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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

# **The Contribution of Business Services to Industrial Performance**

## **A Common Policy Framework**

## PREFACE

The Industry Council in its Conclusions of the 6-7/11/1995 invited the Commission to analyse the situation of Business Services from the point of view of their contribution to industrial competitiveness and job creation. It further asked the Commission to produce a Communication on the future of Business Services and to consider appropriate policy actions.

A detailed factual description and analysis of the situation of Business Services is contained in the Commission Staff Working Paper "Industrial Competitiveness and Business Services" submitted to the Council in April 1998. The present Communication is the operational follow-up to this document which should be considered an integral part of the Communication.

**The key political messages of this Communication are the following :**

**There is an urgent need to improve data and information on Business Services and their contribution to European competitiveness and job creation.**

**Market access barriers for Business Services in the Member States must be identified and be removed.**

**Optimal conditions must be created to ensure that the Business Services sector contributes to employment creation both in the sector itself and indirectly by its added value input into Industry. Compared to the United States there could be an untapped potential of more than 3 million jobs in the Business Services sector.**

**The real challenges are :**

- **To match skills to knowledge-based Business Services.**
- **To explore the huge potential of European export by putting Business Services companies at the forefront in international competition.**
- **To ensure that our Business Services companies are clustering and operating in networks so the full potential of access to innovation and the capital market is realised.**
- **To contribute to competitiveness, growth and innovation of Industry and in particular of SMEs by promoting their use of Business Services.**

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## I. INTRODUCTION

In its Conclusions of the 6-7/11/1995, the Industry Council invited the Commission to carry out an analysis of the situation of Business Services from the point of view of their contribution to the competitiveness of European enterprises and job creation. The result of this analysis was presented to the Council in a Report from the Commission Services on Industrial Competitiveness and Business Services<sup>1</sup>.

The Council Conclusions furthermore invited the Commission to examine how national and Community policies can contribute to improving the framework conditions within which Business Services operate and to assess the contribution of Business Services to the internationalisation of business, in particular of SMEs. Finally, the Commission was invited to produce a Communication on the future of Business Services in the European Union, focusing particularly on the arguments for and against a policy on the subject.

The present Communication represents the follow-up to these requests. Following the Report on Industrial Competitiveness and Business Services, it expands the economic justifications for a policy on Business Services and further examines the policy issue that the Report broadly identified as needing treatment.

As stated in the Report, the key importance of Business Services lies in their dynamic links and their contribution to the competitiveness of EU Industry<sup>2</sup>. An important element in EU competitiveness policy is to promote intangible investment (knowledge-creation, quality, innovation, management etc). Business Services are often required to supply key elements of such investments. Hence, to promote intangible investments also requires the promotion of those services.

Business Services are of major importance in helping the SME sector realise its potential contribution to innovation and growth. There is evidence that some of the most dynamic SME already make use of Business Services to perform the functions that can not be undertaken in-house. In the face of the pressures of internationalisation, greater use of these services by a wider range of SMEs needs to be encouraged.

The providers of Business Services are, themselves, often small enterprises, which require the right environment to be able to flourish. This consideration has to be borne in mind as a critical element in any moves to encourage the further development of the sector.

With the growing integration of Business Services into manufacturing (and vice versa) and their importance for overall economic development, policy on industrial competitiveness needs to be extended and targeted on Business Services. It is because of these interactions (which will be further developed in Chapter IV) that the Commission in this Communication builds on the overall policy framework guiding EU competitiveness policy, including its impact on employment and economic growth<sup>3</sup>.

The policy actions treated in this Communication are in general covering all Business Services. However, when dealing with the abolition of national market access restrictions

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<sup>1</sup> Doc. Sec (1998)735 of 29/4/1998

<sup>2</sup> In the following, "Industry" is defined as manufacturing and services activities supplied on a market basis whether integrated into each other or not.

<sup>3</sup> See Annex I. for references

which are specific to individual activities and vary from country to country, this horizontal approach is not feasible..

Compared with former scattered and non-coordinated initiatives in this field, not only the supply of Business Services is treated but also the demand side in order to ensure that the interests of client industries are taken into account in a coherent supply/demand side approach, permitting the anticipation of future needs for services and the emergence of new types of Business Services.

It should be noted that since this Communication constitutes a first attempt in putting together a policy framework in an area characterised by a lack of sufficiently disaggregated and credible economic information, priority at this stage is given to the systematic collection of statistical data, analysis and research. A refinement, a deepening and an extension of policy actions should take place concurrently with the increased availability of data and analytical material, appropriate to the implementation of policy decisions.

The Commission will periodically report back to the Council on progress in this field, together with the implications for policy making. Furthermore, depending on the result of feasibility studies already undertaken, the extension of policy actions to other services to Industry such as industrial training, logistics and contract research will be considered in a next phase.

The policy objectives of this Communication are synthesised in the box below.

<b>POLICY OBJECTIVES</b>	
To strengthen the competitiveness of European Industry by improving the framework in which Business Services function to the benefit of the entire Industry Value Added Chain by :	
(1)	<b>Facilitating decision making:</b> To create a comprehensive theoretical and analytical basis on which to undertake a continuous monitoring of the situation of Business Services in order to ensure a sufficient background for decision makers at the enterprise, public administration and political level.
(2)	<b>Applying Community policies:</b> To improve the business environment in which Business Services and their clients work by using existing Community policy instruments to enhance competitiveness. The most important of these policies are Enterprise Policy and the creation of a favourable environment for SMEs, the Information Society and Electronic Commerce, RDT, Training, Internal Market and Public Procurement, GATS, Structural Policy, Competition policy and Quality Assurance.

It is underlined that the Commission is *not proposing a new specific policy on Business Services*. What is sought is the implementation in a coherent framework of existing policies which already affect Business Services.

## II. DEFINITION AND CLASSIFICATION OF BUSINESS SERVICES

Business Services consist of many different activities. They include highly advanced consultancy services like management consultancy or computer services, professional services like engineering and legal services, marketing services like advertising or fairs and exhibitions, labour intensive services like personnel services, and operational services like cleaning and security services. This heterogeneous panorama of Business Services is explained by the different functional characteristics of enterprises which purchase these services: management, administration, production, ICT, marketing, personnel, security, cleaning etc. For any key enterprise function, a corresponding Business Service exists. They are characterised by an interactive co-production process between the supply and demand side with the overall purpose of improving the competitiveness of the client. A detailed definition of Business Services, listing all the activities is given in the Report on Industrial Competitiveness and Business Services. For practical and illustrative reasons, the main Business Services activities and their classification are shown below:

### Definition of Business Services according to NACE Rev.1. classification<sup>4</sup>

Classification Of NACE activities	Services	Most important activities
72.1 – 6	Computer	- Hardware consultancy - Software consultancy - Data processing - Data base activities
74.11, 74.12, 74.14	Professional	- Legal activities - Accounting and tax consultancy - Management consulting
74.13, 74.4	Marketing	- Market research - Advertising
74.2, 74.3	Technical	- Architectural activities - Engineering activities - Technical testing and analysis
71.1, 71.21–23, 71.31–33	Leasing and renting	- Renting of transport and construction equipment - Renting of office machinery incl. computers
74.5	Labour recruitment	- Labour recruitment and provision of personnel
74.6, 74.7	Operational	- Security activities - Industrial cleaning
74.81–84	Other	- Secretarial and translation activities - Packaging activities - Fairs and Exhibitions

<sup>4</sup> This definition is in accordance with the EUROSTAT publication 'Business Services in Europe' from 1995. It should be noted that NACE classes 70 (real estate services), 73 (research and development) and subclass 74.15 (holding companies) are not included in this definition.

### III. KEY PERFORMANCE FIGURES FOR BUSINESS SERVICES

The Report on Industrial Competitiveness and Business Services underlined the serious gap in basic statistical data on Business Services. Based on a number of different sources, extrapolations and estimates have been made giving some key figures which should be treated with a certain caution until further work has been done in this field (see chapter V). The main problem is that comparisons between EU Member States are hampered by an uneven geographical statistical coverage and different levels of aggregation of services sectors.

This chapter only concerns those Business Services purchased outside a company to the exclusion of the those supplied in-house.

#### A. Size and growth of business services

Table 1 in annex 2 shows the basic statistics for Business Services in Europe. The sector employs more than 11,5 million people and contributes to more than 850 billion ECU value added. This represents 8,5% of total employment and 15,3 % of value added. The sector is organised in many small firms (more than 2,5 million) operating mainly in national markets.

Annual growth rates shown in table 2 in annex 2 demonstrates the very impressive growth of Business Services during the last years. Both employment and value added indicators amount to an annual growth of around 5,5% in Business Services, while the total economy grew at 0,4% in employment and 1,5% in value added. This rapid growth can partly be explained by an increased recourse to outsourcing of Business Services' activities but it is believed that the main reason lies in Industry's demand for new, advanced, knowledge-based and specialised services, cfr chapter IV.

#### B. Comparisons to other sectors of the economy

##### 1. Value added

The following comparisons are useful in order to understand the attention which should be given to the Business Services sector:

- Business Services generate more value added (15,3%) than banking, insurance, transport and communication services altogether (12,1%).
- Value added from the Business Services to the economy is around 72% of that from the manufacturing industry and six times as much as agriculture.

Figure 1 in annex 3 compares gross value added of Business Services to other major economic sectors.

##### 2. Employment

In terms of employment, the absolute figure is equal to the employment in banking, insurance, transport and communication services altogether. It is close to the total employment in wholesale and retail trade. As opposed to these services, many Business Services are of high value added with well-paying jobs.

Figure 2 in annex 3 compares employment in Business Services to other major economic sectors.

The difference between the percentages in value added and employment illustrates the *high relative* productivity level in Business Services compared to the situation in other services and a productivity level at least similar to the one in manufacturing.

Relative employment figures and relative productivity levels are, however, not the only relevant factors in assessing the importance of Business Services for the creation of employment.

Estimates of the potential growth in this sector could be based on the fact that over 14 years (1980-1994), employment has grown by 5,5 % per year at an average, higher than in any other sector of the economy and there are no reasons to believe that this pattern will change. On the contrary, technological development and internationalisation will create new Business Services activities with further prospects for job-creation.

### 3. *Room for growth*

From the above it can be concluded that Business Services are one of the few sectors of the economy where high productivity levels go hand in hand with strong employment growth and that this trend is expected to continue.

These facts give no reasons for complacency. There is an unused potential for Business Services to contribute to competitiveness, growth and employment. As mentioned, their value added input is only around 72% of the input from manufacturing. This picture should be compared to the situation in the USA where Business Services accounts for 106% of manufacturing industry value added. (See table 3 in annex 2, other comparisons between some representative European countries and the USA are given in annex 4). *This room for manoeuvre can only be filled by giving more political attention to an improvement of the framework conditions in which Business Services are functioning at EU Level.*

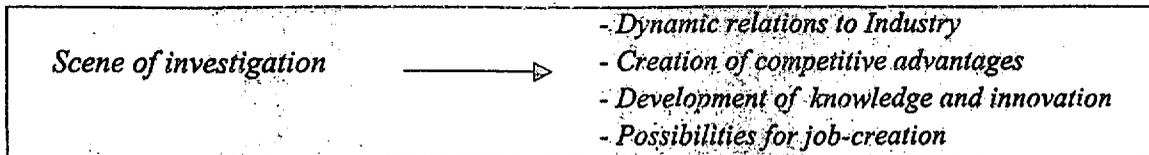
## **IV. WHY BUSINESS SERVICES ARE IMPORTANT TO INDUSTRIAL COMPETITIVENESS AND ECONOMIC GROWTH.**

### **A. Basic relationships**

The reasons for Industry's recourse to Business Services are based on a heterogeneous set of factors inherent in the performance of Business Services such as improved flexibility, greater specialisation, product differentiation tailored to customers needs, concentration on core activities, change in internal organisation, cost reductions, improved quality, better access to knowledge, skills, expertise and new technology, search for new markets (internationalisation) etc.

It is the performance of this set of factors that lead to increases in productivity, competition and employment, the 3 basic elements of industrial competitiveness and economic growth.

These factors are directly related to 4 main reasons which have been identified as explanation for the economic importance of Business Services and which are investigated below under points B-E.



The relationships mentioned above can be illustrated in Figure 3 in annex 5.

### **B. Dynamic relations to Industry.**

One of the reasons for the rapid growth of Business Services over the last two decades is that functions that were previously performed inside manufacturing industries are now outsourced, based on the set of factors mentioned above. This is however, not the main reason for growth of value added and employment in the sector. It is not simply a replacement of in-house services by out-house services.

As mentioned in the introduction, *their key importance* lies in their dynamic links and contributions to the competitiveness of European enterprises, because of their growing integration into industrial production.

Business Services are required in order to cope with industrial change. Business Services are needed by enterprises to adapt their production chain in a more flexible way, to improve the quality of the human and technological production factors, to create product differentiation, to cope with rapid technological development and to face the more complex and international markets. These intangible elements and inputs to the value added chain are becoming more important than the traditional tangible investments.

An important dynamic relationship and mutual reinforcement exists between Business Services and Industry. The growth of Business Services is due to an increased demand from the Industry and growth in Industry is increasingly linked to their own use of Business Services. This relationship drives growth and employment, and therefore needs more attention from policy decision-makers.

It is becoming increasingly well understood that *a great number of cost pressures on Industry are generated not only within manufacturing but in the Business Services sector.* These 'input services' are in many cases less competitive in Europe than in the USA and other advanced economies and the causes for this need to be addressed (see chapter V on policy actions).

*The effect on downstream activities reduce the competitiveness of European enterprises as a whole which is the central argument for improving the framework conditions in which Business Services and their clients operate.*

### **C. Creation of competitive advantages**

Three competitive advantages due to the use of Business Services can be identified: lower prices, higher quality and more internationalisation.

### 1. *Lower prices*

The existence of well-developed markets for Business Services reduce cost pressures on Industry due to productivity improvements, conversion of fixed costs into variable costs and creation of new demands for Business Services which lead to more competition and lower prices.

### 2. *Higher quality*

The way in which Business Services contribute to industrial quality is not only related to specialisation but also to the fact that some services directly allow the manufacturing and service industries to improve their own quality standards in processes and products. Some Business Services like *quality control, certification, design or engineering services* contribute to good quality results and product differentiation. Others like advertising, market research or fairs and exhibitions allow *key information inputs* to be received from clients and competitors that feed into responses to product weakness, quality issues, enhanced differentiation and entrepreneurial strategies that address market needs. The fact that many of these services are now out-sourced brings into play competitive processes which increase the quality and choice available, especially where the dynamic and innovative potential of smaller Business Services providers is given sufficient scope.

### 3. *Internationalisation*

Three factors contribute to easier access for client companies to foreign markets.

- Business Services reinforce enterprise competitiveness, preparing the Business Services clients for more competition abroad. In addition, some specific Business Services are required *to define, plan and develop an international strategy*. (Management consultancy, fairs and exhibition, market research and advertising IT services etc.). This type of assistance can be particularly significant for smaller enterprises venturing into new markets.
- Business Services facilitate dealing with barriers to trade. Many Business Services help to overcome differences in legal, economic and cultural barriers both within and outside of the Single Market. Whereas the regulatory barriers within the Single Market must be addressed, the other barriers can only be overcome with the help of such services as those of management consultancy, translation and interpreting, IT-specialists, lawyers, etc.
- Direct foreign investment and inter and intra-firm trade in Business Services permit clients to have access to multinational Business Services firms. Even direct trade, which is a secondary way of Business Services internationalisation, is increasing at a high growth rate, much higher than most of other services and manufacturing.

#### **D. Development of knowledge and innovation**

Most Business Services are knowledge intensive services. They provide strategic information permitting Industry to adapt to technological development, internationalisation and an increasingly complex society.

Thus, they are a key factor for technological innovation. In order for a client company to avail itself of Business Services, new technology often has to be introduced, leading to an update of the technological industrial base. At the same time, Business Services increase

the effectiveness of technological inputs since advanced services like IT-services allow a better use of existing technology.

On the other hand, new technologies allow expansion of Business Services markets by increasing their tradability, in particular those which have been constrained by geographical or time proximity of production and consumption. New technology leads to better performing Business Services and vice-versa.

For these reasons, RDT, IT, and innovation policies need to focus on the building of a strong technological base for innovation in Business Services. Since Europe clearly is behind the United States in development of new technologies and in advanced Business Services, a potential margin exists for the promotion of policy actions to stimulate the innovation capacity of the market.

Business Services also contribute greatly to product and process innovation of a non-technical kind. This arises both directly because of the nature of the services provided to other enterprises and indirectly through the effects of competition generated by enterprises that have benefited from the services provided. In this way effective Business Services stimulate a whole range of innovative activities.

#### **E. Possibilities for job-creation**

A dynamic and thriving Business Services sector is important as a creator of employment in its own right (see previous chapter). However, *its main importance lies in its indirect job-creation potential by its added value input into Industry, which generates more economic activity* which in turn creates new employment opportunities.

Furthermore, the accumulation of skills and specialised expertise in Business Services, particularly in labour recruitment services, allows a better selection, contracting, training, recycling, and management of personnel. It should, however, be kept in mind that the expansion in labour recruitment services, in so far as it represents personnel working ad interim in other sectors of the economy, does not indicate a growth of this sector per se, but rather a change in contractual arrangements.

Rough estimates show that about 20 % more persons are employed in in-house Business Services' activities than in independent Business Services companies. It indicates that there is room for further outsourcing of Business Services activities with the positive effects on productivity *and the impact on indirect job-creation*. In order to fully understand this process and the policy implications, it is necessary to undertake research on Industry's demand for Business Services. To obtain the complete picture, better data on the supply (independent Business Services) and the demand (for both out-house and in-house Business Services) must be provided.

#### **V. POLICY FRAMEWORK**

The overall purpose of creating a policy framework for Business Services is to reinforce the dynamic links between Business Services and economic performance in general. The previous chapters treated the economic justification for the creation of a policy on Business Services. This chapter justifies and defines the content of the policy that the

Commission proposes for improving the situation of Business Services based on the policy on industrial competitiveness.

When this policy is applied to Business Services the following six major objectives are emerging:

- Improving productivity;
- Promotion of employment possibilities;
- Improving competition in the Business Services sector;
- Promotion of industrial cooperation between Business Services suppliers;
- Promotion of Business Services;
- Encouraging modernisation of public administrations.

A number of EU policies contribute to industrial competitiveness. Below it will be shown how, to various extents, these policies can be applied to the six above-mentioned objectives.

In the development of a Business Services policy, the challenge is to implement policies in a coherent framework related to each of the six major objectives. When these policies are implemented under a global vision, synergies and mutual reinforcement of actions are created. This demands a coordination effort in all the stages of policy planning and application, follow-up and evaluation. One or several independent policies can not resolve what a coordinated action in the implementation of a multitude of policies in a coherent framework can.

#### **A. Objective: Improving Productivity**

Because of the intangible nature of Business Services, measurement of productivity raises difficult problems. It is necessary to distinguish between productivity gains by suppliers of Business Services in the production and distribution of their own services (cf. chapter III) and productivity gains in the economy as a whole, resulting from the applications of Business Services. Thus, even if Business Services themselves are not gaining in productivity, they may be causing productivity gains elsewhere of great overall benefit to the economy. To gain better knowledge of this process, new indicators and methodologies on how to measure must be created.

Furthermore, it is necessary to gain better knowledge on certain barriers to productivity improvements (labour market rigidities, small and fragmented markets, heavy administrative burdens etc) and to explore the ways in which training, knowledge, information technology and innovation contributes to the key relationship between Business Services and industrial productivity.

The expansion of the Business Services sector has to a large extent been brought about by continuous changes in product development much of which is driven by the improvement in intellectual capital. Education, training and other human resources development

policies will need to remain in focus permanently as will the need for their rapid modification in the light of competitive changes in product and other market development.

The following four actions would support the objective of improving industrial productivity. These are related to several existing EU policies: Data and information collection, quality promotion, RDT and innovation and IT-policy.

1. *Action: To create new instruments for measuring productivity*

*Measures:*

- ⇒ To find new indicators for price/quality ratio, real inflation, output growth, etc, creating a new statistical methodology for measuring input and output in each Business Services activity.
- ⇒ To find indicators and to measure Business Services role in improving the productivity of their clients and, therefore, of the whole economic system.
- ⇒ To analyse other factors that determine the demand for Business Services, including the existence of market failures in the relevant markets and the policy responses to them.

2. *Action: To identify and evaluate barriers to productivity improvements*

*Measures:*

- ⇒ To assess the role of Business Services in overcoming existing barriers to improved productivity in the economy.
- ⇒ To analyse the effects of outsourcing on the productivity of Industry.

3. *Action: To improve the quality of human resources*

*Measures:*

- ⇒ To analyse qualifications, skills and labour conditions in Business Services companies and identify future needs.
- ⇒ To analyse how those Business Services activities related to human resources (management consultancy, labour recruitment, etc) contribute to improving the human capital productivity in Industry.
- ⇒ To promote the elaboration of a European system of quality control of training, based on an approach similar to that of process and product quality standards and backed up by certification taking into account the need to focus on skills transferability, making them more transparent for both workers and employers.

#### 4. *Action: To foster innovation*

##### *Measures:*

- ⇒ To create awareness and facilitate Business services companies' participation in projects that promote innovation in service provision, including those under the 5<sup>th</sup> Framework Programme and the Multi-annual Programme for SMEs.
- ⇒ To facilitate Business services companies participation in actions under the First Action Plan on Innovation, in particular in actions promoting Business Services application of IT-technologies through demonstration and pilot projects, workshops, etc.

#### **B. Objective: Promotion of employment possibilities**

Most of the actions and measures mentioned above under the objective on improving productivity are necessary but not sufficient for the creation of all the jobs that Business Services can provide. Thus, actions and measures under this Objective should be seen as complementary.

As illustrated in chapters III and IV, the Business Services sector is probably the economic sector with the highest potential for job creation, not only in its own right but particularly by their added value input to Industry with its positive effects on employment, competitiveness and growth in Industry. It has also been illustrated that there is room for further job-creation. However, to get better understanding of these interactions and mechanisms, reliable statistical and analytical data are necessary.

Furthermore, advantages should be taken of other job creation schemes with a direct impact on Business Services, such as the new possibilities opened up by the recently adopted Employment Guidelines and the new orientations in the European Social Fund.

The following three actions would support this objective. The actions are related to existing EU policies on: Data and information collection, employment policy coordination, Information Society and training under the Social Fund.

##### *1. Action: To improve knowledge about the job creation potential of Business services*

##### *Measure:*

- ⇒ To collect data and analyse relationships between qualifications, skills and labour conditions in order to understand how employment in the Business Services sector is created and how this affect job creation in other sectors of the economy.

## 2. *Action: Co-ordination of national employment policies*

### *Measure:*

- ⇒ To create awareness in Business Services organisations and companies of the new possibilities which will follow from the guidelines of the 1998 National Action Plans for employment.
- ⇒ To remove barriers to mobility and promote access to education and training through development at distance learning, University/School/Industry partnership and the exchange of best practices.

## 3. *Action: To encourage employment development in Business Services through the European Social Fund and other human resources related programmes.*

### *Measures:*

- ⇒ To create a co-ordinated and systematic employment and training scheme, for example in the form of an ICT based job-watching scheme, in order to link education, training and employment at European level.
- ⇒ To improve the awareness of Business Services organisations and companies of the possibilities for support from the European Social Fund under its new priorities.
- ⇒ To develop Business Services training and education infrastructure, particularly in the context of local development and the promotion of employment and training in the third system of employment (cooperatives, mutualities, etc).

### C. **Objective: Improving competition in the Business Services sector**

As illustrated in chapter IV, Business Services provide significant intangible inputs needed by European enterprises to compete in global and complex markets. Thus, one major objective of this Communication is to assist European enterprises in identifying and using, in an efficient way, the Business Services they need. One of the more serious obstacles to improved competition between providers of Business Services is the lack of transparency of the quality of the service provided. For fear of the unknown, clients of Business Services often tend to deal with service providers they already know, thus making it difficult for newcomers to access the market. This issue raises questions about the role of regulations in ensuring standards and fair-play, which always has to be balanced with an appreciation of the need to avoid imposing regulatory burdens on enterprises.

Furthermore, the very nature of the Internal Market implies that any Business Service lawfully provided in the country of establishment should in principle be freely available to clients in other Member States, without the need to verify in each instance whether it is compatible with regulatory, administrative, professional provisions or other barriers in the client country. The likely reduction that this would bring about in the costs of complying will assist Business Services providers in extending their activities beyond their national borders, thereby increasing competition within the Internal Market and internationally, stimulating yet more efficient provision of Business Services to the benefit of their clients. To this end, it is necessary to analyse all barriers to entry, such as price regulation, tariffs, technical standards, licences, product differentiation, excess capacity, etc. This

identification of lack of application of Internal Market principles will together with the application of the competition rules of the Treaty and/or national competition rules help to eliminate most of the barriers.

Competition in the market would also be improved by new more efficient and flexible public procurement rules.

Finally, that Business Services are competing strongly in the Internal Market is a necessary but not sufficient condition for them to be competitive in an increasingly global market. Further effort to open up third country markets will in itself lead to a growing market for Business Services. It will also lead to stronger competition between European Business Services companies which under the right conditions would enable them to reach a dimension large enough to compete on the world market.

The following five actions would improve the competitive environment in which Business Service are working. They are related to: Data and information collection, quality promotion, Internal Market policies, Community trade policy and competition policy.

*1. Action: To promote transparency in the supply and demand side of the market.*

*Measures:*

- ⇒ To improve data-collection, analyses and research on the demand and supply of Business Services by allocating more resources to this field at Community and national level. The guidelines for future work in this field, mentioned in the Report on Industrial competitiveness and Business Services (chapter IV) can be used for the initial definition of this task.
- ⇒ To examine in detail the dynamics of Business Services, taking particular note of the role of smaller firms and their potential contributions to its future development
- ⇒ To support dissemination of the information collected to all interested parties, while ensuring that this does not restrict or distort effective competition
- ⇒ To promote measures for improving quality and access to certification of Business Services in a partnership approach with the interested parties.
- ⇒ To evaluate shortcomings in quality assessment and to support improvements.

*2. Action: To create an Internal Market for Business Services*

*Measures:*

- ⇒ To undertake a Single market review on all possible barriers to entry in the different Business Services activities, including national regulatory and administrative barriers as well as self-regulatory professional rules.
- ⇒ To examine the recommendations of the Business Environment Simplification Task Force ('BEST') and their implications for this sector and, in particular, to consider how the conditions under which new enterprises are launched can be improved.

- ⇒ On the basis of the results of the above mentioned exercise, to assess together with the Member States the proportionality of identified barriers and to apply the competition rules for the Treaty with a view to abolishing all barriers which are not justifiable by reasons of public interest, security, health etc. in accordance with Article 59 of the Treaty.
- ⇒ To contribute to the identification of best practice in the provision and promotion of Business Services in the Member States, under the Concerted Actions on Support Services for SMEs, and to develop a strategy for enhancing the visibility of Business Services, within the broader context of the promotion of support services to enterprises.

3. *Action: To improve the functioning of the European public procurement market for Business Services*

*Measure:*

- ⇒ To take into account, in the amendments of the public procurement directives which we have announced in the Commission Communication on Public Procurement in the European Union, possibilities to make procurement procedures more flexible and allowing dialogue between purchasers and suppliers in the course of such procedures and not just in exceptional circumstances.

4. *Action: To ensure that EU and national competition policies are based on the best possible knowledge of the Business Services sector*

*Measure:*

- ⇒ To analyse continuously the structure of the European Business Services market and to reflect the results of such analyses on Community and national competition policies.
- ⇒ To systematically examine the impact of competition decisions concerning Business Services companies on the competitiveness of EU Industry.

5. *Action: To further open up international markets to EU Business Services*

*Measure:*

- ⇒ To establish stronger links between the Commission and the European Business Services sector to ensure their active support to the preparation of the GATS 2000 round of negotiations.

D. **Objective: Promotion of industrial cooperation between Business Services suppliers**

As mentioned under the Objective on improving competition in the Business Services sector (point C above), legal and professional barriers can prevent access to markets, effectively closing out cooperation across borders. These barriers are not the only impediments to cooperation between Business Services companies. Lack of information of

possible partners, of national conditions, linguistic and cultural knowledge are serious reasons for market fragmentation.

Faced with international competition, European Business Services companies need to explore formal and informal networks of Business Services suppliers. This would not only entail the advantage of easier access to international markets but would also open up the possibilities of supplying intersectoral systems solutions, building on a great number of specialised competencies.

The following action is proposed. It is related to EU policies on: The promotion of Business Co-operation, the Information Society, quality promotion and RDT.

*Action: To support the creation of cooperative networks between Business Services suppliers.*

*Measures :*

- ⇒ To facilitate the setting up of data-bases on cooperative networks between Business Services suppliers and to promote certification of such networks in order to create confidence in the ability of these networks.
- ⇒ To raise the visibility of the advantages of cooperation by promoting participation in projects under the Community instruments to promote business cooperation (BC-Net, BRE, Euro-partenariat, Interprise) and the 5<sup>th</sup> RDT framework programme.
- ⇒ To support an improved institutional representation for the entire Business Services sector.

#### **E. Objective: Promotion of Business Services**

Two types of market failures exist in the EU which to a certain extent can justify public support to the development of Business Services: locational factors and the size of potential client companies. Most Business Services are concentrated in the central and urban regions of the Community, while access to Business Services in peripheral regions and for SMEs are scarce. In order to remedy this situation, the Community's structural funds policy and the SME policy have promoted the use of Business Services in various ways. New possibilities for further promotion of Business Services can be found in the financial instruments created as a follow-up to the Employment Summit in Luxembourg (the SME Guarantee Facility, the European Technology Facility and the Joint European Venture Facility), and to activities under the Integrated Programme for SMEs. However, certain evidence points to a lack of knowledge in Business Services circles to the potential of these instruments which are often not perceived as applicable to the intangible nature of investment in Business Services.

Furthermore, there exists a great diversity in the way which semi-public or public support schemes are organised and carried out in the Member States. In order to avoid wasting resources, to give maximum benefits to clients using Business Services and to avoid distortion of competition between public supported and private suppliers, greater prominence needs to be given to the services of business support agencies and their interaction with private sector suppliers of Business Services.

The following three actions proposed are related to EU policies on: Structural Funds, SMEs, the Information Society and data and information collection.

1. *Action: To ensure a better geographical and regional distribution of Business Services.*

*Measures:*

- ⇒ To identify and analyse best practices for investment in Business Services in the less favoured regions in order to rationalise and consolidate present efforts based on analyses of the needs of the regional economic structure;
- ⇒ To further focus and systematise structural funds and other actions on Business Services, in particular by giving priorities to SME-support, IT- and training applications in the development programmes.

2. *Action: To facilitate the creation of new Business Services companies and expansion of existing ones*

*Measures:*

- ⇒ To analyse how Business Services are effected, how Business Services will be transformed and which kind of new Business Services are likely to be created by Information Society technologies and applications (e.g. electronic commerce, virtual organisations, new types of intermediation and partnerships etc).
- ⇒ To target (i.e. by drawing up guidelines) dissemination of information on Business Services organisations and companies in order to raise their awareness of available financial instruments and other support facilities.

3. *Action: To guarantee maximum benefits from semi-public or public actions in favour of Business Services*

*Measure:*

- ⇒ To identify the different European models and interrelationships in the promotion of Business Services and to benchmark best practices in semi-public or public actions in favour of Business Services.

**F. Objective: Encouraging modernisation of public administrations**

It is not only Industry which buys Business Services. Depending on political considerations and traditions, public authorities in the Member States are to various extents acquiring Business Services for reasons similar to those of Industry: cost reductions and flexibility, higher quality and expertise, innovation in administration and organisation, higher efficiency etc. Present trends in the Member States points to a slimming down of public administrations by way of further efforts of privatisation and a growing recourse to acquisition of Business Services. Such a process could have two interlinked consequences: A more efficient public administration and as a side effect, the emergence of a bigger market for Business Services.

These interlinked objectives could be supported by the following data and information collection action:

*Action: To gain better insight into the consequences of outsourcing certain public administration activities.*

*Measure:*

⇒ To benchmark best practices in the Member States on the basis of indicators and a methodology to be developed.

## VI. CONCLUSION

The Business Services sector is the major economic sector with the highest growth rates in value added and employment over the last years. Their importance for the competitiveness of European enterprises and economic growth merits stronger political attention. *There are huge potentials for strengthening their role in the European economy* by putting into action policies to ameliorate their framework conditions through improving the business environment for SMEs in the sector, and by providing support to productivity improvement, job creation, competition, enterprise cooperation, public promotion and the modernisation of public administrations.

In the elaboration of a European policy on Business Services, the Commission has scrupulously respected the subsidiarity principle. All actions are proposed inside the realm of existing Community policies. They only concern tasks which cannot be sufficiently achieved by the Member States in isolation and they can therefore, by reason of the scale or effects of the proposed actions, be better achieved by the Community.

This approach naturally limits the scope of this Communication to actions of a more "soft" character. They basically concern the following three fields:

- an improvement of the *knowledge* on the situation of Business Services by a reinforcement of data and information collection necessary for a refinement of policy actions;
- raising of the *awareness of Business Services circles* on the possibility of improving their situation inside existing Community policies and of *policy makers* of the specificities of Business Services which need to be taken into account in policy formulation;
- the beginning of a process leading to the creation of a *true Internal Market* for Business Services.

Over time with the improvement of information on Business Services and additional Commission projects on knowledge acquisition on other services adding value to Industry, mentioned in the Report on Industrial Competitiveness and Business Services, the intention of the Commission is to further develop policy actions in a continuous process.

The Commission will periodically report on progress in this field together with an evaluation of the actions proposed in chapter V and propose new initiatives on Business Services and other related services adding value to Industry.

## Annex 1. References

- White paper on growth, competitiveness and employment (*doc.COM(93)700, Dec 1993*)
- Commission Communication on an Industrial Competitiveness Policy for the European Union (*doc.COM(94)319 final of 14-9-1994*)
- A Confidence Pact on Employment (*doc.SEC(96)1093 of 6-5-1996*)
- An Integrated programme for SMEs and the Craft sector (*doc.COM(96)329 final of 13-7-1996*)
- The European Observatory for SMEs, Fourth Annual Report (1996), Chapter 5
- Single Market Review (*doc.COM(96)520 final of 30-10-1996*)
- First action plan for Innovation in Europe (*doc.COM(96)589 of 07-11-96*)
- Commission Communication on Europe at the forefront of the Global Information Society: Rolling Action Plan (*doc.COM(96)607 of 27-11-1996*)
- Commission Communication on Benchmarking the Competitiveness of European Industry (*doc.COM(96)463 final of 9-10-1996*)
- Commission Communication on putting Services to Work (*doc.CSE(96)6 final of 27-11-1996*)
- Commission Report on the Competitiveness of European Industry (*doc.SEC(96)2121/2 of 03-03-1997*)
- Commission Communication on Commercial Communications (*doc.COM(98)121 final*)

## Annex 2. Basic data on Business Services

**Table 1. Basic statistics on Business Services Europe-15 (\*)**

	<i>Business Services</i>	<i>% of Total Economy</i>
<i>Employment (1994)</i>	<i>11,635,000</i>	<i>8,5%</i>
<i>Value Added (1994) (MECU)</i>	<i>863,500</i>	<i>15,3%</i>
<i>Firms (1995)</i>	<i>2,690,130</i>	<i>15,0%</i>
<i>Exports (1993) (MECU)</i>	<i>31,785</i>	<i>2,0%</i>
<i>Imports (1993) (MECU)</i>	<i>34,107</i>	<i>2,0%</i>

(\*) Estimates for EUR 15 based on available data from EUROSTAT and OECD. Trade data are for EUR12.

Source: OECD (1996) Services: Statistics on Value Added and Employment, and EUROSTAT (1996) International Trade in Services; (1997) Statistics in Focus 1997/4, Market Services in Europe.

**Table 2. Annual average growth rates on Business Services Europe-15 (\*)**

<i>Annual Growth Rates</i>	<i>Business Services</i>	<i>Manufacturing and services</i>
<i>Employment (1980-94)</i>	<i>5,5%</i>	<i>0,4%</i>
<i>Value Added (1980-94)</i>	<i>5,4%</i>	<i>1,5%</i>
<i>Exports (1984-93)</i>	<i>8,7%</i>	<i>5,1%</i>
<i>Imports (1984-93)</i>	<i>10,2%</i>	<i>5,2%</i>

(\*) Estimates for EUR 15 based on available data from EUROSTAT and OECD. Trade data are for EUR12.

Source: OECD (1996) Services: Statistics on Value Added and Employment, and EUROSTAT (1996) International Trade in Services; (1997) Statistics in Focus 1997/4, Market Services in Europe.

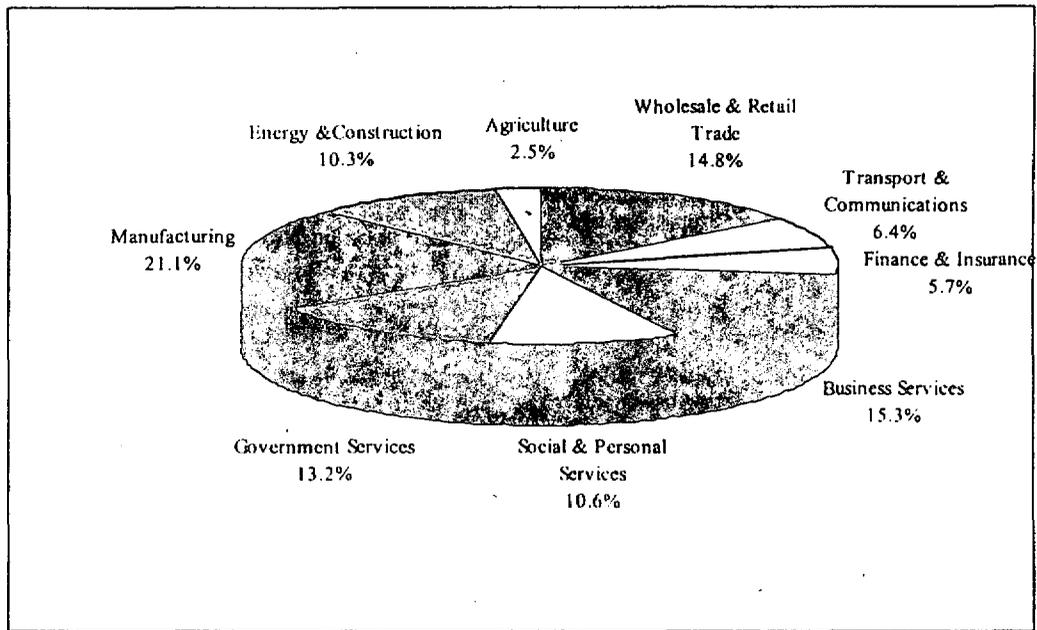
**Table 3. Value added: Business Service/Manufacturing**

	<i>Europe 15</i>	<i>United States</i>
<i>Business Services</i>	<i>15,3</i>	<i>19,2</i>
<i>Manufacturing</i>	<i>21,2</i>	<i>18,0</i>
<i>BS / Manufacturing</i>	<i>72%</i>	<i>106%</i>

Source: National accounts EUROSTAT and OECD

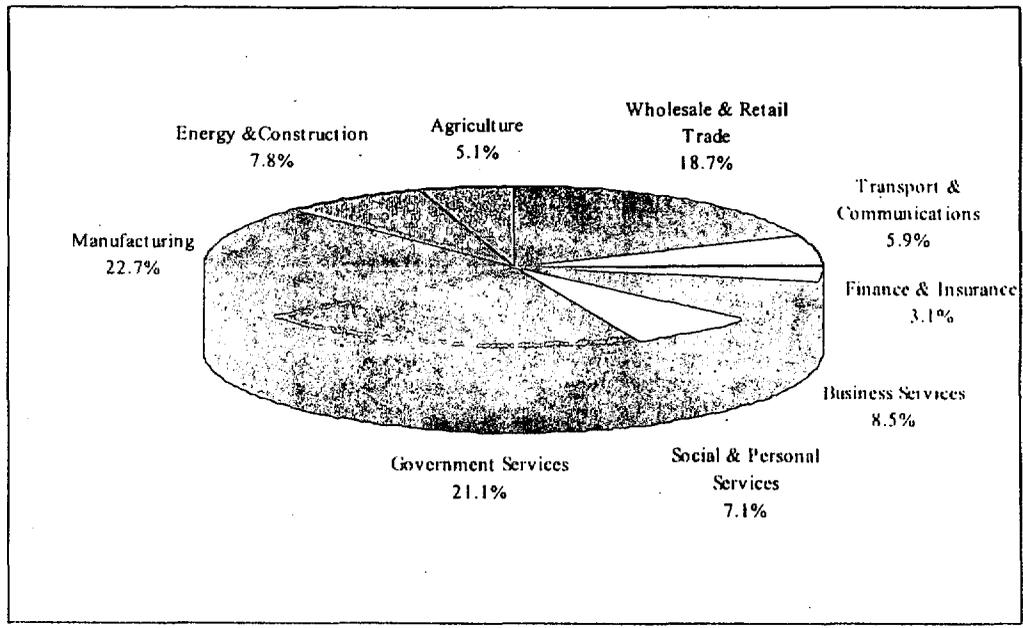
### Annex 3. Figures on Value Added and Employment

Figure 1. Gross Value Added EUR- 15



Source: Estimates for 1994 based on OECD (1996) Services: statistics on value added and employment.

Figure 2. Employment EUR-15



Source: Estimates for 1994 based on OECD (1996) Services: statistics on value added and employment

#### Annex 4: Business Services comparisons between representative European countries and the United States

	Number of Firms, 1995	Employment 1994 (thousands)	Business Services in Total Employment	Gross Value Added (*), 1994 (billions Ecu)	Business Services in Total Value Added
AUSTRIA	35.484	151	4,5%	20	11,8%
DENMARK	90.742	156	6,3%	18	16,6%
FINLAND	31.255	125	6,5%	11	15,6%
FRANCE	427.074	1.811	8,2%	202	18,0%
GERMANY (1)	642.339	2.805	9,8%	220	14,2% (2)
NETHERLANDS	88.326	496	9,3%	41 (3)	16,4%
SWEDEN	107.205	266	6,6%	29	17,5%
U. KINGDOM	359.686	2.013 (4)	9,3% (4)	146	19,5%
AVERAGE EUR8			7,6%		16,2%
UNITED STATES		12055 (5)	10,4% (5)	1038 (5)	19,2%

	Employment Annual Growth Rate		Gross Value Added Annual Growth Rate (**)	
	1980-90	1990-94	1980-90	1990-94
AUSTRIA		3,6%	14,6%	8,8%
DENMARK	4,1%	0,6%	5,4%	2,9%
FINLAND	8,5%	-2,5%	8,0%	-3,1%
FRANCE	5,8%	0,3%	4,3%	3,8%
GERMANY (1)	4,4%	5,2%	15,1% (2)	11,1% (2)
NETHERLANDS	6,5%	4,3%	14,7%	6,8% (3)
SWEDEN	7,0%	-1,5%	1,6%	1,5%
U. KINGDOM		0,7% (4)	4,2%	1,0%
AVERAGE EUR8	6,0%	1,3%	8,5%	4,1%
UNITED STATES	7,6%	2,1% (5)	7,8%	5,1% (5)

(\*) Gross Value Added 1994, ECU in current market prices except for

Denmark, United Kingdom (factor cost) and Finland and Sweden (basic values)

(\*\*) Gross Value Added Growth Rates at constant 1990 ECU market prices except

for Denmark, United Kingdom (factor cost) and Finland and Sweden (basic values)

(1) West Germany. Data on business services (employment and value added) are in the item "other business services" including auxiliary financial services and some personal services.

(2) Germany, 1993; growth rates 1990-93 and 1980-93.

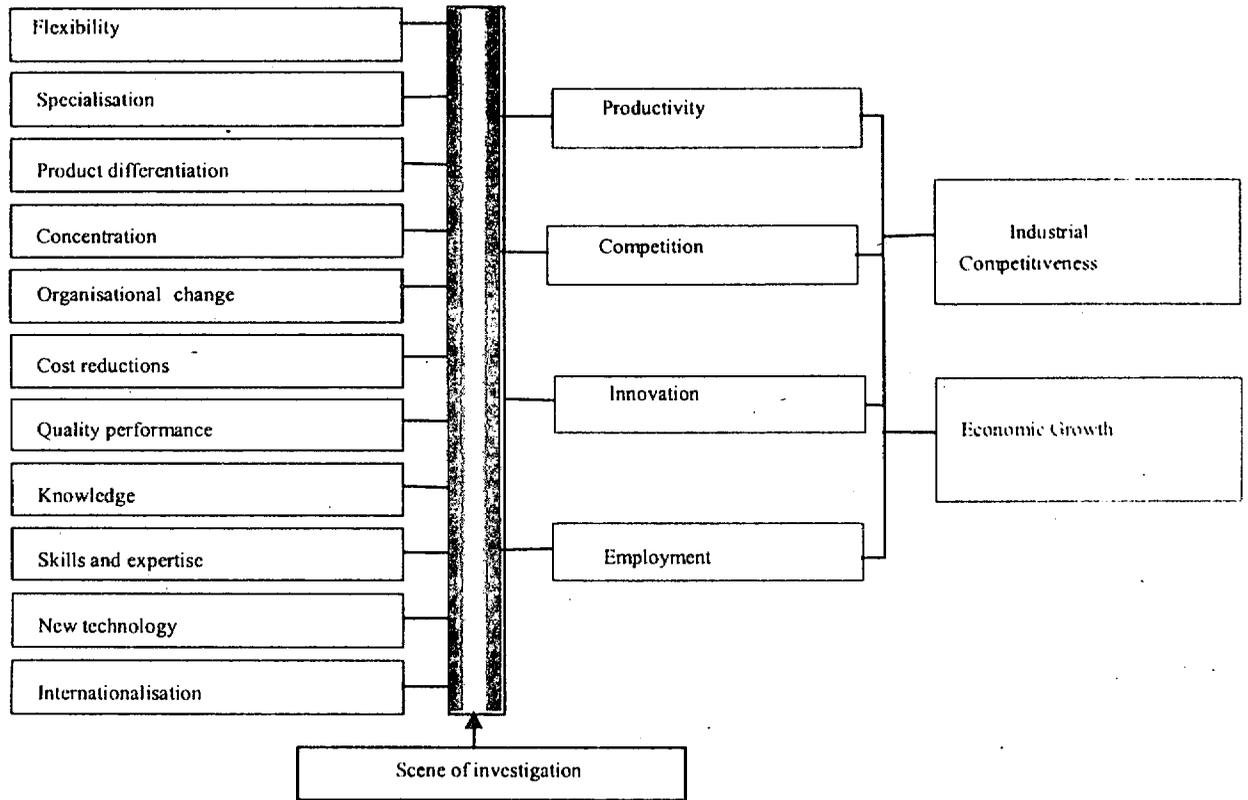
(3) Netherlands, 1992; annual growth rates for 1990-92 and 1980-92

(4) Employment data for UK are estimates from OECD and Eurostat national accounts based on number of employees.

(5) United States 1993; annual growth rates for 1990-93 and 1980-93

**Sources:** OECD (1996) Services statistics on value added and employment (Value Added and Employment data) and Eurostat (1997) Market Services, Statistics in Focus 1997/4 (Number of Firms data)

**Annex 5. Figure on the role of Business Services in the economy**



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