



Eurofound

# Restructuring in SMEs: Denmark

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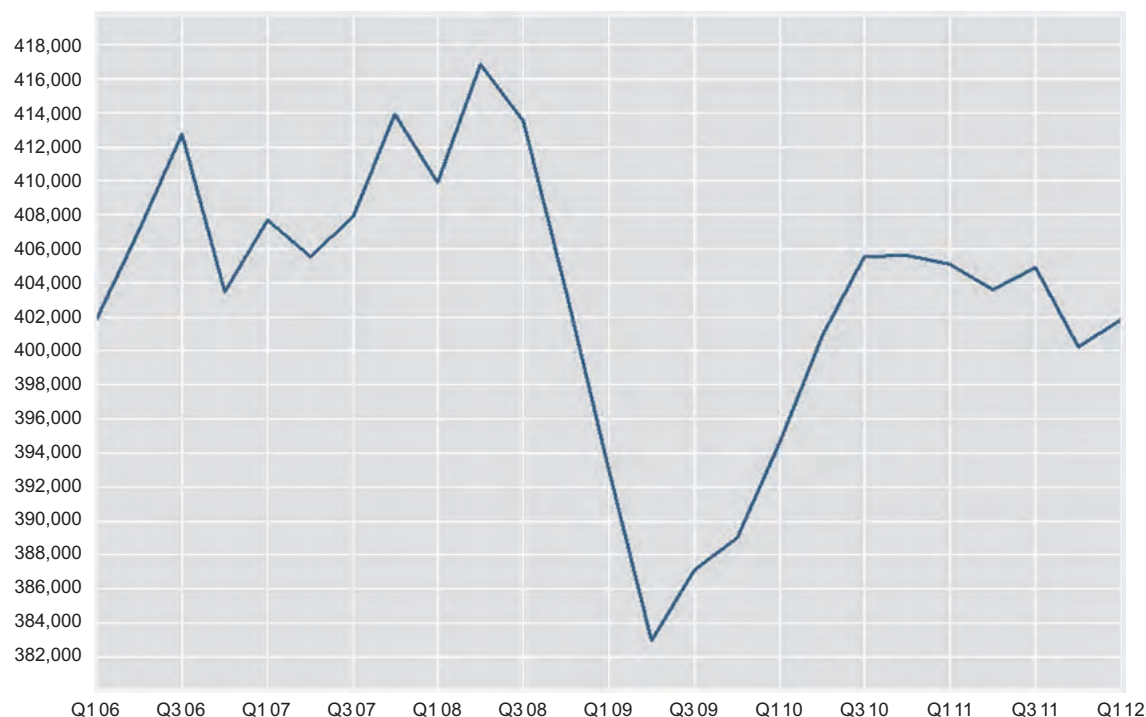
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# Introduction

Following the financial crisis in late 2008, the Danish economy faced a 5.6% drop in GDP from 2008 to 2009, and the GDP of 2011 is still below the level of 2006.

Figure 1: *GDP for Denmark, Q1 2006 to Q1 2012 (in DKK 1,000)*



Source: [Statistikbanken.dk](http://Statistikbanken.dk) by Statistics Denmark

This has given rise to calls for action from the government and policymakers, but so far the general debate has mainly focused on creating jobs through public spending and finding money for the increasing number of unemployed. A couple of initiatives are worth mentioning, though, in relation to restructuring. After the start of the crisis, the public business service centres for SMEs introduced an Early Warning programme that has helped several SMEs in financial turmoil. And in 2012 the government decided to change the tax laws for investments in entrepreneurs/small businesses. This is expected to make it easier to raise venture capital for entrepreneurs.

In general, though, there is very little public debate about SMEs and restructuring.

With SMEs employing 66% of the labour force in Denmark, the well-being of SMEs is a major concern in the Danish economy. But studying general statistics about the number of SMEs, their employment and value creation gives just a very general understanding of their importance and no understanding of the dynamics in this very diverse world of mainly owner-managed enterprises. It is a world that is rarely described in the general media, since the individual company is of little significance to society in general.

Table 1: *SMEs in Denmark 2010 (estimated)*

	Enterprises			Employment			Value created		
	Denmark		EU27	Denmark		EU27	Denmark		EU27
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
<b>Micro</b>	177.147	87,2%	92,1%	343.598	20,0%	29,8%	30	26,2%	21,6%
<b>Small</b>	21.480	10,6%	6,6%	424.182	24,7%	20,4%	25	21,4%	18,9%
<b>Medium-sized</b>	3.840	1,9%	1,1%	367.242	21,4%	16,8%	22	18,9%	17,9%
<b>SMEs</b>	<b>202.467</b>	<b>99,7%</b>	<b>99,8%</b>	<b>1.135.023</b>	<b>66,2%</b>	<b>66,9%</b>	<b>77</b>	<b>66,5%</b>	<b>58,4%</b>
<b>Large</b>	670	0,3%	0,2%	579.529	33,8%	33,1%	39	33,5%	41,6%
<b>Total</b>	<b>203.137</b>	<b>100,0%</b>	<b>100,0%</b>	<b>1.714.551</b>	<b>100,0%</b>	<b>100,0%</b>	<b>116</b>	<b>100,0%</b>	<b>100,0%</b>

Source: *Estimated numbers for 2010 based on 2002–2007 numbers from Structural Business Statistics Database (Eurostat)*

This report reviews some of the literature published about these companies in an attempt to map some of the dynamics facing business in the recent turbulent years. The general theme is restructuring in SMEs, which means:

- outsourcing;
- relocation;
- offshoring/delocalisation;
- mergers and acquisitions;
- internal restructuring;
- bankruptcy.

The purpose is to map and quantify the importance and relevance of these different restructuring events to Danish SMEs and to understand what kind of restructuring events bring Danish SMEs through turbulent times and what the challenges are in these different types of restructuring.

In order to cover the implications of the financial crisis and economic downturn since 2008 we will focus on restructuring events since 2007, but depending on the literature available, we will occasionally cover a longer period.

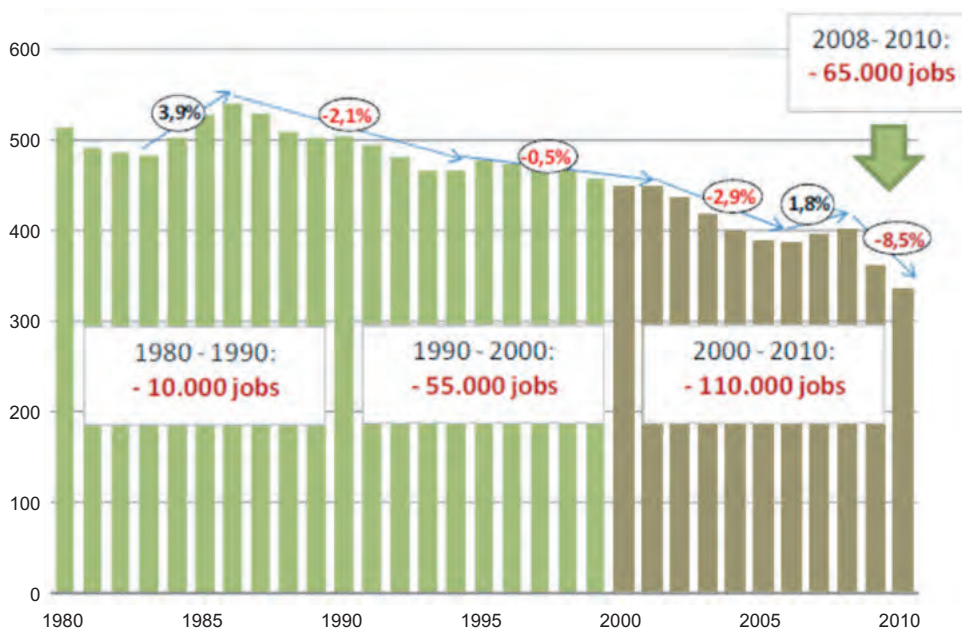
# Relevance of different types of restructuring for SMEs

## Overview

A major issue in the political and economic debate in Denmark in recent years has been the productivity of the Danish labour force and Danish companies – or to be more accurate, the comparatively poor productivity. The main argument is that Denmark is losing jobs to other countries, and particularly industrial jobs, because of poor productivity and high costs of production.

The data seem to support the argument. From 1990 to 2010 the number of industrial jobs in Denmark fell by about 200,000. Since the financial crisis alone 65,000 industrial jobs have disappeared. In 1990, 20% of Danish employment was in manufacturing. In 2010 it was only 12%. New jobs in general are only being created in the service sector.

Figure 2: Number of employees in Danish manufacturing industries 1980–2010



Source: [Statistikbanken.dk](http://Statistikbanken.dk) by Statistics Denmark

In relation to different types of restructuring, it is interesting to study what makes companies productive. According to Thelle, Jespersen and Sunesen, 2011, the characteristics of Danish manufacturing companies (including large enterprises) with the highest productivity are:

- employing people with higher education;
- high export ratio;
- subsidiary companies abroad;
- foreign ownership;
- outsourcing abroad;

- using foreign experts;
- research and development activities.

Separate data for SMEs have not been found, but as more than 99% of Danish enterprises are SMEs according to Table 1, we would expect the same pattern if we studied SMEs separately.

This underlines the relevance of restructuring events like outsourcing, offshoring, mergers/acquisitions and different types of internal restructuring.

The financial and economic crisis has also caused a slowdown in the Danish economy. The number of bankruptcies has increased significantly, and turned the market for mergers and acquisitions into a buyer's market and made mergers and acquisitions a more relevant growth strategy for SMEs.

### Relocation

For geographical reasons relocation of Danish SMEs inside Denmark does not seem to have attracted much research. Obviously SMEs are relocated in relation to mergers and acquisitions, but since SMEs are often run by owner-managers they tend to have a strong local bond to the place where they were founded.

However, because of the Danish tax structure, where there are different taxes between municipalities, municipalities compete to attract new businesses – big and small. So whenever a small business grows out of its original premises and the municipality will not allow it to expand in the current facilities, the business may start looking for new industrial facilities across the border of the neighbouring municipality.

But in general relocation across regions does not seem to be the answer for many SMEs, while finding a better spot in the local area often can optimise logistics and reduce taxes.

### Outsourcing

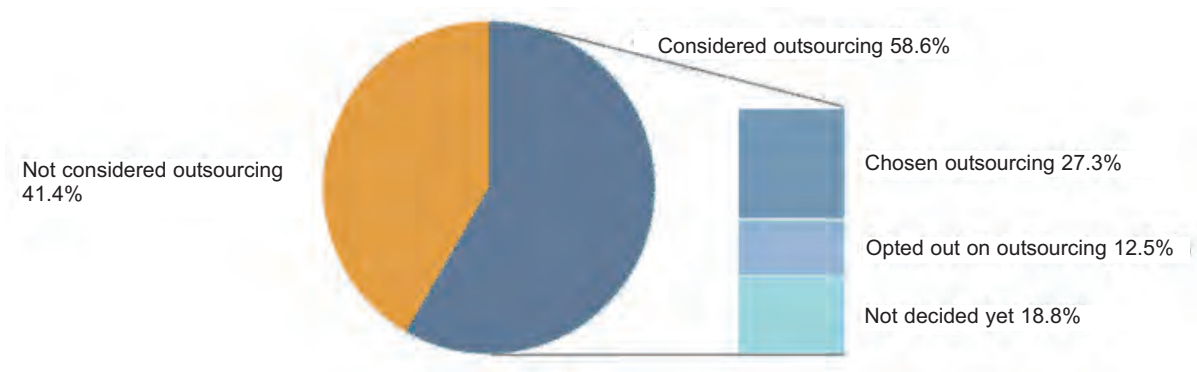
Due to the high wages in Denmark, outsourcing has great relevance for Danish SMEs: 27.3% of manufacturing companies (10–199 employees) outsourced parts of their production in the three years before 2005, and 75% expected to outsource production within three years. In most cases the outsourcing is expected to be less than 30% of production costs (Knudsen and Cederquist, 2005).

Part of the reason, it is assumed, is that companies are still reluctant to create new jobs in Denmark due to the crisis.

Outsourcing is especially widespread in the textile and metal industries.

Figure 3 shows that where 58.6% of SMEs have considered outsourcing, 27.3% have actually decided to outsource, 12.5% decided not to outsource and 18.8% still have not made a final decision.

Figure 3: Share of SMEs that have considered and chosen outsourcing



Source: Knudsen and Cederquist, 2005

Table 2 shows that the level of outsourcing is typically less than 25% of production cost. Four-fifths (81%) of SMEs outsource less than 25%.

Table 2: Extent of outsourcing (outsourcing within previous three years as a percentage of production costs)

Percentage of production costs	Frequency	Percentage
0–5	23	19.5
6–24.9	58	49.2
25–74	25	21.2
75–100	12	10.1
<b>Total</b>	<b>118</b>	<b>100.0</b>

Source: Knudsen and Cederquist, 2005

However, the amount of outsourcing seems to be increasing, since the expected amount of outsourcing for the next three years (after 2005) was 33.7% on average.

Focusing on outsourcing intentions and dividing the companies into three categories – companies that have previously 1) outsourced, 2) opted out on outsourcing and 3) not considered outsourcing – it is clear that companies that have experience with outsourcing tend to expect to outsource a larger share of their production costs than companies without previous experience: see Table 3.

Table 3: *Expected outsourcing within the next three years (from 2005) (%)*

Percentage of current production costs	Outsourcers	Opting out	No considerations	Total
0	3.5	25.3	45.4	24.7
1–10	18.2	31.6	36.3	29.1
11–20	21.8	22.8	10.7	17.8
21–30	14.7	6.3	4.2	10.2
31–40	7.6	7.6	0.8	4.8
41–50	10.6	5.1	2.3	5.6
51–60	4.7			1.9
61–70	4.1			1.1
71–80	5.3			1.6
81–90	2.9		0.4	1.1
91–100	6.5	1.3		2.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: *Knudsen and Cederquist, 2005*

A survey covering the whole Danish manufacturing sector shows that outsourcing is less relevant to small businesses. Only 19% of companies with 20–49 employees have outsourced production, whereas about twice as many companies with 50 or more employees have outsourced. This also includes non-SMEs.

The Danish case studies (see <http://www.eurofound.europa.eu/help/casestudies.htm>) indicate that it could be a matter of having the dedicated internal resources such as management, staff and finances to start an outsourcing project.

Table 4: *Did the company outsource activities abroad in the years 2007–2010?*

Size	Yes (%)	No (%)	Total (%)
20–49 employees	19	81	100
50+ employees	37	63	100

Source: *Thelle, Jespersen and Sunesen, 2011*



Table 5: Rating of motives for outsourcing of R&amp;D

Most important motives	Rating
Lower wages	1
Lower costs, beyond wages	2
Scarcity of labour	3
It is easy to cooperate with universities in this country	4
We were offered tax advantages and state grants	5
Access to specialised knowledge and technology	6
Improved quality or introduction of new products	7
Access to scientific networks	8
Access to new markets where local R&D activity is a regulatory or legal precondition	9
Tax savings or other financial reasons	10
Other motives	11
Less legislation/regulation affecting the company's R&D activities	12

Source: Thelle, Jespersen and Sunesen, 2011

## Offshoring/delocalisation

A study from 2011 shows that 28% of manufacturing companies (including large enterprises) have offshored jobs to other countries. The trend is that a larger number of jobs and an increasing number of functions are offshored.

Half of the companies in a survey of the manufacturing sector state that outsourcing has increased because of the financial crisis (Thelle, Jespersen and Sunesen, 2011).

This is supported in the case study on Sjølund, where a subsidiary established in 2009 now employs 45 people, compared with the 65 employees in the mother company.

Offshoring and delocalisation can be related to establishing subsidiaries abroad, and if we look at the trend in subsidiaries abroad, the number of subsidiaries owned by Danish companies increased by almost 22% from 2007 to 2010. (The increase was especially marked in Asia.) In the new EU countries the number of subsidiaries increased by 7.3% from 2007 to 2009 but dropped again slightly in 2010. When it comes to the number of employees, the subsidiaries have not been able to show continuous growth in any market: see Table 6.

Table 6: *Subsidiaries abroad owned by Danish companies by units, country and time (including both SMEs and large enterprises)*

	2007	2008	2009	2010
<b>Number of subsidiaries</b>				
Old EU countries (EU15)	5,431	5,743	5,613	5,651
New EU countries (EU12)	1,267	1,299	1,360	1,333
Rest of Europe	1,322	1,331	1,358	1,375
North America	629	658	708	706
Central and South America	395	407	422	403
Africa	241	237	257	275
Asia	1,045	1,073	1,170	1,272
Oceania	191	191	182	195
<b>Number of employees</b>				
Old EU countries (EU15)	468,563	482,181	459,511	438,903
New EU-countries (EU12)	134,650	129,653	128,138	119,723
Rest of Europe	98,326	114,116	118,357	114,977
North America	109,569	105,254	111,025	64,155
Central and South America	10,065	106,553	108,589	97,577
Africa	26,061	22,695	23,323	19,077
Asia	361,997	384,681	415,920	331,155
Oceania	21,590	23,465	22,154	22,828

Source: [Statistikbanken.dk](http://Statistikbanken.dk). Includes both SMEs and large enterprises

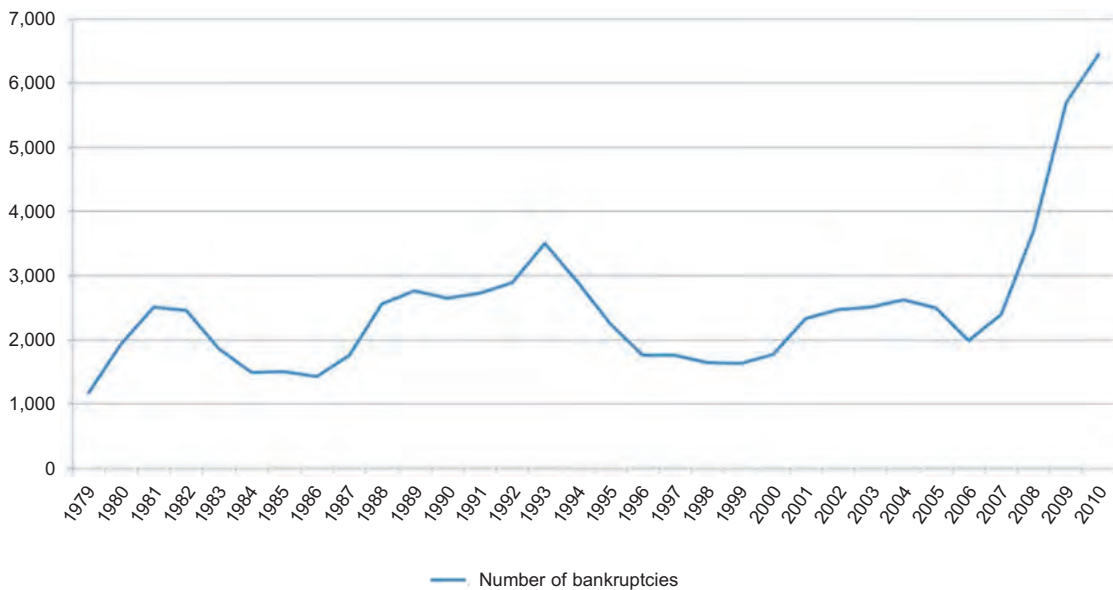
If we look at the all jobs created in subsidiaries, two-thirds are mainly routine jobs. Small companies with 20–50 employees in particular mainly create routine jobs. Whereas companies with more than 50 employees have 62% routine jobs in their subsidiaries abroad, small companies have 71% routine jobs.

## Bankruptcy/closure

The financial and economical crisis caused a significant increase in the number of bankruptcies and closures in companies in general in Denmark. From 2007 to 2010 the number of bankruptcies increased from less than 2,000 per year to almost 6,500 and continued at a high level in 2011 and 2012.

More than 40% of bankruptcies are in enterprises with no employees registered, but small businesses with 0–4 employees are underrepresented in the statistics, whereas enterprises with 5–49 employees have an overrepresentation in the bankruptcy statistics (Erhvervs- og Byggestyrelsen, 2011n).

Figure 4: Number of bankruptcies 1979–2010



Source: Danmarks Statistik

Experience from the Early Warning programme mentioned above shows that in enterprises with long-term problems like decreasing profitability, falling turnover, bad cash flow or simply bad management it is harder to turn around the business and increase sales. This seems easier when you are dealing with sudden problems: see Figure 5. The analysis, however, tells us nothing about the specific reasons for that (Erhvervs- og byggestyrelsen, 2011c).

Figure 5: Sales index 2007–2010: Decline caused by diverse problems (sales in DKK 1,000)



Source: Calculation based on special inquiry by Danmarks Statistik. Companies purchase and sales. Index 100 = average of four quarters in 2007.

### Merger/acquisition

The economic crisis has attenuated the number of business transactions. However, in 2010 KPMG reported the first signs of a growing interest in acquisitions and mergers. Danish companies with 50–999 employees see acquisitions and mergers as a way to overcome and gain strength from the crisis to a higher extent than companies in a number of other European countries.

This was the finding in KPMG's *Middle market survey* – a comprehensive study of medium-sized enterprises (50–999 employees) across Denmark, Germany, Britain, France, Italy, Spain, Belgium and Ireland. The size of companies in the survey of course means that the data must be interpreted with caution. The survey does not distinguish between sizes, so it is uncertain whether relatively fewer SMEs use mergers and acquisitions as a growth strategy due to fewer resources or whether they just merge with or acquire smaller enterprises.

Of the Danish companies surveyed, 31% pointed to acquisitions and mergers as a way to tackle the crisis. This is the highest proportion among the eight countries surveyed, where the average is 21%. In Germany it is only 18%, Britain 24% and lowest in Italy and Ireland, with just 10%.

In February 2011 KPMG could confirm that the number of mergers and acquisitions in Denmark had increased by 35% between 2009 and 2010. The total value of these transactions amounted to €4.4 billion in 2010, a 158% increase on the previous year.

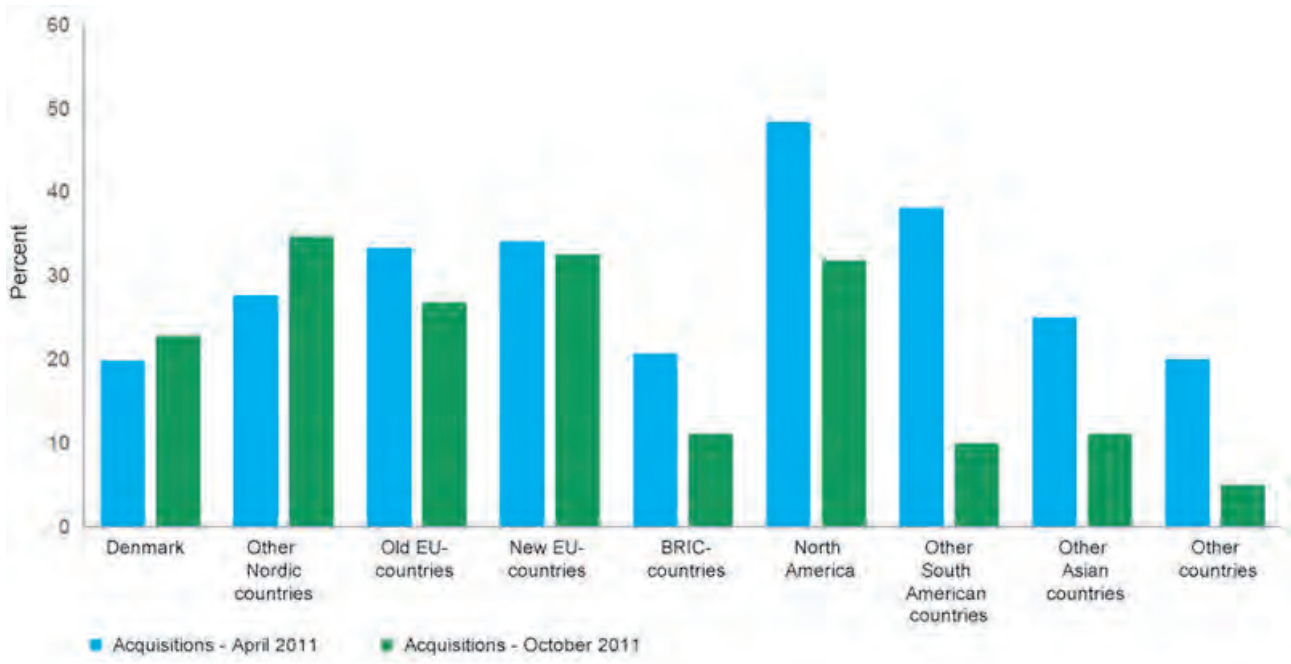
However, the 2011 survey also indicated that there was still a gap between buyers' and sellers' valuations of companies.

A survey from Deloitte (2011) in October 2011 confirmed the trend, suggesting that uncertainty in the market makes organic growth vulnerable and difficult to achieve. Therefore companies use mergers and acquisitions as a strategy for growth and strengthening their market position. Furthermore, the crisis has left some companies in a weaker position and more willing to negotiate price.

In the survey 70% of CFOs in Denmark expected an increase in M&A activities in the next 12 months.

The focus is mainly on acquisitions in Europe and North America.

Figure 6: Geographical focus of growth through acquisitions, 2011



Source: Deloitte, 2011

## Internal restructuring

### Change in management and ownership

It is expected that about 50–60% of Danish family-owned enterprises in general will have to go through a generation change within the next 10–20 years (Bennedsen and Nielsen, 2008).

The annual number of changes of managing directors in Danish family-owned companies is between 420 and 850. Almost three in 10 (28%) of these are family transitions; in 38.3% of the cases the new managing director is recruited within the company while in the remaining 33.7% the managing director was recruited outside the family and company.

After the change in ownership the new owners are related to the leaving owner in 62% of all generation changes. 8.2% of new owners were already employed in the company while 16.2% of the new owners were external buyers and another 13.4% were financial buyers.

The trend is that in larger companies there are fewer transitions within the family. When it comes to managing directors the trend is that small and large enterprises recruit more internally while medium-sized enterprises tend to recruit managing directors outside the company. The logic is that there is no big market for managing directors in small companies and a solid internal base for recruitment in larger enterprises.

The study also concluded that the number of generation changes within the family is significantly lower in dynamic and changing industries. It could be because dynamic industries require more professional management skills.

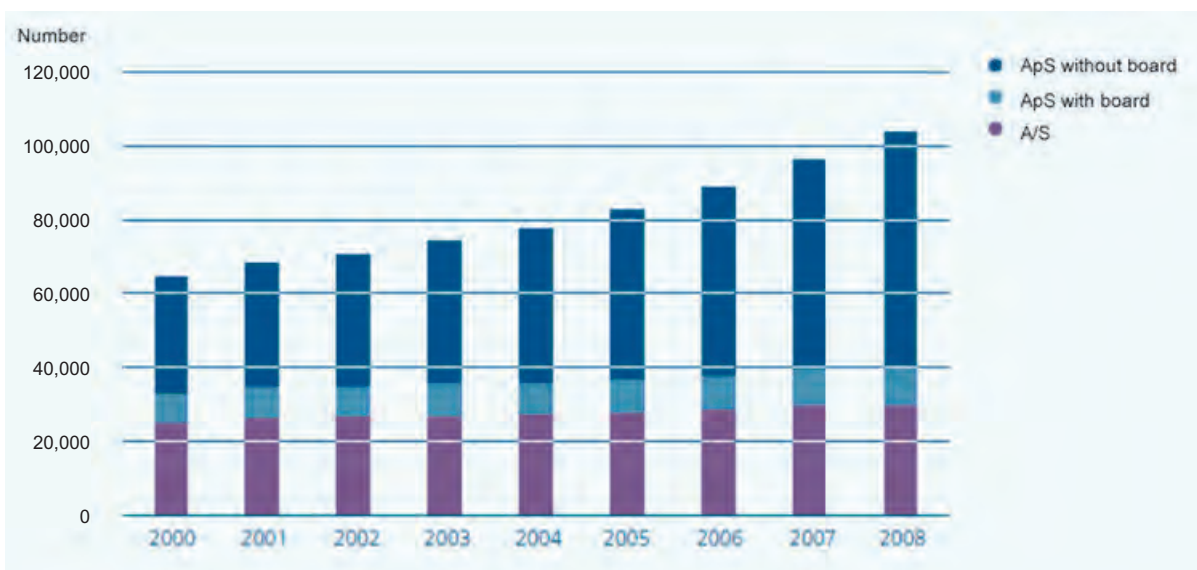
Furthermore there is a trend that external managing directors have longer education and they tend to have more members on the board compared to managing directors recruited within the family.

### Boards

In the Danish support system for SMEs there is a continuous effort to convince SMEs to establish professional boards. The assumption is that there is a correlation between professional boards and growth, export and other success factors. However, it seems that SMEs are not listening.

When it comes to change in management it is interesting to note that there is a trend towards smaller boards in Danish enterprises.

Figure 7: Development in number of companies with and without board, 2000–2008

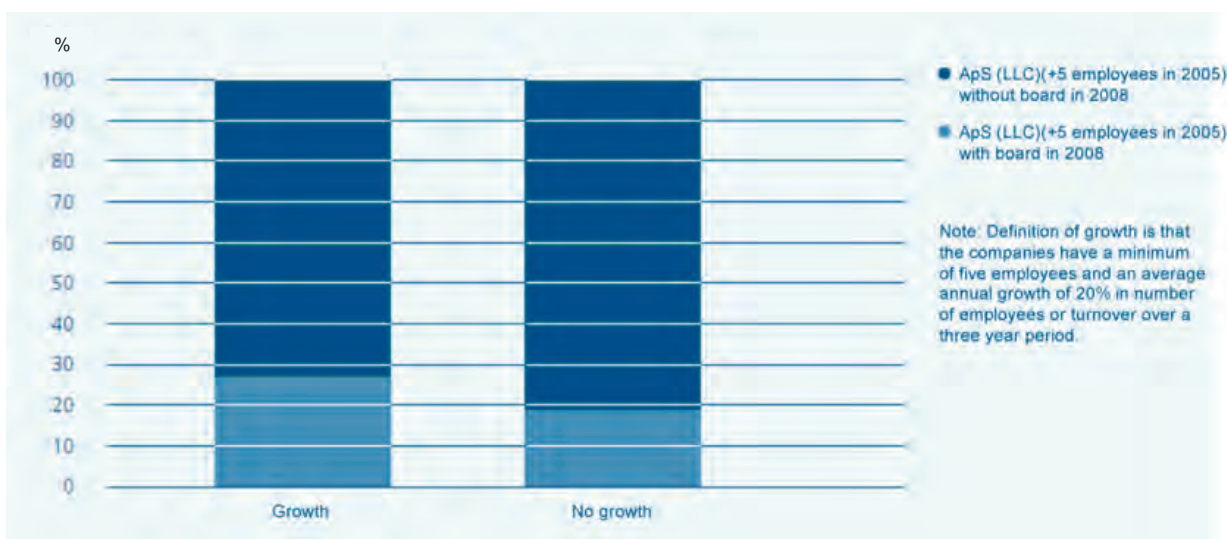


Source: Erhvervs- og Byggestyrelsen (2011a)

The share of companies with a board fell from 52% in 2000 to 39% in 2008.

For limited liability companies (LLCs) the share of companies with a board decreased from 21% in 2000 to 14% in 2008.

Figure 8: The use of boards in LLCs with or without growth in 2008



Source: Erhvervs- og Byggestyrelsen (2011a)

There is a higher share of boards among companies experiencing growth; 27% of growth LLCs have a board while this is only the case for 19% of LLCs of similar size but with lower growth rates.

The number of board members is also decreasing. In limited companies the average number of board members declined from almost five in 2000 to almost four in 2008.

For LLCs the average number fell from 3.8 to 3.3 on average in the same period.

In 30% of owner-managed companies the board members only include the owner and family members.

Table 7: Average number of board members in corporations and LLCs, 2000–2008

	2000	2001	2002	2003	2004	2005	2006	2007	2008
A/S (Corporation)	4.7	4.7	4.6	4.4	4.3	4.1	4.0	4.0	3.9
ApS, all (LLC)	3.8	3.8	3.7	3.6	3.5	3.5	3.4	3.4	3.3
ApS with less than 35 employees	3.8	3.7	3.7	3.6	3.5	3.6	3.4	3.6	3.3
All companies	4.5	4.5	4.3	4.2	4.1	4.0	3.9	3.8	3.8

Source: *Erhvervs- og Byggestyrelsen (2011a)*

The decreasing number of boards may cause concern, because it appears that more enterprises with boards are exporters than enterprises without boards. However, the cause and effect has not been clarified.

Figure 9: All corporations and LLCs with fewer than 100 employees



Source: *Erhvervs- og Byggestyrelsen (2011a)*

## Business expansion

Danmarks Statistik (Danmarks Statistik, 2011b) found that in 2006–2009 Denmark had 1,300 high-growth enterprises,<sup>1</sup> which is a decline of 41% compared to 2005–2008. From 2006 to 2009 40,800 jobs were created in these enterprises, which is 27,300 less than in 2005–2008.

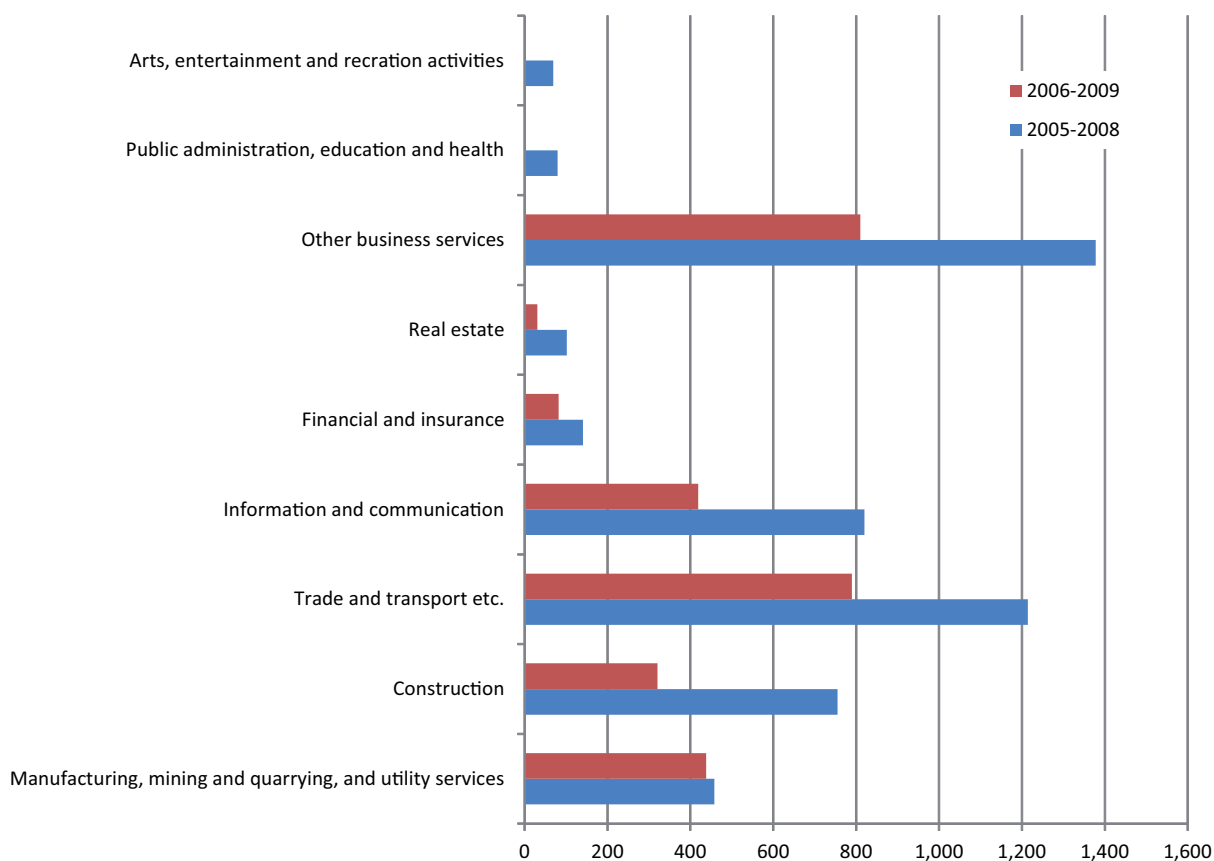
<sup>1</sup> High growth companies are companies that have had an average annual growth of at least 20% over a three-year period and which had five or more employees at the start of the growth period.



If we look specifically at high growth start-ups, 215 high growth start-ups created about 3,000 new jobs in 2006–2009: 2,000 less than in 2005–2008.

Jobs created by high growth start-ups were mainly created in business services.

Figure 10: Number of full-time jobs created by high growth start-ups – by industry group



Source: Danmarks Statistik, 2011b

When it comes to exports, the high growth start-ups increased their export from 0.5 billion DKK (€65 million) to 2.7 billion DKK (€351 million) between 2004 and 2008. Sixty-three per cent of their exports are destined for neighbouring markets in Germany, Britain, Sweden and Norway (Danmarks Statistik, 2011a).



# Drivers of restructuring

On a general level the main drivers behind restructuring events in Danish SMEs seem to be the globalised economy and the economic downturn since 2008.

The effect of the globalised economy is enhanced by a low increase in productivity compared to other OECD countries and stagnation in the level of education.

Figure 11: Average annual increase in productivity 2000–2008 (%)



Note: Turkey is the only OECD country without these statistics.

Source: *OECD*

Combined with higher wages and level of costs in general, the low productivity has created a fertile ground for outsourcing in Danish SMEs. Furthermore, companies experience cooperation with authorities as a limiting factor for productivity.

Studies on outsourcing have shown that cost per unit is a deciding factor in outsourcing – even though a total cost perspective is a more relevant measure (Knudsen and Cederquist, 2005). Especially for companies outsourcing to new EU countries and Asia, access to cheap labour is decisive, whereas access to public grants or subsidies is a far less important criterion.

The main driver for offshoring is cost reduction, but access to new markets has become more important. So has the access to qualified labour, which was a problem during the boom leading up to the crunch in 2008.

Therefore the incentive to outsource has not just been negative factors like high costs and low productivity, but also driven by more opportunity-seeking factors like access to new growth markets and qualified labour in those markets.

The overall development in new markets has also led to a wider spectrum of functions being outsourced – not just production activities. Outsourcing of R&D activities, especially, has been driven by access to qualified labour and knowledge.

The establishment of subsidiaries in new growth markets also seems to have made it easier for companies to move activities to new markets.

The economic downturn might have increased the incentive to start or expand activities in emerging markets, but it has also been a driver in other types of restructuring. Obviously a financial crisis and an economic downturn have increased the number of bankruptcies in Denmark – especially among the young companies established in the mid-2000s where everything was possible and almost any idea could be funded.

The threat of bankruptcy and the struggle to survive in the industry has also caused the valuations of companies to become more ‘realistic’. Lower prices of companies have made acquisitions a more tempting and relevant method of expansion and consolidation for SMEs with access to sufficient capital, and in Denmark there has recently been an increase in acquisitions among SMEs.

When it comes to the development of start-ups and high growth SMEs, the economic downturn also seems to have reduced the number of high growth SMEs and the number of jobs being created in these companies.

When it comes to relocation, access land, facilities and infrastructure are major reasons for moving an SME. The building of new motorways or expropriation of land for business near the exits seems to be a major driver in relocation.

Finally, another driver for restructuring in Denmark is the overall structure of SMEs, with a large number with ageing owners looking for successors in recent years and the years to come. This has caused and will lead to a large number of shifts in management and ownership – and therefore also potentially a large number of mergers and acquisitions.

In contrast to expectations the study also shows that former experience is not a deciding factor for choosing international outsourcing, or for the choice of outsourcing country.

When it comes to outsourcing core activities, lower wages and lower costs in general are the main reasons. Whereas access to employees was an important motive in 2007, this is less significant after a decline in the economy.

Table 8: *Motives for outsourcing core activities, 2007 and 2011*

Most important motives	2007	2011	↑↓
Lower wages	1	1	→
Lower costs, beyond wages	2	2	→
Focus on company core activities	3	3	→
Access to new markets	5	4	↑
Following a decision made by the parent company	9	5	↑
To do as our competitors are doing	6	6	→
Improved quality or introduction of new products	7	7	→
Scarcity of labour	4	8	↓
Access to specialised knowledge and technology	8	9	↓
Other motives	10	10	→
Tax savings or other financial reasons	11	11	→
Less legislation/regulation affecting the company	12	12	→

Source: *Thelle, Jespersen and Sunesen, 2011. Study includes large companies.*

Apart from low costs, access to employees with a high level of technical education is often stated as a motive for outsourcing R&D activities.

In the textile industry proximity to new markets is also stated as an important motive to outsource R&D. Furthermore, it is stated that it is easier to cooperate with universities abroad than native universities.

# Distinctive characteristics of restructuring in SMEs

## Anticipation, planning and preparation of restructuring events

There is a common conception in the Danish SME support system that owner-managers tend to want to solve things themselves without the use of advisors. The research into bankruptcies seems to support this conception, since 336 companies that used the Early Warning programme had long-lasting problems and 42% of them approached advisors too late and were later closed down. Whether an earlier contact with advisors would have saved them is of course unknown.

Another survey showed that a decreasing number of Danish companies have a board. This could also indicate that owner-managers prefer to make their own decisions without too many advisors.

Around 2000 there was a lot of public attention on generation change in SMEs, motivating owner-managers to start the process earlier as they were often unprepared when they reached the age of retirement. However, we are not aware of research that has shown whether the increased attention has actually changed anything.

The case studies confirm that restructuring decisions are centred on the owner-manager, but that does not mean that it is an unplanned process. Or rather, the long-term vision is often there, but the specific actions towards the visions often seem to be a more spontaneous process, closely linked with opportunities that arise. For example, a business may start a new factory in China because they already have a customer there, or it may make an acquisition because the owner contacted them, etc.

The literature does not say much about the planning process, but case studies seem to indicate that SMEs are guided by visions and bold actions, not by elaborate long-term plans. This was supported by a chief financial officer in one of the case companies who had experience of restructuring in a multinational corporation.

## Managing restructuring

How SMEs manage the restructuring process is not explicitly described in the reviewed literature. Again we must refer to the case studies where some kind of management restructuring was included in the process:

- one company upgraded the management team with people with experience from larger corporations when the owner-manager decided to internationalise the company;
- another company implemented project teams and project planning when they started a process of multiple acquisitions and finally decided to split top management in two;
- a third company established a management team to be better prepared for planned growth.

So there is reason to believe that SMEs also upgrade their management setup when they meet new challenges or define new goals. This seemed to be the case at least when it comes to the relatively successful companies that we studied.

However, the case studies also indicated that management is a scarce resource when it comes to restructuring. SMEs cannot just take out a taskforce or project group from the daily operations when a subsidiary is established or when a new acquisition must be integrated. At first they seem to follow the entrepreneurial philosophy of running fast and understaffing, but all the case studies indicate that at some point they all realise they have to restructure their management team and structure.

Outsourcing in the manufacturing sector is mainly about the company’s core activities, but there seems to be increasing activity in outsourcing administration/ management, distribution/ logistics and engineering. The exact reason is not clear, but since companies have to go through a process of defining and documenting the activities they outsource, the reason might be that through outsourcing production they have gained experience in documentation that can be applied to other areas.

Table 9: Share of companies (including large enterprises) outsourcing specific functions in 2007 and 2011

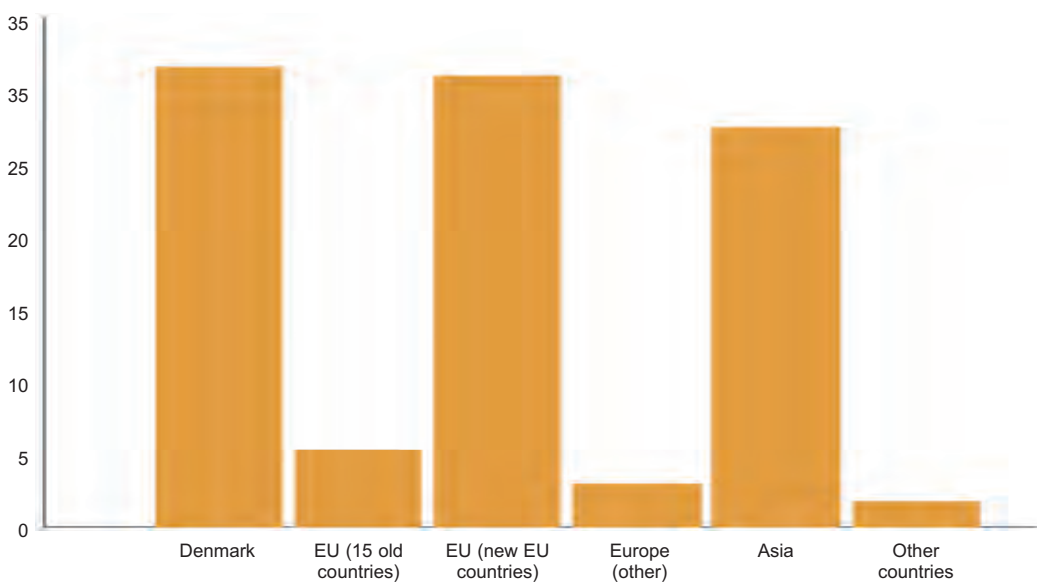
Outsourced function	2007 (%)	2011 (%)
Administration and management	5	8
Distribution and logistics	11	17
Research and development	8	8
Engineering and technical service	13	18
IT support and telecommunication	9	9
Marketing, sales and after sales services, including help desk and call centre	8	7
Company’s core activity	45	34
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Thelle, Jespersen and Sunesen, 2011

Note that since the percentages in Table 9 add up to 100 it suggests that respondents have only given one answer. This may understate the extent to which functions are outsourced. Some companies might have outsourced more than one function.

Figure 12 shows that the main target countries for outsourcing are mainly Denmark, new EU countries or Asia.

Figure 12: Target regions for outsourcing



Source: Knudsen and Cederquist, 2005

Offshoring core activities is still the most common type of offshoring, but distribution, logistics and engineering are offshored to a greater extent as well. This means that high skilled jobs are increasingly offshored.

Table 10 shows that Danish companies (including large enterprises) have subsidiaries in especially the 15 ‘old’ EU countries, but an increasing number in other countries. The popular countries for outsourcing – new EU countries and Asia – are also popular for subsidiaries, with 1,333 subsidiaries in new EU countries in 2010 and 1,272 in Asia. Employment seems to be considerably higher in the Asian subsidiaries.

If we study different approaches to delocating production, establishing subsidiaries is obviously more costly and probably therefore less popular than outsourcing to foreign companies.

Between 2007 and 2011 there was a significant decline in the number of companies (including large enterprises) establishing subsidiaries abroad, but a similar increase in the number of companies that delocalise production to existing subsidiaries.

The immediate assumption about the decline in new subsidiaries could be that it is caused by more restricted access to funding and the economic crisis in general, but a less dramatic cause may be that companies are now simply delocalising to the subsidiaries established or acquired in the boom years.

Table 10: *Delocalisation/offshoring by method in 2007 and 2011*

Method	2007 (%)	2011 (%)
To other companies abroad (no ownership or 50% or less)	46	44
To existing subsidiary company abroad (in group)	28	43
To recently acquired subsidiary company abroad (in group)	6	1
To recently established subsidiary company abroad (in group)	20	12
<b>Total</b>	<b>100</b>	<b>100</b>

Source: *Thelle, Jespersen and Sunesen, 2011. Data include both SMEs and large enterprises.*

## Actors involved

Restructuring and closures in Danish SMEs often involves the participation of shop stewards and trade union representatives, except for the smallest SMEs. The presence of trade unions in SMEs and general agreements between unions and SMEs on wages and employment conditions is the standard at Danish workplaces, so dramatic change is expected to be discussed with the unions or local shop stewards. Public-supported job agencies may also be involved in the restructuring process, assisting wage earners in getting new jobs or training for alternative employment. On the side of owner-managers, the local and regional business development agencies may assist in the process, both when some kind of expansion or internationalisation is at the agenda and when closedowns are likely. However, the general experience is that owner-managers tend to wait too long before they get in contact with the public or private agencies and advisors. An illustration is the countrywide government-supported so-called Early Warning programme which started in 2008 and is still running, managed by five regional growth houses. Generally this project demonstrates that owner-managers, for personal and prestige grounds as well as business concerns, tend to wait far too long before a severe crisis situation is addressed.

# Main challenges and constraints facing SMEs in restructuring

The literature reviewed has mainly studied the causes and effects of restructuring and less the challenges in the process. But the study of outsourcing in manufacturing companies in general suggests a number of reasons for maintaining production in Denmark and therefore also suggests the perceived challenges of outsourcing and offshoring.

The major concern is whether the total costs of outsourcing will exceed expected gains. Table 11 shows that a number of distance- and culture-related challenges are major concerns. Distance to manufacturers, legal and administrative barriers, language and cultural barriers are increasingly mentioned as reasons for not outsourcing.

Table 11: *Reasons for staying in Denmark and not outsourcing*

Rating of barriers to outsourcing	2007	2011	↑↓
Concerns about whether total costs of outsourcing will exceed expected gains	2	1	↑
Problems with distance to manufacturers	7	2	↑
Legal or administrative barriers	4	3	↑
Language or cultural barriers	9	4	↑
Distance to existing customers	3	5	↓
Lack of management experience and/or management skills	12	6	↑
Trade barriers (customs tariffs)	8	7	↑
Tax issues	5	8	↓
Uncertainty about international standards	1	9	↓
Concerns among employees (incl. trade unions)	10	10	→
Problems finding suppliers abroad	11	11	→
Discrepancy with company social values	6	12	↓
Concerns about violation of patents or IPR	13	13	→
Other barriers	14	14	→

Source: *Thelle, Jespersen and Sunesen, 2011. This study includes both SMEs and large enterprises.*

Another study suggests the major challenge is to get the organisation to accept outsourcing. Willingness to outsource is a deciding factor for success. Establishing lasting relationships based on trust, credibility, flexibility and cooperation is also an important factor (Knudsen and Cederquist, 2005).

## Anticipation, planning and preparation of restructuring events

The capacity to understand and analyse restructuring needs, and develop and implement new strategies to cope with drastic change, is distributed very unevenly among SME managers. On the one hand a significant proportion of SME managers are well educated, particularly in the knowledge-intensive parts of the industry and service sectors. These owner-managers are often capable of understanding the situation and alternatives well, but sometimes they lack experience in handling a downturn and their savings and assets are often at a relatively low level. On the other hand a significant proportion of the SME managers are older people with a lower level of education. They have considerable experience in handling business affairs, including downturns, but a low capacity to analyse the new situation and limited willingness to run risks by making drastic moves and changes. Therefore these firms often experience a steady decline over some years until savings and assets are reduced to an unbearable level.

Managing a downturn properly, including firing trusted employees, is often difficult due to the close personal relationships between managers and trusted employees in these SMEs. Taking risks and expanding into new markets, relocating, outsourcing and offshoring are therefore rare moves for these SME owner-managers. A shift in ownership can therefore, from a business point of view, be an important and in many cases necessary move in such cases to help the business survive and prepare for new growth.



# Business support from public and private sources

Public support in relation to restructuring SMEs in Denmark ranges from simple counselling to large funding schemes. Some of the most relevant support schemes are described below.

## Regional service centres for SMEs (Væksthuse)

As part of a major reform in the public administrative structure in 2007, five regional business services centres (Væksthuse) were established to provide counselling for start-ups and SMEs and coordinate a range of projects and initiatives for start-ups and SMEs. They also administer different grant and subsidy schemes. The regional centres were established with the purpose of offering a more specialised service and a one-stop-shop for small businesses with growth potential. Until 2007 the public counselling of start-ups and small businesses was mainly undertaken by local business service centres offering very general counselling.

The regional business service centres were funded by Erhvervsstyrelsen (Danish Business Authority), regional administration and municipalities.

Projects managed by the regional service centres include the following.

### Early Warning

The Early Warning programme was established in 2007 by Erhvervs- og Byggestyrelsen to secure advice for enterprises threatened by bankruptcy or generally in crisis. The purpose was to increase survival and, if companies were closing, to enable them to close earlier and with smaller losses.

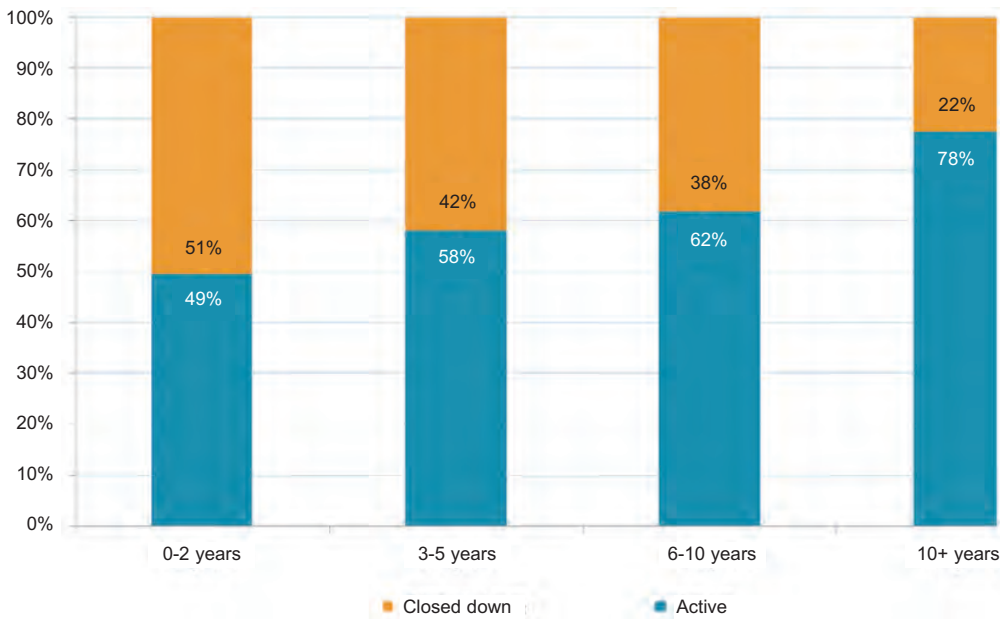
By March 2010 there were 120 qualified voluntary advisors and 14 advisors from the public business service centres.

In 2008 342 companies received advice. This rose to 650 in 2009 and 512 up to mid-October 2010.

Most companies were from trade and transport, manufacturing, building and construction or business service with a relatively high share of manufacturing companies.

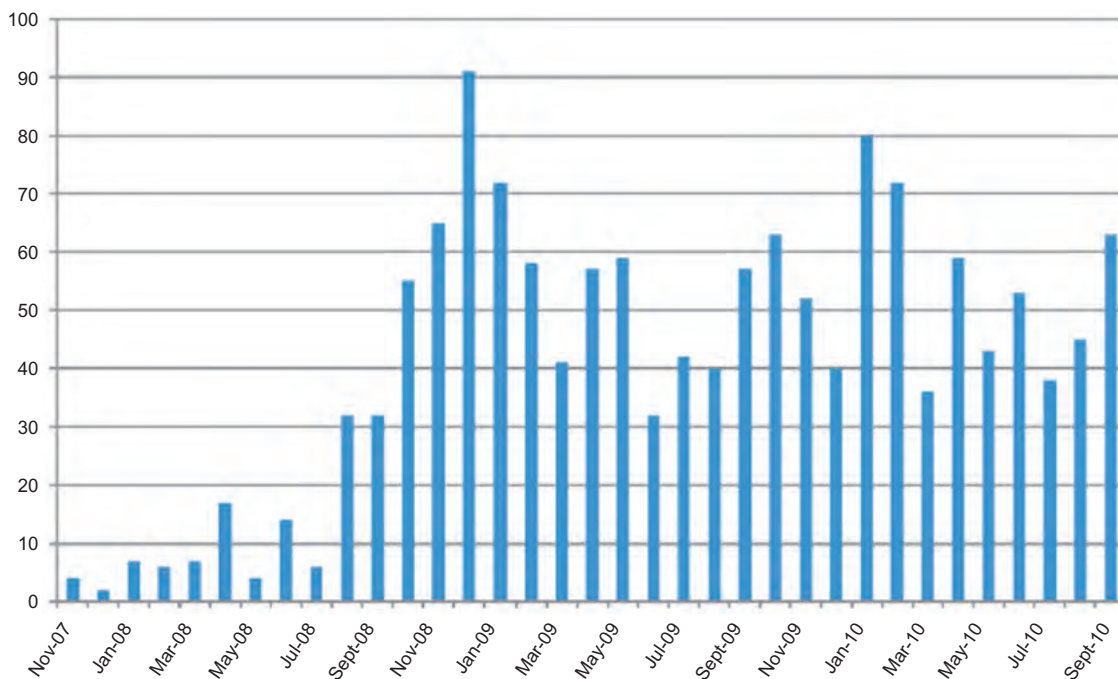
This programme was targeted at SMEs. A relatively large proportion of the companies getting help from the programme were new companies under three years – and they were also the most difficult to help. In the Early Warning programme only 49% of companies younger than three years survived, whereas 78% of companies older than 10 years survived.

Figure 13: Status of Early Warning companies – by age – October 2010



Source: Erhvervs- og byggestyrelsen, 2011c

Figure 14: Companies registered in Early Warning – monthly – November 2007 to September 2010



Note: A large group of enterprises have no registration date. These enterprises are withdrawn from this statistic.

Source: Erhvervs- og byggestyrelsen, 2011c

In 2007 the laws concerning bankruptcy were changed with the purpose of faster consideration of insolvent estates. The average time for case consideration of insolvent estates was reduced by 37% (Erhvervs- og byggestyrelsen, 2011b). These regulations were implemented in April 2011, so the full effect is yet to be seen.

### **Vækst via ledelse**

Vækst via ledelse (Growth through management) is a recent offer for 600 business leaders to strengthen their management profile.

After an initial screening a development plan is made for each company.

Each company can receive grants of up to DKK 100,000 (€13,000) for management courses, advisors or specific training programmes.

### **Kapital coach**

Business owners can receive grants to hire a capital coach that will assist the company in raising capital.

## **Danmarks Eksportråd – The Danish Trade Council**

The Trade Council under the Ministry of Foreign Affairs offers a range of support schemes in relation to internationalisation of SMEs. The support ranges from free counselling in the early phase, discounts on market research, special events on specific markets, and joint stands for SMEs at selected international trade shows.

Recently the Trade Council has also established three innovation centres. The innovation centres are an entry point for innovative Danish companies and knowledge institutions into world-leading hotspots within science, research and innovation.

The innovation centres are a joint project between the Ministry of Foreign Affairs and the Ministry of Science, Technology and Innovation. So far, innovation centres have been established in Silicon Valley, Shanghai and Munich.

## **Vækstfonden**

Vækstfonden (The Growth Fund) is a state investment fund which aims to create new growth companies by providing venture capital and competence. Since 1992 Vækstfonden has, in cooperation with private investors, cofinanced growth in 3,700 Danish companies with a total commitment of approx. DKK 10 billion (€1.3 billion). Vækstfonden invests equity or provides loans and guarantees in collaboration with private partners and Danish financial institutions.

The Vækstkautionsgaranti scheme covers, for example, changes in ownership, investment in plants or product development.

## **IFU**

The purpose of IFU is to support business development in developing countries in cooperation with Danish companies through capital and advice for joint ventures.

Through connections with local financial institutions IFU also assists in raising additional funds.

IFU act as partners from the early planning phase through the operating phase and take a place in the board of the joint venture.

IFU has experience from 719 projects in 85 countries.

### Videnpilot

Videnpilot – or Knowledge Pilot - is a very popular offer for SMEs with between two and 100 employees to hire a subsidised graduate to work on one or more business development projects.

Subsidies can be up to DKK 12,500 (€1,680) a month for 6–12 months – maximum 50% of the wage.

Projects can comprise, for example, product development, implementing new technologies, developing marketing strategies for new markets, strategy development and optimising processes.

### Accelerace

Accelerace is a five-month business development programme for ambitious start-ups and small growth companies. The programme is located in an incubator environment and supported by universities, regional business service programmes and EU funds.

Apart from training and workshops, Accelerace also offers access to a large network of experts, a hands-on business developer connected to the team and access to funding.

After a successful project where the regional business centre for the Copenhagen region assisted SMEs in creating spin-offs, Accelerace has taken over this concept and also runs a spin-off programme.

In general, the SMEs in our case studies did not ask for public support schemes, but indicated that access to funding is an issue in SMEs. However, the services of the Danish Trade Council are very commonly used and especially the Videnpilot scheme mentioned above has become very popular among SMEs, and the demand has actually exceeded the budget for the scheme.

# Outcome of restructuring events

Until recently, it was expected that outsourcing also created domestic jobs, but recent surveys show that this is apparently no longer the case. In 2007–2011 outsourcing is expected to have cost 5,000 jobs in manufacturing in Denmark (Thelle, Jespersen and Sunesen, 2011).

The job-creating effect of offshoring is also decreasing. For every 10 jobs that are offshored, only one is created in Denmark (Thelle, Jespersen and Sunesen, 2011).

This might, however, be because companies are reluctant to employ new staff in Denmark on account of the economic crisis.

Table 12: *Type of R&D jobs created abroad*

	20–49 employees (%)	50+ employees (%)	Total (%)
Mainly knowledge jobs	46		44
Mainly routine jobs	28		43
Don't know/Not relevant	6		1
<b>Total</b>	<b>100</b>		<b>100</b>

Source: *Thelle, Jespersen and Sunesen, 2011*

When it comes to financial performance, there is a trend that enterprises undergoing management transitions inside the family experience a decrease in profit of 0.6 percentage points while enterprises recruiting professional directors improve the net profit by 0.1 percentage points within the first three years after the restructuring. The same pattern emerges when it comes to change in ownership. External owners seem to make enterprises perform better (Bennedsen and Meisner Nielsen, 2008).

# Conclusions and policy issues

The major driving forces for restructuring in Danish SMEs since 2007 have been globalisation of the economy, low productivity and the financial crisis and economic downturn.

Outsourcing and offshoring/delocalisation are of increasing importance to SMEs. After the first wave of outsourcing core functions, SMEs are also to a larger extent outsourcing other functions – including R&D. The target regions for outsourcing are – apart from local outsourcing to Danish partners – mainly the new EU countries (EU12) and Asia.

However, since SMEs are also establishing subsidiaries in these regions, part of the ‘outsourcing’ actually stays in the company.

While outsourcing generally has created jobs in the SMEs – though not as many as in previous years – an increasing number of bankruptcies has cost a lot of jobs. This is particularly true in young enterprises.

However, enterprises suffering in the economic downturn have become more accessible targets for mergers and acquisitions, and the strongest SMEs are increasingly using acquisitions as a growth strategy.

The increasing number of mergers and acquisitions is also interesting to watch in relation to the large number of Danish SMEs with maturing owners looking for successors. The literature indicates that companies increase their performance when management is recruited outside the company, but that it may be difficult for smaller SMEs to recruit qualified management. With acquisitions it can be said that management is not recruited by the company. The company is recruited by management.

When it comes to policy issues, the literature suggests that:

- there is potential in helping companies with financial problems as early as possible, since lasting problems seem to reduce the survival rate. The intentions of the Early Warning programme seem to be right;
- there is potential in helping SMEs that face generational change in management and ownership in recruiting the right owners and managers. This seems to increase their growth potential;
- there is potential in helping SMEs with management skills and resources in the restructuring process. The company case studies suggest that restructuring requires new management skills and resources. When it comes to boards specifically, companies with boards seem to have a higher degree of internationalisation;
- in general access to funding also seems to be a major issue for the companies in the case studies. The combination of funding and board members with local knowledge from IFU was mentioned very favourably in one case study, whereas there was criticism of the state-funded Vækstfonden venture fund.

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