employment rate (of people aged 15–64) decreased from 64.6% in the first quarter of 2011, to 62.9% in the last quarter of that year. This trend was evident across all age groups.

In 2011 the annual average unemployment rate was 12.7% and there were 706,100 unemployed people. At the end of the fourth quarter of 2011 the unemployment rate reached 14% of the active population, about 771,000 people. Youth unemployment reached a maximum of 35.4% and long-term unemployment also increased, from 6.4% in the third quarter of 2011, to 7.4% in the fourth quarter, following the trend of steady growth from the last quarter of 2008 until the last quarter of 2010 (3.7% and 6.1%, respectively).

Regulatory changes and labour law reform are necessary in order to:

- increase labour productivity;
- increase flexibility in human resources management;
- revise social protection schemes;
- tackle the disturbing increase in youth unemployment and the number of people who have become long-term unemployed.

In sum, the last four years reflect the effects of the international economic and financial crisis, which contributed to the increase in unemployment and the decrease in gross domestic product.

In May 2011, Portugal negotiated the Economic and Financial Assistance Programme with the International Monetary Fund, the European Central Bank and the European Commission, for 2012–2014, in order to implement structural reforms that aim to consolidate public finance and to increase economic activity.

A reprogramming of the QREN (National Strategic Reference Framework, 2007–2013) is also in hand, aiming to redirect unallocated funds to:

- reinforce national competitiveness;
- strengthen the sustainability of the financial system;
- promote employability of newly active people.

The Portuguese government is carrying out a set of ambitious measures, which include employment or vocational training policies for people who face increasing difficulty in accessing the labour market.

In order to increase employment levels in a sustainable way the government is also developing a set of structural reforms that will contribute to a more dynamic labour market.

The government will continue to invest in education, technical courses and vocational training since this is considered vital to prevent poverty and social exclusion. Alongside the steep costs of a worsening cyclical position, there has been progress in terms of rebalancing the current account balance and capital, with an increase in exports and a sharp reduction in imports, due to the substantial reduction of private consumption. Moreover, the perception of risk by international investors in the Portuguese economy showed some signs of improvement.

Nevertheless, the consolidation of these developments, even within a more balanced macroeconomic situation, requires an increase in productivity. However, the continued deterioration of the cyclical position of the economy may have a negative impact on economic growth, especially as there is a continuous reduction in private investment, a rise in unemployment and an increasing outward flow of qualified human capital.

The strategic programme ‘Impulso Jovem’ (Young Impetus) was launched in order to reverse the alarming increase in the youth unemployment rate. It includes measures to combat youth unemployment and to support small and medium enterprises (SMEs). It can also be used to help young entrepreneurs, by supporting business expansion projects and internationalisation programmes.

SMEs represent 99.9% of all businesses in Portugal and account for 67.6% of economic value added. Furthermore, 78.3% of employment is located in the private non-financial SME sector (Informa, 2011).

Almost 24% of SMEs are active in the high-tech manufacturing and knowledge-intensive service sectors. Thus, they are considered as key to fostering competitiveness.

Tables 1, 2 and 3 show the number of enterprises, employment and value added by size.¹

Table 1: *Number of enterprises by size in Portugal, 2011*

Type	Number	Share (%)	EU27 Share (%)
Micro	671,213	94.10	92.20
Small	35,919	5.00	6.50
Medium	5,335	0.70	1.10
SMEs	712,467	99.90	99.80
Large	782	0.10	0.20
Total	713,249	100.00	100.00

Source: *Informa, 2011*

¹ The estimates of the Barómetro Empresarial (2011) are based on 2005–2009 figures collected from the Structural Business Statistics Database (Eurostat). The estimates have been produced by Cambridge Econometrics. The data cover the ‘business economy’ which includes industry, construction, trade and services (NACE Rev. 2 Sections B to J, L, M and N).

Table 2: *Employment by class size in Portugal, 2011*

Type	Number	Share (%)	EU27 Share (%)
Micro	1,193,094	39.20	29.60
Small	681,677	22.40	20.60
Medium	508,684	16.70	17.20
SMEs	2,383,455	78.30	67.40
Large	660,376	21.70	32.60
Total	3,043,831	100.00	100.00

Source: *Informa, 2011*

Table 3: *Value added by class size in Portugal, 2011*

Type	Portugal (€ billion)	Share (%)	EU27 Share (%)
Micro	18	23.20	21.20
Small	17	22.80	18.50
Medium	16	21.50	18.40
SMEs	51	67.60	58.10
Large	25	32.40	41.90
Total	76	100.00	100.00

Source: *Informa, 2011*

In Portugal, the SME sector is characterised by a large share of micro-firms with fewer than 10 employees. These micro firms account for 94% of the total number of Portuguese enterprises, two percentage points higher than the EU average. Almost 40% of the private sector workforce is employed in micro-firms. However, the SME sector in Portugal is less services-oriented than SMEs in Europe generally.

The Portuguese service sector contributes less to the overall economy than services do in the EU as a whole, in terms of employment (33% for Portugal and 40% for EU) and value added (35% in Portugal and 42% in the EU).

Only 26% of all Portuguese SMEs are characterised as knowledge-intensive. These firms account for 22% of employment in SMEs and 23% of total value added.

The lack of competitiveness in Portugal's SME sector is a possible reason for the downturn in Portugal's SME sector since the onset of the crisis in 2008 (INE, 2011).

Portuguese SMEs have been severely hit by the recession, and there is no rebound in sight, at least for the next four years. The hardest hit have been micro-firms, especially in the service sector. However, another aspect that could have accounted for this poor performance is related to a phenomenon called 'serial entrepreneurship', caused by support programmes that, on the one hand, support SME restructuring, and on the other, can create an incentive to close one business and then start another.

Before the crisis, the SME sector was characterised by a rather stable development of enterprise and employment, with slight growth tendencies among small (20–49 employees) and medium-sized (50–249 employees) firms. Turnover and value added, however, showed a steady growth among all SME size classes. As a consequence of the international crisis,

average enterprise size declined. This is seen by the exit of several units followed by delocalisation, especially in textiles and clothing, footwear and construction. Moreover, the downsizing of several medium-sized enterprises was justified by:

- the need for efficiency and flexibility;
- adjustment to the fall in domestic and foreign demand for goods and services;
- the shortening of product life cycle and of scale production.

Portuguese SMEs were also seriously affected by the national economy's lack of attractiveness and competitiveness, which contributed to decreasing foreign direct investment. This is crucial in understanding the reduction in the number of SMEs, which had been created specifically to meet the needs of multinational companies that then left. The exit of multinationals contributed to increasing competition from producers in eastern Europe and north Africa, which were increasingly in demand for outsourcing purposes. This substitution generated pressure for turnover decreases, which was explained by the consequent reduction in private label and outsourcing activities historically hired by international companies to Portuguese SMEs.

Table 4: *Number of enterprises by sector* and size class*

	2005	2006	2007	2008	2009	2010	2011	2012
0–9 employees	803,690	814,710	819,605	731,071	696,660	680,594	671,213	663,739
Change compared with previous year	-	1.37%	0.60%	-10.80%	-4.71%	-2.31%	-1.38%	-1.11%
10–49 employees	40,127	40,297	40,695	40,013	37,525	36,718	35,919	35,408
Change compared with previous year	-	0.42%	0.99%	-1.68%	-6.22%	-2.15%	-2.18%	-1.42%
50–249 employees	5,666	5,644	5,789	5,821	5,490	5,432	5,335	5,247
Change compared with previous year	-	-0.39%	2.57%	0.55%	-5.69%	-1.06%	-1.79%	-1.65%
All SMEs	849,483	860,651	866,089	776,905	739,675	722,744	712,467	704,394
Change compared with previous year	-	1.31%	0.63%	-10.30%	-4.79%	-2.29%	-1.42%	-1.13%

*(NACE2 B-J, L, M, N)

Source: *European Commission (2012d)*

Table 5: *Employment by sector* and size class*

	2005	2006	2007	2008	2009	2010	2011	2012
0–9 employees	1,396,214	1,388,425	1,392,693	1,287,783	1,236,733	1,216,903	1,193,094	1,173,921
Change compared with previous year	-	-0.56%	0.31%	-7.53%	-3.96%	-1.60%	-1.96%	-1.61%
10–49 employees	755,665	761,051	770,212	758,524	712,258	697,855	681,677	670,125
Change compared with previous year	-	0.71%	1.20%	-1.52%	-6.10%	-2.02%	-2.32%	-1.69%
50–249 employees	537,316	541,272	555,655	563,032	528,129	519,003	508,684	498,190
Change compared with previous year	-	0.74%	2.66%	1.33%	-6.20%	-1.73%	-1.99%	-2.06%
All SMEs	2,689,195	2,690,748	2,718,560	2,609,339	2,477,120	2,433,761	2,383,455	2,342,236
Change compared with previous year	-	0.06%	1.03%	-4.02%	-5.07%	-1.75%	-2.07%	-1.73%

*(NACE2 B-J, L, M, N)

Source: *European Commission (2012d)*Table 6: *Value added by sector* and size class*

	2005	2006	2007	2008	2009	2010	2011	2012
0–9 employees	16,8081	17,157.4	18,139.1	18,154.4	17,433.9	17,954.7	17,609.8	17,578.3
Change compared with previous year	-	2.08%	5.72%	0.08%	-3.97%	2.99%	-1.92%	-0.18%
10–49 employees	15,169.8	15,899.9	17,479.1	17,786	17,068	17,645.6	17,297.2	17,230.7
Change compared with previous year	-	4.81%	9.93%	1.76%	-4.04%	3.38%	-1.97%	-0.38%
50–249 employees	14,765.8	15,186.8	16,437.9	17,165	16,34.6	16,561	16,305.9	16,189.1
Change compared with previous year	-	2.85%	8.24%	4.42%	-6.59%	3.28%	-1.54%	-0.72%
All SMEs	46,743.7	48,244.1	52,056.2	53,105.4	50,536.6	52,161.4	51,212.9	50,998.2
Change compared with previous year	-	3.21%	7.90%	2.02%	-4.84%	3.22%	-1.82%	-0.42%

*(NACE2 B-J, L, M, N)

Source: *European Commission (2012d)*

Table 7: Turnover by sector* and size class

	2005	2006	2007	2008	2009	2010	2011	2012
0–9 employees	81,254.1	82,452.6	85,408.8	86,794.9	80,385.8	83,711.7	81,982.5	81,731.5
Change compared with previous year	-	1.48%	3.59%	1.62%	-7.38%	4.14%	-2.07%	-0.31%
10–49 employees	69,276	69,670.3	80,376	87,627.9	78,062.1	83,315.5	81,909.1	81,611.3
Change compared with previous year	-	0.57%	15.37%	9.02%	-10.92%	6.73%	-1.69%	-0.36%
50–249 employees	66,872.9	65,637.7	70,076.9	79,614.5	70,888.7	77,734.2	76,638.6	75,969.3
Change compared with previous year	-	-1.85%	6.76%	13.61%	-10.96%	9.66%	-1.41%	-0.87%
All SMEs	217,402.9	217,760.5	235,861.6	254,037.4	229,336.6	244,761.4	240,530.1	239,312
Change compared with previous year	-	0.16%	8.31%	7.71%	-9.72%	6.73%	-1.73%	-0.53%

*(NACE2 B-J, L, M, N)

Source: *European Commission (2012d)*

European Union and national government initiatives are being made with the aim of increasing jobs and economic growth through entrepreneurship, national productivity and to implement programmes that will spur SMEs to innovate.

The big policy challenge lies in setting up mechanisms to help SMEs to restructure, and several factors will have to be taken into account, including culture, size, space activity sector, proximity to higher education institutions and research centres.

Restructuring or change management is part of a firm's life cycle and is considered by the national government as a mechanism that could help the company to survive and face competition. However, restructuring has only recently started to be a topic of public debate in Portugal.

In this report, we review research findings dealing with restructuring in SMEs in Portugal. The information sources consulted include scientific journals, research reports, statements and national reports produced by the Portuguese government and IAPMEI (Institute for the Support of Small and Medium-sized Enterprises and to Innovation), based on data made available by the statistical bureaux. The literature review includes:

- relevance of different types of restructuring;
- drivers of restructuring;
- distinctive characteristics of restructuring in SMEs;
- outcome of restructuring events;
- main challenges and constraints for SMEs;
- business support.

One major limitation concerns the lack of data and research on SME restructuring.

Three case studies addressing the topic of restructuring Portuguese SMEs are presented (see <http://www.eurofound.europa.eu/emcc/labourmarket/restructuringsme.htm>). The cases were developed by making use of a grounded theory approach, consisting of qualitative interviews with managers and employees, and secondary data from financial reports and media publications relevant to restructuring events. The authors made use of data obtained from previous projects with the firms under analysis.

Therefore, the methodology applied in the elaboration of this project combines desk research of secondary sources and primary field research with three Portuguese SMEs.

Relevance of different types of restructuring in SMEs

Overview

The process of restructuring can involve reorganising the legal, ownership, operational or other structures of a company with the purpose of turning it into a more profitable, or better organised firm for growth. Other reasons for restructuring include:

- changes in ownership;
- demerger;
- outsourcing;
- relocation;
- delocalisation;
- expansion;
- response to a crisis or major change in the business, namely bankruptcy, repositioning, or buyout.

A restructuring event may also be described as corporate, and debt or financial restructuring.

Relocation

Regarding the relocation processes, there are no data available regarding SMEs' relocation processes, which are not supervised by the public agency IAPMEI.

Outsourcing

According to a 2007 survey by Portuguese INE, between 2001 and 2007, 83.9% of firms with fewer than 100 workers did not outsource (INE, 2007). The small and medium-sized enterprises that opted for international outsourcing choose to target:

- countries in the EU (60.6%);
- Asia (13.5%);
- other European countries (11%).

The sectors that most characterise the SMEs that opted for outsourcing were manufacturing (72.8%) and wholesale and retail (11%).

Offshoring/delocalisation

There is no information available regarding SMEs' offshoring/delocalisation processes for Portugal. Nevertheless, it is important to outline the decreasing levels of inward foreign direct investment in the mid-1990s, followed by an upturn in 2000–2001, which occurred at the highest point of the boom in international mergers and acquisitions. Thus, the global economic climate produced a small decrease in inward foreign direct investment in 2002, although in 2003, its previous

level was almost restored, with an increase of 48.4%. Nevertheless, it decreased once again in 2004 and 2005. As previously stated, this is linked to the delocalisation movements that originated in a drag effect on established SMEs, which were created to provide support services to distribution networks or producing components for assembly within the production lines of multinationals that outsourced several activities.

Bankruptcy/closure

Companies are insolvent when liabilities exceed assets. Insolvency proceedings may be filed by the company, its creditors or by the public prosecutor. The board of directors of a company is obliged to file for insolvency within 60 days of becoming aware of the company's insolvency.

In 2010–2011, an increased proportion of bankruptcy/closure-related job losses (for SMEs) was notable in Portugal, up by more than 15% (Informa, 2011).

There was a slight decrease in the total number of closures (-1%) from 2010 to 2011 (Table 8). Some 2,549 businesses went through an insolvency process in Portugal in 2011. When considering only businesses (excluding sole proprietors), this figure drops by 7.7%, to 2,141 declarations of insolvency; 41.9% presented by companies and 58.1% by third parties.

Table 8: *Closures and insolvencies of firms in Portugal, 2010–2011*

Indicators	2010	2011	Variation
No. of closures	5,756	5,699	-1.0%
No. of entities (firms and sole proprietors) with insolvency processes initiated	2,180	2,549	16.9%
No. of firms with insolvency processes initiated (excluding sole proprietors)	1,988	2,141	7.7%

Source: *Informa (2011)*

Ministry of Work and Social Security data show the number of firms initiating and concluding insolvency processes since the second trimester of 2008 got worse in 2009, especially in the initiated processes (COFACE, 2009). Geographically, the Portuguese regions most affected by insolvencies are the ones where most companies are launched, namely, Lisbon, Oporto, Braga, Aveiro and Leiria. The sectors most affected by insolvencies are textiles and clothing, footwear, construction, wholesale and retail (COFACE, 2010).

The first half of 2011 saw an improvement in the number of business closures, but the number of firms starting insolvency procedures then increased. The number of insolvencies accepted by courts rose by 60% in the first three months of 2011, compared with the first quarter of 2010, from 1,374 to 2,195 cases, according to the Ministry of Justice.

Overall, data from the Ministry of Justice showed that the number of bankruptcy and insolvency cases more than tripled in the first three months of 2011, compared with the first quarter of 2007; an increase of 206%.

Since 2007, the number of small company bankruptcy processes has increased. Among companies with capital of up to €1,000, the rise was 3.2 percentage points, representing 8.1% of the total in 2011.

For companies with capital up to €10,000, the increase was higher (15 percentage points), reaching 38.8% of total insolvencies presented in court in 2011.

Mergers and acquisitions

SMEs, traditionally, do not opt for mergers and acquisitions, which are more typical of larger firms. Nowadays, large companies increasingly deal with this kind of operation, taking over micro and small enterprises which can then operate spin-off projects. SMEs increasingly see these operations as a strategic alternative for surviving, meeting their needs for finance and as a way of expanding.

Nevertheless, there is no available information on this process for SMEs in particular.

Internal restructuring

This covers various forms of organisational change, employment change and/or change in business practices and products. There is almost no information about this on Portuguese SMEs.

Portuguese SMEs, trying to cope with the recession and global financial crisis, and hampered by cash-flow problems, funding difficulties and the lack of liquidity in the economy, have little choice but to turn to the government SME Growth programme. This has a budget of €1.5 billion and interest rates are below market par, varying between 4.813% and 5.375%. By the end of 2012, 80% of the programme's funding had already been lent to about 900 businesses, totalling €1.218 million.

Another recent initiative, taken by the Enterprise Association of Portugal (*Associação Empresarial de Portugal*) and the Confederation for Portuguese Industry (*Confederação da Indústria Portuguesa*) consisted of presenting a proposal to the Portuguese government in order to allow a moratorium on repayment of loans contracted under the various credit lines launched by the state, for reducing the financial stress of SMEs that used this type of external finance sources.

Business expansion

There are several ways for a company to extend its operations, but among the most common are domestic business expansion, internationalisation and exporting.

Portuguese exports increased between 1995 and 2008, and then decreased after 2008 (Table 9).² The international market expanded until 2008 and after that started to decrease, with international market shares also showing a tendency to fall in the same period.

Although exporting SMEs represented approximately 10% of all SMEs in 2009, they contributed considerably to total wealth generation; above 30% for business turnover as well as for value added. Additionally, for exporter SMEs, the slowdown of the main economic indicators in 2009 was notable when compared with the previous year, with a focus on turnover, which suffered a major fall, of more or less 8%.³

² Sources: INE; European Commission and Portuguese Ministry of Finances and Public Administration.

³ The value for the non-exporting SMEs is not known.

According to data collected from IAPMEI (2008), the vast majority of exports in Portugal are carried out by SMEs (82.9%). In 2007, overseas sales comprised around €17.2 billion; with operations of an average value of €192,200. However, this value then decreased following the recession and international crisis (see Table 9).

Table 9: *Total exports by Portuguese SMEs*

Indicators	2006	2007	2008	2009
Total exports (in €million)	30,919	36,392	15,693.13	14,150.7

Sources: IAPMEI, 2009; INE, 2011

In 2009, there were 33,861 exporting SMEs in Portugal, a decrease of 1.9% compared with 2008, although 2008 witnessed an increase of 5.3% compared with 2007. A similar movement happened with the value of SME exports: while 2008 saw an increase of 2.1% compared with 2007, 2009 recorded a reduction (-10.9%). In 2009, SMEs exported goods to the value of €14,150.7 million. On average in Europe, these trends are similar to those registered in international trade. Nevertheless, it is important to note that, in 2009, a year when there were huge upheavals with external markets, SME exports registered an improved performance when compared with that of firms overall (-10.9% compared with -18.4% in exporting firms overall).

SMEs comprise the majority of exporting firms although they account for less than half the value of Portugal's global exports. Some 69.1% of exporting firms in 2009 were SMEs, having been responsible for 44.6% of the exported value of all Portuguese firms. This reveals an increased trend in the weight of SMEs in total export values, relative to 2007 and 2008 (40.6% and 40.9%, respectively), showing a smooth decrease on the exported value by SMEs taking as reference the total number of firms.

Portuguese SMEs achieved fewer exports to the EU market when compared with their European counterparts, as well as less trade with partners outside the EU (European Commission, 2010/2011). Export costs are lower than the EU average (an average of €684 in Portugal, compared with an EU average of €1,043). However, this cost advantage is moderated by:

- the fact that Portuguese SMEs require approximately 30% more time for shipping (16 days compared with 11.7 days);
- Portugal has an above-average level of bureaucracy;
- the geographical location of Portugal's trading partners.

Drivers of restructuring

According to the European Commission (2010), there are several factors that explain the need felt by firms to adapt continuously in order to survive, remain competitive and be successful, such as technological developments, increasing globalisation, and the effect of the international financial crisis. These are also relevant for Portuguese SMEs. SMEs exert more impact than large firms in promoting employment and value added through innovative activities, under an endogenous growth basis, which contribute to counterbalancing the effects of the demographic change, namely workforce ageing and skilled labour shortages. SMEs compete with large firms for qualified workers and this will increase due to demographic trends in Europe.

As regards motivation for individual forms of restructuring, the following findings can be presented. Growth-related factors are important to SME internationalisation, since they determine a firm's ability to exploit new business opportunities abroad (Delgado, 2010). It would seem therefore that there is a correlation between Portuguese SMEs' size and internationalisation. Large firms are more likely to internationalise and internationalisation is an engine for growth. In addition, as pointed out by Araújo (2009) in a qualitative study of Portuguese SMEs, there is also a correlation between internationalisation and performance.

Sometimes, according to Delgado (2010), SMEs appear to be motivated to internationalise by external factors, including:

- network and supply chain links;
- cultural and social ties;
- immigrant linkages;
- improved global trade infrastructure;
- sector;
- local conditions.

These factors are interrelated and reveal recently emerging trends. For example, the observed alliance of supply chain links underlines the increasing importance of Portuguese SMEs' ability to link with the lucrative supply systems and value chain networks of larger global players (Abrantes, 2004; OECD, 2008).

Such links are more likely to be developed in sectors or regions/clusters with greater export intensity, or with greater exposure to foreign buyers, which suggests the important role here of higher education institutions, research centres, type of sector and regional location. There are examples of regional clusters in Portugal, for instance footwear in the north, and ceramics and glass in the Aveiro region, where there is a concentration of SMEs specialised in a particular type of production, plus an emergence of professional schools, employees with graduate degrees, technological centres and specialist research and development units. The textile cluster in the north, for example, is characterised by an emergence of executive education centres and business associations and networks in the sector.

However, there is some preliminary evidence that, in Portugal, growth-focused firms are squeezed out of their domestic markets by the entry of foreign competitors.

Reasons for delocation include the availability of cheap, skilled labour in other countries, which led to, for example, the transfer of production of car component lines from Portugal to Hungary and Poland.

Outsourcing is mainly driven by the need to improve product quality and diversify a firm's portfolio of goods and services.

Drivers of bankruptcy include the economic crisis that affected negatively the total demand for goods and services and increased losses and debts.

The most common and valid reasons to consider an acquisition include:

- growth acceleration (since acquisition can be faster than organic growth);
- entry to a new geographical location or a new line of business;
- acquisition of new business or technical capabilities;
- expansion of market share.

The reasons for deciding to sell are usually connected with business closure and the need for realising the equity value of the enterprise.

Distinctive characteristics of restructuring in SMEs

Anticipation, planning and preparation of restructuring events

Although not all SMEs prepare for restructuring by firstly improving the qualifications of their workers and thus increasing the flexibility of their human resources, an alternative approach was taken, for example, in the case of Polisport (search database at <http://www.eurofound.europa.eu/emcc/labourmarket/restructuringsme.htm> under Portugal), where the human resources department is ensuring the firm and employees get the certifications necessary for the firm's expansion plans, and is also offering employees incentives to improve their skills so that they will be more easily able to cope with the firm's innovation strategies. Much the same has been done at Biofun, which supported product diversification and market expansion by:

- providing the firm with qualified people;
- setting schemes to improve skills;
- getting specific certification regarding products and target markets.

Managing restructuring

This process refers to the activities required to handle restructuring events while minimising social costs. It covers the steps to implement an organisational change.

SMEs deal with restructuring processes differently from large companies, as they face specific challenges, according to their size and particular needs. Nevertheless, companies with more than 250 employees may face distinct challenges to SMEs in areas such as:

- dependency on larger enterprises;
- ownership;
- managing change, supporting innovation, growth and internationalisation.

An interesting consequence of the international crisis has been the growth of open innovation practices and cooperation initiatives. All three case study companies are increasingly making use of these practices, as they offer more capacity to deal with variations in demand levels, the need to address quality, innovation and improved product performance.

In the majority of restructuring processes in Portugal, including bankruptcy, there is little information provided to employees, and little consultation takes place with regard to anticipation, planning and preparation. Moreover, SME companies do not usually provide advice, guidance and practical assistance to workers to find new jobs.

Agents involved

Agents involved in restructuring, apart from the national government, are regional or local governments and social partners and public employment services such as:

- trade unions;
- workers' councils;
- General Inspectorate of Labour;
- Employers' councils or associations, namely AIP (Portuguese Industrial Association), AEP (Entrepreneurial Portuguese Association), IAPMEI (Institute for the Support of Small and Medium-sized Enterprises and to Innovation), and the IEFP (Institute of Employment and Professional Training).

These all negotiate, with government, measures to revitalise SMEs and then support their implementation. The agents involved in individual restructuring events for Portuguese SMEs include IEFP (in improving SME workers' skills and supporting the recruitment of qualified personnel). This example was given by Polisport and Biofun. In addition, IAPMEI helps SMEs in expansion processes. This can be seen in the case of Biofun, which received managerial and financial support from IAPMEI when expanding towards new external markets.

Main challenges and constraints facing SMEs in restructuring

For Portuguese SMEs, data suggest that limited firm resources, particularly finance and international contacts, as well as a lack of requisite managerial knowledge about internationalisation, in particular sectors to certain industry-specific internationalisation barriers, have remained critical constraints on SME internationalisation (European Commission, 2007; OECD, 2009).

According to the OECD (2009), administrative and technical difficulties, exchange rates, documentation, payment problems and foreign market competition are also barriers to Portuguese SMEs' internationalisation.

However, it is suggested here that these barriers are essentially perceptual/psychological as their overall incidence tends to decrease as firms develop their experience of international markets.

According to the European Commission (European Commission, 2012a), Portuguese SMEs tend to trade less with partners outside the EU than with partners inside the EU. SMEs face diverse constraints in both exporting and importing, including longer delays.

According to the European Commission (2011), Portuguese SMEs face three important barriers for doing business in markets outside the Single Market:

- payment risks;
- bureaucracy;
- lack of financing.

Additional problems can include a lack of adequate market information, foreign laws and regulations, and different national technical standards.

SMEs active in foreign markets often face difficulties due to a lack of knowledge of foreign languages, high transport costs, scarcity of adequate market information, high administrative costs and different business cultures.

The main limitations that SMEs face in dealing with continuous changes are lack of finance and personnel resources. Nevertheless, SMEs are more flexible than larger companies, as they have a simpler organisational structure, and a higher capacity to adapt and react to crisis events. This is the reason why large companies tend to cut jobs in crisis periods. Portuguese SMEs are more able to adjust to these scenarios, for instance by reducing salaries and shortening working hours (Equal, 2007). During a crisis, and in comparison with large companies, SMEs tend to maintain their workforce and reduce working time, instead of dismissing staff. Public support for SMEs to do this must therefore be improved.

Another effect of the recession was that access to finance became much more difficult for Portuguese firms than for most of their peers in other EU countries. In 2010, 19% of SMEs had their loan applications rejected by banks, or were given offers with unacceptable terms. This number rose to 22% in 2011, and the problem is compounded by increasingly difficult access to public financial support. The average time that Portuguese SMEs wait for their bills to be settled is extremely high (98 days) leading to cash-flow problems.

Furthermore, SMEs involved in partnerships, cooperation and networking arrangements (with other SMEs, large companies, public institutions, higher education and research and development institutions, social partner organisations and professional organisations) deal better with restructuring than others, being involved in networks with other stakeholders capable of spurring innovation and growth.

Social dialogue and employee participation is an important factor in ensuring sustainability, stability, and long-term growth, regardless of an SME's size, sector or location (Equal, 2007).

One specific difficulty for SMEs is the direct financial responsibility of their owner. These companies have fewer resources than larger ones, which hinders them in trying to access financial support. As suppliers or service providers, SMEs can also be closely connected with large scale enterprises, and can be quite badly affected when these larger companies restructure, close or delocalise.

SMEs are not effectively covered by instruments to support the management of change and adaptation, such as:

- collective redundancy regulations;
- national social plans;
- national redeployment schemes.

In this way, neither workers nor proprietors are protected against change during a crisis, as they do not trigger aid mechanisms to help stem sales losses and drops in productivity.

According to the Equal Conference (2007), there are major external and internal obstacles to improving skills and innovative and technological capabilities in Portuguese SMEs. These include limited financial and human resources, as well as the absence of a corporate strategy and a human resources policy.

Business support from public and private sources

Policy support available

According to the European Commission, a series of policy support measures has been implemented from October 2012 for monitoring corporate and household indebtedness (European Commission, 2012c). In addition, a report assessing the overall consistency, effectiveness, and impact of existing support mechanisms to SMEs was revised in the second quarter of 2012. The Commission's report also discusses policies aimed at improving and implementing support mechanisms to:

- facilitate access to credit;
- stimulate internationalisation;
- improve the competitiveness of SMEs in line with EU competition rules.

The national government is also reorienting funds held by the QREN (National Strategic Reference Framework), which aims to provide easier access to credit for national firms in the process of restructuring. A €1,500 million framework loan from the European Investment Bank (EIB) is being allocated to QREN programmes and is being used to support productive investments.

There are also tax benefits to support investment in tangible and intangible assets in the belief that those investments lead to the net creation of jobs.

Regarding the low performance of Portuguese SMEs in trading with external markets, Portugal's policy action in 2011 included several support policies, namely the setting up of a Strategic Council for the Internationalisation of the Portuguese Economy, which aims at assessing public policies and private initiatives relating to the internationalisation of the Portuguese economy and to promote and secure foreign investment and development cooperation. In addition, other initiatives contemplated are the Partnerships for Internationalisation⁴, and the EXPORT-INVESTE initiative, which intends to provide support to exporting companies, involving a new credit line and credit insurances to spur the export of products with longer production cycles.

In the last few years some important steps have been taken to support SME restructuring processes. Two main areas were the target of this:

- reforming the labour law to increase the degree of flexibility with which firms can manage their workers;
- the reform of the education system and continuing education.

The implementation of 'Stimulus 2012', for example, has led to an increase in employment. This measure provides financial support to companies if they take on people who have been registered unemployed for at least six consecutive months, and give them vocational training.

⁴ A partnership between AICEP Capital Global, a financial organisation (Caixa Capital, which is part of the Caixa Geral de Depósitos public group) and a private partner.

In order to support firms and employees affected by the crisis, the Portuguese government has developed a wide ranging investment and employment initiative targeted at:

- maintaining and stimulating employment;
- facilitating the return of unemployed people to the labour market;
- promoting youth employment.

This measure tends to support SMEs' restructuring as it is targeted at promoting the maintenance of jobs where firms are struggling with low productivity, low performance and finding it hard to keep workers.

Public authorities and professional organisations play a crucial role in helping SMEs to adapt to change, helping them in areas such as cooperation and networking, training and research and development.

The Portuguese government has also started to simplify the Code of Corporate Recovery and Insolvency, for example, reducing the time in which firms have to declare insolvency due to financial breakdown. The revised code now allows an enterprise and a creditor to present a recovery plan within three months of insolvency being declared.

In order to address firms' lack of liquidity, the national government plans to provide alternative solutions for SMEs so they can more easily access external finance.

Furthermore, the 2012 state budget gave businesses the ability to pay debts due to public authorities (such as taxes and social security payments) in instalments over 150 months. Moreover, the programme supports firms with the opportunity of deducting the losses occurred during the years of lowest economic activity over a five-year period.

As for access to external finance, the range of possibilities is wider. On the one hand, there is risk capital. As part of recent reforms presented by the Portuguese Executive, there is €140 million available to fund new public projects (only €20 million of which was reserved for 2012, for projects just about to start). There are also EU funds available for companies with high reimbursement rates, achieving 85%. The Revitalising Programme mentioned earlier was launched by the government, through the Resolution of the Council of Ministers No. 11/2012. It aims to optimise the legal, financial and tax conditions for firms, with a view to revitalising businesses, where economically feasible. The programme includes the revision of the Code of Insolvency and Corporate Recovery, known as 'Special Process Revitalisation'. Under this, court costs and decision time will be considerably shortened, since creditors now have the ability to approve a company restructuring plan. Another important instrument is the Enterprises Recovery System involving an extrajudicial procedure (SIREVE). Furthermore, the legislation on insolvency administrators has been revised, and there are several other judicial, fiscal and financial measures to help support such processes. In addition, IAPMEI is to facilitate extrajudicial corporate debt restructurings for viable SMEs. SIREVE (System recovery for business via extrajudicial means) will focus on more effective negotiation processes and on mediation between creditors and debtors by aiming to:

- increase the financial instruments available to firms, with particular focus on venture capital funds;
- streamline the interaction between companies, the financial instruments of the state and the financial system;
- speed up decisions;
- encourage restructuration of companies, notably by making use of mergers and acquisitions or production consortia.

Other initiatives cover the reduction or deferral of non-wage labour costs in order to help companies maintain jobs in economically difficult times (temporarily or not). As an additional incentive, the government has also reduced social security contributions for micro enterprises.

In Portugal, workers whose employers go bankrupt do not receive any wages owing to them (Morley, 2010). In order to redress this, the Salary Guarantee Fund (Fundo de Garantia Social) launched in Law 219/99, ensures the social protection of employees, in the specific case of insolvency or in a difficult economic situation. The fund will pay up to four months wages due in the six months preceding the date the firm files for insolvency (wages include holidays, Christmas allowances and redundancy payment). The maximum should not exceed three times the higher minimum wage guaranteed by law. The measure is funded by employers.

The Portuguese Integrated Intervention Office for Business Restructuring (AGIIRE) provides:

- information regarding service and career guidance;
- incentives for redundant and displaced workers to become self-employed;
- vocational training courses to update, extend or recycle the skills of the restructuring firm's workforce;
- training opportunities for employees that want additional education;
- complementary social protection (Simões and Naumann, 2010; Voss et al, 2012).

These activities help to prepare workers, companies or regions for change occurring in the event of a restructuring process. They involve efforts to monitor trends and their potential effects at micro-economic level and to map and implement responses before the actual change occurs.

In Portugal, there are measures to help employees experiencing short-time working or temporary lay-offs by compensating them for their temporary income loss and to maintain long-term jobs in the company.

We suggest that policymakers create special lines of credit or substantial tax incentives, directed towards exporting, high-tech SMEs that find it hard to access external sources of finance. Tax incentives, namely, reduction of the tax on operational results, should, firstly, reward high-tech SMEs that make regular annual investments in research and development directed at registering patents and, secondly, reduce the amount subject to tax on trading results for SMEs trading mostly in international markets, in the form of direct exports.

It is also suggested that policy makers reinforce international mobility programmes directed towards hiring workers with a PhD or MSc, as well as the integration of researchers in business projects, in both non-high-tech SMEs and high-tech SMEs, with the twin objectives of increasing research and development and improving SMEs' efficiency in research and development project management.

Demand for public support from firms and/or employees affected

Data on revitalisation processes that were provided by the IAPMEI to SMEs will be presented on the following pages.

For the special process of revitalisation from the 288 processes created (involving a turnover of €1,608,893 and 9,156 workers) nine were duly concluded. Regarding the system of firms restructuring via extrajudicial means all the processes entered are still in process. Out of the 81 processes entered, 52 have been accepted. In total, they involved a turnover of

€268,887 and 3,229 workers. In what concerns the processes of dimension and firm transmission from the 59 entered, just one is concluded and 26 are still in negotiation.

Table 10: *Major indicators for programme revitalisation, 2012*

Programme/systems	Introduced processes	No follow-up waivers	Concluded without solution/ agreement	Concluded with solution/ agreement	In process/ negotiation
PER Special process of revitalisation	288	0	0	9	279
SIREVE System of firms restructuring via extrajudicial means	81	0	0	0	81
DTE Processes of dimension and firm transmission	59	32	0	1	26
Total	428	32	0	10	386

Regarding the extrajudicial procedure of conciliation, from the initial 227 processes entered in 2006, 94 were closed and 45 agreements were made, with a success rate of 32%. In comparison, in 2012, from the initial 213 processes entered, 168 were closed and 81 agreements were made (a success rate of 32%).

Table 11: *Major indicators for extrajudicial procedure of conciliation, 2012*

PEC – extrajudicial procedure of conciliation						
	Initial balance	Entrances	Closed	Agreements	Final balance	Success rates
2006	112	227	94	45	200	32%
2007	200	195	126	91	178	42%
2008	178	232	121	68	221	36%
2009	221	304	206	109	210	35%
2010	210	242	203	98	151	33%
2011	151	242	170	71	152	29%
2012	152	213	168	81	116	32%

For the year 2012, and concerning the processes of dimension and firm transmission, 33 processes of SME selling were started and 13 are under negotiation, two fusion processes entered and one is in process, 15 firms in process of buying were started, eight are in negotiation, three entered as succession processes, one is in process of negotiation and six other processes were started, three are in negotiation.

Table 12: *Major indicators for processes of dimension and firm transmission, 2012*

	Processes entered	Processes accepted	Processes rejected	Concluded without agreement	Concluded with agreement	In process/ negotiation
Sell	33	20	7			13
Fusion	2	1				1
Buy	15	7	3			8
Succession	3	1		1		1
Others	6	3				3
Total	59	32	10	1	0	26

Concerning distribution by sector, the majority of processes are in manufacturing, followed by services and trade. In manufacturing SMEs, 20 occur in the form of sell, mergers and acquisitions or succession, five in buy form and two in other processes. For the service firms nine occur in the form of sell, fusion or succession, seven in buy form and two in other processes. In what relates to trade SMEs, eight occur in the form of sell, fusion or succession, two in buy form and one in other processes.

 Table 13: *Distribution of processes per sector, 2012*

Sector	Sell Fusion Succession	Buy	Others	Total
Agriculture, forest and fishing	1			1
Trade	9	2	1	12
Construction				0
Manufacturing	20	5	2	27
Services	9	7	2	18
Tourism			1	1
Investor – individual				
Total	39	14	6	59

Several policies have been launched to help SMEs cope with the effects of the financial crisis that hit Portugal in 2008 (such as limited access to credit and extremely high interest rates). The SME Growth (*PME Crescimento*) initiative was launched in order to provide loans to SMEs. This initiative aims at financing new investments in fixed or intangible assets for business expansion, for example, and is also used to boost a firm's working capital.

In the first two months of operation the programme granted about €640 million of credit to a total of 5,600 operations, and the pay-back period for SMEs' credit lines was extended by one year. The initiative, in five months, granted €384 million of liquidity for SMEs in a total of 8,300 operations.

Furthermore, the Portuguese government is providing the possibility of paying debts in taxes and social security in instalments. The most recent data (Jornal Oje, 2012) show that about 8,000 companies used this facility from October 2011 until the end of March 2012, with 8,235 operations being approved, totalling €1.25 billion in loans.

The three case studies (<http://www.eurofound.europa.eu/emcc/labourmarket/restructuringsme.htm>) show that the companies had the support of external actors in order to address the restructuring events, benefiting from public support subsidies, R&D alliances and other public initiatives.

Outcome of restructuring events

Organisational effects

There are positive and negative organisational effects caused by the different restructuring processes and the different characteristics of each company. Business expansion and internationalisation can lead to several positive effects, such as:

- the possibility of accessing a large variety of markets;
- increasing economic and non-economic (that is collaborator satisfaction) performance;
- boosting internal capacity and competitiveness;
- optimising costs;
- more innovative behaviour.

In addition, high exporting, knowledge-intensive firms (particularly medium and large ones) are more likely to survive than those (particularly small and micro firms) that are less knowledge intensive and do not export much (European Commission, 2010/2011; European Commission, 2012a).

For instance and in accordance with Barómetro Empresarial (Informa, 2011), the average turnover per capita observed in SMEs overall was around €89,600, about €39,000 below that in SMEs that export goods. When the analysis focuses on key indicators of SME employment, it appears that the personnel costs per employee are much lower in the average SME (€14,900 in 2009) compared with exporter SMEs (€18,200 in 2009), which were also the ones that showed the larger average size in the period considered. It is important to highlight that we do not have evidence regarding the causality effect between performance of SMEs and the fact that they export.

The major outcomes of the process for case study company Fitecom were:

- an increase in the resources profitability;
- implementation of measures and technologies targeted at the prevention of textile waste;
- reduction in consumption water, energy and products;
- reduced waste levels;
- reduction of costs;
- increases in sales, turnover and jobs.

For the Biofun case study, the major outcomes were:

- supply diversification;
- leverage of employees' skills by using specialised training programmes;
- an increase in exports and sales.

For the case study of Polisport, the major outcomes of restructuring were:

- the return on investment of research, development and innovation activities;
- increased sales and the reduced operating costs;
- acquisition of new customers;
- increased share of sales of products and services protected by intellectual property rights in the firm's total turnover.

Employment effects

Restructuring processes can cause:

- a fall in the quality of working conditions (in terms of wages, working hours and social benefits);
- job losses and unemployment increase;
- weakening of the power of workers' unions and sense of collective force;
- increase of temporary work contracts and precarious work (Simões and Naumann, 2010).

SMEs, when compared with large companies, find it more difficult to access financing and mechanisms to support restructuring, leading them to lay-offs and closures (European Commission, 2010/2011; European Commission, 2012a). This has a direct consequence in the support and legal coverage of workers when it comes to deal with closures and layoffs.

Nevertheless, in the context of business expansion and internal restructuring, such as the cases of Fitecom, Biofun and Polisport, these events can increase jobs and improve working conditions due to better internal structures and innovation.

Conclusions and policy issues

The European Employment Strategy guidelines, and the latest Portuguese measures to improve employment, are designed to help SMEs face the economic challenges posed by the effects of the international crisis. These measures call for initiatives to help firms:

- attract and retain more people in employment (in order to counterbalance the consequences of increasing unemployment and precarious working conditions);
- improve the adaptability of workers and enterprises with a better anticipation and constructive management of change;
- increase investment in human capital through better education and skills.

So far the national initiatives aim, on the one hand, to address European policy, in the frameworks of labour, entrepreneurship and innovation, and on the other hand, to anticipate and manage economic and structural changes to ensure better jobs in Portugal, by creating the conditions for flexibility and social protection that would strengthen human capital through the training and attraction of more qualified workers, and enabling greater internal and external flexibility (in the form of company outplacements).

In dealing with the international crisis SMEs must also adapt to specific factors, such as:

- increasing international competition;
- toxic investments;
- movements of capital and its globalisation;
- the speed of technological change;
- the shorter life cycle of products/services and rapid cyclical shifts.

SMEs have more difficulties in dealing with these transformations, since they do not have the same internal structures, in terms of either financial or human resources, as large companies do.

There is a strategic need for SMEs to foster their investment in human capital, in order to gain technological and innovative capability to quickly respond to restructuring and industrial change, and gain competitive skills in order to anticipate and analyse human resource needs, to develop the company-wide strategies and support and to tailor specific training to specific needs. This can benefit both employees (through professional and vocational growth) and employers (through increased competitiveness and productivity).

European previous support measures like the EQUAL initiative have addressed the problem of the lack of human resource management in SMEs and have attempted to create an 'integrated tool of innovation', a methodology designed by the Equal initiative in order to improve the workplace and the chances of business survival at the same time (in Portugal for instance, the project Glass Challenge).

SMEs in Portugal are dealing with serious difficulties to survive and to sustain working conditions.

Policies must address initiatives targeted at SMEs to understand the win-win of investing in intellectual capital, using the full potential of all employees, and developing tools for assessment of competences and analyses of training needs. This need to foster a culture of learning within SMEs requires a collaborative approach between employers, employer representatives, trade unions and employees. These initiatives must also address innovative in-company and lifelong

learning solutions such as job rotation and other techniques to forecast business development and develop their core business and staff, through the use of coaching and empowerment practices.

SMEs must be involved in networking development, to face the limitations of being small and to accelerate learning and the development of a market for the improvement of skills of their workforce in order to gain competitiveness and be prepared to innovate. These networks must have close ties with various stakeholders, such as local employment services, research and training institutions, large innovative companies, and agencies responsible for forecasting business development and industrial restructuring, and promoting procurement schemes.

In recent years, several measures have been developed in order to boost SMEs' performance, by speeding up exports, encouraging financing initiatives and launching several measures to support the internationalisation of companies. However, further effort is needed to increase support for internationalisation of SMEs.

This task of preparation should begin with the first agency that an SME approaches, which means that all support agencies, such as a local chamber of commerce, other general business support agency or main business support web sites should be able to provide an initial orientation service. Often these agencies should be able to make training provision, from occasional seminars and workshops on major issues in international trade, to more systematic programmes of staff training, personalised (often IT-based) programmes for developing knowledge and skills or dedicated training packages tailored to the needs of particular enterprises.

A more structured exchange and collection of good practices in what concerns the innovative approaches to management of restructuring on the firm and the sector level might be helpful to back up SMEs in the restructuring process.

More tailored services should aim to assist in the implementation of internationalisation strategies and in addressing the problems that can arise. Financial support can be especially effective at this stage and it can take a number of forms, usually involving subsidised training or participation at trade fairs and other events.

The new role of 'Born Global' SMEs (that is, companies that internationalise rapidly after inception) in value chains must be fully analysed, in order to identify the opportunities and risks that this can offer, as well as to benchmark the best practices from the SME sector, which have successfully adapted to the new framework conditions (Leitão et al, 2012).

Tools and support strategies for the management of change processes, specifically targeted at SMEs, are vital as most of the existing instruments that aim to cushion the social consequences of restructuring and redundancy (retraining, job transfer and employment security) do not cover the SME sector sufficiently.

Public policy support should also be targeted at alleviating the lack of available information on SMEs and restructuring events.

The one great limitation of this study has been the lack of data about SMEs in Portugal, particularly with regard to the seven main types of restructuring analysed in this report. There were not enough data to interpret fully business expansion, mergers and acquisitions, internal restructuring, outsourcing, offshoring/delocalisation, and relocation. The majority of information available, although also scarce, is about bankruptcy and closure, where there are a few official statistics that provide an interesting overview. A last suggestion is that the Community Innovation Survey should also consider data relative to issues concerning SMEs such as performance determinants, survival, exit, research and development strategies and restructuring.

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