



European Private Business Survey

*Domestic red tape worries entrepreneurs
more than EU bureaucracy as skills
shortage looms large*





Executive Summary

Private businesses across Europe see regulation and bureaucracy in their domestic economies as more of a threat to the development of their companies than regulation and bureaucracy coming from the European Union (EU). In our survey of 2,447 companies across 31 European countries, 39% said domestic red tape was a concern, compared with about 29% citing EU red tape as a problem.

That sentiment was particularly pronounced in countries such as Croatia, Greece, Finland, Hungary, Italy and the UK. In our survey, for example almost 71% of respondents in Greece cited Greek red tape as a concern, compared with 24% pointing the finger at EU red tape.

Private businesses' biggest problem is a skills shortage that is preventing them from hiring the right talent for growth. Shining a timely private business spotlight on a wider, ongoing issue across the EU, PwC has calculated that the skills shortage is costing the region a massive €324 billion annually in lost revenues – just from private businesses. That's around the combined annual GDP of Portugal, Hungary, and Croatia.



Nonetheless, private businesses are more optimistic than they have been for some time. They are particularly confident they can grow their companies in their domestic markets by focusing on their customers and embracing digital technologies. Mid-sized companies (defined as those with annual revenues of €50 million to €100 million) are the most positive of those we surveyed.

That said, digitalization was mentioned as a priority by a modest 31% of private businesses in Europe. This implies that still many private businesses are underestimating what a digital future means for their companies and are underestimating its potential, as well as the disruptive forces it is unleashing.



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Bureaucracy, Brexit and Brussels





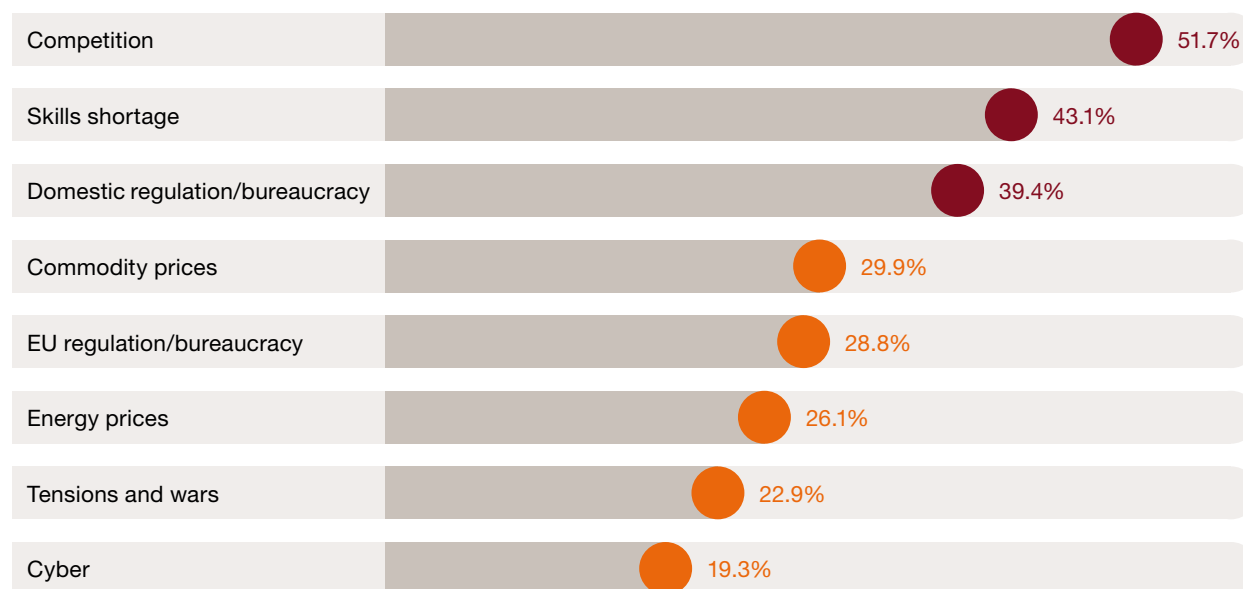
Bureaucracy, Brexit and Brussels

The most striking finding from our survey is that while it is often perceived in some quarters that regulatory and bureaucratic intervention by EU authorities – including Brussels – is stifling businesses' initiative and ensnaring companies in red tape, most private businesses don't feel that way. Indeed, they tend to feel the opposite: that regulation and bureaucracy in their domestic economies is more of a threat to the development of their companies than any red tape from the EU.

39% of respondents said domestic red tape was a concern, compared with about 29% citing EU red tape as a problem. Of course, an amount of EU regulation makes its way onto national statute books when EU directives are adopted by national parliaments. It is important to note that our survey did not ask respondents to distinguish between what they regarded as domestic regulation and regulation that could be directly attributable to EU law-making.

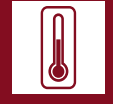
In Italy, where anti-establishment, euro-sceptic parties have very recently scored electoral success, as many as 49% of respondents felt domestic bureaucracy was a problem, compared with 20% singling out EU red tape.

Fig. 1 Biggest threats for growth: Aggregated EU31 level



Source: PwC European Private Business Survey 2018, all respondents.



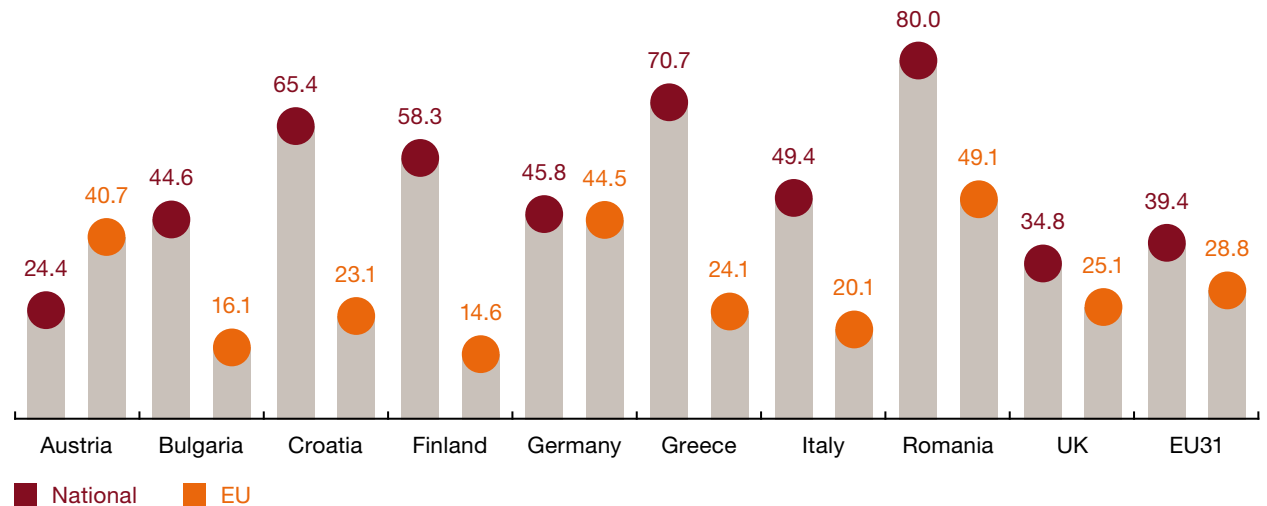


Our respondents said they believe that their own governments aren't doing enough to promote their interests. They also see big business as the beneficiaries of regulation and bureaucracy, while they are the losers. This may help explain why, when asked about satisfaction levels with various aspects of their home country's infrastructure (broadly defined), 41% of respondents cited the most dissatisfaction with government services, followed by environmental protection and the education system coming third.

We see this as a wake-up call for many national governments. They need to do much more to gain the confidence of private businesses in their jurisdictions, starting with tackling red tape and also the cost of regulatory compliance.

Equally, the EU may not be able to take too much comfort from these findings, given that almost 29% of respondents felt that EU red tape was a problem. The rise of populist movements in the EU – exemplified by the rise in Italy of the Five Star Movement and the far-right League – serve notice that pressures remain on EU authorities to respond too.

Fig. 2 Biggest threats: National and EU bureaucracy and regulation, in %



Source: PwC European Private Business Survey 2018, all respondents.





Even in the UK private businesses felt domestic bureaucracy and regulation were more of a threat to their businesses than EU bureaucracy and regulation. In our survey, almost 35% of respondents cited British red tape as a concern, compared with 25% pointing the finger at EU red tape.

Fig. 3 Discontent with infrastructure in home country: Aggregated EU31 level



Source: PwC European Private Business Survey 2018, all respondents.

“Private and entrepreneurial businesses are the backbone of Europe's economy. In order for them to continue to be so – given the disruptive forces our survey highlights – there is a clear call for action for them to get organized better and become more vocal.

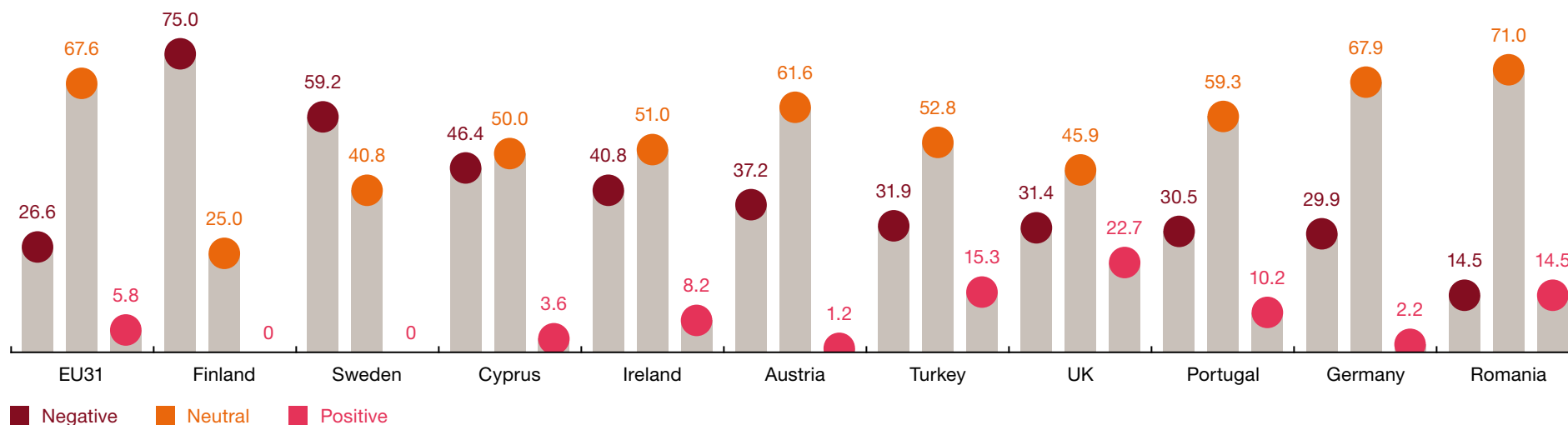
Politicians and bureaucrats in turn need to become more aware of the economic consequences of their decisions on the private sector. Often governments are too beholden to the big corporates and don't pay enough attention to private businesses. This needs to change. I see a special need to improve the support of R&D for private companies as well as tax regimes which allow them to pass the company to the next generation without harming the business or putting jobs at risk.”

Peter Englisch, PwC EMEA and Global Family Business Leader





Fig. 4 Views on Brexit, in %



Source: PwC European Private Business Survey 2018, all respondents.

Britain will formally be leaving the European Union on 29 March 2019. Many businesses have yet to engage actively on Brexit. Often, entrepreneurs and managers are stating that the situation is too insecure to act. And indeed, almost 68% of respondents across the 31 countries surveyed had a “neutral” view of Brexit and its effects on their businesses. Just over a quarter felt Brexit would hurt them.

Yet even if the process of the UK leaving the EU leads to a so-called “soft-Brexit” outcome – whereby the UK stays in a customs union arrangement with the EU, for example – some disruption is inevitable. Private businesses across Europe have strong business links with the UK. Outside the US, Germany, France, the

Netherlands and Ireland are UK’s top trading partners. Companies in these countries, and of course in the UK as well, are most exposed to the fallout from Brexit, and businesses there need to be particularly prepared for any negative consequences.



Private businesses in Ireland are particularly sensitive to the outcome of the Brexit negotiations between Brussels and London. A hard Brexit outcome could lead to a significant disruption of trade between Ireland and Northern Ireland, damaging businesses on both sides of the border. That is why Irish private businesses were among the most negative towards Brexit in Europe.

Notably, private businesses in Germany and Austria – home to the Mittelstand group of small- and medium-sized family-owned businesses that are the backbone of these two economies – were also among the most negative towards Brexit.

However there are private businesses in some countries that see Brexit as an opportunity, such as Turkey. Given Turkey is outside the EU some businesses there perceive Brexit as a chance to forge new relationships with British companies. Also, businesses in Norway – not an EU member too – were much less negative about Brexit than its Nordic neighbors, which are all members of the EU.

” *Private businesses say the situation is too uncertain to be able to plan and act effectively. Yet our work with clients has highlighted three pressure points for businesses in relation to trade and customs, people and immigration and regulation. The greater the operational and regulatory complexity in a business, the more urgent it is to prepare.*

Private businesses can and should prepare, despite the uncertainty. We recommend considering eight ‘no regret’ decisions to lay the groundwork for future trading beyond Brexit:

1. *Support your people*
2. *Know your supply chain*
3. *Clean up your current data*
4. *Think about new data requirements*
5. *Take advantage of existing government schemes*
6. *Check out your contracts*
7. *Engage with third parties*
8. *Plan to be agile. While there is political uncertainty, businesses can still prepare to respond to new developments – now.*

“

*Andrew Gray, PwC Global
Head of Brexit*



Skills shortage



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Skills shortage

Private businesses see hiring skilled staff being important to their growth strategies, but asked what the number one problem is for them, private businesses cite their inability to recruit enough qualified staff.

In fact, we estimate skills shortages are costing the EU28 and the three other economies in the survey (Norway, Switzerland and Turkey) a massive €324 billion a year in lost revenues just from private businesses. For the EU31 that's equivalent to 2% of their gross domestic product in one year, or around the GDP of Portugal, Hungary, and Croatia combined. That should alert politicians to the scale of the problem.

Tab. 1 Economic losses due to skills shortage compared to country's GDP, in bn €

	Losses in bn €	GDP in bn €	Losses relative to GDP		Losses in bn €	GDP in bn €	Losses relative to GDP
Austria	10.8	345.4	3.1%	Malta	0.5	9.8	5.6%
Baltics	1.9	80.1	2.3%	Netherlands	7.6	689.1	1.1%
Belgium	3.1	416.9	0.7%	Norway	2.1	331.3	0.6%
Bulgaria	6.2	46.8	13.2%	Poland	23.8	419.7	5.7%
Croatia	1.5	45.1	3.3%	Portugal	5.4	163.5	3.3%
Cyprus	0.4	17.7	2.4%	Romania	10.1	166.9	6.0%
Czechia	5.4	172.5	3.1%	Slovakia	1.5	80.1	1.9%
Denmark	4.1	273.6	1.5%	Slovenia	1.4	39.3	3.5%
Finland	2.2	211.7	1.0%	Spain	14.5	1,101.4	1.3%
France	30.4	2,203.7	1.4%	Sweden	8.1	456.8	1.8%
Germany	64.6	2,917.0	2.2%	Switzerland	5.2	589.8	0.9%
Greece	2.0	174.0	1.1%	Turkey	47.5	766.8	6.2%
Hungary	5.8	111.1	5.2%	UK	39.3	2,341.3	1.7%
Ireland	2.2	262.9	0.8%	EU28	268.9	14,456.1	1.9%
Italy	15.1	1,653.9	0.9%	EU31	323.7	16,144.0	2.0%
Luxembourg	0.9	55.8	1.6%				

Source: PwC European Private Business Survey 2018.



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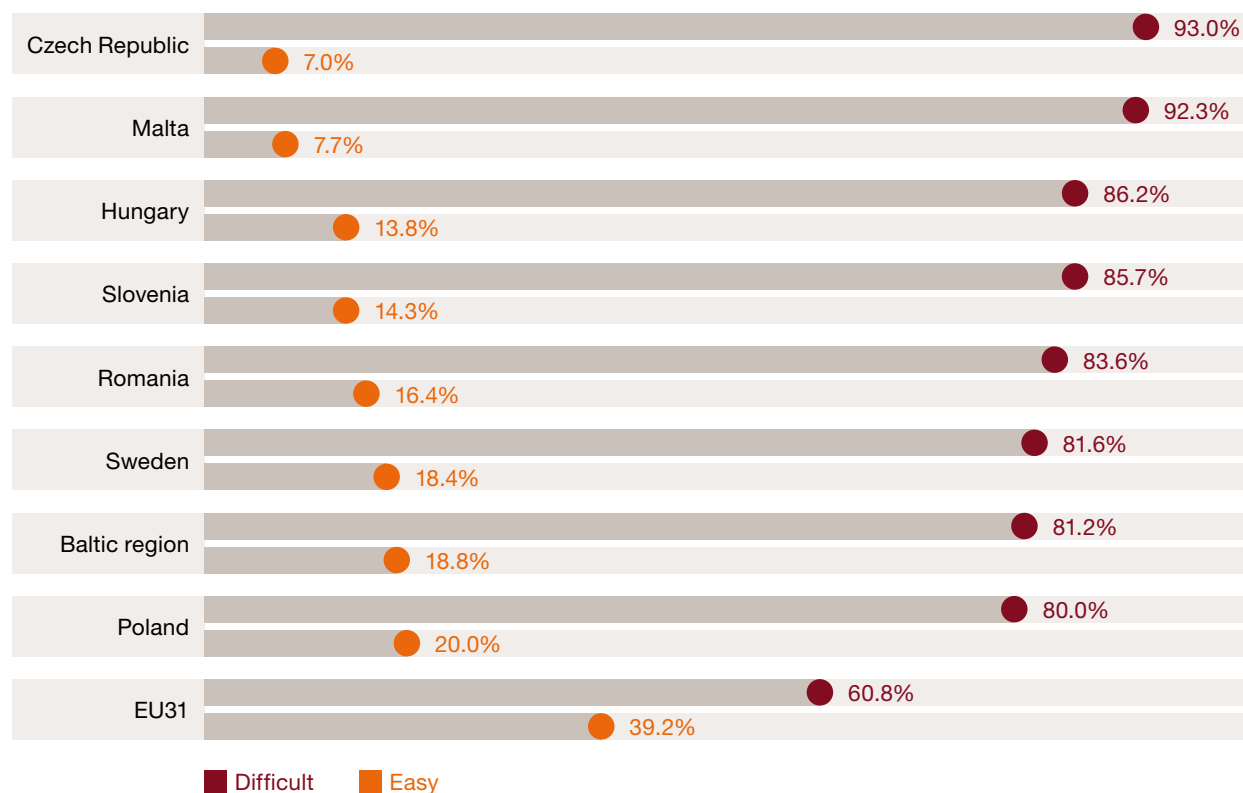




Private businesses in Eastern Europe were among the most vocal about the difficulty of hiring skilled employees. Sectors most affected were building and construction, and industry and manufacturing.

Talent scarcity comes at a time when unemployment is falling through much of Europe. Unemployment rates among the EU28 have been improving since 2013 and stood at 7.1% in February 2018, down from 8% a year ago. The employment market is tightening at a time when private businesses are wanting to invest more and recruit more qualified staff to grow their businesses. One problem is that while youth unemployment is still above 10% in many economies in Europe, many young people aren't able to take up new positions because they lack the right skills. Governments need to take the issue of skills shortage more seriously, because educational systems in many of these countries aren't training enough people with the right skills for the growing demands of private businesses. This will only become more urgent as demand for skilled employees rises and as private businesses invest more in skills-intensive digital technologies to make them more competitive.

Fig. 5 Recruitment of skilled and qualified employees

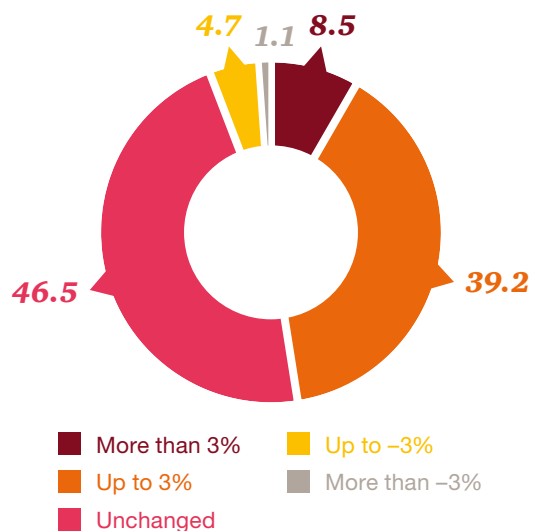


Source: PwC European Private Business Survey 2018, all respondents.





**Fig. 6 Employment plans in the next 12 months, in %
Aggregated EU31 level**



Source: PwC European Private Business Survey 2018, all respondents.

“ *The skills shortage in Europe is a structural issue. The availability of qualified staff is dependent on factors such as free movement of labor and educational systems that provide graduates with the right qualifications. A dialogue between educational authorities, employers and employees is key to aligning the demands of private (and other) businesses with the expectations of society and qualifications of graduates. In this context we have identified four key considerations for private businesses:*

- *Reskilling and upskilling the current workforce and staying adaptable to new challenges are key in responding. Yet enhancement of digital skills is not sufficient. Soft skills like problem solving, leadership and emotional intelligence are equally important.*
- *Good workforce planning begins with mapping the ‘skills footprint’ you have against where you want to be. This data informs recruitment and internal job mobility – but also reskilling.*
- *Being a trusted employer is mandatory. This involves building a clear and outstanding narrative for your employer brand, based on honesty and consistency.*
- *The employee experience is a critical weapon in attracting hard-to-find skills. From the workplace environment to innovative and helpful use of technology to work-life balance.*

“

*Carol Stubbings, PwC Global
Head of People & Organization*



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Growth strategy



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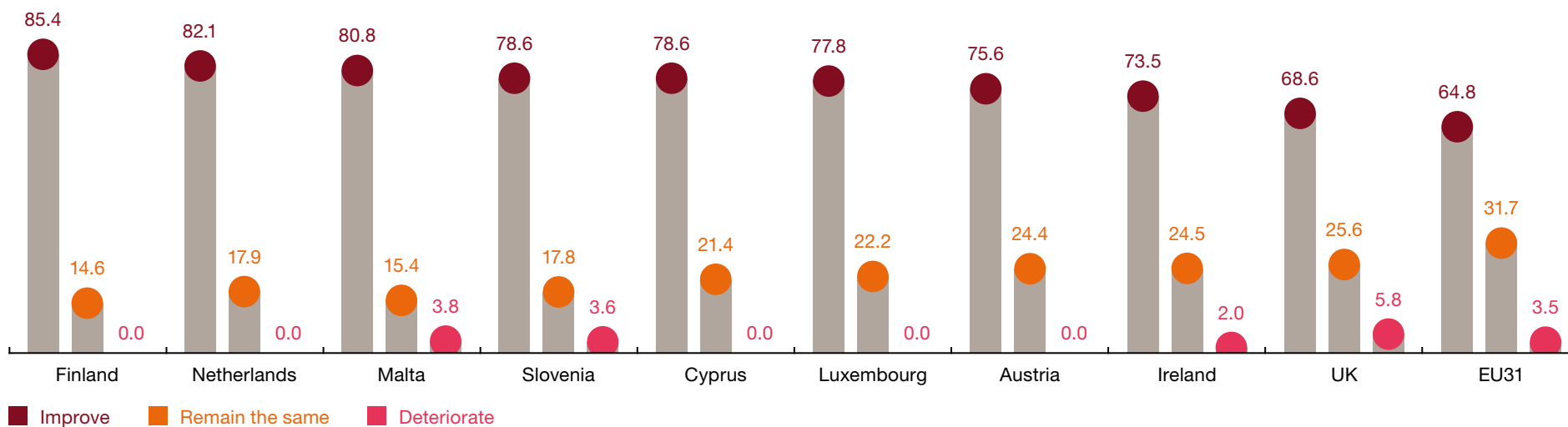
Growth strategy

Private businesses are optimistic about growth prospects in Europe, where in spite of recent signs of weakness, the region has enjoyed a roughly two year period of respectable, positive growth.

Some of the most optimistic private businesses are in Austria, Finland, and the Netherlands. Even businesses in the UK and Ireland, where Brexit is a daily concern, are positive and continue to be so in the year ahead.

Size wise, private businesses are confident across the board, although mid-sized companies are slightly more positive for the year ahead than those companies on either side of them.

Fig. 7 Growth expectations in the next 12 months: Country Overview, in %



Source: PwC European Private Business Survey 2018, all respondents.



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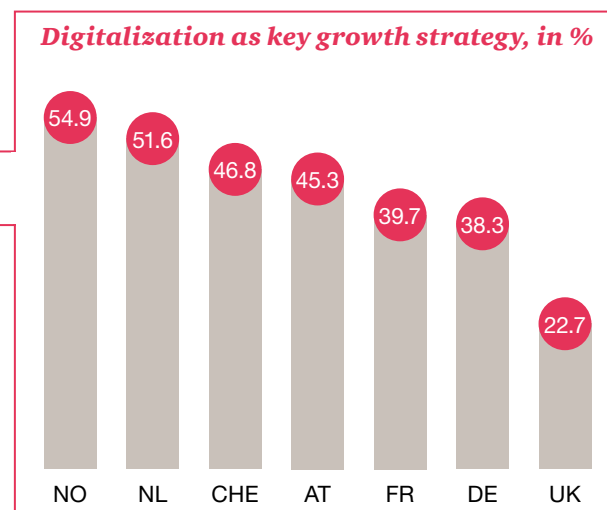
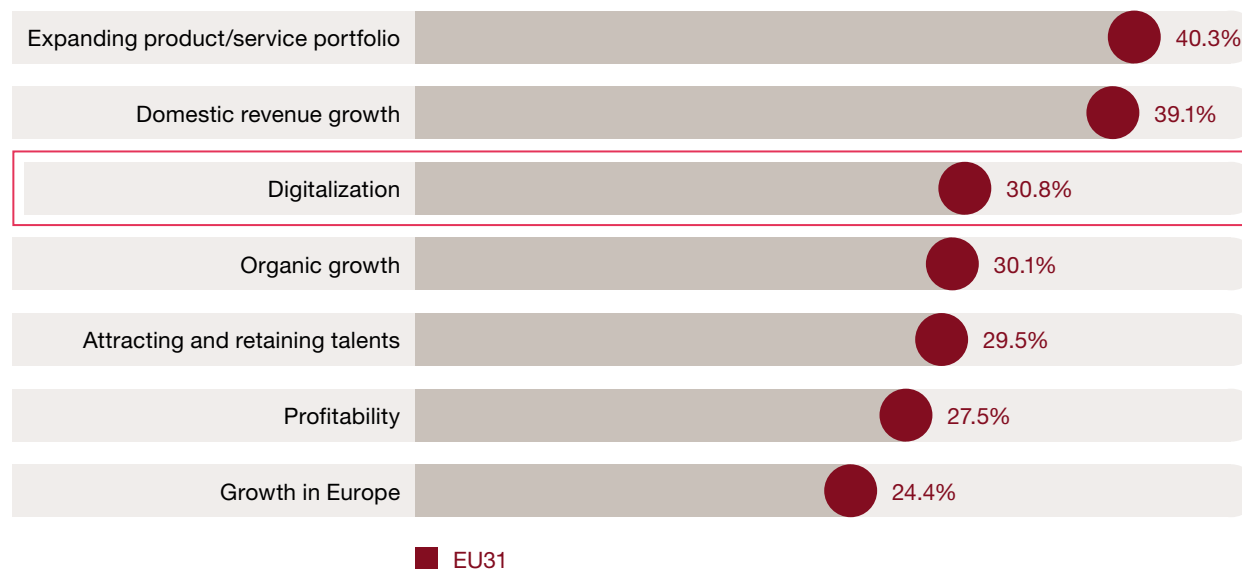


Against this positive backdrop, private businesses are particularly confident they can grow their companies in their domestic markets by focusing on their customers and embracing digital technologies. Many are digitizing their business by investing more

in technology-led initiatives and implementing digital business models. Digital growth strategies are particularly strong among private businesses in Scandinavia and Western Europe, and specifically in countries such as Norway, the Netherlands,

Switzerland and Austria. Private businesses were less concerned about digital strategies to grow their businesses in Central and Eastern Europe, and Southern Mediterranean countries.

Fig. 8 Growth Strategy: Aggregated EU31 level



Source: PwC European Private Business Survey 2018, all respondents.



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Many companies in these regions are emphasizing growing their businesses through domestic revenue growth and expanding their product/service portfolio – running the risk of neglecting the fact that digital technologies are often a means to achieve these ends. Many of them could lose their competitive edge if they don't start to consider what digital means for their businesses and act according.

Notably, digitalization is only mentioned by 31% of private businesses in Europe. This implies that many still don't fully understand what a digital future means for their companies and are underestimating its disruptive force as well as the risks associated with digital. Only a minority see cyber as a major risk. Greater clarity of thought around digitalization is needed.

” *For private businesses looking at the digital revolution around them, we offer three key insights:*

- *Digitalization is not optional. Every company, everywhere, is affected by it. Failing to understand the implications for your business and just assuming that the status quo will prevail will inevitably lead to challenges.*
- *Digitalization implies more than digitizing processes and operations. To fully embrace digitalization, businesses need to rethink their business models holistically. Key enablers in this process are the right technology, as well as sourcing and integrating the right talent that possesses a deep tech understanding.*
- *The digital age also involves risks. Businesses can forget to prepare for challenges that might be operational rather than about innovation of business model transformation – such as cyber risks and increased innovation pressure. These risks are real, and need to be taken seriously.* “

*Olaf Acker, PwC EMEA
Digital Services Leader*



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The way forward



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The way forward

Implications for private businesses

Innovation through digitalization. Innovation is the key to any businesses fortunes and increasingly innovation will be driven through digital efforts. Businesses need to be aware of the opportunities digitalization represents for their business, but also the threats it presents to their companies and the sectors they operation in. Knowledge of these opportunities and threats will be key to their continuing fortunes.

Training. Governments can't be entirely responsible for training the employees of the future, businesses also need to take the lead in this area. This is particularly the case with existing employees. Although employees might have the right skills for businesses today, they might not have the right skills for business tomorrow. Private companies need to continually invest in training their staff. This will also help to retain them.

Work together. Although private businesses often feel remote from the center of political power, which leads to their view they are not represented well by the political establishment, a way to help rectify that is by working together. Through joint efforts, government policies can change for the better for private businesses.

Plan ahead. A wait and see policy isn't viable for the challenges private businesses face. They will need a strategy for issues like digital, Brexit and talent management. Private businesses need to make an assessment of the risks ahead and be ready for the future.



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Implications for governments

Improve qualifications. Governments might not be able to completely end skills shortages for businesses, but they can do more than they are doing now. One thing they can try to do is better align educational qualifications with the demands of private businesses.

Improve infrastructure. If digitalization will drive growth for many of these private businesses in the future, then governments need to ensure they provide the best infrastructure in order for this to happen. High speed internet connections across their countries should be a number one priority, and governments need to work with the private sector to ensure this happens. Indeed, infrastructure at all levels should be a priority of governments in Europe to ensure their businesses can flourish.

Listen to private business. It's clear from this survey, private businesses aren't happy with their governments when it comes to their needs. That means governments need to listen more to the concerns of private businesses. And that isn't just about their demands for better training, but is also about gearing regulations and bureaucracy to the needs of private businesses, and coming to a conclusion on Brexit to provide clarity for private businesses as soon as possible.



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Methodology

In the second quarter of 2018 PwC undertook a comprehensive analysis of the entrepreneurs' ecosystem in Europe. The aim was to provide insights into how European private businesses perceive the economic environment and growth perspectives, their growth strategies, key opportunities for growth and risks that might limit private businesses' ambitions. To gain the entrepreneurs' perspective on the above topics, a representative survey of 2,447 private businesses across 31 European countries (EU28 plus Switzerland, Norway and Turkey) was conducted. Based on the results of the survey the economic losses due to skills shortage were calculated (page 11). The findings were analyzed and evaluated by regulatory, digital, and strategy experts at PwC.



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Methodology



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