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Title of the Bachelor´s Thesis:

Business environment for SMEs:

Competitive comparison of France, Germany, Spain, and Italy

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D e c l a r a t i o n o f A u t h e n t i c i t y

I hereby declare that the Bachelor´s Thesis presented herein is my own work, or fully and specifically acknowledged wherever adapted from other sources. This work has not been published or submitted elsewhere for the requirement of a degree programme.

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Title of the Bachelor´s Thesis:

Business environment for SMEs: Competitive comparison of France, Germany, Italy and Spain

Abstract:

This bachelor thesis is focused on the competitive comparison of business environment for small and medium-sized enterprises (SMEs) within 4 chosen countries, which are France, Germany, Italy and Spain. The main goal is to analyze the economic indicators and the overall business conditions in these countries, and to choose the most favorable in terms of doing business in. Theoretical part of the thesis is devoted to understanding of SMEs' principles and the approach of the European Union towards these enterprises. The first practical part analyses the business environment of 4 chosen countries by using PEST analysis. And the second practical part is based on 4 external economic indicators, which are Taxation, Labor cost, Demand, and Ease of Doing Business. The analysis in this part is based on the statics method, which allows to compare each indicator separately, and to create the final ranking of these countries, according to the selected indicators. The result of the thesis shows that the most favorable country, in terms of doing business in, became Germany, which results from 2 analyses were significantly better for SMEs.

Key words:

SME, PEST analysis, taxation, labor cost, demand, ease of doing business, ranking

Contents

Introduction

My bachelor thesis is devoted to the comparison of the business environment conditions for small and medium-sized enterprises within 4 chosen countries: Germany, France, Italy, and Spain.

Small and medium-sized enterprises play a crucial role in the global economy. SMEs are absolutely predominant in the private sector, representing the majority of all active firms, and constituting the highest share of employment. The most significant characteristics of SMEs are considered to be their high flexibility and great capacity of adjustment. In contrast, there are number of external factors, which can influence the overall SMEs' performance. Within my thesis I will focus on the most significant ones: taxation, labor costs and demand.

The main goal of my thesis is to describe what SMEs are and to describe their influence on the economy of the Europe, to define the factors, which are influencing their performance and to choose the best country, out of 4 mentioned, for the performance of SMEs.

My thesis is divided into several thematic topics. The first part is devoted to understanding of the basic terminology and of the theoretical background of SMEs. The second theoretical part combines the understanding of European Union policy and funding towards SMEs, and explanation of recent business performance in 4 chosen countries. The following practical part deals with PEST analysis of 4 chosen countries. And the last practical part analyses the selected economic factors, which may influence business performance of SMEs, and compares the most recent data received from official sources.

The final part of my thesis is devoted to choosing of the best country to conduct business in, while using the results received from previous practical parts.

Theoretical part

1. Definition of SME

Small and medium-sized enterprises (SMEs) play an important role in the global economy. These enterprises represent an essential role in creation of new jobs, social stability and economic growth. According to the OECD, in almost every European country SMEs:

- Account 95% of all active firms;
- Provide from 60% to 70% of jobs in most OECD countries;
- Constitute 50% of GDP on average.

The following chapter will describe the main basic concepts of the theory that will be used in my thesis.

1.1 Basic concepts of theory

From the etymology point of view, the word "entrepreneur" is a loanword from the French language. The verb "Entreprendre" meaning "To undertake" is the combination of "Entre" meaning "Between" and "Prendre" meaning "to take".

From the historical point of view, the term "entrepreneur" was introduced by Richard Cantillon. In his essay he said, that: entrepreneurs buy at certain prices in the present and sell at uncertain prices in the future. The entrepreneur is a bearer of uncertainty (Seymour, 2008 p. 7).

Nowadays, according to OECD entrepreneurs are: "those persons (business owners) who seek to generate value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets" (Seymour, 2008 p. 14).

Generally, from both historical and modern definition, entrepreneur can be defined as a person who creates economic activity in order to generate value and to achieve a certain goal.

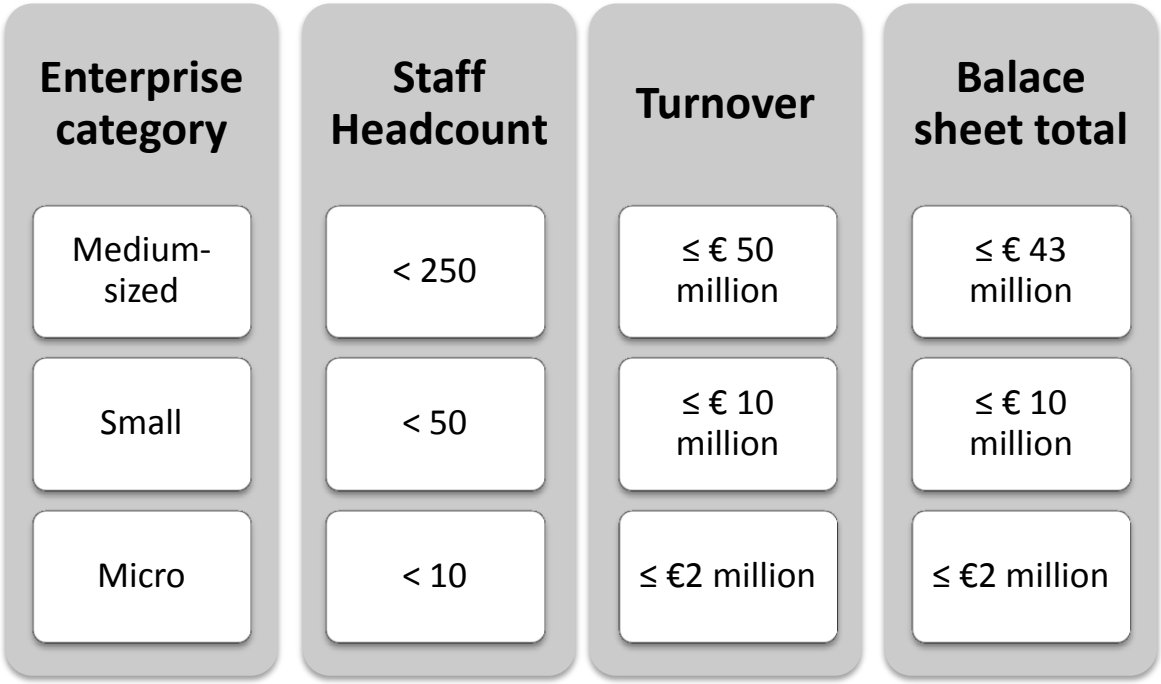
Enterprise

An enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity (Union, European p. 1).

1.2 Definition of SMEs adopted by European Commission

Figure 1 illustrates the measurements of definition, which was adopted by the European Commission on 6, May 2003. From this figure, we can see that definition divides small and medium-sized enterprises into three categories, based on financial ceilings (Annual Turnover and Annual Balance Sheet) and staff headcount.

Figure 1: EU definition of SMEs



Source: European Commission, 2003

1. The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.
2. Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and which annual turnover and/or annual balance sheet total does not exceed EUR 10 million.
3. Within the SME category, a microenterprise is defined as an enterprise which employs fewer than 10 persons and which annual turnover and/or annual balance sheet total does not exceed EUR 2 million (European Union, 2015 p. 11)

It is compulsory for an enterprise to meet the staff headcount ceiling, while it can choose whether to meet either the turnover ceiling or the balance sheet ceiling, to be qualified as SME.

Besides that, to be considered as SME, an enterprise:

- Must not have relationships with other enterprises (so they are not exceeding the ceilings together);
- Must be autonomous or part of a group of affiliated enterprises that together fall below the ceilings.

Staff Headcount

The Staff Headcount criterion covers full-time, part-time, temporary and seasonal staff and includes the following: (European Union, 2015 p. 12)

- Employees;
- Persons working for the enterprise who have been seconded to it and are considered to be employees under national law (this can also include temporary or so-called interim employees);
- Owner-managers;
- Partners engaged in a regular activity in the enterprise and deriving financial advantages from the enterprise.

Students, engaged in vocational training (having apprenticeship or vocational training contracts) and employees on maternity or parental leave are not considered to be a part of Staff Headcount.

Basic Staff Headcount is measured in annual work units (AWUs). It means that anyone who worked full time for the enterprise, or on its behalf, during the entire reference year, counts as one unit. Part-time staff, seasonal workers and those who did not work the full year are considered as fractions of one unit.

Annual turnover and balance sheet

Annual turnover is determined by calculating the income that an enterprise received during the year (from selling of products or services), with value added tax (VAT) or other indirect taxes not included. The annual balance sheet total refers to the value of a company's main assets (European Union, 2015 p. 13).

1.3 Types of enterprises by European Commission

It is also important to distinguish between three types, according to their relationships with other enterprises: autonomous, partner and linked.

An enterprise is autonomous if: (European Union, 2015 p. 16)

- It is totally independent (it has no participation in other enterprises and/or no enterprise has a participation in it);
- It owns no more than 25 % of the stakes in another enterprises and/or another enterprises owns no more than 25 % of the stakes in the enterprise;
- It is not linked to another enterprise through a natural person;
- It does not draw up consolidated accounts and is not included in the accounts of an enterprise which draws up consolidated accounts.

Exceptions from the definition

An enterprise may still be considered autonomous, even though any of the below mentioned investors individually holds up to 50% of its shares: (European Union, 2015 p. 17)

- Public investment corporations, venture capital companies and business angels, with the financial involvement (stakes) below € 1.25 million.
- Universities and non-profit-making research centers;
- Institutional investors, including regional development funds;
- Autonomous local authorities (Annual budget < € 10 million and Staff Headcount < 5 000 inhabitants).

An enterprise is a partner enterprise if: (European Union, 2015 p. 18)

- It owns from 25 % till 50% of the stakes in another enterprise and/or another enterprise owns from 25 % till 50% of stakes in the enterprise;
- The voting rights do not exceed 50 %, as the enterprise is not linked;
- The applicant enterprise does not draw up consolidated accounts which include the other enterprise by consolidation, and is not included by consolidation in the accounts of the other enterprise or of an enterprise linked to it.

An enterprise is a linked enterprise if: (European Union, 2015 p. 21)

- It owns more than 50% of the stakes in another enterprise, that in the adjust market and/or another enterprise owns more than 50% of stakes in the enterprise;
- One enterprise is entitled to appoint or remove a majority of the administrative, management or supervisory body of another;
- Contract between the enterprises, or a provision in the memorandum or articles of association of one of the enterprises, enables one to exercise a dominant influence over the other;
- One enterprise is able, by agreement, to exercise sole control over a majority of shareholders' or members' voting rights in another;
- It is already required under that Directive to draw up consolidated accounts or is included by consolidation in the accounts of an enterprise which is required to draw up such consolidated accounts.

1.4 Types of enterprises within 4 chosen countries

Beyond mentioning three main types of SMEs, it is also important to differentiate common types of enterprises, which can be met in all out of 4 chosen countries. The most typical forms are:

- Limited - Liability Company (LLC);
- Joint-stock company;
- Sole proprietorship;
- Partnership (General and Limited).

The characteristics of enterprises vary across EU countries. The only forms that are the same for 4 chosen countries are:

Sole proprietorship

Sole trader is a person who carries on business exclusively by and for himself. He carries on business on his own account and is alone responsible for the profits and losses on his business. His liability being unlimited, he is personally responsible to all creditors of the business. In a large firm, a sole trader may employ large number of employees or may borrow funds to finance his expanding business (Maheshwari p. 147).

A sole proprietorship is a form of business organization in which an individual introduces his own capital, uses his own skill and intelligence in the management of its affairs and is entitled to receive all the profits and assumes all the risks or ownership.

Sole trader business is established, financed, owned and managed with almost unlimited freedom by a single individual who not only bears all the risk but also receives the entire gains therefrom (Maheshwari p. 147).

General partnership

General partnership is an "association of two or more persons to carry on as co-owners a business for profit" (Schneeman, 2010 p. 53). The main feature of this partnership, is that each of general partners has unlimited liabilities for the firm's liabilities. The disadvantage here is since all partners have unlimited liability, even innocent can become responsible for the illegal actions of other partners.

Limited partnership

This type of an enterprise has as minimum 1 general partner, who has personal unlimited liabilities and one or more limited partners, whose liabilities are connected with extent of capital contributions they have in the company.

Partnership limited by shares

This type of partnership requires two or more members for establishing. One of the members will bear full liability, and the others will have limited liability. There is no minimum capital, and the hugest difference (among other partnership) is that the members have shares, instead of quotas.

The rest of the forms will be described separately, depending on the country.

Germany

Limited - Liability Company (LLC)

Limited Liability Company in Germany is called Gesellschaft mit beschränkter Haftung (GmbH), and it is the most widespread company form in Germany. It is established by founding shareholders, who are not personally responsible for the debts of the company. This type of company can also be established by a single individual or another company. GmbH must be set by at least one person with the minimum share capital of EUR 25,000 (or EUR 12,500 during registration period).

Joint-stock company

In Germany Joint-stock company is called Aktiengesellschaft (AG), and it is an incorporated business entity. In general, an AG can be set up by any individual. The sufficient requirement for setting up an entity is the minimum share capital of EUR 50,000, which must be fully completed by the shareholders (25% must be paid at the time of formation). In terms of organization, AG must

have managing and supervisory boards, and, besides that, there should be regularly shareholders' meetings, where they will exercise their power.

Partnership

A combination of a limited partnership and a limited-liability company is called GmbH & Co. KG. This type of organization is a limited partnership where the general partner is a limited-liability company. In this case only the GmbH is fully liable for the debts of the partnership, while the limited partners are responsible only to the extent of their contribution to the partnership capital (Corporation, Lübeck Business Development, 2005 p. 5)

France

Limited - Liability Company

In France, it is called société à responsabilité limitée (SARL). The company can be established by 1 individual (EURL), or up to 100 partners or legal entities. The minimum share capital is EUR 1. It may be comprised in cash or in kind. 20% of the contributions in cash must be paid up when the company is formed, and the rest within 5 years of the creation of the company.

Joint-stock company

Société par actions simplifiée (SAS) can be established by one shareholder (an individual or legal entity). The required share capital is EUR 1, but it is recommended to have higher capital minimum. The shareholders are only responsible for debts that requires to the amount of their investment.

Private Limited Company

The société anonyme (SA) structure requires at least 7 shareholders. The minimum capital is EUR 37,000, the half of which must be paid in the period of formation of the company, and the rest amount can be paid within 5 years. The liability of shareholders is limited and connected with the amount of their contributions. In terms organization, the board of directors consists of maximum 18 members, who have to be shareholders.

Spain

Limited - Liability Company (LLC)

In Spain, LLC is called Sociedad de Responsabilidad Limitada (SL). Only 1 founding member is needed to open the company. The minimum capital is EUR 3,005.06, and must be fully subscribed and paid-up at the time that the company is established. The partners are not reliable for company's debts and their liability is limited and connected to their investment in the company. There is no limit for the amount of shareholders in the company.

Joint-stock company

The name for Joint-stock company in Spain is Sociedade anónima (SA). The minimum capital for establishing is EUR 60,101.21 and must be paid up to at least a quarter of the nominal value of each share. The shareholders of this type of the company are not responsible for the corporate debts; they are only liable for the investment they made to the company. In terms of organization, there should be only 1 founding member and regular meeting of shareholders.

The new - enterprise limited - liability company

In 2003, the new modified version of SL was introduced. The new version of Limited – Liability Company is called Sociedad Limitada Nueva Empresa (SLNE). The fiscal requirements of SLNE are simpler and this should make this type of enterprise more popular among Spanish entrepreneurs. The second difference is the number of members that is set up to 5 shareholders. On the other hand, the minimum capital is set on the same level, as it was with SL (EUR 3,005.06).

Italy

Limited - Liability Company (LLC)

In Italy, Limited – Liability Company is called as Societa a responsabilita limitata (SRL). For setting up the company of this type of an enterprise is required only 1 individual. The minimum share capital is EUR 10,000, from which 25% must be paid in the period of registration of an enterprise. In terms of organization, there are no restrictions according to the number of members.

Joint-stock company

For setting up Societa per azioni (SPA) only 1 individual is required. The minimum share capital is EUR 120,000, but this amount can be reduced to 25% (EUR 30,000) in case the company is incorporated with 2 or 3 shareholders. From the organization point of view, all shareholders benefit of a complete limited liability. The board of auditors is an essential part in the organization of this type of an enterprise.

2. SME performance and business environment

Micro, small and medium-sized enterprises play an important role in the European Union economy. Even though they are the major source of employment and valued added, at the start-up phase they face with market imperfections. At that phase, the resources of SMEs are usually restricted, that is why the European Commission pays a lot of attention to European growth, job creation, social cohesion, and overall policy to entrepreneurship.

2.1 EU policy towards SMEs

In December 2008 the European Council introduced the new comprehensive framework for the EU policy on SMEs, called “Small Business Act” (SBA), which integrates existing policy instruments and builds in particular on the European Charter for Small Enterprises and the Modern SME policy. The

purpose of implementation of SBA became the willingness of both European Commission and the Member States to improve the regulatory, administrative and business environment, and to support European SMEs.
The main aims of newly adopted policy are to: (COMMISSION OF THE EUROPEAN COMMUNITIES , 2008 p. 3):

1. Improve the overall policy approach to entrepreneurship;
2. Irreversibly anchor the "Think Small First" principle in policymaking from regulation to public service;

The new comprehensive policy strives to foster development and remove obstacles to SME growth. It does not constitute a legal requirement but a series of guidance measures that can be adapted to suit each country's specific needs (European Commission, 2016 p. 7). This guidance framework was built on political partnership between the EU and Member States around 10 key principles such are:

1. **Promoting entrepreneurship**

The EU and Member States should create an environment in which entrepreneurs and family businesses can thrive and where entrepreneurship will be rewarded.

2. **Second chance**

The EU and Member States should ensure that honest entrepreneurs who have failed in the business will get a second chance in a fast way. The "second chance" system can be defined as: (European Commission, 2016 p. 56)

- Completion of legal procedures to wind up the business in the case of non-fraudulent bankruptcy within a year;
- Discharge from bankruptcy within no more than three years in the case of honest entrepreneurs;
- Level playing field between re-starters and de novo starters, including in support schemes;
- Information and communication programs and policies aiming at eliminating the stigma of failure in the case of bankruptcy by an honest entrepreneur.

3. **Think Small First**

The EU and Member States should design rules according to the "Think Small First" principle by taking into account SMEs' characteristics when designing legislation, and simplify the existing regulatory environment.

4. **Responsive administrations**

The EU and Member States should make life of SMEs simple, while making public administrations responsive to SME needs.

5. **Access to public procurement**

Public policy tools should be adopted for SMEs' needs. The EU and Member State should apply public procurement framework to make SMEs' participation in that sector easier. To address the

market failures that SMEs face throughout their lifecycle they should make better use of the possibilities offered by Community State Aid rules to support start-ups and provide incentives for SMEs (COMMISSION OF THE EUROPEAN COMMUNITIES , 2008 p. 10).

6. **Access to finance**

Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions.

7. **Single Market**

In order to help SMEs to benefit more from the opportunities offered by the Single Market, the EU and Member States should improve the governance of Single Market policy. This will facilitate SMEs' access to patents and trademarks.

8. **Skills and Innovation**

The EU and Member States should encourage investments in upgrading of skills and all forms of innovations in SMEs.

9. **Turning environmental challenges into opportunities**

Enable SMEs to turn environmental challenges into opportunities
The EU and Member States should provide more information, expertise and financial incentives for full exploitation of the opportunities for new "green" markets and increased energy efficiency, partly through the implementation of environmental management systems in SMEs (COMMISSION OF THE EUROPEAN COMMUNITIES , 2008 p. 16).

10. **Support to internationalization**

The EU and Member States should support and encourage SMEs to benefit from the growth of markets outside the EU, in particular through market-specific support and business training activities (COMMISSION OF THE EUROPEAN COMMUNITIES , 2008 p. 17).

2.2 Future EU policy towards SMEs

According to the changing in the economy, it is important for SME policy to look further in the future in order to respond correctly to the current economic situation. Due to this, the EU and Member States are in the process of implementation of the new reference 2020 Strategy. According to the changes in policy, freshly new aims will be given to the SBA:

1. To make smart regulation real for European SMEs;
2. To pay specific attention to SMEs' financing needs;
3. To provide a broad-based approach in order to market access for SMEs easier:
    - To make the most of the Single Market for SMEs;
    - To help SMEs to face globalized.
4. To promote entrepreneurship, job creation and inclusive growth;
5. To strengthen the governance of the SBA to deliver tangible results.

2.3 Recent economic performance of SMEs

According to the latest data from European Commission, in 2015 almost 22.956 million SMEs were performing in the non-financial sector across the EU28 zone. The non-financial business sector

consists of all sectors of the economies of the EU28 or Member States, except for financial services, government services, education, health, arts and culture, agriculture, forestry, and fishing (European Commission, 2016 p. 7). In 2015 SMEs account 99.8% of all existed enterprises in that sector.

Table 1: SMEs and large enterprises: number of enterprises, employment, and value added in the EU28 in 2015

	Micro	Small	Medium	SME	Large	Total
Enterprises						
Number	21,356,252	1,378,702	224,647	22,959,600	44,458	23,004,059
%	92.8%	6%	1%	99.8%	0.2%	100%
Persons Employed						
Number	40,057,408	27,503,428	23,170,352	90,731,192	45,168,732	135,899,904
%	29.5%	20.2%	17%	66.8%	33.2%	100%
Value Added						
EUR billion	1,453,926	1,233,270	1,250,907	3,938,103	2,923,873	6,861,976
%	21.2%	18%	18.2%	57.4%	42.6%	100%

Source: (European Commission, 2016)

According to the Table 1, in 2015 SMEs employed almost 91 million of people that is 66.8% of the sector's total employment and generated EUR 3.9 trillion of value added that is 57.4% of the sector's total value added.

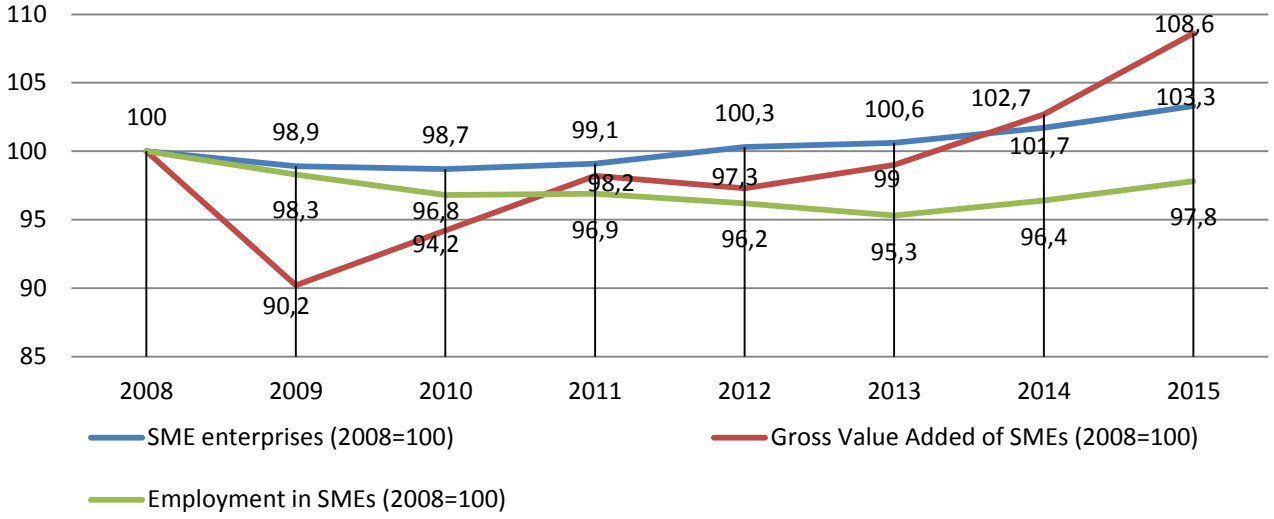
Within SMEs' categories:

- Micro enterprises accounted 92.8% of total active enterprises in the European non-financial sector, and small and medium reached only 6% and 1% respectively;
- Micro enterprises employed more people, with the value of 29.5% of the total employment in non-financial sector, small enterprises with the value of 20.2% is followed by medium, where employment reached only 17% of total employment in that sector;
- Micro enterprises generated 21.2% of the sector's total value added, medium and small generated 18.2% and 18% respectively.

Following Figure 2 shows the overall grows in gross value added, employment and number of SMEs in European non-financial sector for the period 2008-2015. Number of enterprises, gross value added and employment indicators are indexed to 100 in 2008, the year when financial crisis happened.

The figure for growth defines a moderate growth path in employment in SMEs since 2013. The employment grew by 1.1% in 2014 (in comparison with 2008) and by 1.5% in 2015. Even though the growth was noticed, the level of employment in SMEs remained below pre-crisis levels. In contrast, the gross value added indicator faced a faster growth path of 3.8% in 2014 and 5.7% in 2015, which help this indicator to exceed the pre-crisis level already from 2014.

Figure 2: SME employment and value added growth in 2014 and 2015, EU28



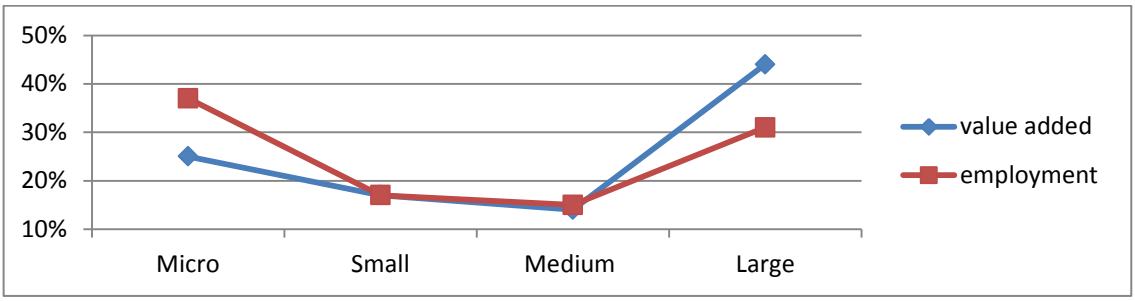
Source: (European Commission, 2016)

The Figure 3 shows the contribution of different enterprise class size to employment and value added growth.

In 2015 micro enterprises accounted the highest level of contribution to employment growth of 37%. This strong contribution reflects to some extent the relatively large share of total employment (30%) that micro enterprises represent (European Commission, 2016 p. 10). The second place took large enterprises, where the contribution grew up to 31%. Small and medium enterprises reached only 17% and 14% respectively.

In 2015 large enterprises accounted nearly half of the growth in the value added, and the level of contribution reached 44%. Micro enterprises remained the biggest contributor (25%) within all SME size classes, followed by small and medium enterprises with 17% and 15% level of the contribution.

Figure 3: Contribution to employment and value added growth, 2015



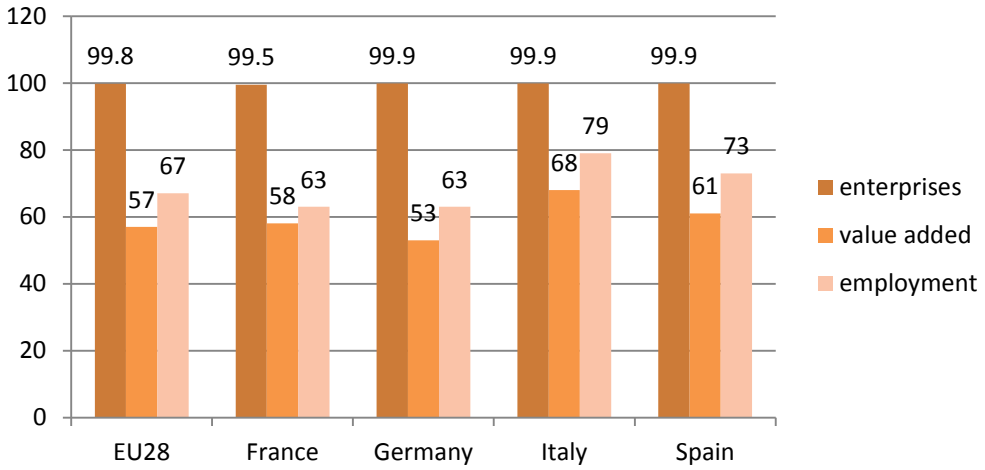
Source: (2016 p. 10)

2.4Business performance of SMEs within 4 countries

Across Member States, the contribution of SMEs in non-financial sector varies greatly across EU28.

The Figure 4 shows that in 2015 the relative contribution of enterprises in Germany, Italy and Spain is 99.9%, which is higher than total contribution in EU28, which is 99.8%. In contrast, the contribution in France is at the level of 99.5% that is 0.3% than the level at EU28.

Figure 4: Contribution of number of enterprises, value added and employment



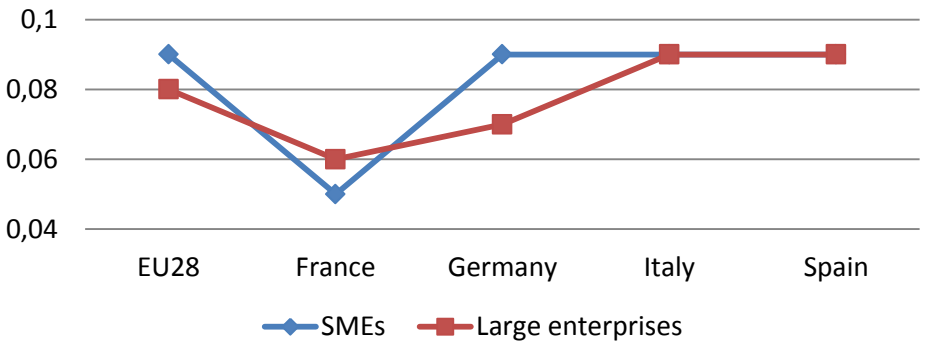
Source: (European Commission, 2016)

As well as number of enterprises, value added and employment vary around EU28 countries. EU28 value added relative contribution is 57%. The highest difference from EU28 level has Italy, where the value added contribution reached 68%. The contribution in Spain reached 61%, and the level in France is at 58%. Germany is the only country, where the value added contribution is lower than average one (EU28) and equals to 53%.

In terms of employment, the relative contribution in EU28 is at 67% level. Among 4 chosen countries only Italy and Spain have the higher level of employment (in comparison with EU28), where the contribution reached 79% and 73% relatively. Both France and Germany have the same 63% contribution.

For comparison of business environment in 4 chosen countries, it is important to mention also the profitability of SMEs and to compare their profitability with large enterprises ones. The figure below shows the difference between the profitability of SMEs and large enterprises (for the 2012-2013).

Figure 5: Difference between the profitability of SMEs and large enterprises (EUR per EUR of sales)



Source: (European Commission, 2016)

In case of 63% of Member States large enterprises were more profitable in the years 2012 and 2013. According to the Figure 5, the average profitability of SMEs stands at the level of **EUR 0.09** per EUR 1 of sales that is by **EUR 0.01** higher than the average profitability value of large enterprises –**EUR 0.08** per EUR 1 of sales.

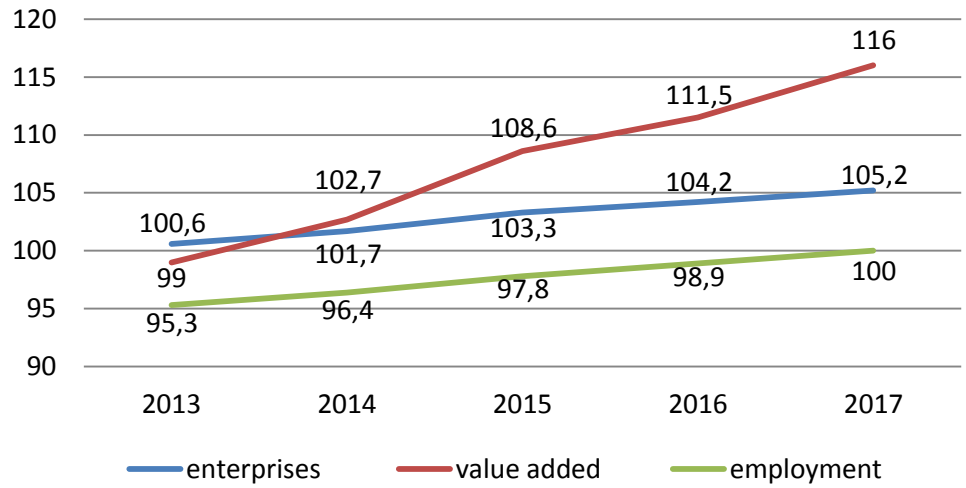
The average profitability of Germany, Italy, and Spain equals to the average profitability in overall EU28 – **EUR 0.09** per EUR 1 of sales. The only country that differs from another is France, where the value is the lowest among the EU – **EUR 0.05** per EUR 1 of sales.

In terms of large enterprises, Italy and Spain have the highest average value that stands at the level of **EUR 0.09** per EUR 1 of sales. Germany took the second place, where the value reached **EUR 0.07** per EUR 1 of sales. And France became the only country, where the average profitability of large enterprises (**EUR 0.06** per EUR 1 of sales) is higher than SMEs' value.

Basically, France became the only country (among 4 chosen) where SMEs were more profitable, than large enterprises. In contrast Germany became the only country where large enterprises were more profitable. The profitability of SMEs and large enterprises in Italy and Spain stood on the same level.

2.5 The 2016 and 2017 outlook for SMEs

Figure 6: The 2016/2017 outlook for SMEs' performance



Source: (European Commission, 2016 p. 47)

The Figure 6 shows the 2016 and 2016 outlook for SMEs performance in non-financial sector around EU28. This outlook for SME performance predicts a moderate growth in number of enterprises and employment, and relatively fast growth in value added. Nearly at all Member States, the predictions for growth in value added are considerably higher than the predictions in employment growth. Besides that, it is predicted that in 2017, due to the positive changings, the employment indicator will finally reach the pre-crisis level (100).

2.6 EU funding

The Competitiveness of Small and Medium-sized Enterprises (COSME) is an EU program that focuses on improving of the access to finance for SMEs and encouraging the competitiveness of enterprises across Europe through two main financial instruments: the Loan Guarantee Facility (LGF) and the Equity Facility for Growth (EFG).

COSME was created to support:

- SMEs that play a crucial role in in the creation of growth and employment around European Union Member States;

- SMEs that face difficulties in accessing finance.

The Loan Guarantee Facility

Through this financial instrument, European Investment Fund (EIF) guarantees to selected financial intermediaries (banks, leasing companies, guarantee institutions) to help to provide loans and leases to SMEs which they would otherwise not support. By doing this, the COSME guarantees allow the financial intermediaries to widen the range of SMEs and the type of transactions that they can finance. Also, the EIF offers guarantees for the securitization of SME debt finance portfolios with the aim of enabling financial intermediaries to generate new SME debt finance portfolios (European Investment Fund, 2014 p. 4).
The implementation of LGF:

1. EUR 535 million EU commitment;
2. Almost EUR 21 billion of EU loans;
3. 67 guarantee contracts signed that 25 countries for the whole amount of EUR 612 million;
4. Enables the support of 143,344 SMEs and 556,044 jobs;

According to the LGF portfolio in 4 chosen countries:

- LGF committed EUR 1,532.4 million (27.6% out of total commitment) to final recipients in Italy, that is the highest amount not only among 4 chosen countries by thesis, but also in the whole EU;
- France took the second place, where the amount reached EUR 1,274.4 million (23%);
- In Spain the amount committed was 1,011.4, that is 18.2% out of total amount that was committed in EU;
- The last place belongs to Germany with only EUR 553 million committed (10%).

The Equity Facility for Growth

Through this instrument, EIF invests in selected venture capital and private equity funds, which are acting as financial intermediaries and which provide funding to SMEs predominantly in their expansion and growth stages (European Investment Fund, 2014 p. 6).
It is expected that:

- 500 European firms will receive equity funding;
- The overall investment will reach EUR 4 billion;
- Further finance will be made through co-investments by other public and private sources.

3. PEST analysis

For the understanding of the overall business environment for SMEs, it is important to focus on the external macro-economic factors, which may have a significant impact on company's performance. The most commonly used and the most specific analysis is considered to be PEST analysis. The primary objective of this analysis is the identification of unavoidable macroeconomic changes that might have a significant impact on the development of a company (Marmol, 2015 pp. 8-9). The name of the PEST analysis is an acronym of the initials of 4 main variables:

1. **Political**: focuses on the political and legal trends (government regulations, monetary policy, etc.) of the country, which can affect the business environment. The basic elements that determine this variable are: political stability, trade regulations, and employment laws.
2. **Economic:** focuses on economic evolution of the country (country's GDP, inflation, interest rates).
3. **Social:** focuses on the characteristics of the population (demographics, age, cultural limitations, education, etc.) in order to understand the needs of consumers and to determine their purchasing power.
4. **Technological:** focuses on technologies innovations that can influence business performance. The determinants for this variable are: technological advancements, life cycle of excited technology, the role of Internet and government spending on technological research.

3.1 PEST analysis within 4 chosen countries

For the comparison purpose of business environments of 4 chosen countries, I will use:

1. Worldwide Governance Indicators (WGI) in the Political variable. While using this method, I will measure the overall governance of the countries, while analyzing 6 main indicators:
    - Voice and Accountability, which stands for the extent to which citizens can participate in selecting of their government;
    - Political Stability and Absence of Violence/Terrorism is used for measurement of possibility that government will be destabilized by violent means;
    - Government Effectiveness measures the quality of public services and the quality of policy formulation;
    - Regulatory Quality illustrates the ability of the government to provide proper regulations and policy, in order to promote private sector development;
    - Rule of Law stands for the extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement and property rights (Daniel Kaufmann, 2010 p. 3);
    - Control of Corruption, which is used to measure the public power that is exercised for private gains and interests.

Also, for understanding purpose of overall political environment, I will describe the recent political developments and overall political stability;

2. Inflation and unemployment rate, and Gross Domestic Product (GDP) in description of Economic indicator. The methodology data will be taken from the official OECD pages for the period from 2000 till 2016 (exemption is France, where value for unemployment rate is only available from 2003 till 2016);
3. Population in Social indicator. The data will be taken from the World Bank pages and, as well, will cover the period from 2000 till 2016. For the better understanding of social

indicator, the age range of population (the percentage out of the total population) will be compared by the latest available data;

4. The total countries' expenditures on Research and Development (R&D) in Technological indicator. To be more presided, I will distinguish the total R&D expenditures in business sector.

3.1.1 Germany

Political

Recent developments

During last several years, there were few newly adopted trends, which would definitely effect companies' business environment:

- Significant change happened in German Labor Law, when the new value of minimum wage was implemented. From 1 January 2017 the value equals to EUR 8.84 per hour; in comparison to 2016, the value has risen by EUR 0.34 per hour;
- On the 1st of January, Germany has revised the "Renewably Energy Sources Act" (EEG, 2017). The consequence from the adoption is rising of EEG rate from EUR 6.35 to EUR 6.88 per kilowatt-hour.

Political stability

In overall Germany participates in more than 70 international organizations. Germany is a stable member of the European Union, Eurozone, Schengen Area, United Nations, the G8 and the G20, the North Atlantic Treaty Organization (NATO), the World Trade Organization (WTO) and the Organization for Economic Co-operation and Development (OECD).

The most important change happened in politics, and which will effect overall political stability of the country happened on August 2015, when German Chancellor Angela Merkel announced her government's open-door refugee policy, as the result over one million of refugees have arrived to the country since the adoption of the policy. Huge amount of refugees' results in the most important issue – the migrant and refugee crisis, which lead to growth in unemployment, rising tax revenues, low interests rates, social unhappiness and huge political issues, which influence overall political stability of the country.

Besides that, the significant change in German politics will be due to the federal elections for the seats in Bundestag that will be held on September, 24 2017.

Worldwide Governance Indicators

According to the latest data, taken from the World Bank, the Worldwide Governance Indicators in 2015 in Germany were on one of the best levels, among the European countries. Except Political Stability and Absence of Violence/Terrorism indicator, which reached the around average aggregate value of 70%, all remaining indicators were on the level higher than 90%: 93.3% for

Control of Corruption, 94.2% for Government Effectiveness, 93.3% for Regulatory Quality, 92.8% for Rule of Law, 95.6% for Voice and Accountability.

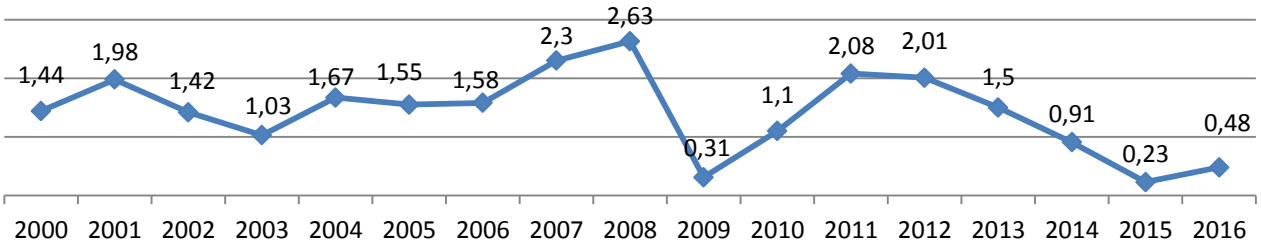
In overall, Germany has an extremely high value of the Governance, as nearly all indicators met the limits of 90-100 percentiles.

Economic

Inflation

The Figure 7 shows German annual inflation rate for the period from 2000 to 2016. For this period the lowest inflation was 0.23% in 2009 and the highest was 2.63% in 2008. The most current annual inflation rate (from 2016) is 0.48%.

Figure 7: German inflation rate (in %), 2000-2016



Source: OECD, 2017

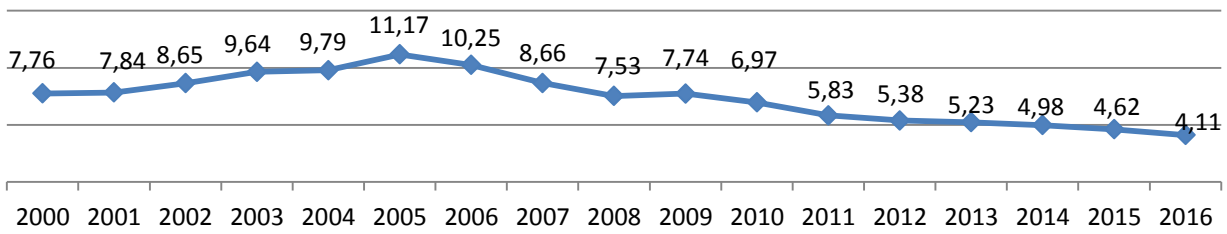
According to Tradingeconomics, In January 2017 the German inflation rate rose up to 1.9% and up to 2.2% in February. In contrast, in March there was a significant decrease by 0.6%, when the value of inflation rate became 1.6%. But already in April 2017 the value of the rate grew up to 2%.

The drivers for increasing of value of the inflation became rising energy prices and higher food costs.

Unemployment

From the Figure 8 we can see German annual unemployment rate from 2000 till 2016. The highest unemployment rate was in 2005 (11.17%), and the lowest of 4.11% in 2016. From 2009 the value of the rate is facing the stable decrease.

Figure 8: Unemployment rate (% of labor force) in Germany, 2000-2016



Source: OECD, 2017

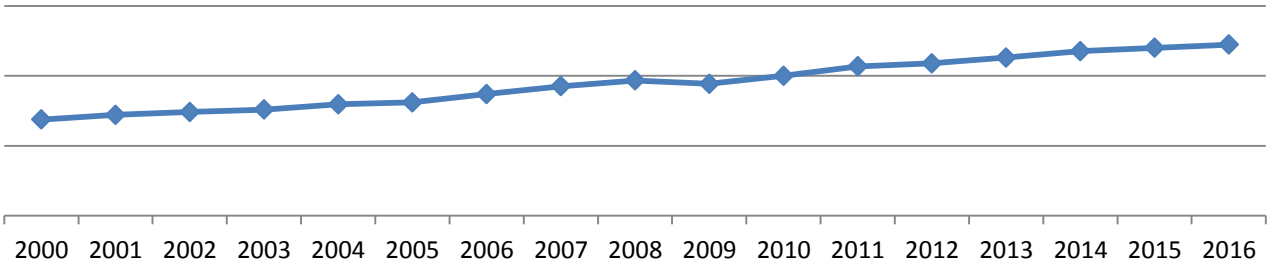
According to Tradingeconomics statistics, in the beginning of 2017 (from January to March) German unemployment will be at a stable rate of 3.9%.

Generally, the level of the unemployment in Germany is low. The country took the third place among the EU countries, following only Japan (1st place) and Czech Republic (2nd place).

GDP

Figure 9 represents the data of German GDP per capita in the period from 2000 till 2016. Generally, the value of GDP is growing stable from 2009, when the value was at the lowest level of 37,734 USD/capita. The latest data on GDP was published in 2016, when it reached the highest value of 48,908 USD/capita. The average percentage change in GDP from 2010 to 2016 is 1.038%, with the highest growth value of 1.07% in 2011 and the lowest value of 1.02% in 2015 and 2016.

Figure 9: German GDP (USD/capita), 2000-2016



Source: OECD, 2017

Social

According to the World Bank, the last concrete data for German population is available for 2015. In this year the total population was 81,679.769 thousand. The percentage of people aged from 0 to 14 was at the level of 12.886%, and the value of this indicator faces a stable continuous decrease already from 2000, when the value was 15.382%. The highest percentage value of 65.874% belonged to the people aged from 15 to 64. And the rest 21.24% had people ranged from 65 years and above.

Technological

Germany is one of the worldwide leaders in technologies and innovations. It is considered to be the Innovation leader and the leader of European countries in terms of the patents.

According to statistics, in 2015 the country spent EUR 87,188 million on total expenditures on Research and Development, which are one of the highest in the world. In 2015 Germany spent almost 68% of total expenditures (EUR 59,058 million) on business enterprise sector. And the rest amount was used for government sector, higher education sector, and private non-profit sector.

3.1.2 France

Political

Recent developments

The most significant change happened in France on 30, September 2015, when the new financial bill was adopted. The main changes were:

1. In Corporate Income Tax:
- The elimination of surtax on CIT till the end of 2016: companies with turnover more than EUR 250 million will not more be the subjects to 10.7% surtax (of the total tax liabilities). This results in decreasing of CIT from 38% to 34.43%;
- Increasing of special Social Solidarity Contributions (SSCs): French companies are liable to pay 0.16% special SSCs of their turnover. The rebate that in 2015 equaled to EUR 3.25 million will be increased to EUR 19 million in the end of 2016;
2. In Individual tax:
- The implementation of "pay as you earn" system: in 2016, only taxpayers who earn more than EUR 40,000 in 2014 would be subject to the electronic filing requirement; this amount would be reduced to EUR 28,000 in 2017 and EUR 15,000 in 2018, and would apply to all taxpayers as from 2019. Payment of income tax also would have to be made electronically. As from 1 January 2016, electronic payments would be required where the tax due is EUR 10,000; this threshold would be decreased to EUR 2,000, EUR 1,000 and EUR 300 for payments made as from 1 January 2017, 2018 and 2019, respectively (Deloitte, 2015).
3. In Value Added Tax:
- Reducing of threshold from EUR 100,000 to EUR 35,000: sellers from other EU Member States will be subjects to VAT as soon as the total amount of sales (realized in France) exceeds EUR 35,000.

Political stability

Generally France is a member of more than 50 international organizations. It is a founding member of the United States, and one of the major players in the European Union. Also, this country is a part of the G8 and G20, WTO, OECD, NATO, Eurozone, and Schengen Area.

As well as Germany, France is suffering from migrant and refugee crisis, which has a huge impact on overall political stability of the country.

Besides that, the new presidential elections that will be in spring 2017, will affect the politics of France significantly.

Worldwide Governance Indicators

In 2015, nearly all the Worldwide Governance Indicators in France were on the high value. Except Political Stability and Absence of Violence/Terrorism indicator, which reached the around average aggregate value of 56.7%, all remaining indicators were on the level higher than 80%: 88% for Control of Corruption, 89.4% for Government Effectiveness, 83.7% for Regulatory Quality, 88.5% for Rule of Law, 86.2% for Voice and Accountability.

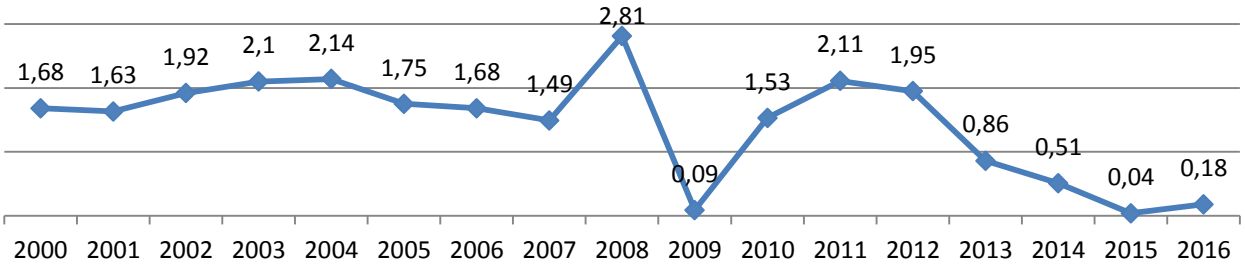
Generally, French Governance is considered to be on the high level, as nearly all indicators met the limits of 75-90 percentiles.

Economic

Inflation

The Figure 10 represents the data for French inflation rate for the period 2000 – 2016. The highest value was 2.81% in 2008, and the lowest – 0.09% in 2009. After the crisis that happened in Europe, there was a stable decrease in the value of inflation from 2011 (2.11%) till 2015 (0.04%), but in 2016 the rate has risen by 0.14%, and became 0.18%.

Figure 10: French inflation rate (in %), 2000-2016



Source: OECD, 2017

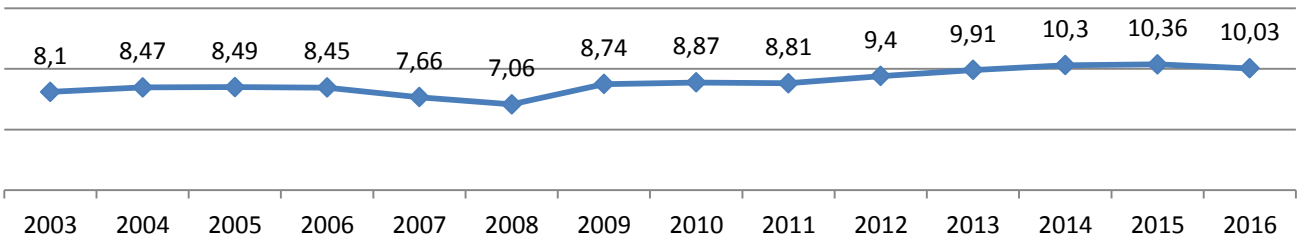
According to Tradingeconomics, In January 2017 the French inflation rate will face a significant change, while rising up to 1.3% year-on-year. The following months (February, March, and April) will have slightly lower rates of 1.2%, 1.1%, and 1.2% respectively.

The reasons of rate becoming higher are considered to be increasing in prices for electricity and food, and also the declining prices in manufactured products.

Unemployment

The value for French annual unemployment rate from 2003 till 2016 is represented in the below mentioned Figure 11. The highest unemployment rate was recently in 2015 (10.36%), and the lowest 7.06% was in 2008. From 2011 (8.81%), the rate of unemployment is rising up to the highest value of 2015, and then decreasing by 0.06% in 2016, becoming the most current value of 10.03%.

Figure 11: Unemployment rate (% of labor force) in France, 2003-2016



Source: OECD, 2017

According to Tradingeconomics statistics, in January 2017 French unemployment rate is expected to decrease more and become 10%.

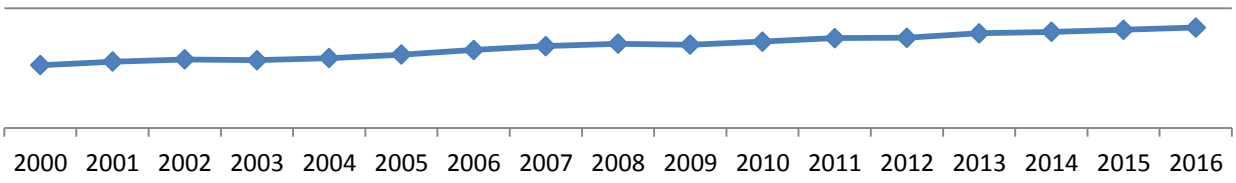
In overall, the value of French unemployment is one of the highest among the EU. France is only one country from Italy, which has almost the highest rate (11.8%) among European countries.

The main reason for the high percentage of unemployment is considered to be the existence of "dual labor market" in France. It means that insiders are paid with higher wages and have proper job security, while others (especially people up to 25 years old) can get only short-term work or stay unemployed.

GDP

Figure 12 represents the data of German GDP per capita in the period from 2000 till 2016. Generally, the value of GDP is growing stable from 2009, when the value was at the lowest level of 34,795 USD/capita. The latest data on GDP was published in 2016, and in that year the indicator reached the highest value of 41,945 USD/capita. The average percentage change in GDP from 2010 to 2016 is 1.027%, with the highest growth value of 1.0494% in 2013 and the lowest value of 1.0155% in 2014.

Figure 12: French GDP (USD/capita), 2000-2016



Source: OECD, 2017

Social

According to the World Bank, the total population of France in 2015 was 66,538.391 thousand. From this amount 18.484% belonged to people aged from 0 to 14. The highest percentage of 62.396% had people from 15 to 64 years, and the rest 19.121% was for the people over 65 years.

The only indicator that faces a growth is the indicator for people aged over 65. The growth of the rate is continuous from 2000 (16.102%) till current time. The other rates face declines: for people at the range 0-14, the decline is continuous from 2013 (18.511%) till 2016, and for the range of 15-64, the decline starts from 2000 (65.107%) and keep slightly decreasing to current 2016 rate.

Technological

According to the statistics, in 2015 French Research and Development expenditures were EUR 48,632.42 million. From the total value 65.1% (EUR 31,668.184 million) were used in business enterprise sector, and the rest amount covered government, higher education, and private non-profit sector.

3.1.3 Italy

Political

Recent developments

The most significant recent developments are connected with the implementation of new financial bill on 7, December 2017. The most crucial changes are:

1. In CIT: for the 2017 fiscal year, the CIT rate will be reduced by 3.5% and the surcharge of 3.5% will be provided for banks and financial entities;
2. In VAT: from 2017 companies, which are the members of the European VAT Group will be taxed a single taxable person. It means that all transaction between companies from this group will be exempted from VAT;
3. The implementation of territorial tax system: in 2017 any form of foreign incomes are sheltered from Italian taxation, providing an annual charge of EUR 100,000.

Political stability

Italy is a member of 21 International organizations. This country is a founding member of the United Nations, the European Union, NATO and G7 nations. It also consists in such organizations, as: G8 and G20, OED and WTO.

Italian political stability is suffering from European migrant and refugee crisis, as in 2016 almost 125,000 migrants entered the country.

Worldwide Governance Indicators

According to the latest data for the World Bank, most Italian Worldwide Governance Indicators fell to the around average 50-75 percentiles criteria: 57.2% for Control of Corruption, 69.2% for Government Effectiveness, 58.1% for Political Stability and Absence of Violence/Terrorism, 73.6% for Regulatory Quality, and 64.4% for Rule of Law. The only indicator that fell behind these criteria became Voice and Accountability, when in 2015 it reached 77.3%.

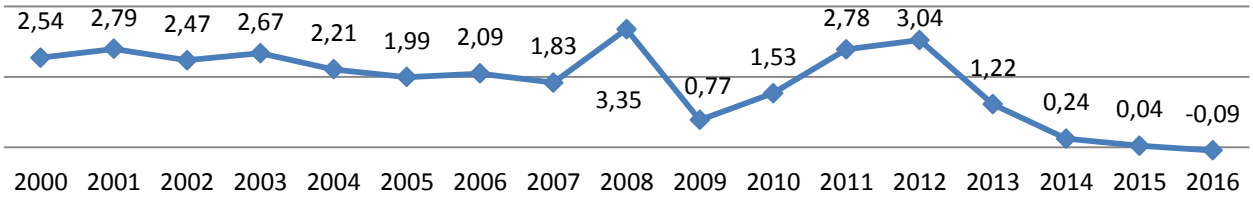
Even though one indicator faced a high value, the overall Governance of Italy is considered to stand on above average level, as compared to all EU countries.

Economic

Inflation

The Figure 13 illustrates the value of Italian annual inflation rate for the period 2000 – 2016. The highest value was 3.35% in 2008, and the lowest is the current value of -0.09% in 2015. It can be seen, that after the crisis happened in Europe in 2008, the value fell significantly from the highest one to 0.77% (2009), and again rose to 3.04% in 2012. In overall, from 2012 till the current time, we can see a clear declining trend in Italian inflation.

Figure 13: Italian inflation rate (in %), 2000-2016



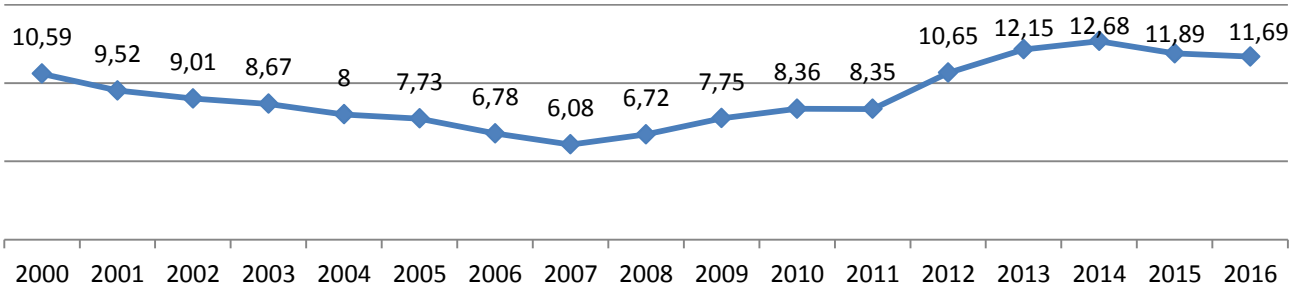
Source: OECD, 2017

Consumer prices in Italy are predicted to rise up to 1.8% year-on-year in April of 2017, following a 1.4% increase in March and above market expectations of 1.7%, according to preliminary estimates (TRADINGECONOMICS, 2017).

Unemployment

The Figure 14 gives information about the Italian unemployment rate during the period from 2000 till 2016.

Figure 14: Italian unemployment rate (in % of labor force), 2000-2016



Source: OECD, 2017

According to the figure, the lowest rate was 6.08% in 2007 and the highest 12.68% rate happened in 2014. From 2000 to 2007 unemployment in Italy faced a continuous slight decline, while after 2007 there was an upward trend straight to the highest value in 2014. The most recent value is 11.69% (in 2017), after declining from 11.89% that was met in 2015.

According to Tradingeconomics statistics, in January 2017 Italy's seasonally jobless rate is forecasted to increase by 0.11%, while becoming 11.8%. And the market expectation for February and March are 11.5% and 11.7% respectively.

In overall, from the terms of unemployment, Italy is the country with almost the highest value among the European Union. This country is followed only by Spain and Greece, where the rates are significantly higher.

As well as it was with France, the reason for high unemployment rate in Italy is considered to be the "dual labor market", where young people are not receiving temporary jobs, that is why there is a huge percentage of unemployment in that sector.

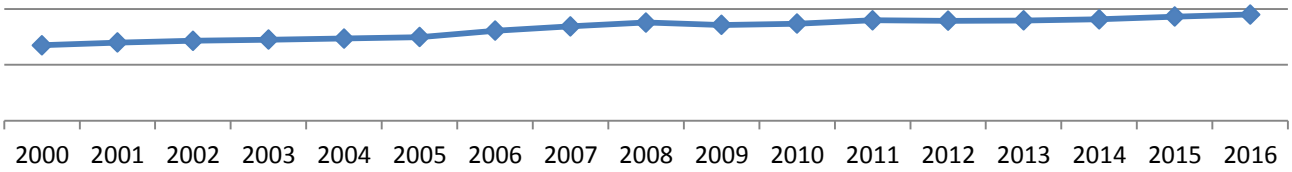
GDP

From the Figure 15 we can see Italian annual GDP per capita as for the period from 2000 to 2016.

Generally, the value of GDP per capita in Italy is growing stable from 2000 till 2016, except the after-crisis value of 34,269 USD/capita (in 2009) and the value of 2012, when it fell by 178 USD/capita (in comparison with 2011) and reached only 35,757 USD/capita.

The most current 2016 value is 37,964 USD/capita, and the most current average percentage change in GDP is 1.015% from 2010 to 2016, while the lowest was 0.995% in 2012 and the highest – 1.026% in 2015.

Figure 15: Italian GDP (USD/capita), 2000-2016



Source: OECD, 2017

Social

According to the World Bank, the total population of Italy in 2015 was 60,730.582 thousand of people. The highest percentage value of 63.88% belonged to the 15-64 age group, while the lowest of 13.71% was in the 0-14 age group. The only group, which faced continuous growth from 2000 till current time, became the over 65 age group, with its value of 22.41%. The other two rates faced a slight decline in the value, starting from 2000, when the values were 67.585% (15-64) and 14.338% (0-14).

Technological

According to Eurostat, in 2015 the total Italian R&D expenditures reached the value of EUR 21,892 million, from which 55.3% (EUR 12,106.675 million) were used in the business sector, and the rest amount was invested in government, higher education, and private non-profit sectors.

3.1.4 Spain

Political

Recent developments

In December, 2016 Spain adopted new fiscal bill, where the changes according to taxation were implemented:

1. In Corporate tax: In 2016, for companies which turnover exceeds EUR 60 million, the offset of 25% was capped. For companies with turnover between EUR 20 million and EUR 60

million, the 50% was capped, and for those, with turnover below EUR 20 million, the 60% (predicted to increase up to 70% in 2017) offset was used;

2. For double tax payers, whose turnover is EUR 20 million or more, the 50% offset was used, under their total tax liabilities;
3. The new electronic VAT system was introduced, as regarding to near real-time basis.

Political stability

Spain is one of the major participants in the European Union and the founding member of the United Nations. Generally, it is a member of numerous international organizations, such as WTO, OECD, and NATO. It is also a member of Eurozone and Schengen Area.

The Spanish political stability suffers from the non – stable economy, which main indicators will be described below.

Worldwide Governance Indicators

The values of Worldwide Governance Indicators in Spain are standing on different levels. In 2015 the above average level received Political Stability and Absence of Violence/Terrorism indicator, where the value was the lowest (57.1%) and Control of Corruption, with the value of 69.2%. All other indicators received the high values: 75% for Regulatory Quality, 78.4% for Rule of Law, 78.8% for Voice and Accountability, and the highest value of 85.1% faced Government Effectiveness indicator.

In overall, Spanish Governance is on the high level, even though some indicators did not meet the limits of 75-90 percentiles.

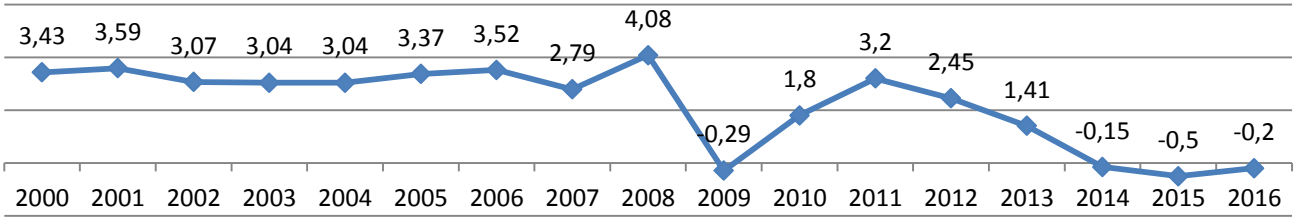
Economic

Inflation

From the Figure 16, we can see the statistical data for Spanish inflation rate as for the period from 2000 to 2016. The highest value during this period was in 2008, when it rose up to 4.08%. In contrast, the lowest value was in 2015, when the value fell to -0.5%.

According to this figure, we can see that Spain faced a continuous decline from 2011 (3.2%) till 2015, when the rate was the lowest. The most current data is from 2016, and the value of inflation in that year rose up by 0.3%, resulting in -0.2%.

Figure 16: Spanish inflation rate (in %), 2000-2016



Source: OECD, 2017

According to Tradingeconomics, the consumer prices in Spain are expected to rise up to 3% year-on-year in the beginning of 2017 (January and February), following by the value of 2.3% in March and 2.6% in April.

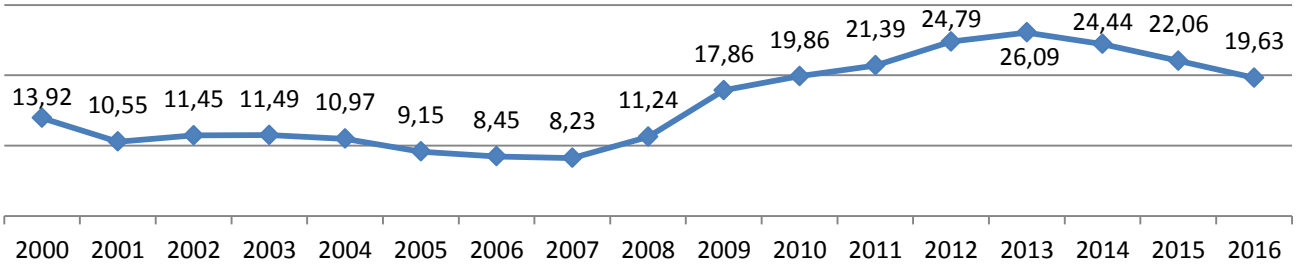
The rise was mainly due to higher prices of tourist services during the Easter week while electricity cost was stable compared to a fall a year ago (TRADINGECONOMICS, 2017).

Unemployment

The Figure 17 shows the value of Italian unemployment rate during the period from 2000 till 2016.

As it seen from the Figure 17 below, the lowest rate was 8.23% in 2007 and the highest 26.09% rate happened in 2013. The 2007-2013 period faced a significant growth, when in 6 years the value grew up from the lowest to the highest rate. The most current value is 19.63% (in 2016), as there was a decline in unemployment in Spain from 2013.

Figure 17: Unemployment rate (in % of labor force) in Spain, 2000-2016



Source: OECD, 2017

According to Tradingeconomics statistics, in January 2017 the Spanish unemployment rate will remain declining (18.63%), but in February it is forecasted to increase by 0.12%, resulting in 18.75% rate.

Generally, Spain took the second place from the end, according to the unemployment statistics, while the first place belongs to Greece, where unemployment rate is the highest along the European Union and stands at the level of 23.3% (for 2016).

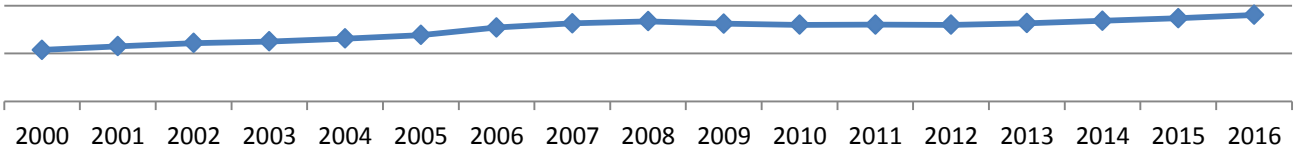
The reason for high unemployment is mainly considered to be the Spanish rigid laws, which resulting in existence of “black economy”. It means that it is hard for employers to hire people, so they prefer short-term contracts with payments in cash and a lot of work “off the books”.

It is also important to mention about the historical side of high unemployment in Spain. Between 2000 and 2009, Spain accounted around 30% of all new houses built in the European Union and the value of home ownership rose to 85%. When this bubble burst, more than 3 million jobs were lost, while half of this amount related to construction sector.

GDP

Spanish annual GDP per capita as for the period from 2000 to 2016 is shown at the Figure 18 that we can see below.

Figure 18: GDP (USD/capita) in Spain, 2000-2016



Source: OECD, 2017

From this figure we can see, that there was a continuous decline in 2009 and 2010, when the value was 32,420 USD/capita and 31,994 USD/capita respectively. From 2011 till 2016, the value was facing positive changes, except 2012, when the value fell by 81 USD/capita with comparison to 2011.

The most current GDP value is 36,144 USD/capita (2016) and the most current average percentage change for the 2010-2016 period is 1.0158%. The lowest 0.986% change was in 2012 and the highest 1.04% change was in 2016.

Social

According to the World Bank, the total population of Spain in 2015 was 46,443.993 thousand. As well as with the previous countries, the highest percentage value of 66.329% belonged to the people of 15-64 ages. The value of people aged from 0 to 14 years stood at the level of 14.882%, while 18.789% was for people over 65.

Unlike all other countries, the age group of 0-14 faced a significant growth from 2005, when the value was 14.338%, till current time. For people over 65, an upward trend remained unchanged from 2004 when the rate reached 16.624%. And the only declining indicator became age group of 15-64, where the value starting to decline from 2005 (69.053%).

Technological

Spanish R&D expenditures reached the value of EUR 13,171.807 million in 2015. 52.5% from the total expenditures (EUR 6,920.014 million) were used in the business sector, and the rest amount was invested in government, higher education, and private non-profit sectors.

3.2 Comparison of 4 chosen countries within PEST analysis

Political

According to the Table 2, in 2015 Germany's Governance was the best one, as all 6 indicators reached the highest values, considering 4 chosen countries. Even though, Italy received higher value in the Political Stability and Absence of Violence/Terrorism indicator (with comparison to France, and Italy), all others indicators stood on the lowest level. The second place belongs to France, where the indicators were slightly lower with comparison to German's. And the third place belonged to Spain, where nearly all indicators reached an above average level.

Table 2: Worldwide Governance Indicator for Germany, France, Spain, and Italy, 2015

Worldwide Governance Indicator 2015	Germany	France	Spain	Italy
Control of Corruption	93.3	88	69.2	57.2
Government Effectiveness	94.2	89.4	85.1	69.2
Political Stability and Absence of Violence/Terrorism	70	56.7	57.1	58.1
Regulatory Quality	93.3	83.7	75	73.6
Rule of Law	92.8	88.5	78.4	64.4
Voice and Accountability	95.6	86.2	78.8	77.3

Source: The World Bank, 2017

Economic

Table 3: Comparison of economic indicators of 4 countries

Inflation rate (in %)				
Year	**Germany**	**France**	**Italy**	**Spain**
2016	0,48	0,18	-0,09	-0,2
Unemployment rate (% of labor force)				
Year	**Germany**	**France**	**Italy**	**Spain**
2016	4,11	10,03	11,69	19,63
GDP (USD/capita)				
Year	**Germany**	**France**	**Italy**	**Spain**
2016	48908	41945	37964	36144

Source: OECD, 2017

Table 3 depicts the comparison of annual inflation, unemployment rate and GDP/capita in 4 chosen countries. According to this table, the country with the best inflation rate became France, where the rate was 0.18%, followed by Germany, where the rate was higher by 0.3%. Two remaining countries received the worst negative rates of -0.09% in Italy (3rd place) and -0.2% in Spain (last place). According to unemployment rate and GDP, Germany faced the best scores of 4.11% and 48,908 USD/capita, followed by France (10.03% and 41,945 USD/capita), Italy (11.69% and 37,694 USD/capita) and Spain (19.63% and 36,144USD/capita) that received significantly higher scores in unemployment and lower in GDP/capita.

In overall, even though Germany took the second place in inflation rate (among 4 chosen countries), we can say that the overall economic performance of the country was on the highest level, followed then by France, Italy, and Spain.

Social

Table 4 illustrates the total population of the countries, with the percentage score of the aged group of 0-14, 15-64, and over 65 years. The active working aged group is the one from 15 to 64 years. According to this indicator, Spain was the best country with the value of 66.329% of people from this group. Germany, which indicator was lower by 0.455%, reached the second best value of 65, 874%. Italy and France had much lower rates of 63.88% and 62.396% respectively.

Table 4: Comparison of population of 4 chosen countries

Population (thousands)				
Year	**Germany**	**France**	**Italy**	**Spain**
2015	81,679.769	65,538.391	60,730.582	46,443,993
0-14	12.886%	18.484%	13.71%	14.882%
15-64	65.874%	62.396%	63.88%	66.329%
Over 65	21.24%	19.121%	22.41%	18.789%

Source: The World Bank, 2017

Technological

Table 5 represents the data for Research and Development expenditures and the percentage score of expenditures, which were spent in business sector. From this data, we can see that Germany took the first place among 2 indicators, with the highest total value of EUR 87,188 million, from which 68% were used in business sector. The second place belongs to Italy, with the level of EUR 48,643.42 million (55.3% for business sector). Spain, which total value is much lower than Italy's (EUR 21,892 million and 52.5%), took the third place. And the last country became France, where the total expenditures reached only EUR 13,171 million, 65.1% out of which were used in business sector.

Table 5: Comparison of R&D expenditures of 4 chosen countries

R&D expenditure (million EUR)				
Year	**Germany**	**France**	**Italy**	**Spain**
2015	87,188	13,171	48,643.42	21,892
% spent in business sector	68%	65.1%	55.3%	52.5%

Source: Eurostat, 2017

4. Factors influencing performance of SMEs

4.1 Taxation

The major point of the business sector is considered to be government regulations to the taxation. In spite of the size, form or sector, every business should comply with the relevant government regulations, which includes taxation.

Ideally, a country's tax system should be neutral with regard to its impact on business decisions, including the creation, form and growth of SMEs (OECD, 2015). However, many tax systems throughout the world affect SMEs with their burdensome policy.

4.1.1 Specifications of basic tax forms

Corporate income tax

Corporate income tax (CIT) is basically tax, which company has to pay on its profit. OECD defines CIT as, tax levied on the net profits (gross income minus allowable tax reliefs) of enterprises.

Also covers taxes levied on the capital gains of enterprises.

Personal income tax

Personal income tax (PIT) is a tax, which people have to pay on the money they earn. Also, OECD defines PIR as, tax levied on the net income (gross income minus allowable tax reliefs) and capital gains of individuals.

Value added tax

Value Added Tax (VAT) is a general, broadly based consumption tax assessed on the value added to goods and services. It applies more or less to all goods and services that are bought and sold for use or consumption in the European Union. Thus, goods which are sold for export or services which are sold to customers abroad are normally not subject to VAT. Conversely imports are taxed to keep the system fair for EU producers so that they can compete on equal terms on the European market with suppliers situated outside the Union (European Commission, 2016).

Value added tax is (European Commission, 2016):

- General tax that applies to all commercial activities involving the production and distribution of goods and the provision of services. However, if the annual turnover of this person is less than a certain limit (the threshold), which differs according to the Member State, the person does not have to charge VAT on their sales;
- Consumption tax because it is borne ultimately by the final consumer. It is not a charge on businesses;
- Charged as a percentage of prices, which means that the actual tax burden is visible at each stage in the production and distribution chain;
- Collected fractionally, via a system of partial payments whereby taxable persons (i.e. VAT-registered businesses) deduct from the VAT they have collected the amount of tax they have paid to other taxable persons on purchases for their business activities. This mechanism ensures that the tax is neutral regardless of how many transactions are involved;
- Paid to the revenue authorities by the seller of the goods, who is the "taxable person", but it is actually paid by the buyer to the seller as part of the price. It is thus an indirect tax.

Withholding tax

Withholding tax is an income tax that is withheld from employees' paycheck and paid directly to local and federal taxing authorities by the employer. Also, it is a tax levied on income (interest or dividend) from securities owned by nonresident as well as other income paid to nonresident of a country.

Payroll tax

OECD defines payroll as, tax paid by employers, employees or the self-employed, either as a proportion of payroll or as a fixed amount per person, and that do not confer entitlement to social benefits.

Payroll tax deductions may include:

- Federal income tax withholdings;
- Social Security tax withholdings;
- Medicare tax withholdings;
- Additional Medicare tax withholdings;
- State income tax withholdings;
- Various local tax withholdings (district, city, country taxes, etc.)

It is important to mention, that every country has different types of payroll deductions. But above mentioned deductions are considered to be common ones.

4.1.2 Taxation framework of SMEs

The way in which SME income is taxed depends on:

1. Form of business:
   - Self-employment, employment;
   - Formal (incorporated), informal (unincorporated).
2. The way of distribution of income:
   - Dividends, capital gains, compensation of labor.

The income of SMEs may be taxed at the personal level only (single-level taxation), or at both entity and personal level (double-level taxation). Typically, in most countries, unincorporated entities are taxed only at personal level, when incorporated entities are taxed at both corporate (at first) and personal level (when profits are distributed).

Single-level taxation

Single level taxation (taxation at the personal level) only applies to unincorporated entities. Unincorporated SMEs may include:

- Sole proprietors with or without employees;
- Businesses with two or more owners (general or limited partnership structures).

In this case, net business income flows through to the owner and is taxed at the personal level according to the relevant personal income tax structure. In certain cases, income from incorporated businesses may also flow-through to the owners and be treated as their personal income for tax purposes (companies in New Zealand and S-corporations in United States) (OECD, 2015 p. 35).

Almost in all countries, unincorporated net business income is treated together with other personal taxable incomes, according to the country's tax rates. However, in countries with dual income tax structure (e.g. Finland, Denmark and Sweden) unincorporated net business income is divided into:

1. Business component (typically based on return on capital), taxed at business income tax rates;
2. Return on labor that is included with other income from labor and taxed accordingly.

As there is diversity within the types of SMEs, in term of: size, turnover, sector in which entity is involved, there is also a difference in the taxable income levels. Consequently, the applicable marginal tax rates (personal income tax) and social security contributions (SSCs) (level of average wage) payable vary considerably between SMEs.

Double-level taxation

Double taxation most commonly applies to incorporated entities, where the separate legal status of the entity confers a separate status for tax purpose. In this case, SMEs are treated at both the entity level and again at the personal level when profits are distributed, either as dividends or capital gains (OECD, 2015 p. 43).

However, in some countries unincorporated businesses can also be taxed at double-level:

- Trust funds in Hungary, New Zealand, Mexico and Switzerland;
- Limited partnership taxed as corporations in India.

Taxation at the entity level

At double-level taxation, net income of incorporated SMEs is taxed first under the corporate tax system (applying corporate income tax). There are a lot of approaches that are used in applying corporate income tax (CIT) rates in taxation of SMEs (OECD, 2015 pp. 46-47):

1. Lower tax rates on first tranche(s) of profits, regardless of total income level;
2. Withdrawal of tax relief at higher profit levels;
3. Reducing CIT rates for corporations with income below a certain level;
4. Eligibility for small-business rates determined by non-income criteria instead of in addition criteria.

For entities that are taxed under basic CIT rates, the average statutory rate at different levels of income will be the same as the marginal statutory rate. For those entities subject to different rates based on their level of income, the average rate will increase as income passes the relevant thresholds.

Taxation at the personal level

After first level of taxation, the income from incorporated SMEs should be taxed at the personal level after been distributed to the owner. In this case, the form of taxation depends on the way

the income is received by the owner and also any existence of integration mechanism between corporate and personal level of taxation.

There are three main forms in which income can be distributed:

1. The form of dividends

The taxation of dividend income at the personal level will differ due to the country's corporate and personal integration. Under a classical income system, dividend income is included together with other income and is taxed at personal rates, with no integration relief for corporate tax paid. Under this system there is double-taxation (OECD, 2015 p. 49).

2. The form of capital gains

If post-corporate tax profits of SME are reinvested, the resulting capital gains may be taxed again in the personal level, subject to any preferences applicable to the sales of shares of SME. Capital gains are typically taxed on realization at their nominal level. In many countries, shares that have been held for longer than a set period may benefit from reduction or exemption from capital gains taxation. Either part or all of the gains from the sale of shares may be included in taxable income and may be subjected to tax at personal rates, special capital rates, or withholding rates (OECD, 2015 pp. 49-50).

3. The form of compensation of labor

Where labor income is a deductible expense for the business, no corporate income tax will be paid at the entity level. At the personal level, labor income will be taxed at the applicable marginal rate on labor income and will also be subject to employee and employer SSCs (OECD, 2015 p. 50).

4.1.3 Actual tax situation within 4 chosen countries

Germany

Corporate tax

Corporation tax is a direct tax that must be paid by:

- All incorporated business;
- Associations of persons;
- Conglomerations of property.

However, sole proprietorships and partnerships are not taxed on corporate level (they are taxed on personal level). Full corporation tax liability has companies that are founded and managed in Germany. This means that their domestic and foreign earnings are all taxable in Germany.

Taxable period and tax base

- The taxable period: the calendar year, ending on December 31;
- Every quarter, entities are obliged to make payment of CIT and trade tax (on 10 March, 10 June, 10 September and 10 December);

- The basis of taxation: the income earned by the corporation during the calendar year.

Tax rate

Typically, the standard CIT rate in Germany is 15%. However, there is an aggregate tax rate, which is 15.825% and which combines the solidarity surcharge of 5.5% that is levied on the amount of CIT. Entities in Germany are also taxed within municipal trade tax. Foreign businesses which do not have their registered office or place of management in Germany but receive income which is allocated to a German permanent establishment are also subject to trade tax. The basic trade tax rate is 3.5% which is supplemented by the application of a multiplier fixed by the competent municipality and that varies from a minimum rate of 200% up to around 500%. Thus, the effective trade tax rate ranges from 14% to around 19%. As a result, corporations are subject to CIT (including solidarity surcharge) and trade tax at a combined rate between 29.825% and 34.325% (Squire Patton Boggs, 2015).

Table 6: Corporate income tax rate in Germany

CIT rate	**15%**
Solidarity surcharge	**5.5% of CIT rate**
Aggregate CIT rate	**15.825%**
Trade tax	**14% - 19%**
Effective CIT rate	**29.825% - 34.325%**

Source: Deloitte, 2016

Personal income tax

Personal income tax (PIT) applies only to employed people, who earn wages. In this case, the tax is progressive. It means, the higher the income of the person, the higher tax rate the employer should pay.

Subjects (individuals) to personal income tax are:

1. “Permanent residents” of Germany, who are acting as employee or self-employee.
2. Non-residents, who are employed in Germany, pay tax on income earned in this country.

Resident individuals will be taxed on both income earned in Germany and from overseas. Such taxable incomes include, for example (Squire Patton Boggs, 2015 p. 3):

- Income from business including capital gains on sale of shares in a corporation held by the individual as private assets with a minimum shareholding of 1% within the previous five years;
- Rental income;
- Income from employment and self-employment;
- Investment income (e.g. dividends, interests).

Non-residents are taxed on certain types of income received (Squire Patton Boggs, 2015 p. 3):

- Income from business related to a domestic permanent establishment or a permanent agent in Germany;
- Capital gains on the sale of shares in a corporation if the non–resident individual holds a minimum of 1% of the corporation's capital in the previous five years;
- Income from the lease or sale of domestic real estate;
- Income from employment and self-employment to the extent that the personal service is performed or used in Germany;
- Certain income from investment of capital (e.g. dividends if the debtor of the dividends has a domestic residence or business seat).

Taxable periods

- The deadline of submission of financial statements is 31st of March;
- An individual, who is self-employed, must provide financial statements quarterly;
- An employer, who deducts tax from the wage of employees, transfers tax immediately to the tax authorities.

Tax rate

In Germany, there is a different tax base for single and married personalities. Married couples can choose whether to be assessed either separately or jointly.

Table 7: Personal income tax rate in Germany

Annual income (in EUR)	Tax rate
Up to 8,652	0%
8,653 – 53,665	14%
53,666 – 254,446	42%
Over 254,447	45%

Source: (European Union, 2017)

The tax rate varies from 14%, which applies to individuals whose income does not exceed EUR 8,652 (17,304 for married couples) to a top rate of 45% for incomes that exceed EUR 254,447 (EUR 5098,894 for married couples). In addition, solidarity surcharge (5.5% of the person's income tax) applies in personal taxation. Also, if the person is a registered member of "approved" church, church tax may be applied as the value of either 8% or 9% of your income tax.

There is a 25% tax rate (26.375% with solidarity surcharge) that is used for taxation of income from private capital investments.

In terms of non-residents, the tax rate of 15% (15.825 with surcharge) is used on:

- Income from artistic, entertainment, or sporting, etc.;
- Income from patents, copyrights, etc. (rights to use);

Value added tax

There are two main reasons for entities to register for VAT:

- If the turnover from sales in the previous year was more than €17,500;
- If the turnover from sales in the current year is expected to exceed €50,000.

Tax rates

1. Currently, the standard VAT rate for supplies of goods or services in Germany is 19%.
2. A reduced rate of 7% exists for certain commodities, such as food, medicines, entertainment, local public transportation, hotel accommodation.
3. Intra-EU imports and exports to non-EU countries are zero-rated. Some services (such as banking, insurance premiums, health services, and come cultural and educational services) are completely VAT-exempt.

Taxable periods

The taxable period in Germany depends on the entity's level of sale. It is then payable to the tax authorities within 10 days after the VAT reporting period end (monthly or quarterly). For most goods, the reporting report ends in the time of delivery. For services, it is the completion of those services.

Withholding tax

From 2008, capital income (dividends, interest and capital gains) is taxed by withholding tax.

Dividends

Generally, flat rate of 25%, plus 5.5% solidarity surcharge (giving in the end an effective rate of 26.375%) is applied to dividends. There is a possibility for non-resident corporations, to refund 40% of the tax withheld, giving rise to an effective tax rate of 15.825%, unless the rate is reduced under a tax treaty.

Interest

Interest payments are generally exempt from withholding taxation (0%). However, only interest paid by banks to a resident is subject to withholding taxation. An effective 26.375% tax is withheld from income on convertible or profit-sharing bonds.

Royalties

Royalties paid to a non-resident corporation or and individual are subject to a withholding tax of 15% plus solidarity surcharge (giving an effective rate of 15.83%).
For payments made to recipients in countries with which Germany has entered into a double tax treaty, the rates of withholding tax may be reduced under the terms of the treaty (Baker Tilly International, 2013)

Other taxes

Payroll tax

There is no payroll tax in Germany. Despite that, withholding tax applies to employee's income on a monthly basis (Social Security Contributions).

Real estate taxes

Fiscal value of a property is taxed by real estate taxes, which are imposed by municipalities. The rate is determined by taxation authorities, whether multiplier is set by each municipality.
Different types of real estate tax rates:

- 0.06% for agricultural and forestry undertaking;
- 0.026% - 0.035% in old federal states;
- 0.05% - 0.1% in new federal state.
  The highest multipliers belong to:
- Berlin – 810%;
- Frankfurt am Main – 460%;
- Hamburg – 540%;
- Munich – 535%.

France

Corporate tax

Corporate taxation system in France is based on territoriality principle. Both residents and non-residents are subjects to the taxation on income from sources in France. Foreign-source income of French residents is usually non-taxed by French tax.

Taxable period and tax base

- The taxable period: the calendar year, ending on 31st of December;
- CIT payments are made quarterly (15th March, 15th June, 15th September and 15th December);
- The final calculation of the early tax are obliged to be made by 30th April;
- The basis of taxation: the income earned by the corporation during the calendar year.

Corporate Income tax rates

Standard corporate income tax rate is 33.33%. Lower rates can be applied to small and new businesses.

In France, companies with income higher than EUR 763,000 are subjects to social surcharge tax of 3.3%, which is levied on standard corporate income tax. This results in an effective overall tax rate of 34.4% (Baker Tilly International, 2016).

SMEs in France are not subjects to a social surcharge tax.

An exceptional and temporary 10.7% surcharge tax applies to the companies witch turnover exceeds EUR 250 million, for financial year ending on or before 30th December 2016. This results in

a maximum effective tax rate of 36.9% or 38% for large companies, when also 3.3% social surcharge applies.

Under some circumstances:

- Turnover of the company is less than EUR 7,630,000;
- The company doesn't belong to another company;
- At least 75% of fully paid-up capital belongs to an individual.

Companies are taxed at a reduced corporate income rate levied at 15%. This rate applies only to the first EUR 38,120 of the company's profit.

Capital gains

Generally, capital gains are taxed at standard corporate income tax of 33.3% (plus 3.3% of social surcharge tax and 10.7% of temporary surtax, when applicable). However, in the cases when participation exemption regime takes place, the tax rate changes (see "Participation exemption" below).

Long-term capital gains (on the sales of shares in real estate companies) are taxed at a reduced tax rate of 19% (plus 3.3% of social surcharge tax and 10.7% of temporary surtax, when applicable).

Participation exemption

There are two main reasons, when participation exemption regime applies to capital gains:

1. Holdings in French or foreign company constitute 5% or more of the company's shares;
2. Holdings are being owned for a minimum 24 months.

Under this regime, 88% of gains are exempted; resulting in maximum effective rate of 4.56% (tax basis of 12% is multiplied with maximum effective tax rate of 38%).

Participation exemptions regime also applies to dividends, when:

1. The recipient owns at least 5% of shares of the distributed entity;
2. The shares are owned by the recipient for at least 24 months.

If the regime can be applied, 95% of dividends are exempted, resulting in a rate of 1.9% (the tax basis 5% is multiplied with maximum effective tax rate of 38%).

Personal income tax

Subjects to personal income tax in France are:

1. Worldwide income of permanent residents;
2. Non-residents' income from sources in France;
3. Capital gains of non-residents, derived from the disposal of certain French assets.

Taxable income

Taxable income is the aggregate of income from employment, business income, professional income, investment income, real estate income and capital gains.

Tax rate

French personal income tax is progressive, ranging from 0% to 45%, and is calculated, using "family quotient" system. Under this system, the total taxable income of the family is divided into a number of units, and the tax applicable to a single unit is multiplied by the total number of units to yield the total amount of tax payable. A couple, regardless of whether they are married or in a civil partnership, without dependent children must calculate the tax due to two incomes (two units). A couple with two children pays tax equal to that due on three incomes (three units), since each of the first two children id counted as one-half of a unit (Deloitte, 2016 p. 27).

Tax rates for 2016 are as follows:

Table 8: Personal income tax in France,

Taxable income (in EUR)	Tax rate
0 -9,700	0%
9,701 – 26,791	14%
26,792 – 71,826	30%
71,827 – 152,108	41%
Over 152,108	45%

Source: (Baker Tilly International, 2016)

Also, there is a temporary supplementary tax that is levied on ordinary progressive rates. The contribution of 3% applies to incomes:

- Between EUR 250,000 and EUR 500,000, for a single individual;
- Between EUR 500,000 and EUR 1 million, for couples (whether married or in civil partnership).

The contribution of 4% applies to income:

- Exceeding EUR 500,000 for a single individual;
- Exceeding EUR 1 million for couples.

Capital gains

Capital gains on the disposal of movable assets (e.g. securities, bonds) are taxed on ordinary progressive tax rates, ranging from 0% to 45%. However, a flat rate of 19% (plus social surcharges) applies for capital gains from the disposal of immovable assets (e.g. real estate). In addition, special social security surcharges, in the approximate amount of 15.5%, are applied on French residents.

Value added tax

All businesses in France must register for Value added tax (VAT). However, VAT is not paid by individuals or companies, if their turnover (in the preceding year) did not exceed (PUBLIC FINANCES DIRECTORATE GENERAL, 2015):

- EUR 82,200, excluding VAT for supplies of goods, sales of food and drink to be consumed on the premises or accommodation services (€90,300 where turnover in the year before that did not exceed €82,200);
- EUR 32,900, excluding VAT for other services (€34,900 where turnover in the year before that did not exceed €32,900);
- EUR 42,600, excluding VAT for authors, artists, and performers.

Tax rates

There are four main types of VAT rates:

1. The standard rate of 20% is charged to all transactions that are not subjects to another rate;
2. The reduced rate of 10%, which covers mainly takeaway foods and some pharmaceuticals;
3. The reduced rate of 5.5%, generally applies to basic necessities and certain cultural products and services;
4. Special rate of 2.1% for press publications and medical drugs.
5. There is also a zero-rate VAT that is used for taxation of exports.

Some services are exempt from VAT, including health care and most financial services. Businesses, other than those making exempt supplies, can generally recover the VAT they have been charged (Baker Tilly International, 2016).

Withholding tax

Dividends

Dividends, paid by French company to a non-resident shareholder, are taxed with withholding tax in the standard rate of 30%. There is also a reduced rate of 21%, which applies to payments made by French company to a company or individual of other EU country, which have signed an exchanged agreement with France. If the dividends are paid to a person located in a "non-cooperative country" (a country included on a list issued by the French tax authorities), the rate is increased to 75% (Deloitte, 2016 p. 21). Under applicable tax treaty or EU parent-subsidiary directive, tax rate can be lower. Under this directive, dividends paid by French company to EU parent company can be exempted if:

- Parent company holds at least 10% (in some cases 5%) of the shares of French company;
- Parent company has being held shares for at least 24 months.

However, dividends received from non-cooperative countries cannot be exempted, following EU parent-subsidiary directive.

Dividends paid between French companies are not subject to withholding tax. Profits, paid to resident and non-resident shareholders by companies that are subject to French corporate income tax, are subjects to a 3% surcharge.

Interest

Generally, interest payments arising in France and paid to a non-resident (company or individual) are not subjects to withholding taxation.

Royalties

Royalties paid by French company to a non-resident (company or individual) are subjects to a withholding tax of 33.3%. This rate can be reduced or eliminated under the EU Interest and Royalties Directive. If the payment is made to a company or individual located in non-cooperative country, withholding tax rate of 75% applies.

There is no withholding tax on royalties paid by French company to a French resident.

Other taxes

Payroll tax

The subjects to payroll tax in France are the companies, which are not subjects to VAT or which turnover was 90% exempted from VAT in the previous year (banks and insurance companies).
There are three main payroll taxes in France:

1. Wage tax;

Table 9: Wage tax in France

Annual employees' wage	Tax rate
Up to EUR 7,713	4.25%
7,713 – 15,401	8.5%
15,401 – 152, 122	13.6%
Over 152,122	20%

Source: Deloitte, 2016

Generally, the taxpayers are banks, insurance companies, medical and pharmaceuticals sectors, associations and other non-profit organizations. The rate of wage tax is assessed annually, depending on the annual gross wage of employees.
Table 9 shows the range of employees' wages with appropriate wage tax rates.

2. The apprenticeship tax;
3. Employers' contribution to the construction.

Depending on number of employees and type of business, the payroll tax applies in a maximum rate of 1.3% for training programs for employees.
There is an essential apprenticeship tax for employers in the rate of 0.68% (levied on payroll tax). Employer's contribution is used in the rate of 0.45%, which is levied on payroll tax (for companies, having more than 20 employees), when an appropriate apprenticeship quota is not applied.

Real estate taxes

All French and foreign legal entities, owning real property directly or indirectly, are subjects to real estate taxation with an annual rate equal to 3% (of fair value of property).

Net wealth tax

A net wealth tax applies on individual's worldwide assets. Non-residents are taxed by net wealth tax only on assets located in France.
Most of these tax treaties follow the same principles:
• Real estate is taxed in its state of location and in the state of residency of the taxpayer;
• Shares in a predominantly real estate company (that is, a company whose assets comprise a majority of real estate) when such company owns real estate in France are deemed to be real estate;
• Assets other than real estate are taxed only in the state of residency of the taxpayer.
Net wealth tax rates are as follows:

Table 10: Net wealth tax in France

Value of assets (in EUR)	Tax rate
800,000 – 1.3 million	0.5%
1.3 million – 2.57 million	0.7%
2.57 million – 5 million	1%
5 million – 10 million	1.25%
Over 10 million	1.50%

Source: Deloitte, 2016

Italy

Corporate tax

The subjects for CIT in Italy are:

- All domestic companies, which are registered for fiscal period that is greater than 183 days;
- All foreign companies, managed and controlled by Italian resident, and that hold a controlling share in Italian company

Taxable period and tax base

- The taxable period is a calendar or fiscal year;
- Income tax returns must be filed by companies within 9 months, following the end of taxable period;
- Italian companies are liable to 2 advanced payments. In the year 2016, the dates for the payments were: 16 June and 30 November. On the first date, companies should pay 40% of CIT and 60% on the second installment;
- The taxable base for resident company is their worldwide income, and for non-residents is their Italian-source income.

Tax rate

The standard CIT rate is 27.5%. In 2017 the rate is expected to decrease to 24%, but for banks and other financial institutions the rate will remain at the level of 27.5%. Non-operating companies, such as dormant and shell companies are exceptions to standard taxation, as they are taxed with 38% tax rate.
On added value produced, Italian companies are also liable to pay the additional regional tax that is called Regional tax on productive activities (IRAP). The standard rate for this tax is 3.9%, and it can be deducted by regional authorities.
The overall CIT rate is considered to be on a pretty high value of 31.4% (with regional tax rate added).

Capital gains

In Italy capital gains are subjects to standard CIT rate. The 95% of total value of capital gains can be exempted, if the disposal of shares was held for a minimum continuous period of 12 months. All other gains are taxed as an income.

Personal income tax

Subjects to personal income tax are:

1. Worldwide income of residents;
2. Income from sources from Italy of non-residents.

For tax purpose, residents consider to be personalities who are registered in civil registry or if the person has been domiciled in Italy for more than 183 days.

Besides above mentioned, the personalities in Italy are taxed on their:

1. Income from employment;
2. Business income;
3. Income from capital;
4. Land income.

Tax rate

Table 11: Personal income tax in Italy

Taxable income (in EUR)	Tax rate
Up to 15,000	23%
15,001 – 28,000	27%
28,001 – 55, 000	38%
55,001 – 75,000	41%
Over 75,001	43%

Source: Baker Tilly, 2016

According to the Table 11, we can see that, as well as in France, the personal income tax in Italy is a progressive tax, which is rising up to the top rate of 43%.

There is also a surcharge of 3%, which applies to individuals whose annual income exceeds EUR 300,000.

Two additional taxes on personal income are:

1. Regional tax, ranging from 0.7% to 3.33% may levy on personal income tax and depends on the region, where an individual is domiciled;
2. Municipal tax, ranging from 0.1% to 0.9% levies on personal income of an individual, depending on his or her municipality.

Both residents and non-residents are taxed with 26% tax rate on interest (12.5% on Italian treasury bank's interests), dividends and capital gains that is related to non-qualified participation. In contrast the rate of 49.72% is related to dividends from qualified shareholdings.

Value added tax

VAT is levied at each stage of the production and distribution chain. In general, taxable supplies of goods or services within Italy that are carried out by a VAT entrepreneur, as well as intra-community acquisition and import of goods, fall within the scope of Italian VAT. The assessment basis is the price of the goods or services (or the cost attributed to their consumption) or the value declared as the customs value of the goods, increased by custom duties (Deloitte, 2016 p. 23).

Tax rates

There are 5 main types of VAT rate in Italy:

1. Standard rate of 22% that is used generally;
2. The reduced rate of 10%, used for some foodstuffs, pharmaceutical products, water supplies, some social housing, etc.;
3. The reduced rate of 5% that is used in social and health services, which are provided by social cooperatives, etc.;
4. The reduced rate of 4%, which is used in some food products, medical equipment, agriculture supply, etc.;
5. Zero rate that is used in some services, such as banking, financial and insurance services, exports, intra-community supplies, etc.

Withholding tax

Dividends

The standard withholding tax rate of 26% is implemented to the dividends which are paid to a non-resident. Also, there is a potential refund on foreign tax paid on dividends, with the value that is rising up to 11/26ths of the Italian withholding tax.

The standard domestic withholding tax rate of 1.375% (expected to be reduced to 1.2% in 2017) is implemented to the dividends which are distributed to shareholders, who are the residents of the EU, and to qualified shareholders, who are residents in the European Economic Area.

Interest

The interest rate of 26% is used for the taxation of Italian-source interests, generally payable to non-residents. The reduced rate of 12.5% (substitute tax) is used upon interests derived from direct or indirect investments in government bonds and similar securities. Besides that, the interest tax rate can decline under the tax treaty or to be fully exempted under the EU directives on royalties and interest.

Royalties

Generally, the royalties paid by non-residents are subjects to 30% withholding tax rate. The tax base is considered to be the 75% of gross royalty, and due to this the effective tax rate is of 22.5% arise. As well as interests, royalties are deductible under the EU directives.

Other taxes

Payroll tax

There is no payroll tax in Italy.

Real estate tax

Generally, the municipalities use the 0.76% tax rate on all immovable properties, which are owned by corporations and the taxable base for this taxation is the total value of the land that is multiplied by certain coefficient. This tax is nondeductible, but companies can reduce it by 20%, if the land is used exclusively for business activities.

Registration tax

A flat fee of EUR 120 (or EUR 90, if the registration is made on-line) applies upon registration of a new stock company. There is also an annual charge of EUR 309.87 to endorse company books, or EUR 516.46 if company's capital exceeds EUR 516,456.87. A fixed amount of EUR 185 (or EUR 155, via Internet) applies to contribution to capital in the form of cash, movable property or shares in companies (Deloitte, 2016 p. 6).
Besides that, a fixed registration of EUR 200 is supplementary tax for every company.

Net wealth tax

If a resident individual has any financial assets that are held abroad, so then they will be taxed with 0.2% net wealth tax rate, based on the market value. If the resident holds an immovable property abroad, in this case this asset will be taxed with 0.76% tax rate, which bases on original cost or market value of that property. The reduced rate on immovable assets, with the value of 0.4%, can apply to principal residents.

Spain

Corporate tax

Taxable period and tax base

In Spain, the subjects to CIT are:

1. Residents companies, which are taxed on their worldwide income;
2. Non-residents, taxed on the Spanish-source income.

The taxable period for all companies is an accounting year that may not exceed 12 months. Also, companies are supposed to make three advanced payments of 18% of total tax from the previous year, and they must be paid in April, October, and December.

Tax rate

The standard rate for CIT if 25%, which were reduced from 28% in 2016. An additional tax rate of 19% is used for taxation of income remitted to a foreign head office. A reduced tax of 15% is implemented to small enterprises, which turnover does not exceed EUR 10 million.
There is also a higher special rate of 30% that is used for taxation of certain financial institutions.

Capital gains

In Spain, capital gains are treated as business income, and are taxed under the 25% tax rate.

Personal income tax

PIT in Spain is a progressive tax that ranges from 19% to 45%, depending on the income of individual.

Table 12 shows that Individuals in Spain are also taxed on their savings (interest, dividends and capital gains). The tax rate is also a progressive one and in ranges from 19% to 23%.

There are different rates for non–residents:

- Residents of different EU country are subjects to 19% CIT rate;
- All other non-residents are taxed with 24% tax rate.

Table 12: Personal income tax in Spain

Taxable income (in EUR)	Taxable rate
Up to 12,450	19%
12,450 – 20,200	24%
20,200 – 35,200	30%
35,200 – 60,000	37%
Over 60,000	45%

Source: Baker Tilly, 2016

There is a different tax rates on personal savings, which are also progressive and are shown at the Table 13.

Table 13: Personal income tax on savings in Spain

Savings net tax base (in EUR)	Taxable rate
Up to 6,000	19%
6,000 – 50,000	21%
Over 50,000	23%

Source: Baker Tilly, 2016

Value added tax

VAT in Spain is levied on all transactions, connected with the supply of goods and services, and that were made in Spain, unless exempted ones. The standard rate for this taxation is 21%. For some of the goods (agriculture and medical products, transportation, hotel services, etc.), a reduced rate of 10% is used. There is also 4% VAT rate for staple foods, books, newspapers, etc. Financial services and banking are fully exempted from VAT.

Withholding tax

Dividends

The standard tax rate for dividends, paid to non-residents as 19% (the rate was reduced from 19.5% in 2016). The rate may reduce due to the EU treaty or EU parent-subsidiary directive.

Interest

As well as dividends, the interests paid to non-residents are subjects to 19% taxation and can be reduced by the EU tax treaty. All interests paid to EU residents are zero-taxed.

Royalties

Royalties, paid to a non-resident, are taxed with 24% withholding tax rate. The reduced rate of19% is used for EU residents or residents of European Economic Area. Deductions are possible under the EU directives.

Other taxes

Payroll tax

Employers must withhold tax on income from employment. The rate depends on whether the individual is a resident or not. The rate for residents is a progressive one and it ranging from 19% to 45%. For non-resident the withholding rate is 24%, and it can also decrease to 19%, if an individual is an EU or EEA resident.

Real estate tax

All owners of land must pay real property tax to local authorities, up to a maximum of 1.1% of the cadastral value for urban property and up to 0.9% of the cadastral value for rural property (Deloitte: Taxation and Investment in Spain, p.20, 2016). Non-residents that own control over Spanish land are subjects to 3% special tax rate on the officially estimated value of the property.

Net wealth tax

There is a wealth tax, which levies on the total value of the property owned by taxpayer and the tax rate ranges from 0.2% up to 2.5%.

4.1.4 Comparison of taxation system of 4 chosen countries

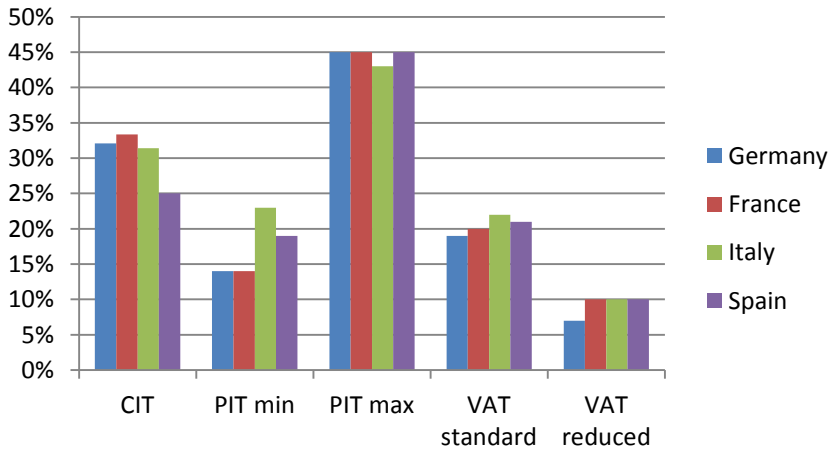
Figure 19 illustrate the comparison of rates of 3 main type of taxation: corporate income, personal income, and value added taxation.

According to this figure, the country with the highest CIT rate became France, where it equals to 33.33%, in contrast the lowest had Spain, where it reached only 25% (the rate is standardize, and it is not a progressive variable). The second place took Italy, where the value was 31.4%, and the third place received Germany, where the average rate equals to 32.075%.

According to the personal taxation, for comparison it is important to mention the lowest (min) and the highest (max) tax rate. In terms of maximum tax rate, nearly all country, except Italy, had 45% max tax rate, where the value of Italy was 43%. According to the lowest rates, the countries with the lowest 14% value became Germany and France, followed by Spain (19%) and then Italy (23%).

The same situation happened in VAT rates, as the common reduced rate stood at 10% tax rate, except Germany, where the rate was lower by 3%, resulting in 7%. And the lowest standard rate belonged to Germany, where it reached 19%, followed by France (20%), Spain (21%), and Spain (22%).

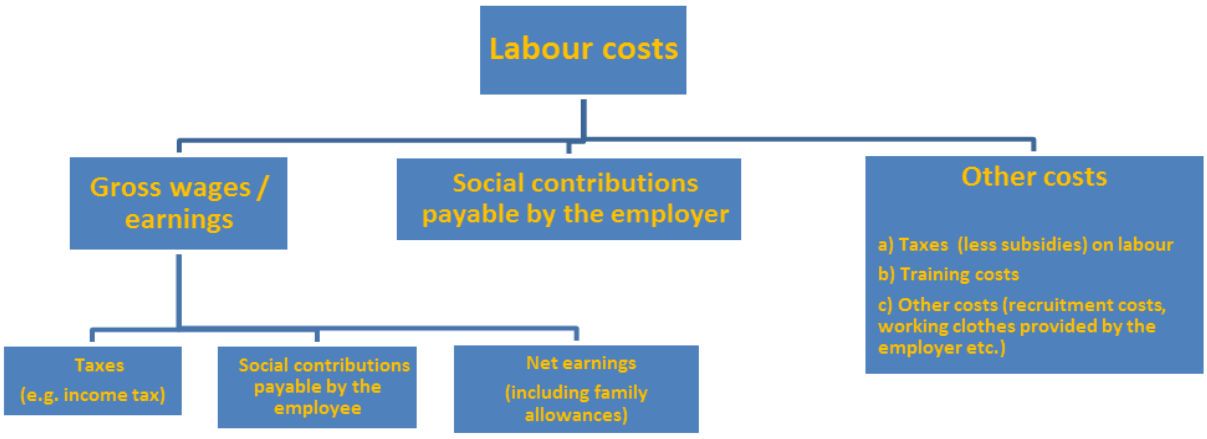
Figure 19: Comparison of taxation system of 4 chosen countries



Source: Deloitte, 2016

4.2 Labor cost

Figure 20: Components of Labor costs



Source: (Eurostat, 2014)

Labor plays a considerable role in the functioning of an economy. From the point of any business, especially of small and medium ones with a growing workforce, labor cost can be a single and the most significant expense. The problem is, that this expense includes more than wages and salaries, which you are paying to your employees. The cost of labor cost is significantly higher and is connected with various contributions, which have to be paid on behalf of an employee. There is a risk that costs will grow out of control, if an employer does not fully understand all of the expenses, which are included in the sum of labor cost. The following pages will discuss all components of this expense and will describe their influence on SMEs.

"Labor cost is defined as the total expenditure borne by employers in order to employ workers, a concept which has been adopted in the Community framework and complies broadly with the international definition of the International Conference of Labor Statisticians (Geneva, 1966)" (OECD, 2001).

According to the Figure 19, total labor costs consist of:

1. Employee payments (taxes, social contributions, net earnings);
2. Social contributions payable by the employer;
3. Other costs (training and recruitment costs, spending on working clothes, taxes, etc.).

Besides that, due to Eurostat the total labor cost includes both direct and indirect costs:

- **Direct costs**
  - Gross wages and salaries, which are paid in cash;
  - Direct remuneration and bonuses (year-end, seasonal and profit-sharing bonuses);
  - Wages and salaries in kind.

- **Indirect costs**
    - Employers' actual social contributions;
    - Employers' imputed social contributions;
    - Vocational training costs;
    - Recruitment costs and work clothes given by the employer;
    - Taxes, which are paid by an employer;
    - Minus all subsidies that re received by an employer.

Taxes which are imposed on employment or on payrolls directly affect the cost to employers of employing labor. These taxes, in those countries where they are considered as labor cost, should be identified separately in order that they may be included or excluded for purposes of international comparisons. These taxes should be included on a net basis, i.e. after deduction of any rebates or allowances made by the State (Eleventh International Conference of Labour Statisticians, 1966). In my thesis I will focus on two main components of labor cost that influence SMEs significantly: minimum wages and social security contributions with health insurance.

Minimum Wage

Minimum wage is defined as: "the minimum sum payable to a worker for work performed or services rendered, within a given period, whether calculated on the basis of time or output, which may not be reduced either by individual or collective agreement, which is guaranteed by law and which may be fixed in such a way as to cover the minimum needs of the worker and his or her family, in the light of national economic and social conditions" (International Labour Conference, 2014 p. 19). The minimum wage directly affects small businesses because a large amount of their earnings go directly to pay for operating expenses, such as equipment, supplies, lease or mortgage, credit lines, inventory, and employee wages and benefits. The single largest costs to small businesses are the latter; employee wages and benefits and is also one of the few costs that can be controlled. However, if a higher minimum wage is enacted, they must hire fewer employees or downsize to comply with the minimum wage law, which has a direct impact on unemployment rates (The Economic Effects of Minimum Wage, Owen E. Richason IV, 2014).

Social security contributions and health insurance

Social security contributions (SSCs) are compulsory payments paid to general government that confers entitlement to receive a (contingent) future social benefit (OECD, 2016).

SSCs can be paid on either compulsory or voluntary basis by employer, employee and self- or non-employed person.

According to The European system of national and regional accounts (ESA 2010), net SSCs include:

1. Employer's actual social contributions;
2. Households' actual social contributions;
3. Imputed social contributions;
4. Households' social contribution supplements.

Besides that, social insurance scheme service charges must be deducted from the items, written above, to reach net SSCs.

In theory, there are two types of contributions, which are distinguished (Eurostat, 2016):

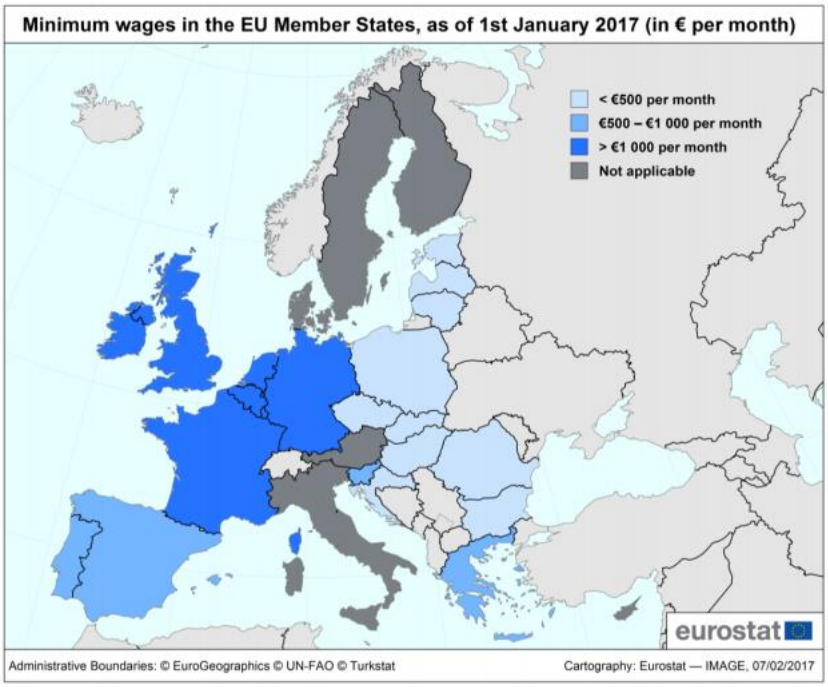
- Employers' actual social contributions consist of payments made by employers for the benefit of their employees to insurers (social security funds, general government and private funded schemes). These payments cover statutory, conventional, contractual and voluntary contributions in respect of insurance against social risks or needs;
- Employers' imputed social contributions represent the counterpart to unfunded social benefits paid directly by employers to their employees or former employees and other eligible persons without involving an insurance enterprise or autonomous pension fund, and without creating a special fund or segregated reserve for the purpose.

4.2.1 Minimum wages and Social Security Contributions within 4 chosen countries

Minimum wages

Figure 20, is a map of the most current minimum wages in the EU Member States, according to Eurostat. All wages are mentioned in national monthly minimums.

Figure 21: Minimum wages in the EU Member States, 2017



Source: Eurostat, 2017

The national minimum wage usually applies to all employees, or at least to a large majority of employees in a country. It is fixed at an hourly, weekly or monthly rate, and is enforced by law, often after consultation with social partners, or directly by a national inter-sectorial agreement. Minimum wages are generally presented as monthly wage rates for gross earnings, that is, before

the deduction of income tax and social security contributions payable by the employee; these deductions vary from country to country (Eurostat, 2017).

According to the map, France and Germany have the highest minimum wage. The wage in both these countries is not fixed at monthly basis. The level of the minimum wage is converted into a monthly rate according to conversion factors supplied by the countries: (Eurostat, 2017)

- Germany: (hourly rate x 39.1 hours x 52 weeks) / 12.The national minimum wage is EUR 8.84 per hour and the resulted monthly wage is EUR 1,498;
- France: hourly rate x 35 hours x 52 weeks) / 12 months. The national minimum wage is EUR 9.76 per hour and the resulted monthly wage is EUR 1,480.

Italian monthly minimum wage statistics is EUR 826 that is significantly lower than in two previous countries. And Spain does not have national minimum rate, as the amount paid is agreed upon through collective bargaining agreements on a job to job basis, but nevertheless it has minimum rates set through sector-by-sector collective agreements that jointly cover a high proportion of the working population. According to Tradingeconomics, the minimum wage in Spain is accounted at the level of EUR 764.70.

Social Security Contributions

Germany

In Germany Social Security Contributions system is a statutory system that contributes:

1. Health insurance

In Germany, public health insurance is obligatory for all employees, whose annual gross salaries rises up to EUR 56,250. The standard tax rate is 14.6% of gross monthly salary of an individual, and the contribution can only rise up to a salary ceiling of EUR 4,237.50. By the law, this monthly contribution is divided equally between employer (7.3%) and employee (7.3%).

2. Nursing insurance

For the employees, who have children, an additional 2.55% monthly contribution is implemented. This contribution is also divided equally between employer (1.275%) and employee (1.275%). The exemption is Saxony, where employees are paying 1.675% and employers pay only 0.675%.

Childless employees are subjects to an additional 0.25% contribution, which is not shared with an employer (only for individuals older than 23 years).

3. Accident insurance

The contribution for accident insurance varies according to the sector, where an employee is working. The standard average rate in Germany is 1.19% of gross salary, and is fully covered be an employer.

4. Unemployment insurance

The 3% contribution of unemployment insurance is also divided by employer and employee, where each must pay 1.5%.

5. Pension insurance

The contribution of pension insurance has the highest value of 18.7%. As well as nearly all others, it is paid on half by employer (9.35%) and employee (9.35%).

France

The mandatory Social Security Contributions system in France is paid by both employee and employer, and covers health insurance (including maternity, disability and death), retirement, family allowances, housing benefits, occupational accidents and illness.

For the employee side, the value of the contributions rises up to 20% of salary. In contrast, the contributions payable by employers vary depending on the size and type of business and location, and in total amount to 50% of gross pay for the employer (Deloitte, 2016 p. 22).

Italy

Social security must be paid by both the employer and the employee (28% to 30% for the employer, and about 9% for the employee). The amount due by the employee is withheld by the employer and paid on his/her behalf (Deloitte, 2016 p. 21). The exact contribution that an employee must pay equals to 9.19% of earnings. Employees, whose earnings are exceeding EUR 46,123 for the fiscal year, must pay an additional contribution of 1%.

Spain

Social Security Contributions System in Spain covers illness and unemployment insurance, pensions, family allowances, and professional contingencies. The employee's contributions are stated at the standard rate of 6.35%. In contrast, the standard employer's contribution is 29.9%, and it is combined with an additional one, which is changing due to the activity. Contributions are paid to individuals employed in Spain with specific exemptions:

- Individuals who are members of different EU country remain to be subjects of the SSCs of their home country;
- Individuals, who are members of non-EU countries, are subjects to exemptions from Spanish contribution system.

4.2.2 Comparison of labor costs within 4 chosen countries

Table 14 represents the comparison of two main indicators of labor costs: minimum wage. According to this table, the highest minimum wage value belongs to Germany (EUR 1498), and the lowest to Spain (EUR 764,40). The second place belongs to France, where the value is just EUR 18 lower than German's one (EUR 1480). And the third place took Italy, where the value reached EUR 826.

In terms of social contribution, the highest value of contributions that must be paid by employer belongs to France, where it equals to 50% of all SSCs. The second place took Italy, where the value reached 30%, followed by Spain with 29.90% value. The last place belongs to Germany, where the value is the lowest one, and stands at 20.62% value.

Table 14: Comparison of labor costs in 4 chosen countries

Labor costs			
Country	**Minimum wage (EUR)**	**Country**	**Employer SSCs (%)**
Germany	1498	**Germany**	20,62
France	1480	**France**	50
Italy	826	**Italy**	30
Spain	764,40	**Spain**	29,90

4.3 Demand

In economics, demand for a commodity refers to the willingness to buy it backed by the ability to pay. In technical terms, demand is a schedule which shows the various amounts of a product that the consumers are willing and able to purchase at each price (K. Jothi Sivagnanam, 2010 p. 36).

Demand is a fundamental and the most important tool of economics, which is used in both: micro and macroeconomics analysis. The concept of demand plays a crucial role in business economics, as it is considered to be one of the most important building blocks. The profitability or success of a firm depends on its ability to minimize costs. That is, the demand or willingness of consumers to buy a product is the most important determinant of a firm's profitability (K. Jothi Sivagnanam, 2010 p. 36). The demand analysis is a significant business decision making process, which can bring a lot of useful insights. Understanding of consumer behavior is a crucial requirement for this analysis, as the proper pricing and framing of suitable sales strategies directly depend on it.

Besides that, demand depends on many other factors:

- Price of commodity

According to the law of demand, price is the most important determinant. It means, when the level of price rises, the demand falls. That also means, when price declines, the demand of commodity grows.

- Income of consumer

There is a direct relationship between demand and income of consumer. Generally, whatsoever will be the price, when the income of an individual rises, the demand for commodity of that individual will certainly expand. Likewise, when income falls, demand for commodity will decline.

- Tastes and preferences of consumer

Demand can also change due to the tastes and preferences of consumer. The changes occur due to the changes in fashion, influenced by advertisement of producers or manufacturers of different products.

- Price of other brands

The demand for a commodity is indirectly affected by the prices of other goods, especially by those which are related to it as substitutes or complements. When the price of a commodity's substitute declines, the demand for that commodity also falls. Similarly, when the price of substitute increases, the demand of commodity will rise.

- Consumer's wealth

Wealth of consumer is straightly connected with consumption factor in the society. The consumption pattern of wealthy people is different from that of poor or middle income families. The former may demand more luxuries than the latter. Hence, distribution of rich and poor in a society will determinate the demand for different (K. Jothi Sivagnanam, 2010 p. 39).

- Level of advertisement

The advertisement is a factor that can influence the desires and wishes of consumer, change his/her tastes and preferences, and in this way directly change the demand of some commodities.

- Future expectations

If consumer believes that the value of commodity will rise in the future, then the demand for it will tend to directly increase today.

- Other factors

There are many more unknown variables that have lesser influence on demand of commodity. The most significant are listed below: (K. Jothi Sivagnanam, 2010 p. 39)

- Government policy changes
- Number of population of a country
- Climate and weather conditions
- State of business or business cycle (boom or recession)
- Consumer innovativeness and new technologies
- Socio-cultural values

To generate sales and achieve growth, entrepreneurs and owners of small and medium-sized enterprises must do a proper demand analysis, as demand influences SMEs significantly. This thesis will focus on five main factor of demand:

1. The whole demand will be analyzed by the Gross Domestic Product (GDP) per capita.
2. Income factor will be evaluated by the Actual Individual Consumption and Gross Wages/Earnings.

3. Price of products will be covered by Harmonized Index of Consumer Prices, and Economic Sentiment Indicator.
4. Tastes and preferences of consumer will be taken in account through Consumer Confidence Index.

Gross Domestic Product

According to Eurostat, Gross domestic product (GDP) is the central measure of national accounts, which is summarizing the economic position of a country or region. It is used to analyze economic performance and cycles (such as recessions, recoveries and booms).

By OECD, GDP is an aggregate measure of production equal to the sum of the gross values added of all resident institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs). The sum of the final uses of goods and services (all uses except intermediate consumption) measured in purchasers' prices, less the value of imports of goods and services, or the sum of primary incomes distributed by resident producer units.

This thesis will use GDP per capita as an indicator, which allows meaningful comparison of average real income in 4 chosen countries. The volume index of GDP per capita in Purchasing Power Standards (PPS) is expressed in relation to the European Union (EU28) average set to equal 100. If the index of a country is higher than 100, this country's level of GDP per head is higher than the EU average and vice versa (Eurostat, 2017).

Actual Individual Consumption

Actual individual consumption (AIC) refers to all goods and services actually consumed by households. It encompasses consumer goods and services purchased directly by households, as well as services provided by non-profit institutions and the government for individual consumption (e.g., health and education services). In international comparisons, the term is usually preferred over the narrower concept of household consumption, because the latter is influenced by the extent to which non-profit institutions and general government act as service providers (Eurostat, 2016).

Gross Wages/Earnings

Gross earnings are defined as the total monetary remuneration paid directly by the employer, before tax deductions and social security contributions. They include direct wages and salaries, remuneration for time not worked, gratuities and all bonuses, regardless of whether they are regularly paid (such as 13th or 14th month pay, holiday bonuses, profit-sharing, allowances for leave not taken, occasional commissions, and so on) (Eurostat).

Harmonized Index of Consumer Prices

The Harmonized Index of Consumer Prices (HICP) is the consumer price index that measures the changes, which happen over time, in the prices of goods and services consumed by households.

Eurostat describes HICP as a “pure price” index, which measures average price changes on the basis of changed expenditure on maintaining the consumption pattern of households and the composition of the consumer population in the base or reference period (Eurostat, 2015).

The aim of the HICPs was stated to be to measure inflation on a comparable basis, taking into account differences in national definitions. This, however, requires an operational definition of the term “inflation” (Eurostat, 2015).

This index has been set up in the EU and the euro area to provide the best comparison procedure of consumer price inflation, and for obtaining price convergence and stability in the context of monetary policy analysis (Eurostat, 2015).

Economic Sentiment Indicator

The Economic Sentiment Indicator (ESI) is a composite indicator of a given country that reflects the view taken through various sectors of economy. The aim of this index is to precisely measure movements in overall national economic sentiments. It combines five confidence indicators from different sectors of economy with different percentage weights (Eurostat, 2017):

1. Industrial confidence indicator (40%);
2. Construction confidence indicator (5%);
3. Service confidence indicator (30%);
4. Consumer confidence indicator (20%);
5. Retail trade confidence indicator (5%).

For each of the five surveyed sectors, confidence indicators are produced to reflect the overall perceptions and expectations at the individual sector level in a one dimensional index. Each confidence indicator is calculated as the simple arithmetic average of the (seasonally adjusted) balances of answers to specific questions chosen from the full set of questions in each individual survey. In order to be able to track overall economic activity, the broader economic sentiment indicator (ESI) is calculated as a composite indicator (Eurostat, 2017).

Consumer Confidence Index

The consumer confidence index (CCI) is based on households' plans for major purchases and their economic situation, both currently and their expectations for the immediate future. Opinions compared to a “normal” state are collected and the difference between positive and negative answers provides a qualitative index on economic conditions (OECD, 2016).

CCI is directly connected with consumers’ attitudes to the present economic environment and their expectations for the future. If the consumers’ attitude is positive, so then they are likely to spend more money, consuming more goods and services. But if consumers worry about future, their consumption will decline, as regard to their negative expectations.

4.3.1 Demand factors within 4 chosen countries

Gross Domestic Product

The latest available data for GDP is from the year 2015. According to that data from Eurostat, the highest GDP per capita in PPS index has Germany with the value of 124. France has the second the highest number, which is 105.2. Then Italy is following with the value of 95.1. At the end, the country with the smallest value is Spain with 91.3 index points.

Actual Individual Consumption

As with GDP indicator, the latest accessible data for AIC is the last quarter of 2016 that was published in Eurostat. Then, the country where people spent the highest amount of money became Germany, with the value of 123 PPS. In that year, the consumption in France reached 112 index points. The last places took Italy, with 99 points and Spain, with the lowest value of 88 index points.

Gross Wages/Earnings

According to the latest published data in OECD in 2015, Germany took the first place among other, with the average annual gross wage value of 37,613 EUR/year. Value of average annual gross wage in France reached 36,491 EUR/year. Italy had significantly lower value of 28,890 EUR/year and Spain lowest value is 27,479 EUR/year.

Harmonized Index of Consumer Prices

Based on the latest accurate data from OECD, Germany's HICP increased to 109.2 index points in March 2017 (compared with February 2017). French HICP increased to the value of 107.9 index point. Index of Italy rose significantly to the value of 109.6 index point. And Spanish became HICP 107.7 index points.

Economic Sentiment Indicator

European Commission data shows the latest data from May 2016, where among the largest euro-area economies, the ESI rose markedly in France (+1.5) (with comparison to April) and became 103.1 index points. Slightly the value increased also in Germany (+0.4) and became 104.8 index points. In Spain the value became 105.7 points after decreasing by 0.4 points. ESI in Italy stayed almost unchanged, with the highest value of 108.4 index points.

Consumer Confidence Index

Based on the work, published by OECD in April 2017, both Italy and France have the lowest CCI at 100.5 index points, followed by Germany with the value at 101 index points. The highest CCI value of 101.4 index points is owned by Spain.

4.4 Easy of doing business

Doing Business provides objective measures of business regulations and their enforcement through an objective lens across 189 economies. Each of these economies is ranked according to 11 areas of business regulation, which provide quantitative indicators on regulation for starting a business, dealing with construction permits, getting electricity, registering property, getting credit,

protecting minority investors, paying taxes, trading across borders, enforcing contracts resolving insolvency and also features of labor market regulation. These indicators are combined into an overall “ease of doing business” ranking that compares economies with one another.
The indicators presented and analyzed in Doing Business measure business regulation and the protection of property rights—and their effect on businesses, especially small and medium-size domestic firms (the World Bank Group, 2017 p. 114).
There are 4 main functions of these indicators (the World Bank Group, 2017)

1. Document the complexity of regulation, such as the number of procedures to start a business or to register a transfer of commercial property.
2. Gauge the time and cost to achieve a regulatory goal or comply with regulation, such as the time and cost to enforce a contract, go through bankruptcy or trade across borders.
3. Measure the extent of legal protections of property, for example, the protections of minority investors against looting by company directors or the range of assets that can be used as collateral according to secured transactions laws.
4. Document the tax burden on businesses.

4.4.1 Explanation of the indicator set

Starting a business

This indicator measures procedures (recorded in numbers), which are required for an entrepreneur to legally start up a business and formally operate a company. These procedures include (the World Bank, 2017):

- Preregistration procedures (name verification, notarization, etc.);
- Registration procedures;
- Post registration procedures (social security registration, company seal);
- The procedures of obtaining approval from spouse to start a business;
- The procedures of obtaining of any specific document fro company registration and operation (national identification card, bank account, etc.).

Time (recorded in calendar days) and costs (% of income per capita) required to complete these procedures are measured as well as the paid-in minimum capital.

Dealing with construction permits

The Dealing with construction permits indicator combines all procedures required for a business in the construction industry to build a warehouse, along with the time (days), needed to complete all formalities and cost to complete each procedure. These procedures include (the World Bank, 2017):

- Submission of all relevant documents and obtaining of all needed clearances;
- Submission of all required notifications and receiving of all necessary inspections;
- Obtaining of utility connections;
- Registering the warehouse after its completion.

Besides that, this indicator measures the building quality control index, evaluating the quality of building regulation and its implementation, the strength of quality control and safety mechanisms,

liability and insurance regimes, and professional certification requirements (the World Bank, 2017).

Getting electricity

This indicator records all procedures, which are required for any business to obtain a permanent electricity connection and supply for a standardized warehouse. These procedures are defined as any interaction of the company's employees with external parties, such as the electricity distribution utility, electricity supply utilities, government agencies, electrical contractors and electrical firms (the World Bank, 2017). Also, as well as all procedures, the time and costs, which are required to complete all procedures, are recorded by this indicator.
In addition, Doing Business measures the reliability of supply and transparency of tariffs index and the price of electricity that is not count in ranking.

Registering property

This indicator records the full sequence of procedures, which the business or the buyer needs to purchase a property from another business (the seller) and to transfer the property title to the buyer's name so that the buyer can use the property for expanding its business, use the property as collateral in taking new loans or, if necessary, sell the property to another business. It also measures the time and costs to complete each of these procedures (the World Bank, 2017).
Besides that, the Registering property indicator measures the quality of the land administration system in each economy by five dimensions: reliability of infrastructure, transparency of information, geographic coverage, land dispute resolution and equal access to property rights.

Getting credit

Getting credit indicator covers the legal rights of borrowers and lenders with respect to secured transactions and the reporting of credit information.
This indicator measures (the World Bank, 2017):

- Strength of legal rights Index: protection of rights of borrowers and lenders through collateral laws; protection of secured creditors' rights through bankruptcy law.
- Depth of credit information Index: scope and accessibility of credit information distributed by credit bureaus and credit registries.
- Credit bureau coverage: number of firms and individuals listed in the largest credit bureau as percentage of adult population.
- Credit registry coverage: number of firms and individuals listed in a credit registry as percentage of adult population.

Protecting minority investors

Protecting minority investor indicator records the protection of minority investors from conflicts of interest and shareholders' rights in corporate governance.
This index measures (the World Bank, 2017):

- Extent of disclosure Index;

- Extent of director liability Index;
- Ease of shareholder suit Index;
- Extent of conflict of interest regulation Index;
- Strength of minority investor protection Index;
- Extent of shareholder right Index;
- Extent of ownership and control Index;
- Extent of corporate transparency Index;
- Extent of shareholder governance Index.

Paying taxes

Paying taxes indicator covers the taxes and contributions that are required by government (at any level) and that have impact on financial statements of any business. Taxes and contributions measured include the profit or corporate income tax, social contributions and labor taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, vehicle and road taxes, and any other small taxes or fees (the World Bank, 2017).

Also, this indicator comprises all administrative burdens of paying taxes and contributions and complying with post filing procedures.

Trading across borders

Trading across borders index records the time and cost associated with the logistical process of exporting and importing goods.
During the whole process of exporting or importing a shipment of goods, this indicator measures the time and the cost (excluding tariffs) connected with three sets of procedures:

- Documentary compliance;
- Border compliance;
- Domestic transport.

Enforcing contracts

The "Enforcing contracts" indicator measures two main concepts, evaluating whether each economy has adopted a series of good practices that promote quality and efficiency in the court system*:*

1. The indicator on the efficiency of resolving a commercial dispute that measures time and costs required to enforce a contract through the courts;
2. The indicator on quality of judicial processes that measures:
    - Court structure and proceedings Index;
    - Case management Index;
    - Court automation Index;
    - Alternative dispute resolution Index;
    - Quality of judicial processes Index.

Resolving insolvency

The "Resolving insolvency" indicator is based on two main indicators;

- Recovery rate of debt that measures:
    - Time and cost required to recover debt;
    - Outcome
    - Recovery rate for secured creditors.
- Strength of insolvency framework
    - Commencement of proceedings Index;
    - Management of debtor's assets Index;
    - Reorganization proceedings Index;
    - Creditor participation Index;
    - Strength of insolvency framework Index.

4.4.2 Easy of Doing Business Indicators within 4 chosen countries

Table 14 illustrates the recent data of all indicators of Ease of Doing Business as for Germany, France, Italy and Spain.

According to the latest data from the World Bank, Germany took the first place among 4 chosen countries, with the overall Ease of Doing Business index at 17 points. France with 29 points is followed by Italy, where the index is just by 3 points lower – 32 points. And the last place took Spain, with the highest index at 50 points.

Table 15: Values of ease of doing business indicators of 4 chosen countries

Indicator	France	Germany	Italy	Spain
Ease of Doing Business	**29**	**17**	**50**	**32**
Starting a Business	13	32	22	28
Dealing with Construction Permits	8	6	28	31
Getting Electricity	14	2	24	30
Registering Property	29	27	10	25
Getting Credit	25	12	28	18
Protecting Minority Investors	12	23	19	13
Paying Taxes	28	25	32	18
Trading across Borders	9	24	8	2
Enforcing Contracts	10	9	29	15
Resolving Insolvency	20	3	21	16

Source: the World Bank, 2017

Even though Germany took the first place in the overall index, the country where is the easiest to start a business became France with 17 points. The second place belongs to Italy, where the index is at 22 points. Spain with 28 points is followed by Germany, with the highest index of 32 points.

Germany took the first place at the “Dealing with Construction Permits” indicator, where the index reached 6 points, keeping the 2 points distance from France (8). Italy took the third place with 22 points index that is only 6 points lower than Spain had (28).

According to “Getting Electricity” indicator, Germany has the lowest index that is 2 points that made a significant distance from France with its 14 points. The highest indexes belong to Italy (24) and Spain (30).

In “Registering Property” case, Italy took the first place, where the index is at 10 points. Spain with its index of 25 points is followed by Germany (27) and France (29).

The country with the easies “Getting Credit” system became Germany (12), followed by Spain, where the index reached 18 points. The third place belongs to France with its 25 points, and the last place took Italy, where the index is the highest – 28 points.

The lowest index of “Protecting Minority Investors” had France and the second place took Spain (13). The index of Italy (19) is 4 points lower than Germany had (23).

Spain, where the “Paying Taxes” is the lowest (18 points), made this procedure less costly by reducing the property tax rate, vehicle tax rate, tax on property transfer, and abolishing the environmental fee (The World Bank, p. 184). Germany with the index at 25 points is followed by France, where the index reached 28 points. The highest index belongs to Italy (32), but, even though the index is so high, the country made paying taxes easier by allowing full cost of labor to be deductible for regional tax on productive activities (IRAP) purposes, as well as updating coefficients used for calculation of tax on real estate (IMU) and municipal service tax (TASI) (The World Bank, p. 177).

According to “Trading across Borders” indicator Spain took the first place with its index of 2 points. Italy is 6 points further (8) and is followed by France where the index is 9 points. The last place belongs to Germany, where the index is the highest – 24 points.
Germany became the country with the lowest “Enforcing Contracts” index of 9 points that is only 1 point lower than France had (10). Spain made enforcing contracts easier by introducing a mandatory electronic filing system for court users and took the third place with the index of 15 points. The worst index had Italy, where it reached 29 points.
The lowest “Resolving Insolvency” index of 3 points belongs to Germany. The second place took Spain, where the index reached 16 points and it is followed by France with its 20 points index. At last, the highest 21 points index had Italy.

4.5 Comparison of 4 chosen countries with selected economic indicators

4.5.1 Methodology

The comparison analysis that will be used in my thesis is based on the statics method of simple index numbers. The motivation to use this method is to reduce data to an easier-to-use, more convenient form (Black, 2009).

An index number is, in part, a ratio of as measure taken during one time frame to that same measure taken during another time frame, usually denoted as the base period. Often ration is multiplied by 100 and is expressed as a percentage. When expressed in percentage index numbers serve as an alternative to comparing raw numbers (Black, 2009 p. 623).

Basically, while using this method I will compare the attributed weighted index values of selected economic indicators, within 4 chosen countries. The indicators that will be used are: taxation, labor cost, demand, and ease of doing business. While using the data from previous chapters, I will receive only one value per each indicator, and after all calculations I will determine the best country for doing business in. The worst value is always 100, and the best is the one that is closest to zero.

My calculations start from determining whether the value of economic indicator has either descending character (the best value will be the lowest one) or ascending character (the best value will be the highest one).

The calculations are straightly connected with the character. For descending indicators, I will use following standard formula:

$$Index\ Value\ (X) = \frac{100 \times\ Real\ Value\ (X)}{Real\ Value\ (Y)}$$

Index Value (X) – Unknown variable;

Real Value (X) – The real value of the chosen economic indicator in the specified basket (CIT, minimum wage, GDP, etc.);

Real Value (Y) – The **highest** value in the selected basket (for example the highest CIT rate within 4 countries);

100 – Always represents Index Value (Y), the worst among the selected basket.

The formula for ascending characters is slightly different:

$$Index\ Value\ (X) = \frac{100\ \times Real\ Value\ (Y)}{Real\ Value\ (X)}$$

Index Value (X) – Unknown variable;

Real Value (X) – The real value of chosen economic indicator in the specified basket (CIT, minimum wage, GDP, etc.);

Real Value (Y) – The **lowest** value in the selected basket (for example the highest CIT rate within 4 countries);

100 – Always represents Index Value (Y), the worst among the selected basket.

After computing of all index values, the attributed weight will be used, while multiplying it with the newly received values. The third step is to sum all weighted index values and to multiply them with the 25% common weight, which will stay unchanged for all 4 chosen indicators.

The subjects of my comparison will be:

- Taxation: corporate income tax rate (CIT), minimum and maximum personal income tax rates (PIT min. and PIT max.), standard and reduced valued added tax (VAT) rates;
- Labor cost: minimum wages and Social Security Contribution, which may be paid by employer;
- Demand: GDP, Actual Individual Consumption, Gross wage, Harmonized Index of Consumer Prices, Economic Sentiment Indicator, Consumer Confidence Index;
- Ease of Doing Business: all 10 indicators.

There are several limitations of my analysis, such as uncertainty in attributed rates and the possibility of existence of more indicators, which may influence the performance of SMEs. Even though my choices are supported by relevant literature, there may be more factors in the real world.

4.5.2 Comparison analysis

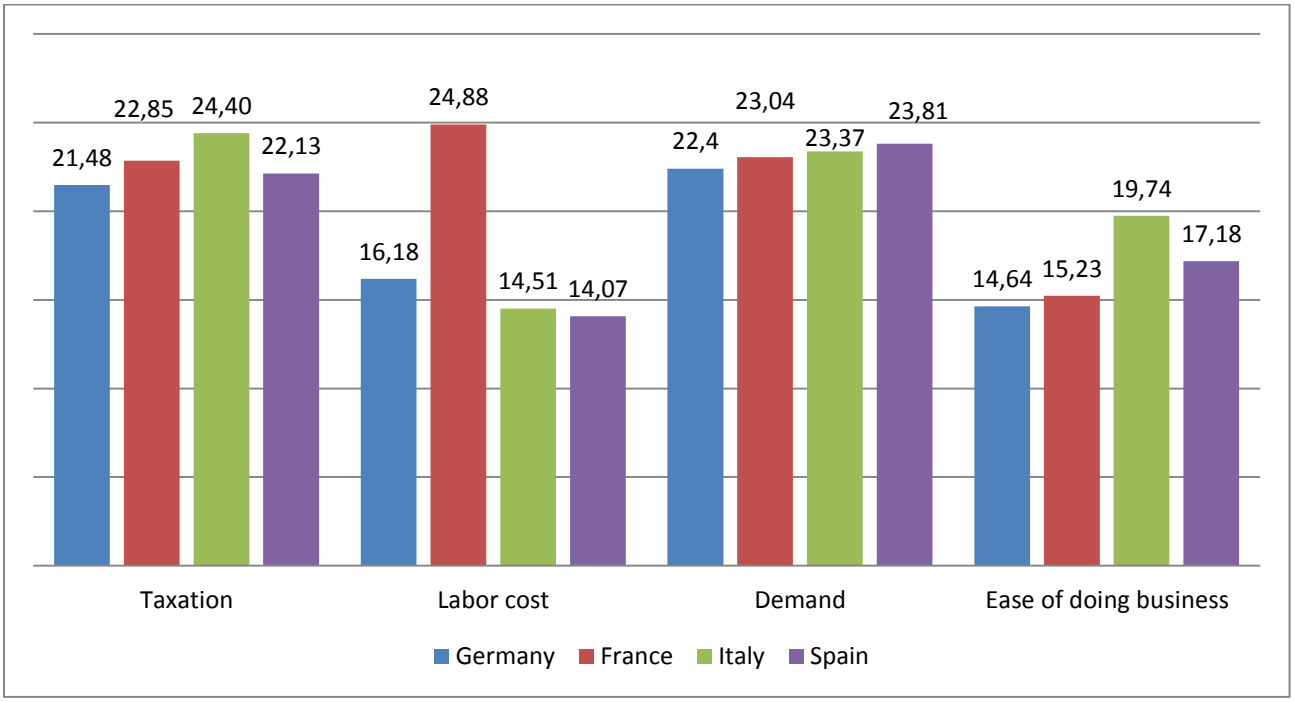
The process of calculation may be found in the Annex 1-4, while the Figure 21 shows the computed results for all 4 chosen countries within the selected indicators.

From this we can say that the most favorable country in terms of taxation became Germany, as the value reached only 21.48 index point. Spain is only 0.65 points further than Germany. The last places took France and Italy, the countries, where the value are at the highest levels – 22.58 and 24.40 index points.

The opposite situation can be seen in the labor cost indicator. The countries, which received the best result within the first indicator, became the worst according to the minimum wage and SSCs paid by employer (24.88 for France and 16.18 for Germany). The country with the best labor cost conditions became Spain, where the resulted value reached only 14.07 index points, and second place belongs to Italy, where it equals to 14.51 index points.

The first place, according to the demand indicator, again belongs to Germany, with the value of 22.4 index points, followed by France (23.04), Italy (23.37), and Spain (23.81).

Figure 22: The results of 4 chosen countries according to selected indicators

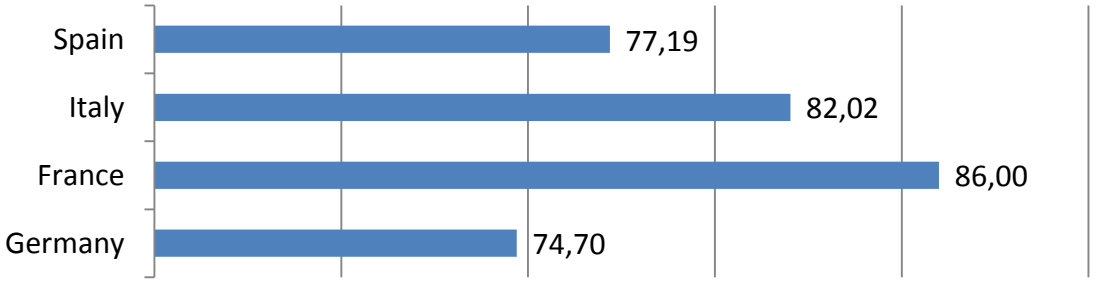


Source: Author

According to Ease of Doing indicators, Germany became the country with the best business conditions for SMEs, as its value resulted as the lowest one (14.64). The French value is only 0.59 points higher, resulting in overall to 15.23 index points. The worst values of 17.18 and 19.74 index points belong to Spain and Italy respectively.

As the conclusion to the comparison, the Figure 22 depicts the overall image towards the business environments for SMEs, as within 4 chosen countries.

Figure 23: The comparison of 4 countries



Source: Author

From this figure, we can say that the difference between the lowest and the highest values is 11.30 index points, which is quite big. According to this, we can determine that France, which value is the highest, is the worst country for starting up the SMEs in, and, in contrast, Germany that received the lowest value of 74.70 points became the country with the most favorable environment for SMEs.

Conclusion

The objective of my bachelor's thesis was to analyze business conditions for small and medium-sized enterprises within 4 chosen countries: Germany, France, Italy, and Spain. The main goal of the thesis was to choose the best country to conduct business in, while focusing on the overall business environment and on the selected economic indicators.

The theoretical part of my thesis is focused on the explanation of the basic terminology and on describing of general definition of SMEs, made by the European Commission. This part also defines the principle business entities within 4 chosen countries and describes the European Union policy and funding towards SMEs. Besides that, it covers the most recent performance of SMEs and in the end it describes the main economic factors, which may influence the business performance of SMEs.

There are two practical parts in my thesis. The first part focuses on comparison of business conditions of 4 chosen countries, while using PEST analysis. And the second part describes the comparison analysis of business conditions of these countries, based on 4 main external economic indicators: taxation, labor costs, demand and ease of doing business.

According to the results from the political, economic, social and technological indicators of PEST analysis, Germany became the country with the most favorable economic conditions for SMEs. The country received the best results, as comparison to 3 remaining countries, in all indicators, except the annual inflation rate (0.48%) that was higher by 0.3% than French one in 2016.

The same result was received by statistical comparison of 4 selected economic indicators, where Germany, showed the best results. The final value, which was received by Germany, equals to 74.4 index points, which is lower than value of France (86), Italy (82.02) and Spain (77.19).

From the results of these analyses, we can say that the country which provides the best business conditions to SMEs definitely became Germany.

It can be concluded, that the main goal of my thesis was reached, as the best country within Germany, France, Italy, and Spain was chosen.

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List of Tables

List of Figures

List of Appendixes

Appendix 1: Calculations of the final value of 4 indicators, Germany

	Indicator	Value	Index Value	Weight	Weighted Index	Common Weight	Result
Germany	**TAXATION**						
	CIT	32,08	96,23	0,30	28,87	0,25	21,48
	PIT min	14,00	60,87	0,15	9,13		
	PIT max	45,00	100,00	0,15	15,00		
	VAT standard	19,00	86,36	0,30	25,91		
	VAT reduced	7,00	70,00	0,10	7		
	LABOR COST						
	Minimum wage	1498	100,00	0,40	40	0,25	16,18
	Employer SSCs	20,62	41,23	0,60	24,738		
	DEMAND						
	Gross Domestic Product	124,00	72,58	0,20	14,52	0,25	22,40
	Actual Individual Consumption	123,00	71,50	0,15	10,73		
	Gross Wages/Earnings	37613	100,00	0,15	15,00		
	HICP	109,20	99,64	0,20	19,93		
	Economic Sentiment Indicator	104,80	96,68	0,15	14,50		
	Consumer Confidence Index	101,00	99,61	0,15	14,94		
	EASE OF DOING BUSINESS						
	Starting a Business	32,00	100,00	0,10	10,00	0,25	14,64
	Dealing with Construction Permits	6,00	19,35	0,10	1,94		
	Getting Electricity	2,00	6,67	0,10	0,67		
	Registering Property	27,00	93,10	0,10	9,31		
	Getting Credit	12,00	42,90	0,10	4,29		
	Protecting Minority Investors	23,00	100	0,10	10,00		
	Paying Taxes	25,00	78,13	0,10	7,81		
	Trading across Borders	24,00	100,00	0,10	10,00		
	Enforcing Contracts	9,00	31,03	0,10	3,10		
	Resolving Insolvency	3,00	14,29	0,10	1,43		

Appendix 2: Calculations of the final value of 4 indicators, France

	Indicator	Value	Index Value	Weight	Weighted Index	Common Weight	Result
France	**TAXATION**						
	CIT	33,33	100,00	0,30	30	0,25	22,85
	PIT min	14,00	60,87	0,15	9,13		
	PIT max	45,00	100,00	0,15	15		
	VAT standard	20,00	90,91	0,30	27,27		
	VAT reduced	10,00	100,00	0,10	10		
	LABOR COST						
	Minimum wage	1480	98,80	0,40	39,52	0,25	24,88
	Employer SSCs	50,00	100,00	0,60	60		
	DEMAND						
	Gross Domestic Product	124,00	84,91	0,20	16,98	0,25	23,04
	Actual Individual Consumption	123,00	78,60	0,15	11,79		
	Gross Wages/Earnings	37613	97,02	0,15	14,55		
	HICP	109,20	98,45	0,20	19,69		
	Economic Sentiment Indicator	104,80	95,11	0,15	14,27		
	Consumer Confidence Index	101,00	99,11	0,15	14,87		
	EASE OF DOING BUSINESS						
	Starting a Business	13,00	40,60	0,10	4,06	0,25	15,23
	Dealing with Construction Permits	8,00	25,81	0,10	2,58		
	Getting Electricity	14,00	46,70	0,10	4,67		
	Registering Property	29,00	100,00	0,10	10,00		
	Getting Credit	25,00	89,30	0,10	8,93		
	Protecting Minority Investors	12,00	52,2	0,10	5,22		
	Paying Taxes	28,00	87,50	0,10	8,75		
	Trading across Borders	9,00	37,50	0,10	3,75		
	Enforcing Contracts	10,00	34,5	0,10	3,45		
	Resolving Insolvency	20,00	95,24	0,10	9,52		

Appendix 3: Calculations of the final value of 4 indicators, Italy

	Indicator	Value	Index Value	Weight	Weighted Index	Common Weight	Result
Italy	**TAXATION**						
	CIT	31,4	94,21	0,30	28,26	0,25	24,40
	PIT min	23,00	100,00	0,15	15,00		
	PIT max	43,00	95,56	0,15	14,33		
	VAT standard	22,00	100,00	0,30	30,00		
	VAT reduced	10,00	100,00	0,10	10		
	LABOR COST						
	Minimum wage	826	55,14	0,40	22,056	0,25	14,51
	Employer SSCs	30,00	60,00	0,60	36		
	DEMAND						
	Gross Domestic Product	96,00	93,75	0,20	18,75	0,25	23,37
	Actual Individual Consumption	99,00	88,90	0,15	13,34		
	Gross Wages/Earnings	28890	76,81	0,15	11,52		
	HICP	109,60	100,00	0,20	20,00		
	Economic Sentiment Indicator	108,40	100,00	0,15	15,00		
	Consumer Confidence Index	100,50	99,11	0,15	14,87		
	EASE OF DOING BUSINESS						
	Starting a Business	22,00	68,80	0,10	6,88	0,25	19,74
	Dealing with Construction Permits	28,00	90,32	0,10	9,03		
	Getting Electricity	24,00	80,00	0,10	8,00		
	Registering Property	10,00	34,48	0,10	3,45		
	Getting Credit	28,00	100,00	0,10	10,00		
	Protecting Minority Investors	19,00	82,6	0,10	8,26		
	Paying Taxes	32,00	100,00	0,10	10,00		
	Trading across Borders	8,00	33,30	0,10	3,33		
	Enforcing Contracts	29,00	100	0,10	10,00		
	Resolving Insolvency	21,00	100	0,10	10,00		

Appendix 4: Calculations of the final value of 4 indicators, Spain

	Indicator	Value	Index Value	Weight	Weighted Index	Common Weight	Result
Spain	**TAXATION**						
	CIT	25	75,01	0,30	22,50	0,25	22,13
	PIT min	19,00	82,61	0,15	12,39		
	PIT max	45,00	100,00	0,15	15		
	VAT standard	21,00	95,45	0,30	28,64		
	VAT reduced	10,00	100,00	0,10	10		
	LABOR COST						
	Minimum wage	764	51,03	0,40	20,412	0,25	14,07
	Employer SSCs	29,90	59,80	0,60	35,88		
	DEMAND						
	Gross Domestic Product	90,00	100,00	0,20	20,00	0,25	23,81
	Actual Individual Consumption	88,00	100,00	0,15	15,00		
	Gross Wages/Earnings	27479	73,06	0,15	10,96		
	HICP	107,70	98,27	0,20	19,65		
	Economic Sentiment Indicator	105,70	97,51	0,15	14,63		
	Consumer Confidence Index	101,40	100	0,15	15,00		
	EASE OF DOING BUSINESS						
	Starting a Business	28,00	87,50	0,10	8,75	0,25	17,18
	Dealing with Construction Permits	31,00	100,00	0,10	10,00		
	Getting Electricity	30,00	100,00	0,10	10,00		
	Registering Property	25,00	86,21	0,10	8,62		
	Getting Credit	18,00	64,30	0,10	6,43		
	Protecting Minority Investors	13,00	56,55	0,10	5,66		
	Paying Taxes	18,00	56,25	0,10	5,63		
	Trading across Borders	2,00	8,33	0,10	0,83		
	Enforcing Contracts	15,00	51,7	0,10	5,17		
	Resolving Insolvency	16,00	76,19	0,10	7,62		