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**WORKING GROUP ON
CONCEPTUAL AND POLICY FRAMEWORK
FOR APPROPRIATE
INDUSTRIAL TECHNOLOGY**

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**SWEDISH EXPERIENCE IN SMALL-SCALE INDUSTRY:
THE ROLE OF GOVERNMENT POLICIES AND INSTITUTIONAL MECHANISMS**
Background Paper

**SWEDISH EXPERIENCE IN SMALL-SCALE INDUSTRY:
THE ROLE OF GOVERNMENT POLICIES AND INSTITUTIONAL MECHANISMS**

by

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LIST OF CONTENTS

	<u>page</u>
1. Introduction	1
2. Statistical background	2
2.1 Family-owned companies	4
2.2 Financing and profitability of small-scale companies	5
3. Industrial sector	7
3.1 New companies	11
3.2 Developments within existing industrial companies	14
3.3 Acquisitions	16
3.4 Closure	18
4. Development difficulties and problems	20
4.1 Capital resources	20
4.2 Company services	21
4.3 The complexity of leading a modern company	23
4.4 Labour market legislation	23
4.5 Problems in establishing new companies	24
5. The state's contribution within the small-scale company sector	25
5.1 Regional Development Agencies	25
5.1.1 Company services	25
5.1.2 Financial support	26
5.1.3 Support for establishing new companies	27
5.2 Availability of capital resources	28
5.3 Information and expertise	31
5.4 Training	33
5.5 Export assistance	33
6. Conclusion	35
6.1 General observations	35
6.2 Implications of the state's financial assistance policy	35
6.3 Implications of the state's policy of supporting the establishment of new companies	36

		<u>page</u>
6.4	Company services	37
6.5	Alternative considerations	37
	Appendices	
	A Sweden - a short introduction	39
	B Address list	43

1. Introduction

In the last few years the international low conjuncture has weakened the competitive capability and has caused other problems for Swedish industry as a whole. Production has stagnated and basic structural problems threaten employment within a number of industries.

There must be some basic structural changes if Swedish industry is to remain competitive. Many of the Swedish industrial branches have had a positive expansionist outlook, which is no longer viable today. Even the base industries, such as steel and forest product industries can, in the long run, expect to meet increased competition from countries with rich and easily accessible natural resources. Within certain sectors of the light manufacturing industry the technological knowhow is no longer sufficient to balance the higher cost of employment. In some sectors one must also consider that there has been a real decrease in product demand.

Many of the Swedish domestic industries have also met with increased international competition which has added to the basic problem. In the industrial branches where the production technique is well known, demanding the same workforce input, the cost of employment factor between different countries has played an exceedingly large role. In the textile and shoe industries one sees the example in which Swedish firms as a result of the above-stated conditions have been forced to reduce their production. This has created a demand for an industrial policy that can strengthen the industrial competitive capability and stimulate new and innovative thinking, regarding both products and basic structure. It is necessary to expand only in those areas in which there is already a strong competitive capability. The other option is to support new ventures and explore new markets utilizing advanced technology.

Against this background there has been an increased interest in small and medium-sized industries in the last few years in Sweden. These small-scale industries play an ever increasing role within Swedish economy and they account for an important part of the total industrial employment.

Small-scale industrial research has in the last decade resulted in an increased understanding of the small-scale industrial situation and its role within Swedish economy. In the last few years a small group of industrial researchers from Växjö University have taken a special interest in the development of small-scale industry. Research has also been carried out in cooperation with the National Swedish Industrial Board (Statens Industriverk) and other industrial organizations.

The small-scale industrial research has been concentrated primarily on the productive side of the industry. This also includes an official statistic review of the production sector. This paper concerns primarily the small-scale industrial producing companies with only a brief look at the other sectors of the industry.

It is not easy to define precisely what small-scale industry is, but a small-scale industry is regarded as a company with less than 200 employees. Within this group there is the very small-scale industry (less than 50 employees) and the medium-sized small-scale industry (50-200 employees). It is necessary to differentiate between the small-scale industry that is a part of a big concern, or has a special relationship with a large company, and those independent small-scale industries that are privately owned, e.g. the family-owned small-scale industry ("the family firm").

2. Statistical background

The Swedish population is approximately 8.2 million. The size of the workforce is 4 million. Out of these, approximately 2.1 million are involved in the public sector and approximately 1.9 work in the private sector. Approximately 1 million people of these 1.9 million who work in the private sector, work in small-scale industries.

Total employment according to the company size

Company size by number of employees	Number of companies	Number of employees
0 - 4	160 500	185 000
5 - 199	46 000	850 000
200 -	<u>1 150</u>	<u>865 000</u>
	207 650	1 900 000

Source: Central Bureau of Statistics

The following chart indicates the change in the number of industries according to size between the years 1965 and 1975.

The change in the total number of industries between 1965 - 75.

Industrial branch	Percentage of the company total 1965	The change of the number of companies according to the number of empl.					Percentage of the company total 1975	Number of companies 1975
		0 - 4 5	5 - 49	50 - 199	200-			
Farming	11	-7 600		-15	± 0	8	15 000	
Manufacturing	15	-2 300	-1 200	-250	-40	13	26 200	
Building ind.	15	-5 600	-100	-200	-40	14	29 700	
Trade	22	-800	+1 300	-100	± 0	26	53 100	
Transport	7	-200	+750	-10	-5	8	17 300	
Services (private)	21	-1 100	+950	+70	+65	26	54 600	
Other	9	-700	-100	-80	± 0	5	10 800	
Number of companies 1975		-	160 500	42 400	3 600	1150	-	207 700
Change (%)		-	-9.3	+4.1	-8.9	-5.8		

Source: Central Bureau of Statistics

Of the 207 700 companies are 50% in the trade and service sector and around 27% are within the industrial and building sector.

Behind the changes of the figures of the total number of companies is the number of newly established companies, acquisitions, mergers and the number of companies that have closed down. One must also consider the internal changes in the companies, e.g. the expansion or reduction that affects the size classification of the company.

Factors that have caused the changes in the branch classification of the companies are:

- a) basic shifts in production methods either to the advantage or disadvantage of the small-scale company determined by shifts in market demands
- b) the domestic demand
- c) the expansion of the small-scale companies in trade, transport and service sectors due to the total growth of these sectors, caused by the increased opportunity in these sectors.

The largest number of small-scale industries are in those sectors that have the opportunity to expand as well as develop. An example of this is the plastics based industry, which during its most expansive period in the beginning of the 1970's experienced an extremely high growth rate. Branch industries, which due to reduced markets have been unable to expand, have been forced to concentrate on fewer products and larger units of production.

This concentration has been influenced by both technical and institutional factors (for example the reduced credit availability, the increasingly complex tax system, new work legislation) which has forced small-scale companies into a worsening profit loss situation in comparison with large-scale companies. The state authorities are very much concerned with this development.

Companies with less than 50 employees accounted for 34% of the total employment within Swedish economy. The medium-scale companies accounted for 15% of the total employment. Within the industrial sector the employment figure for companies with 200 employees or less was 33%. For the other branches (except mining industry) the related figure is 60-65%.

2.1 Family-owned companies

Most of the small-scale companies are family-owned and are fully independent. The majority of the family-owned companies are within the small-scale company sector. Within the manufacturing company sector the number of family-owned

companies is 17% in the large-scale company area, and in the medium-scale company area 69%, and in the small-scale company area 95%. Family-owned companies accounted for 32% of the actual employment figure within the industrial sector for 1975. An especially high number of family-owned companies can be found in the service sector.

Employment figures for companies determined by size 1975

Branch	<u>Employment percent of total</u>			Percentage of the number of people employed by family-owned companies
	-49 empl.	50-199 empl.	200- empl.	
Farming	39	19	42	-
Mining	19	9	72	18
Manufacturing	18	15	67	32
Light manufacturing	16	14	70	25
Building	45	14	41	60
Trade	48	16	36	53
Transport	48	15	37	53
Consulting	50	17	33	60
Total economy	34	15	51	-

Source: Central Bureau of Statistics

There is a great regional variation in the number of small-scale companies. There are more small-scale companies in the forest districts and areas with high unemployment. In towns and other densely populated areas there are more large-scale companies and fewer companies in the category of 5-49 employees. In certain areas of Southern and Middle Sweden, the economy is dominated by the small-scale companies.

2.2 Financing and profitability of small-scale companies

The small-scale companies have greater difficulties in achieving financing

on the credit-market than the large-scale companies. The large-scale companies have much greater capital resources than the small-scale companies. Financing is dependent upon the amount of private capital within the company.

The amount of private capital for different size companies for the year 1975 (percent)¹

Branch	<u>Total number of employees</u>			
	20-49	50-99	100-199	200-
Manufacturing	20.5	23.6	22.8	27.0
Building	8.8	9.1	12.8	10.1
Trade	16.6	16.6	18.4	23.4
Transport	-	9.4	14.0	15.7

Source: Central Bureau of Statistics

1) Equity (net worth)

The small-scale companies' part of the total financing provided by the business and savings banks reflects approximately the same proportion as of small-scale companies within the total economy. In relationship to their proportion of gross investment, the small-scale companies in the industrial sector borrow more money from the banks than the large-scale companies. For example small-scale companies in the category 20-49 employees for the year 1974 accounted for less than 5% of the industrial investment, while they borrowed as much as 10% of the total from the business banks.

The profitability of companies of different size often shows significant differences. The most important factors in the consideration of these differences are the branch involved and the size of the factory. The following chart shows the profitability for companies of different size in relation to the total capital for the different branches for 1974.

The profitability of different size companies 1974 ^{1, 2}

Branch	<u>Number of employees</u>		
	0-19	20-199	200-
Manufacturing	5.2	7.6	8.2
Building	2.9	2.4	1.9
Trade	5.5	4.7	6.6
Public administr.	0.6	0.4	1.8
Transport	1.8	1.9	0.6
All companies	2.8	3.9	6.0

Source: Central Bureau of Statistics

- 1) Totals capital yield
- 2) 1974 was a good year from the profit point of view

The small-scale companies are more dependent upon human labour than the large-scale companies. The turnover per employee is in the small-scale company in many of the branches much lower than for the large-scale companies. This is especially true within the building, manufacturing industry and the transport sector. In these branches, the turnover per employee is around 50% higher in the large-scale companies than in companies with less than 20 employees.

3. Industrial sector

Within the industrial sector the proportion of small-scale companies varies between the branches. The forest product industries and the textile industries are the branches in which the small-scale companies' proportion of the total employment is most dominant (74% and 63%, respectively).

Between the regions there is a large difference between the numbers of people employed by small-scale industrial companies in relation to the total employment. The small-scale industrial company employment figures are of the greatest importance in Jönköping, Kronobergs and Jämtlands counties, which in these places account for 2/3 or more of the total industrial employ-

ment.

A great number of the small-scale industrial companies are working solely or to a great extent as subcontractors to other, often large industries¹. The small-scale industrial company working as a subcontractor produces a highly specialized component part, and is therefore very dependent upon one or, at most, a few special customers. According to research carried out by several different industrial institutions, 1/4 of the Swedish small-scale light industrial companies work in this manner. In a number of other branches this type of subcontracting is not as significant. The majority of the subcontractors are small-scale light manufacturing industries. The smaller the company is, the more dependent is it upon subcontracting orders. This is directly proportional to the size of the company, except in the case of the very small-scale company.

The reasons for the large amount of subcontracting present in certain parts of the industrial sector are as follows:²

- a) the buyers want a limited financial and technical involvement in order to maintain flexibility
- b) the large-scale industrial company can more easily buy specialized components from the small-scale company at a lower price than it would cost to produce themselves
- c) the need for a highly specialized product that the large-scale company lacks the ability to produce
- d) the limited need for the component part provided by the subcontractor as would be the case in a special onetime order.

Around 40% of the Swedish industrial production is exported³. The large-scale

1) The following section on problems in the subcontracting is taken from Fredriksson C. - Lindmark L. (1976) Diss. National and Local Production systems (Nationella och lokala produktionssystem). Summary in English, Umeå University, Umeå.

2) Cf. also National Swedish Industrial Board SIFD SM 1976:4; Subcontracting problems (Underleverantörssystematiken).

3) Based on figures from Central Bureau of Statistics.

companies exported up to 86% of the total export in 1975. The small-scale companies accounted for about 14%, a figure that can be compared to the small-scale companies' part of the total industrial turnover of 26%.

Many small-scale companies are indirectly involved in the large-scale companies' export through their subcontracting role. A research report has shown that around 1/5 of the small-scale companies deliver an important part of their production to Sweden's 30 largest industrial concerns¹. It is these large industrial concerns that dominate the export market.

The small-scale companies' limited part of the export market coincides with

- a) the limited opportunities and resources of entering foreign markets
- b) actual product borders, which means that a small-scale company often has a geographic limit, imposed by a strict local demand for the product².

The total investment in the Swedish economy had increased to 28 billion SwCrs by 1975³. The total industrial investment had risen to 14 billion SwCrs. The small-scale industries accounted for 24% of the latter figure. But considering that the small-scale industries accounted for 44% of the total industrial employment, the amount of investment is low. This can be explained in that the small-scale industries are using a more labour-intensive production technique. This goes back to the initial problem of financing. Lacking the opportunity to receive easy financing the small-scale industries are forced to develop better production methods with less expensive equipment.

Innovative developments within the industrial sector are in direct proportion to the size of the company⁴. The variations between the different size categories is significant. Many small-scale companies, due to their specialized

1) See Fredriksson C. - Lindmark L.

2) See Ramström D. (1975) Small-scale companies-big problems (Små företag, stora problem). Stockholm

3) Based on figures from Central Bureau of Statistics

4) Lindström C. (1972). Firm size and firm location as determinants of Inventive Activity (Företagets storlek och belägenhet som determinanter för dess uppfinningsaktivitet. Diss. Summary in English, Umeå University, Umeå.

nature or role as subcontractors, are not in a position where they can expand resources for new developments. Foreign and Swedish studies show that in branches characterized by a high capital intensity and extended long series production, the small-scale companies accounted for a larger number of the patent applications than one could expect from the employment and production figures. Research and development within the industrial companies, according to the official statistics, is highly concentrated within the large company sector. But in the question of patent applications there are significant differences between the branches. Within the textile industry, the forest products industries, the rubber and plastic industries as well as the manufacturing industries, the small-scale companies' R & D is important¹. It must be stated that there are real difficulties in acquiring statistical evidence regarding the small-scale companies' utilization of resources in the R & D area. The opportunities of evaluating innovations within a specific company are also limited.

An English study from 1971 has stated that the small-scale industrial companies accounted for only 3-4% of the total innovation expenditures, but produced 10% of the total number of innovations. The conclusion that can be drawn is that small-scale industrial companies are more efficient within the R & D sector, possibly due to the fact that the significant work accomplished is seldom accounted for as R & D activity.

In a paper from 1974² it was stated that a large number of innovations within American companies came from small-scale companies and that those small-scale companies accounted for more innovations in relation to gross sales than the large-scale companies.

1) op.cit. and Central Bureau of Statistics.

2) See Hogan I., Chirichiello J. (1973) The Role of Research and Development in Small Firms, in Carson D., (ed) The Vital Majority. US Small Business Administration.

3.1 New companies¹

The number of new companies within the manufacturing industry has decreased during the last decade. The number of newly established companies in this sector has decreased from around 1 700 from the middle of the 1960's to around 1 100 for 1975². The newly established small-scale companies have accounted for 5 to 8% of the total number of existing small-scale industries during the last ten-year period.

The light manufacturing industries have been dominating in the area of new companies during the 1970's. Within the light manufacturing industries the manufactured metal industries have been most expansive. Certain other industrial branches have also shown a high rate of expansion. This applies for the plastic industries during the first three years of the 1970's. A relatively weak expansion can be found within the farming and mineral industries as well as the forest product industries.

There are several significant regional differences affecting the number of newly established companies. Until 1974 the densely populated areas had a higher proportion of newly established companies within the total light manufacturing industrial sector. After 1974 these differences had evened out. The development of new companies within the light manufacturing sector has not been consistent with the overall economic development.

A reduction in the number of newly established companies in the industrial sector can be explained by a number of factors which follow²:

1) This section is based on the following:

Odéen G. (1978): Determinant Factors for establishing New Companies (Företagsbildningens bestämningsfaktorer) The National Swedish Industrial Board.

Odéen G. (1976): The establishing of New Industries within the Manufacturing and Building Industries (Företagsbildningen i tillverknings- och byggnadsindustrin 1965-75, ingår i Industriutvecklingen i Sverige), SIND 1976:7.

2) Nygren B. Preliminary study of Newly established Companies in Swedish Industry 1963-68 (Förundersökningar av nyetableringar inom svensk industri 1963-68) Sveriges Industriförbund, sept 1972. (dupl).

Reasons for the reduction in the number of newly-established companies

1. A greater utilization of resources within existing companies
2. The size of the market
3. The existence of institutional and bureaucratic obstructions
4. The initial difficulties encountered
5. The lack of interest and commitment of potential entrepreneurs
6. The advantages enjoyed of the already existing companies in the field
7. The difficulties in initiating marketing and distributing systems
8. The decreasing demand in the domestic market due to a significant rise in imports, which has increased 100% in the last ten years, making it extremely difficult for a new Swedish company to break in on the Swedish market
9. The difficulty in obtaining capital, especially starting capital
10. The increased bureaucratic demands from the government making it almost impossible to start a small-scale company.

The motivation to start a new company today is in many ways the same as it was ten years ago¹. The desire to accomplish one's own ideas, and to be independent are still common reasons in establishing a new company. There is a strong profit motivation associated with many newly established companies and in fact this can be seen as the primary motivation in most cases. During the second world war and the decade following a basic survival motive was important, but has lost much of its significance in today's Sweden. Among the secondary reasons for building a new company are the development of new ideas and products. So called "innovative new companies" have played a minor role in the development of new companies at the end of the 1960's and the beginning of the 1970's. These "innovative new companies" have succeeded, have come for the most part directly from technical university research laboratories.

Within the industrial sector there are sub-branches that, over the long period having been dependent upon artisan or highly specialized production, have experienced a rapid rise in the number of newly established companies.

1) Hult M. (1978): The process of establishing new companies (Etableringsprocessen) Växjö University, Växjö

As has been previously indicated, this is especially true in the areas of the light manufacturing industry and in one plastic industry¹. Newly established companies are most active in those expansive branches with space for new products and ideas.

It is typical for the newly established company that it grows much faster than an older company². This has been confirmed by research, not only in Sweden but in other countries as well. Newly established companies are often concentrated in those branches that are most expansive, where new products and new production methods as well as new methods of distribution are constantly being developed. It is important that the leaders of new companies possess the abilities to deal not only with the present but with the future as well.

The newly established companies' contribution as regards the technical advances is uncertain³. A newly established company is seldom built upon a single product idea or upon new production methods. But yet a company which does build on its own new product ideas will often have a faster growth rate than a company established for other reasons.

The opportunities for the state to exert a regional policy is dependent upon the degree in which the state can successfully encourage people to build new companies within specific regions. In this sense it can also be stated that there would be a higher employment if an existing company would decentralize or relocate instead of subsidizing a totally new company. This has been the most effective short term policy. But it is also valuable to subsidize genuine newly established companies from a long term point of view.

1) du Rietz (1975): Entry, exit and growth of firms in Swedish manufacturing industry during the post-war period . Stockholm.

2) Carstedt G, Isaksson - Perez B. (1974): The structural change of industrial firms (diss.). Summary in English, Umeå Universitet, Umeå.

3) For an international view, see Little, A.D.Ltd (1977): New technology-based firms in the United Kingdom and the Federal Republic of Germany. Wilton House Publications, Ltd., London.

3.2 Developments within existing industrial companies

A small-scale company becomes a large-scale company primarily through increased turnover. On the other hand a reduction in turnover for a period of stagnation can reduce the number of the company's employees.

Differences in development between companies of different size is quite large, one can seldom find examples of bankruptcy or closures among the large companies. Mergers and acquisitions takes place most often in companies with 100 to 500 employees. A company's sense of stability increases with size. It is very seldom that a newly established company is a large-scale company. In the large-scale class of companies there has been almost no shift in the total number in the last five years.

Changes in the number of industrial companies with more than 50 employees
1971- 1975

Number of employees	Percent of companies that have					Percent of remaining companies
	closed	merged	grown	cut back	left their size category for unknown reasons	
50-99	5	6	12		21	56
100-199	5	11	13	12	1	58
200-499	1	12	9	13	2	63
500-999	0	9	12	11	4	64
1 000-	1	7	-	8	2	82

Source: Central Bureau of Statistics

The significant change in the small-scale category reflects also the high number of newly established companies within this category. For the period 1970-75 over 50% of the companies in the category 50-99 employees were newly established companies.

A comparison between the expansion of small-scale companies and large-scale companies points out that the latter often expanded through the acquisition of small-scale companies. The importance of acquisitions for the large-scale companies has increased considerably during the 1970's.

Information taken from the Central Bureau of Statistics points out that the large-scale companies on an average have been more expansive in terms of employment than the small-scale companies. The number of large-scale companies that have increased their employment in the early 1970's have been 5 to 15% above the corresponding figure of small-scale industries. It must be remembered, however, that the large-scale companies have been expanding their employment through the acquisition of small-scale companies.

This means that the real growth of the small-scale companies can also be measured as a part of the internal expansion of the large-scale companies.

The small-scale companies had for the period 1965-75 around 20% of the total industrial investment.

The amount of investment available for small-scale industry is highly dependent upon the state of the market. When the market is bad, it is extremely difficult for small-scale companies to get financing. This is caused by the fact that finance planning as with many other activities within a small-scale company is often characterized by a limited short-term perspective.

Because of an increasing automation within the industrial sector, the employment statistics for the entire branch, in spite of an increased turnover, decreased considerably during the last decade. The small-scale companies' part of the total industrial investment has been largely unchanged during the last decade which seems to indicate that automation has taken place at about the same rate as with the large-scale companies. The reduction in employment within small-scale companies should not be interpreted as a sign of stagnation, but rather that an increased automation and a higher workforce efficiency has resulted in a lower employment.

The organizational structure and employment figures within the industrial sector from a geographical perspective during the period 1965-74 have changed little. The economic activities in certain parts of Sweden have increased. In the densely populated areas and in forest regions the small-scale workshops have decreased in number. The reason for the significant reduction in small-scale workshops in certain forest regions is hard to account for. Service access to companies within these regions are no worse than for other regions.

3.3 Acquisitions ¹

Each year a significant number of companies are acquired by either private individuals or other companies. It is almost impossible to get information on the size of the companies taken over by private individuals through acquisition or inheritance, but significant numbers of small-scale and medium-scale companies have been taken over by private individuals. There has been a high number of acquisitions since the 1950's.

Acquisitions within Swedish industries 1955-76

	1955	1960	1965	1970	1975	1976
Number of acquisitions	54	133	228	207	371	203
Employees	6 400	14 000	23 300	27 500	51 800	25 000
Percent of the affected total industrial employ- ment	0.8	1.6	2.4	2.9	5.4	2.8

Source: Industrial Research Institute (IUI)

The greatest number of acquisitions have since the middle of the 1940's taken place in companies with 50-500 employees. In 1975, 7% of the total number of companies within the category of 50-500 employees were sold, only 2% of companies with less than 50 employees were sold.

1) This section is based on: Mergers of family-owned companies in Swedish industry, SIND 1978:4. National Swedish Industrial Board.

3/4 of all industrial acquisitions during the first half of the 1970's involved the purchasing of family companies. The majority of the acquisitions were in the manufacturing metal industry, the light manufacturing industry and the forest product industry. The majority of the family companies purchased were in the medium-scale category. The average size of the acquired company has decreased in the 1970's from 60 to 34 employees.

40% of the acquisitions were family companies. Investment concerns accounted for 11% of the industrial acquisitions of family companies during the period 1970-74. The forces behind these acquisitions are many. There is no single reason to explain the increasing number of acquisitions. Among the factors that influence the acquiring of a company one must distinguish between buyer and seller motivations. It is also important to consider the internal factors within the company and the extenuating circumstances.

A desire to increase efficiency and make better use of the existing production techniques and to achieve higher profits are the most common reasons for buying a company. To limit competition is of lesser importance, in spite of the fact that 30-40% of the companies purchased were in direct competition with the buyer. In a number of these cases there was an interest in widening the product selection on the part of the buyer.

From the seller's point of view there are a number of reasons. There are, however, significant differences between those who sell profitable expansive companies and those who sell less successful enterprises. For the former group the selling motivation is often (1) a lack of financing or (2) difficulties in further product development or (3) in an inability to market the product successfully. The last stated difficulty usually takes place when a company sells its products abroad. For the latter, not so successful companies, the reasons for selling have been problems with the passing of control to the second generation and the tax difficulties that generally follow. The alternative to selling the company, in the latter case, is often closure.

3.4 Closure

A significant number of companies close down each year. A particularly high rate of closure can be seen in period of low economic activity. The majority of closures occur without economic failure. In a limited number of cases closure is caused by bankruptcy. The reasons for closure vary between branches which will be taken up later in this paper.

The yearly number of closures has decreased in the last decade. Even in proportion to the total number of companies the rate of closures has been lower in the 1970's than ten years ago.

Total number of industrial closures 1966-75 (balanced values)

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Percent of closures in proportion to total number of companies	10.8	8.2	10.2	6.4	7.2	6.3	10.4	4.2	5.7	5.0

Source. Central Bureau of Statistics, the National Board of Swedish Industry SIND, and Industrial Research Institute (IUI)

There is no great difference between the number of closures within the expansive branches (manufacturing industries and plastic industries) and stagnating branches (for example the forest products industry). The bankruptcy statistics show that there are a greater number of small-scale companies directly involved with this type of closure. This gives an exaggerated picture of the small-scale companies' percent of closures because the large-scale company can often cut back considerably before being forced into bankruptcy. The very small-scale company (less than fifty employees) during the period 1966-70 accounted for 98.3% of the total number of bankruptcies. Only 1.7% of the bankrupt companies were in the medium-scale category. Small-scale companies with 5-49 employees accounted for a much greater proportion of

bankruptcies than compared with the total number of companies.

Behind the bankruptcies are the following reasons¹:

1. Insufficient profits
2. High costs of operations
3. Poor internal planning
4. A lack of basic management skills
5. Insufficient credit and difficulties in meeting existing credit payments
6. Limited business experience within the management,

1) Kedner G. (1975): Business bankruptcy. Problems - Analysis - Evaluation - Measures (Företagskonkurser. Problem - Analys - Utvärdering - Åtgärder) SIND 1975:2.

4. Development difficulties and problems

The condition of the company is primarily determined by the overall economic policy of the State. Both small-scale and large-scale companies must base their activities within the guidelines developed by the State. But there are some unique problems in the small-scale company which will be examined below.

4.1 Capital resources

The small-scale companies' profitability has not been below that of the mean profitability of the large-scale companies. But for a large number of small-scale companies capital resources are of the utmost importance. These companies do not have access to the share-holders' market, which normally provides 20% of the capital resources of the rest of the industry. The small-scale companies are often less solvent than the large-scale companies and are forced to borrow money to finance their projects. Financing new products or making changes in production techniques is often beyond the financing capability of the small-scale company. The need for capital and the availability of capital rarely coincide. Many small-scale companies have real difficulties in generating real capital because of their low profitability. They are forced to borrow for any financing of new products. Most of the small-scale companies have difficulties in providing satisfactory security for their outside financing. This perspective is based primarily on the fact that the small-scale company is directly dependent upon the personal economy of a few individuals and these individuals are limited in their ability to put capital into the company. The problem of providing satisfactory security in connection with nonmaterial improvements (i.e. marketing) is a significant one.

The small-scale companies' credit rating is of the utmost importance. Most credit is arranged directly through the normal banking system. State support is primarily of a complimentary character. It is a high risk venture from the banking perspective to finance small-scale companies. While the state is on record in support of the small-scale company, real financial assistance seldom

1) Credit resources for the small- and medium-scale industries (Kreditförhållningen i mindre och medelstora företag) SIND 1976:5 National Swedish Industrial Board.

takes place.

The greatest problem of the small- and medium-scale companies is obtaining risk capital. This is especially true when a company starts up, but also holds for the later conduct of the business. When a company starts up, the only capital available is of a very high risk-level nature. The opportunity of getting enough starting capital is often limited. This coincides with lack of security, which makes it even more difficult to achieve financing on the ordinary credit market. On the other hand, highly qualified people with a good product idea have an easier time in getting capital than those who are not qualified. A company's need for high risk capital to meet the needs of non-material investments (i.e. marketing product development or administrative costs) can be difficult to fulfil. This high-risk in the lender's eye capital need of a non-material character usually means that it is easier to get money for machines instead of processes.

Availability of resources for technical development is of the utmost importance for a company to expand or even to survive. With the large-scale company there are often unique financing and economic resources available for such programmes. There are a number of specific factors affecting the small-scale company that limits the amount of product development within these companies. Half of the number of investigated small-scale companies have shown themselves unable to finance their needed new product's development.

4.2 Company services

Information, access to expertise and training are often important factors in providing a company with a positive growth rate. A lack of information concerning expanding products or market areas can severely limit the own expansion of the companies. Small-scale companies are generally outside the information flow concerning technical questions and market conditions¹. There is both a lack of information and the lack of trained people to deal with the complex

1) Company services - Understanding and experiences (Företagsservice - Begrepp och erfarenheter) SIND PM 1976:2, National Swedish Industrial Board.

information that is available. During the last few years there has been much more research concerning newly established companies and especially small-scale companies and the importance of the existing economic situation for either starting a new company or expanding an existing company. An important prerequisite in starting a new company is the access to the various resources and services offered. The difficulties, especially in smaller places, is to actually get the services and expertise offered, according to a number of studies.

Studies¹ have shown that the small-scale company generally lacks both qualified technical personnel and economic specialists, due primarily to the fact that these companies have no full-time need for these people. A small-scale company has often less opportunity than a large-scale company to hire a university qualified individual or even in recruiting a qualified workforce. The small-scale company has little chance of sending its employees to special courses of a training nature. There is a close relationship between the company size and the number of people that participate in special training courses. These areas of information expertise, training and also the making of business contacts are of special importance for the company with the export market. It is easy to understand why so few small-scale industries are directly engaged in export activities. The problems for a small-scale company in selling its products abroad are directly related to the above mentioned. And yet while these factors limit the small-scale companies' opportunities within the export market, there remains a limited potential for growth within the export market for the expansion of a select product group.

In order to compensate the small-scale companies, the state has attempted to assist these companies during the last few years. The Swedish Export Council has provided training and assistance in international marketing. This has taken place through joint projects of an international nature. Regional development agencies have attempted to inform the small-scale companies of technical developments and have also provided technical expertise when avail-

1) The managerial training for small- and medium-scale companies (Företagareutbildningen i mindre och medelstora företag) SIND 1974:1, National Swedish Industrial Board.

lable. The state has given the regional development agencies greater resources in order to better assist the small- and medium-scale companies with financial advice and expertise.

4.3 The complexity of leading a modern company¹

The modern working environment that confronts the company is made up of a number of different factors. An important part of the modern company's milieu is the institutional demands that the state has put upon those private individuals who attempt to start a company of their own. The small-scale company has a limited capability of dealing with this increased demand for information on the parts of the central state authorities. The relative magnitude of the employer's contribution to the employee's social welfare, the high tax rates in Sweden are other examples of obstacles to the activity of small entrepreneurs. Many small-scale companies have complained about this situation.

There have been attempts made to correct this problem. There have been concrete proposals made to reduce and simplify the amount of paper work. It is a continued project to reduce the paper-work and yet in the last decade the state has created an even larger number of new forms and procedures intending to help the small companies, but with an unfortunate corresponding increase of paperwork for the companies. At the same time, the ability of the company management to consider different types of help available has decreased.

4.4 Labour market legislation

The increased legislation concerning the labour market has been seen by many small-scale companies as an obstacle instead of a help. A special problem which has been noted by the Committee for the Review of Labour Market Legislation is that the small- and medium-scale companies lack the ability

1) Ramström D. (ed.) (1975): Small companies - big problems (Små företag - stora problem), Stockholm.

of dealing with the information available concerning state assistance. Information concerning the new laws has not reached the small-scale companies to the same extent that it has reached the large-scale companies. This concerns primarily the new laws for the safeguarding of the employee's position in the company and certain laws with extended obligations for the entrepreneur in relation to the trade union representatives. This also concerns the laws dealing with the actual working environment. Within this area the small-scale company has difficulties in following the new laws. Measures to stimulate and help the small-scale company to fulfil the intention of the legislation within the working environment are planned.

4.5 Problems in establishing new companies

The number of newly established companies within the manufacturing industry has decreased during the last decade. There are a number of reasons for this, some of which have already been discussed in this paper. It is essential for industrial expansion and the maintaining of a competitive strength to help newly established companies and an important characteristic of the newly established companies is that they grow more rapidly than the old companies. The newly established companies' contribution to the overall technical development can be examined from a number of different viewpoints. It is only in a limited number of cases that a new company is established on the grounds of a totally new product idea or new production method. The opportunities of establishing a company based upon a new product or production technique are directly related to the available capital at the start.

Research has shown that many newly established companies have had real problems in providing security for their capital loans. A lack of knowledge regarding the basic conduct of the company in areas other than the purely technical or manufacturing side have also made it difficult to establish a viable new company. And yet is it interesting to note that newly established companies built on a new product idea or a new production technique often have problems less than a company built for other reasons.

5. The state's contributions within the small-scale company sector¹

Because of the state's need for small-scale industries it has taken a number of steps to reduce the difficulties confronting the small- and medium-scale companies. This can primarily be seen in the area of credit and available credit resources but also applies to the small-scale companies' need for outside expertise, training and other services. A number of these instruments that the state provides directly to the small-scale company now, have been designed many years ago. But it is in the last decade that there has been a real intensification on the part of the state to provide real assistance.

5.1 Regional Development Agencies

Because of social - and employment conditions - Regional Development Agencies (so called företagsreföreningar) were built up at the end of the 1930's in those areas where there was a particularly high rate of unemployment. These agencies were to advise, provide credit support, and try to stimulate the establishing of new companies, and in part, to help the existing companies in their development in the depressed economic regions.

The aim was to increase production within the artisan and other small-scale industries through a clear-cut regional policy. These aims were carried out through the help of both state and regional subsidies. The Regional Development Agencies have the capability to obtain financing directly from the central government. Members of the Regional Development Agencies include company owners, company associations, local officials as well as other private individuals and even organizations that can be expected to work for achieving the goals of the agencies.

At the end of 1975 the Regional Development Agencies had a total of 17 400 members. The majority of members came from companies within the manufacturing industries. Companies that have obtained financing from the Regional Development Agencies must be members, but the companies that use only the other services available are not forced to join. From 1959 there has been Regional De-

1) This section is mainly based on proposed legislation 1977/78 No 40 (prop. 77/78 No 40) Small- and medium-sized companies.

velopment Agencies in all 24 Swedish counties. After establishing a new regional assistance policy in 1965 the Regional Development Agencies have as a stated goal to support increased production within the regions. The Regional Development Agencies have also the responsibility of providing special support in the depressed regions for newly established companies in the region.

The Regional Development Agencies' responsibility can be divided into three main categories: company services, financial support and support for establishing new companies.

5.1.1 Company services

Company services consist mainly of providing information to the company in different questions, such as financing, tax regulations, marketing guidelines, or guidelines for patent applications, product standardization, product testing, safety conditions and environmental regulations.

- training, in technical, economic and administrative areas including marketing
- expertise outside consultancy in the above mentioned areas
- technical expertise pertaining to product development, producing a prototype and testing.

5.1.2 Financial support

Financial support is available in the following branches:

- * Manufacturing industry
- * Companies within the general agriculture branch that do not qualify for financial support from the existing agriculture associations
- * Construction companies
- * Production and unit material traders
- * Transport and machine-leasing companies (services available, but no credit)
- * Legal, economic, administrative and technical consultancy firms
- * All manual service industries.

These branches have been chosen because they are considered to create more opportunities of employment and also influence the economy of the country in a more positive direction than the efforts in other branches.

5.1.3 Support for establishing new companies

The Regional Development Agencies have also as one of its primary responsibilities to assist in establishing new companies. This involved assembling new development ideas and providing information to potential leaders as well as providing technical expertise and training during that period in which the new company is being established. The contributions are both of a general nature (creating a positive regional milieu for new ideas and projects) and of a specific nature (responding with direct assistance to the new companies' demands). These contributions include summaries and analyses of the total regional production and estimates of regional needs in the area of expansion. To accomplish this there are conferences and training sessions available for those who are interested in starting a new company.

It is also important to provide support for the period directly after the establishment of the new company. This kind of support must be of a more concrete and selective nature. There must be information provided for all the development phases that a newly established company encounters.

In the planning there are a number of areas in which the Regional Development Agencies can assist:

- information and training in "starting your own company" or how to develop an idea from a business perspective
- advice and assistance at the planning stage e.g. market summaries, capital needs estimates, investment estimates and help with the actual physical development of the company
- the forming of contacts between the potential entrepreneur on the one hand and on the other hand potential partners, customers, councillors, consultants, bankers and local and government authorities.

5.2 Availability of capital resources

To help meet the small- and medium-scale companies' need for long term credit, special credit institutes were established 40 to 50 years ago. The Industrial Credit Agency Ltd (AB Industrikredit) was established in the middle of the 1930's and the State Artisan and Industrial Loanfund (Statens hantverks- och industrilånefond) in the middle of the 1940's. Because of the increased demand of the small- and medium-scale companies for capital during the 1960's a number of new highly specialized institutes have been created to assist them.

These special credit institutions have very unique guidelines as regards risk capital. Certain of the institutions, the State Business Capital Agency (Företagskapital AB), founded 1974, "SVETAB" founded 1969, Investment Bank Ltd (Investeringsbanken AB), founded 1967, have the chance to finance widely different groups of companies with their own capital resources. The most common form of credit is given in the form of long term capital loans. Beyond the existing form of credits established in the 1930's and -40's, have the State Business Credit Agency Ltd (AB Företagskredit), founded 1962 and Swedish Exportcredit Agency Ltd (AB Svensk Exportkredit), founded 1962 and special forms of credit. Long term credit can also be obtained through the General Pensions' Fund (Allmänna Pensionsfonden) and even some special support for companies in the depressed regions (e.g. support for buying machines). A number of institutes can also provide a guarantee for companies to borrow capital directly from the banks.

Through the State Industrial Credit Ltd (AB Industrikredit) and other special regional programmes, guarantees can be provided for long term credit through a special form of guarantee which the National Swedish Industrial Board (SIND) offers as an industrial loan guarantee (1954) or as a structural guarantee (1972). These loans guarantees are handled by the Regional Development Agencies but the decision is made by the National Swedish Industrial Board. The loans usually run for ten years. In order to use the loan guaranteed, it is assumed that the financing can be arranged in another way (primarily through the banks).

From the beginning of the 1960's there have been new agencies created with the

power to give loans with conditional re-payment protection, that is re-payment dependent on whether or not the actual project resulted in a profit.

Such loans can be given by the Norrland Development Fund (Norrlandsfonden), 1961, the Board for Technical Development (STU), 1968 and the State Development Fund, 1973.

Only a limited number of the above mentioned credit or guarantee agencies have as a formal objective the support of small- and medium-scale companies. For some of these credit institutions that are partly or wholly state-owned, there are certain practical geographical or branch limits that play a significant role in the financing of the small- and medium-scale companies.

Small- and medium-scale companies' borrowing from the special credit institutions 1975

Amount of credit 1975
(million crowns)

Credit given only for small-scale companies

Statens hantverks- och industrilånefond (State Artisan and Industrial Loan Fund)	130
Industrilånegarantier (Industrial loan guarantees)	60
Industrikredit AB (State Industrial Credit Agency Ltd)	990
AB Företagskredit (State Business Credit Agency Ltd)	120
Företagskapital AB (State Business Capital Agency Ltd)	10

Regional credit

Local regional support	330
Norrland Development Fund (Norrlandsfonden)	66

Limited functional credit

Svensk exportkredit (Swedish Export Credit Agency)	15
Styrelsen för Teknisk Utveckling (the Board of Technical Development)	25 ¹
Statens utvecklingsfond (the State Development Fund)	25 ²

Other credit sources

Investment bank	330
General pension funds	60

TOTAL (excluding guarantees) 1 700

Source: National Swedish Industrial Board, SIND 1976:5

1) This is direct borrowing. There is also 140 millions of direct subsidies.

2) Including support for private innovators.

When a newly established company introduces new products or new production techniques, it can get from the state different types of financial support depending on its geographical location and the nature of the company.

The Board of Technical Development (STU) can give financial support for industrial development from the very beginning of the project. Subsidies and loans are available for new products or new product ideas that are of technical importance.

Through the State Development Fund (Statens utvecklingsfond) financial assistance is available for those companies that need capital for the phases of the development work that lies between the above mentioned support area until the phase when the product comes to market.

High risk loans as regards newly established companies can be given by the Regional Development Agencies from the State Artisan and Industrial Loan Fund up to 300 000 crowns. Together with the State Investment Bank (Investeringsbanken) the Regional Development Agencies can loan up to 500 000 crowns more.

There is limited financial support available to newly established companies through the Norrland Development Fund (Norrlandsfonden).

5.3 Information and expertise

The State agencies support services directed with assisting the small-scale and medium-scale are concentrated in the area of technical and industrial development, training and marketing. Information, expertise and the making of contacts are important elements in the company service area.

Company services available for all have been an essential part of the Regional Development Agencies. This special area of the agencies' activities has greatly expanded in the last few years. The main reason is to give companies both guidance and information pertaining to the private market and in dealing with the state, so that the companies will be properly informed.

Providing expertise and marketing analyses is another important part of the Regional Development Agencies' services. In the last few years this area has concentrated primarily on product development and marketing, both domestic and export. The Regional Development Agencies have in the last mentioned area received strong support from the Export Council (Exportrådet). Even the Regional Development Agencies' training services have expanded in the last few years. Within each agency there is a special training consultant who is responsible for analyzing the training needs of the local companies and recommending appropriate courses for them. The training consultant works as a rule together with the National Swedish Industrial Board (Statens Industriverk) unit for company development and other training organizations.

Through the Board for Technical Development (STU) private individuals, small- and medium-scale companies can present technical questions and receive technical expertise. The activities of the Board consist of the following services: Expertise and information in the support of innovative research, advice on patents, the transferring of innovative research results to industrial use, the stimulating of creative and innovative research within the various research institutes and companies.

The last mentioned is accomplished regionally through a contact secretary at each of the seven regional universities. The contact secretary works together with the Regional Development Agencies. Other service functions within the innovation and product development area are carried out by the Patent Department (Patent- och Registreringsverket).

The Foundation for Industrial Development for the Norrland (Stiftelsen för industriellt utvecklingscentrum), which has been operating in Skellefteå from 1971 provides both personal and technical resources for marketing research, technical consultancy and product testing for primarily small- and medium-scale companies.

5.4 Training

The need for training for the company employer and employees in the small- and medium-scale companies has increased significantly during the last few years. The meaning is to support the technical and economic development of small- and medium-scale companies while at the same time to make clear the structural changes taking place within certain branches. It has earlier been noted that it exists regional training through the training consultants within the Regional Development Agencies.

A complete training programme is administered by the National Swedish Industrial Board (Industriverket). The National Swedish Industrial Board works together with industrial organizations and other training units in order to get a total view of both planned and activities going on to make easier a total coordinated effort. The National Swedish Industrial Board has a unit for company development - SIFU - which provides courses especially designed for the small- and medium-scale companies. These companies account for approximately 1/3 of the total number of courses participants. The most important training takes place in the technical and economic areas and their related functions within the company. The local communes provide further adult training for those individuals who wish to stay in touch with the technical developments and other changes within the industrial sector. This training is available in nearly every commune.

5.5 Export assistance

The state provides assistance primarily through the Export Council (Exportrådet) whose responsibility as the central export organization is to plan, coordinate and provide assistance in support of the Swedish export market. Those small- and medium-scale companies' export opportunities have been reviewed carefully by this organization. According to the Export Council's agreement with the state, the state provides the same amount of financing that it costs the Export Council to provide assistance for the small-scale industries.

The activities of the Export Council involve taking part in exhibitions, marke-

ting research trips and the providing of export expertise for domestic use. This last mentioned activity is of special importance for the small- and medium-scale companies. Certain projects, some of which involve direct selling, are for the primary benefit of the small-scale company. The Export Council also arranges state support for courses and conferences concerning international marketing.

Within the Export Council there is a delegation with a specific responsibility of dealing with these matters. The Regional Development Agencies are also working to stimulate export activity and often work together with the Export Council. Each Regional Development Agency has assigned a person whose responsibility it is to work with the Export Council. A number of Regional Development Agencies organize regular conferences with the Export Council to provide information on the export market and to pass on analyses of different products' export feasibility. The Export Council and the Regional Development Agencies have cooperated with radio and television in providing courses regarding export in almost every region. The Regional Development Agencies in cooperation with the Export Council and the National Swedish Industrial Board have provided a special export-project - "an export manager to lease" - for all the small- and medium-scale companies. For each small related group of companies (5-6 companies) there is an export consultant with the responsibility of making the export marketing easier for those companies.

The Export Council also coordinates arrangements between foreign industries and Swedish subcontractors. Each year the Export Council deals with at least 6 000 specific requests from abroad concerning Swedish companies. Their coordinating work consists of passing on addresses to the relevant Swedish subcontractors and on the other hand passing on the domestic subcontractors the specific requests. The local Chamber of Commerce deals on a similar fashion with 4 000 - 5 000 requests each year for foreign companies.

6. Conclusion

6.1 General observations

The paper has indicated a number of differences between small- and medium-scale companies on the one hand and large-scale companies on the other. These differences affect not only the physical realities of the company but the conduct of the company as well. Realizing these basic differences between different sized of companies, the state has initiated special programmes affecting profitability, financing, export, etc. to assist the small- and medium-scale companies. It is too early to evaluate objectively the actual assistance provided by the state. The few studies that have been conducted have either been too limited in scope or have lacked a certain objectivity. It is for this reason that this paper has not taken up in depth the background of the state's decision to actively assist the small- and medium-scale companies. At this time it can be said that the state has made a real commitment to assist the small- and medium-scale companies and that this policy has been initiated, but it is too early to note the results of this policy.

It has been stated that Sweden in the 1970's has made a real commitment to its small- and medium-scale companies and that the state has become more aware of these companies' problems. The state's solution has been to support certain sectors and specific companies, in the hope that in the long run these companies will be viable. The state has also realized that in the past it has caused bureaucratic difficulties for the small- and medium-scale companies and is now taking steps to alleviate these problems.

Forty years ago the state initiated a limited financial policy to help the small- and medium-scale companies. In the 1960's the state expanded greatly this policy by creating a number of new highly specialized institutes to facilitate financing. And yet, the support provided by the state to the small- and medium-scale companies is only a small part of the support provided to the large-scale companies.

6.2 Implications of the state's financial assistance policy

The main thrust of the state's financial policy is to provide assistance for newly established companies and to assist all companies in their actual development (which includes new product development as well as the development of new production techniques). The state's financial policy is also dependent upon a number of geographical and structural considerations. Size has not been a direct consideration in the formulation of the state's financial policy. It is easier for the medium- and large-scale companies to receive assistance than for the small-scale company, and yet, there is more financial support available for the small-scale companies today than there has been in the past. There exists, however, a real need for a comprehensive financial policy in direct support of the small-scale companies. There is still a real problem facing the small-scale company when it comes to getting high risk capital. This limits the small-scale company's development and expansion making the very question of its survival less secure. The small-scale company is forced to adjust to the state instead of the state being responsive to the needs of the small-scale company. The state has initiated a number of new efforts to attempt to solve this problem but it is often very difficult for the small-scale company to take advantage of them. The state, by its very nature, is the largest enterprise in Sweden and between the largest of the large-scale and the small-scale company there is lacking common ground.

6.3 Implications of the state's policy of supporting the establishment of new companies

In the area of establishing new companies the state has given the Regional Development Agencies primary responsibility. This work consists mostly of a transfer of existing information. The information is both of a general nature (concentrated upon the general economic milieu) and of a specific nature responding directly to the needs of the newly established companies. This information transfer has only recently been initiated over the entire country, and varies greatly from region to region, depending upon the capability of the specific Regional Development Agency. Unfortunately, there are not many people within the private sector who are qualified to deal with all the information

provided. For this reason some universities have taken a part in training people in establishing new companies. Again it is too early to evaluate the results of this information transfer. There has been criticism, both positive and negative, as is to be expected with any new project. One thing is clear, however, the state has made a commitment in support of starting new companies and this commitment is being put into practice.

6. 4 Company services

As has been pointed out in the paper, the small-scale company has a number of problems in employing full-time specialists and providing specialized training for its own employees. The state, through the Regional Development Agencies, has attempted to respond directly to the needs of the small-scale companies in this area.

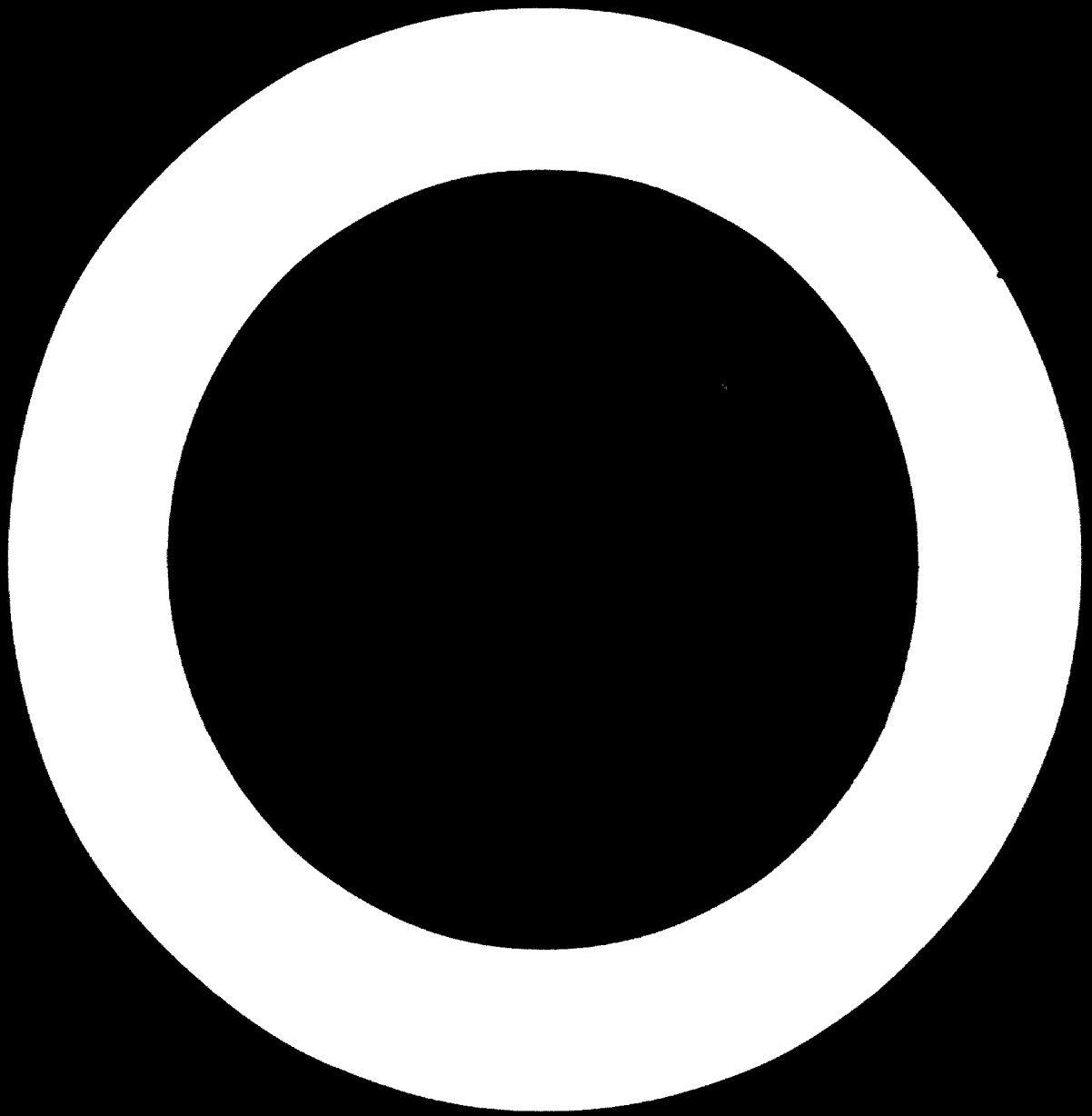
The problem has been in getting the small-scale companies to realize that the state is providing a real and viable service for them. In this area the state has realized the need for a viable two-way communication (the state can only respond to the expressed needs of companies). Many small-scale entrepreneurs lack the time or the knowhow to take advantage of the services provided by the state.

6. 5 Alternative considerations

It is clear that the Swedish state has a general policy of providing support for its private companies. This policy has been initiated. There are questions on how effective this policy can be - a policy such as this must be supported by both the state and the companies. The complexities of the overall policy can often create problems in the implementation of the policy. There are always real problems when a policy is implemented. To change the structure of the policy is an aspect which has not been taken up separately in this paper, but should be considered. This can be stated:

"Is it better to create a number of new institutions to assist private companies or is it better to expand the charter of existing institutions ? Should the policy be more general in scope or should it be more responsive to the specific needs of the different sized companies ?"

This discussion continues in Sweden today.



Appendix I

Sweden - a short introduction

Geography and Population

Sweden is the largest of the Scandinavian countries, covering an area of approximately 174 000 square miles. It is bordered on the west by Norway, on the northeast by Finland and on its eastern coastline by the Baltic Sea. Over half of Sweden's land area is covered by forest, less than 10% consists of cultivated land, around 30% is uncultivated land, including residential and industrial areas, and inland waters cover about 9%. Although Sweden is on approximately the same latitude as Alaska, it enjoys a generally temperate climate because of the Gulf Stream.

Sweden's population at the end of 1976 was 8 236 000 or 52 inhabitants per square mile. More than 90% of the population lives in the southern half of the country. Sweden has a slow rate of population growth, which has averaged 0.6% annually since 1965 and was 0.3% in 1976. Over one-third of the total population growth since 1965 has been the result of net immigration. About two-thirds of the immigrants are from the neighboring Nordic countries.

Stockholm, the capital, is located on the eastern coast and is Sweden's largest city, with a population of approximately 1 400 000 in the greater metropolitan area. Other principal cities are Göteborg (population 690 000) on the western coast and Malmö (population 455 000) near the southern tip.

Constitution and Form of Government

Sweden is a constitutional monarchy with a parliamentary system of government. Under the Constitution, which became fully effective on January 1, 1975, the Riksdag has the legislative power and the Prime Minister is the political chief executive. The King is the Head of State.

The Constitution currently provides for a single-house Riksdag of 349 members who are elected indirect elections in which all Swedish citizens of at least 18 years of age are entitled to vote. Members of the Riksdag serve for a three-

year term.

The most recent general election of members of the Riksdag took place in September 1976. The last three elections have resulted in the following distributions of seats among the five political parties represented in the Riksdag:

	<u>Number of seats</u>		
	<u>1970-73</u>	<u>1973-76</u>	<u>1976-79</u>
Social Democrats	163	156	152
Center Party	71	90	86
Conservatives	41	51	55
Liberals	58	34	39
Communists	17	19	17
	<hr/>	<hr/>	<hr/>
	350	350	349

After the last election, a new Government was formed by a coalition of the Center Party, the Conservatives and the Liberals with Mr Thorbjörn Fälldin, leader of the Center Party as Prime Minister. Between 1932 and 1976, the Government was formed by the Social Democrats either alone or in coalition with other parties. The next general election is scheduled for September, 1979.

The Cabinet consists of the Prime Minister and 19 other Ministers, 14 of whom head different Ministries within the Government. Local governmental functions are performed by 23 county councils and 277 municipal authorities, whose members are popularly elected. The principal source of revenue for local governmental bodies is an income tax.

International Cooperation and Foreign Policy

International organizations of which Sweden is a member include the United Nations (UN), the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD or World Bank) and the Organization for Economic Cooperation and Development (OECD). Sweden is also a party to the General Agreement on Tariffs and Trade (GATT).

Sweden is a member of the European Free Trade Association (EFTA), whose other members currently are Norway, Austria, Switzerland, Iceland and Portugal, with Finland an associate member. Sweden is not a member of the European Economic Community (EEC). Effective January 1, 1973, two of Sweden's most important trading partners, the United Kingdom and Denmark, formerly members of the EFTA, joined the EEC. Sweden and the EEC entered into a free trade agreement effective on the same date.

Sweden is also a member of the Nordic Council and the Nordic Investment Bank with Denmark, Finland, Iceland and Norway. The members of the Nordic Council have established regional cooperation in several fields, including a common labour market (except for Iceland) and the transferability within member countries of unemployment insurance and other social service benefits. The Nordic Investment Bank began operations in 1976 and was formed to strengthen the economies of the member countries by providing loans and guarantees for investments and export projects of common interest to the member countries.

Sweden's foreign policy is one of non-participation in alliances in peacetime for the purpose of maintaining neutrality in case of war.

MAP OF SWEDEN AND NORTHERN EUROPE



Appendix II

Addresses to institutions mentioned in the paper

The Board for Technical Development (STU), Fack, 100 72 STOCKHOLM

Business Capital Agency Ltd (Företagskapital AB), Eriksbergsg. 1 A, 114 30 STOCKHOLM

Export Council (Exportrådet), Box 5513, 114 85 STOCKHOLM

Industrial Research Institute (IUI), Box 5501, 114 85 STOCKHOLM

Investment Bank Ltd (Investeringsbanken AB), Box 40153, 103 43 STOCKHOLM

National Swedish Industrial Board (Industriverket), Box 16315, 103 26 STOCKHOLM 16

Norrland Development Fund (Norrlandsfonden), Smedjegatan 17, 951 00 LULEÅ

Swedish Export Credit Agency Ltd (AB Svensk Exportkredit), Box 7149, 103 83 STOCKHOLM

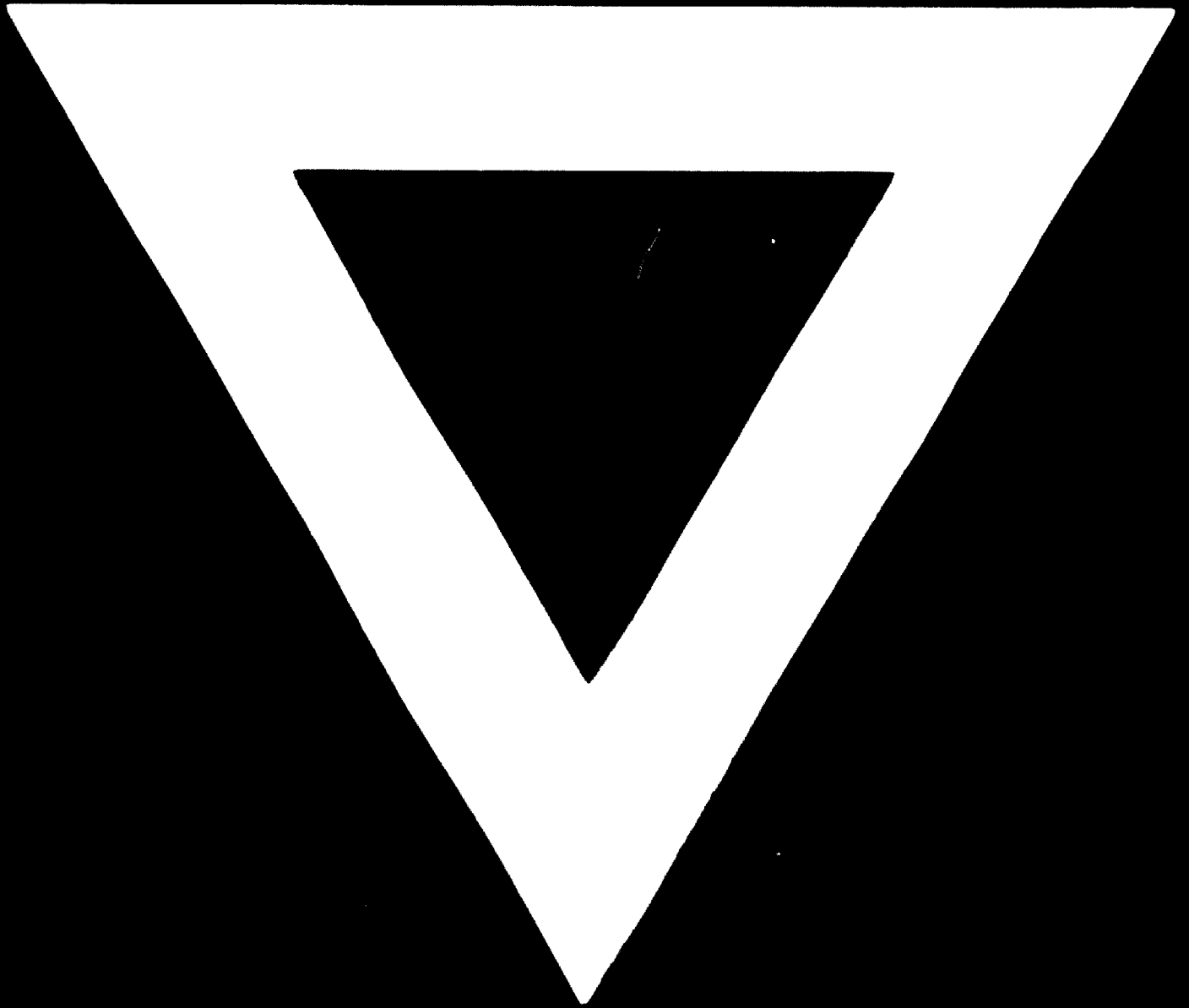
SVETAB, Box 7078, 103 82 STOCKHOLM

State Business Credit Agency Ltd (Företagskredit AB), Eriksbergsg. 1A, 11430 STOCK-
HOLM

State Development Fund (Statens Utvecklingsfond), Fack, 100 72 STOCKHOLM

State Industrial Credit Agency Ltd (Industrikredit AB), Eriksbergsgat. 1A, 114 30
STOCKHOLM

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