

DENMARK

1. Introduction




As one of the EU's leading Member States in innovation, Denmark is one of the easiest countries for SMEs to do business. Small and medium-sized enterprises (SMEs) benefit from the country's agile regulation and low administrative burden and many of them are experienced at exporting. However, very few people in Denmark with tertiary education are attracted to entrepreneurship, the survival rate of SMEs is low and SMEs have issues in ensuring their IT security.

SMEs in Denmark were moderately impacted in 2020 by the COVID-19 pandemic and the policy decisions taken to combat it, with SME value added being slightly less affected in 2020 (-4%) compared to the EU average (-7.6%)¹. SME employment fell by 1.2% in 2020, which is close to the EU average of 1.7%. The downturn was particularly pronounced in the *accommodation and food services* sector, with value added dropping by 28.9% and employment falling by 6.6%. The *professional, scientific and technical activities* sector, in contrast, performed exceptionally well, generating 5.3% growth in SME value added and 1.5% growth in employment in 2020.

For 2021, a recovery is expected, with a rise of 6.9% in SME value added and 1.8% in SME employment. Overall, SME value added and employment in 2021 are predicted to surpass their 2019 levels by 2.6% and 0.6%, respectively.

SMEs generated 60.6% of overall value added in the Danish 'non-financial business economy' in 2020, more than 7 percentage points above the EU average of 53.0%. The share of SME employment was, at 64.1%, slightly below the EU average of 65.2%. SMEs in Denmark are relatively large and, in 2019, employed on average 5.1 people, exceeding the EU average of 3.7. Average SME labour productivity, calculated as value added per person employed, was approximately EUR 87 600, more than twice the EU average of EUR 40 000.

Figure 1: Number of enterprises, persons employed and value added in 2020

	 Number of enterprises			 Number of persons employed			 Value added		
	Denmark		EU-27	Denmark		EU-27	Denmark		EU-27
	Number	Share	Share	Number	Share	Share	€ Billion	Share	Share
Micro	200 482	88.5%	93.3%	347 208	19.2%	29.6%	33.9	20.2%	18.7%
Small	21 446	9.5%	5.7%	429 013	23.7%	19.7%	32.5	19.4%	17%
Medium-sized	3 980	1.8%	0.9%	382 672	21.2%	15.8%	35.1	21.0%	17.3%
SMEs	225 908	99.7%	99.8%	1 158 893	64.1%	65.2%	101.5	60.6%	53%
Large	744	0.3%	0.2%	649 396	35.9%	34.8%	65.9	39.4%	47%
Total	226 652	100%	100%	1 808 289	100%	100%	167.4	100%	100%

Source: These are estimates for 2020 produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

2. Key strengths

Innovation leader

As one of the EU's leading Member States in innovation, according to the European Innovation Scoreboard 2020, Denmark has attractive research systems, an innovation-friendly environment, and a strong human resources dimension. The country also performs very strongly as regards innovative SMEs' ability to collaborate with others².

On the other hand, Danish SMEs are not sufficiently integrated into the country's innovation chains. The sales of new-to-market and new-to-firm innovations stands at 3%, significantly below the EU average of 13%, and the proportion of SMEs innovating in-house was slightly below the EU average³. Data from the European Investment Bank for 2018 show that 11.1% of Danish SMEs introduced new products or processes to the world, higher than the EU average of 5.0%. The corresponding rate for large Danish companies in that same year was more than twice as high – 24.9%⁴.

Since 2016, the share of SMEs introducing innovation has been gradually increasing from 36.8% to 41.47% in 2018 and 43.69% in 2020 (compared to the EU average of 35.9% in 2020). In addition, the corresponding rate for large companies is significantly higher with 54.8% in 2020⁵.

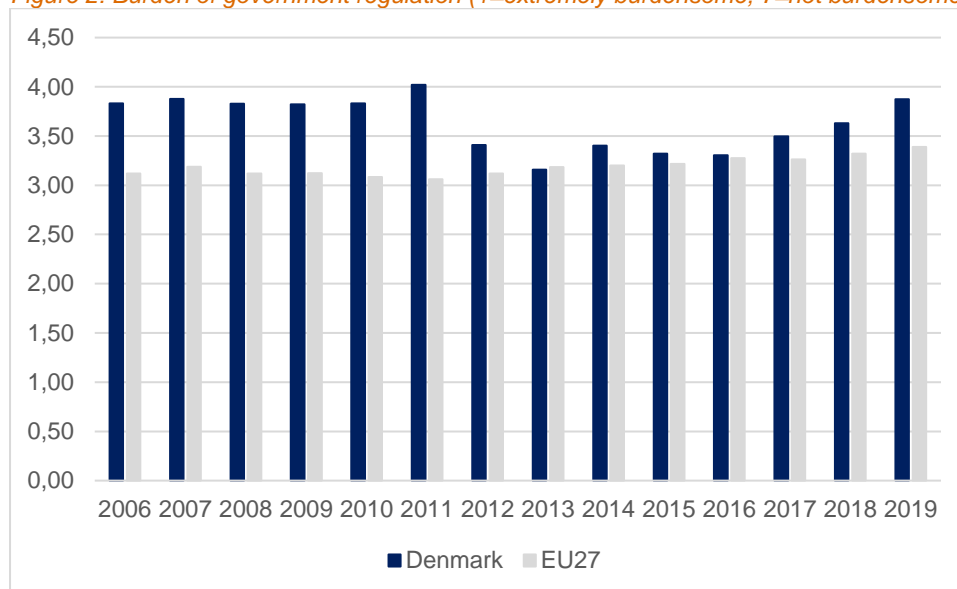
Large companies carry out a large part of the innovation with subsequent spill over to SMEs. The fact that large companies are stronger innovators highlights one of the weaknesses of the Danish business system, namely that it is not attractive enough to start a business and innovative people prefer to work for large companies that offer high salaries and job security, where they then develop their ideas. Denmark should therefore broaden the innovation base to ensure more companies are included and encourage SMEs to be more active in R&D and to automatise and digitalise their production⁶. This would be in line with the overall guidelines in the new strategy for

business promotion (Business support strategy 2020-2023, 'Erhvervsfremme i Danmark 2020-2023')⁷.

Agile regulation and low administrative burden

Denmark is one of the easiest countries in which to do business, ranking 4th in the 2020 World Bank Doing Business ranking. Ranking 8th in 2006, Denmark gradually moved up to the 3rd position in 2016 before moving down one place in 2020. This gradual improvement in the ranking reflects the significant focus different governments have placed on easing the response burden for businesses. This has partly been achieved through digitalising the reporting of financials and other data as well as by eliminating unnecessary regulations and processes. The Danish Business Regulation Forum, 'Erhvervslivets EU- og Regelforum', plays an important role in the simplification process as it carefully identifies areas in which companies have faced the greatest challenges with regard to costly rules, and proposes potential simplifications to the government⁸.

Figure 2: Burden of government regulation (1=extremely burdensome; 7=not burdensome at all)

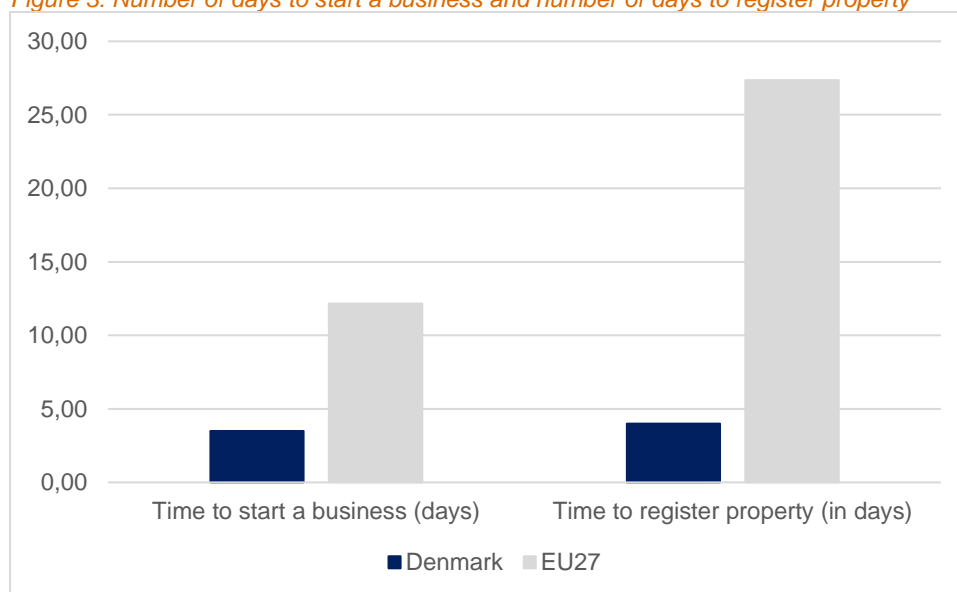


Source: Global Competitiveness Report 2018-2019⁹

The administrative burden and other compliance costs were quantified financially according to the Standard Cost Model. This allowed quantifying the impact of policy measures that addressed the regulatory and administrative burden and introduced reliefs for business. The administrative burden and other compliance costs were reduced by DKK 1.5 billion between 2015 and 2018¹⁰.

However, the law on fair and equal competition ('Fair og lige konkurrence') that was announced in April 2018 has not yet been adopted. The draft law, that aimed to ensure fair competition between private and public authorities, was sent to SMEs and public procurement stakeholders for their views in March 2019. However, a new government came to power in the summer of 2019 and later that year, in November, the Minister of Finance stated in a letter that the proposal was off the table¹¹.

Figure 3: Number of days to start a business and number of days to register property



Source: World Bank Doing Business, 2020¹²

High share of SMEs exporting and big potential for scale-up

Many SMEs in Denmark are experienced in exporting (although on a small scale) and therefore have the potential to scale up the export side of their businesses. An analysis from 2016 shows that 97% of businesses who exported that year were SMEs, but overall they only counted for 26% of the country's total exports. This is supported by the fact that SMEs contributed to over half of the growth in exports from 2013 to 2016¹³.

Denmark had in 2018 the 5th highest share of SMEs directly exporting goods and services to another country with 52.69% compared to the EU average of 43.35%¹⁴. The rate of SMEs directly exporting has been decreasing slightly with the share standing at 52.24% in 2020 (79.21% for large companies)¹⁵.

3. Key challenges

Entrepreneurship is less attractive than employment for people with tertiary education

Since there are plenty of opportunities to gain salaried jobs in Denmark and companies offer very attractive salaries in a low-risk environment, relatively few people are attracted by self-employment. OECD data show that Denmark has the 2nd lowest rate of self-employment among all workers with tertiary education in the OECD. The rate of self-employed men with a tertiary education fell from 12.2% in 2009 to 8.2% in 2019. The same indicator for women fell from 4.6% in 2009 to 4.3 in 2019¹⁶.

SME stakeholders point out that the succession legislation hinders young people from taking over the family business. In Denmark, the transfer of wealth as a gift or inheritance is taxed at 15% (after a baseline deduction) when the heir is closely related. This rate goes up to 36.25% for heirs not closely related to the business owner and up to 56% for gifts. In the Danish tax system there is no special tax relief for the transfer of business assets compared to other types of assets.

However, it is possible to pay the tax gradually over a period of 30 years to limit liquidity constraints on the business.

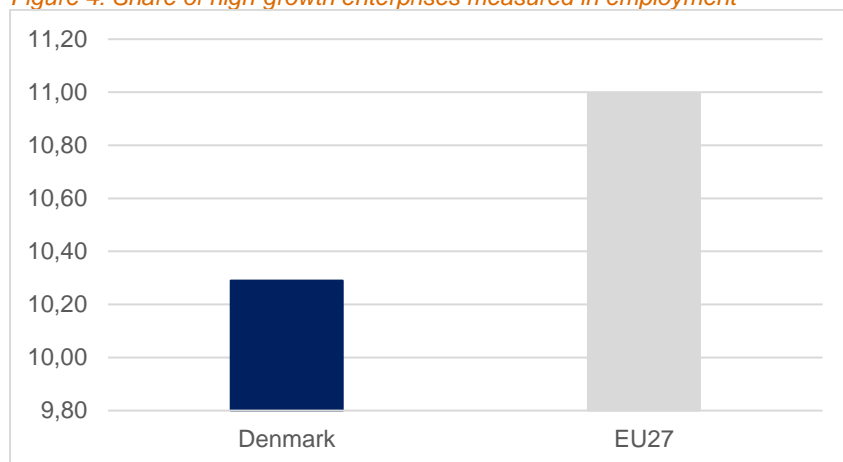
Few start-ups turn into high-growth enterprises

Denmark is slightly underperforming compared to other EU countries when it comes to high growth in turnover and employment in SMEs. Relatively few companies can show growth of at least 10% every year. In 2018, the share of high-growth enterprises in Denmark stood at 10.2% whereas the EU average was 11.9%¹⁷. The share of high-growth enterprises decreased slightly from 10.7% in 2012 to 10.2% in 2018¹⁸.

In addition, while many businesses are created in Denmark, few survive beyond 3 and 5 years compared to other EU countries. However, a low survival rate may reflect a dynamic business environment with a high level of competition. According to figures from 2018, the survival rate after 3 years for Danish start-ups was 51% and 37% after 5 years whereas it was 58% and 45% for the EU, respectively. The survival rates after 3 and 5 years have been declining since 2012 where 55% were still active after 3 years and 43% were active after 5 years¹⁹.

This can be explained by the fact that Danish SMEs invest less than larger companies. In 2007-2008, businesses with more than 100 employees invested 55% more in machines, equipment and buildings per full time employee compared to small businesses. 10 years later, this investment gap had increased to 140%.

Figure 4: Share of high-growth enterprises measured in employment



Source: Eurostat, 2017²⁰

Low level of IT security

Denmark ranks 3rd in the EU for implementing IT security measures²¹. However, 1 in 4 SMEs does not have the most basic IT security precautions in place and many of them do not have a level of IT security that matches their risk profile²². This is seen as a lack of professionalism in the area of ICT, where the SMEs have difficulties keeping up with cyber threats and required level of IT security in general, especially the smallest businesses.

All communication with Danish authorities, such as financial reporting, statistical reporting, and applications for permits, is done online and often through specialised software such as that used in accounting. Micro and small enterprises find it difficult to keep up with digitalisation and often

have to pay consultants to carry out these tasks for them which represents a heavy financial burden.

When looking at whether there are adequate government subsidies to help new and growing firms acquire new technology, Denmark performs slightly below the EU average (on a 1-5 scale, 1 being the worst and 5 the best possible score, Denmark scores 2.5 compared to the EU average of 2.6)²³.

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

Most Danish SMEs got through the pandemic relatively well, as the lockdown in the spring of 2020 was not as strict as in other EU countries and extensive compensation schemes were available to them. As of 19 October 2020, 101 397 self-employed people received a total of DKK 5 827 million and 2 235 freelancers of various legal statuses received DKK 104 million²⁴. The number of bankruptcies in the first 9 months of 2020 was slightly lower than the first 9 months of 2019. The sectors which have been hit the hardest have been *tourism and transportation*²⁵.

SMEs are particularly vulnerable as their liquidity is generally low. 55% of Danish SMEs have a liquidity equivalent of 1 month of turnover or less²⁶.



GREEN TRANSITION OF SMES

In 2017, Danish businesses specialised in energy technology contributed to a significant share of total business activities as they represented 6% of all jobs in the private sector, 13% of value added and 17.5% of the total Danish exports of goods.

The most important technologies are those related to energy saving and energy efficiency which account for 60% of the jobs and 80% of exports in the energy area²⁷.



DIGITALISATION OF SMES

Denmark is ranked 3rd in the Digital Economy and Society Index²⁸. Danish SMEs have a smaller proportion (32%) of their equipment that is state-of-the-art compared to their EU equivalents (48%)²⁹ and large Danish companies.



ACCESS TO FINANCE

The real interest rate for Danish SMEs was relatively high in 2018 compared to other EU countries. The unweighted EU average for the 21 countries with available data was 1.1% whereas it was 1.5% for Danish SMEs³⁰.

The interest rate spread between small and large companies was also high in 2018, as SMEs on average paid 1.3 percentage points more in nominal interest rates on their loans than large companies. The corresponding EU interest rate spread was 0.9 percentage points on average³¹. Online alternative finance markets can be very important for start-ups. However, growth in the online alternative finance market for businesses is very low in Denmark, increasing by only 4% from 2017 to 2018 compared to an EU median of 51%³².

In 2018, slightly more Danish businesses (7.5%) said that they faced credit constraints compared to the corresponding rate for EU countries (5.8%)³³.

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- ¹ The data for 2020 are estimates produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat).
- ² European Commission (2020), European Innovation Scoreboard 2020, available at : <https://ec.europa.eu/docsroom/documents/41872> and https://ec.europa.eu/growth/industry/policy/innovation/scoreboards_en
- ³ Ibid.
- ⁴ EIB (2018), EIB Investment Survey, available at: <https://data.eib.org/eibis/graph?t=OTHER&i=Proportion%20of%20firms%20introducing%20products%20and%20processes%20new%20to%20the%20firm,%20country%20or%20world&y=2018&d=size&si=SME&co=cc>
- ⁵ Ibid.
- ⁶ European Commission (2020), Council recommendation on the 2020 National Reform Programme of Denmark and delivering a Council opinion on the 2020 Convergence Programme of Denmark, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0504&from=EN>
- ⁷ Danmarks Erhvervsfremmebestyrelse (2020), *Strategy: Business Promotion in Denmark 2020-2023*, available at: <https://erhvervsfremmebestyrelsen.dk/strategy-business-promotion-denmark-2020-2023>
- ⁸ Regel Forum, Terms of Reference for The Danish Business Regulation Forum, available at: <https://regelforum.dk/terms-reference-danish-business-regulation-forum>
- ⁹ World Economic Forum (2019), Global Competitiveness Report 2018-2019, available at: http://www3.weforum.org/docs/GCR2018/GCI_4.0_2018_Dataset.xlsx
- ¹⁰ Erhvervsstyrelsen (2019), Erhvervslivet har i 2018 fået lettet byrder for 185 mio. kr., available at : <https://erhvervsstyrelsen.dk/erhvervslivet-har-i-2018-faaet-lettet-byrder-185-mio-kr>
- ¹¹ HØRING PORTALEN (2019), available at: <https://hoeringsportalen.dk/Hearing/Details/62821>
- ¹² World Bank Doing Business 2020, available at: <http://www.doingbusiness.org/methodology/resolving-insolvency> and <http://www.doingbusiness.org/>
- ¹³ Ministry of Foreign Affairs of Denmark, *Eksportstatistik SMV'er*, available at <https://um.dk/da/udenrigspolitik/handelspolitik/statistik-smv/>
- ¹⁴ See Note 4
- ¹⁵ See Note 4
- ¹⁶ OECD (2021), Self-employed with tertiary education (indicator). doi: 10.1787/2d36fdbb-en (Accessed on 25 March 2021)
- ¹⁷ https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:High-growth_enterprise
- ¹⁸ Eurostat (2020), *High-growth enterprises (growth by 10% or more) and related employment by NACE Rev. 2*, available at: https://appsso.eurostat.ec.europa.eu/nui/show.do?query=BOOKMARK_DS-372181_QID_-799EC825_UID_-3F171EB0&layout=TIME,C,X,0;GEO,L,Y,0;NACE_R2,L,Z,0;INDIC_SB,L,Z,1;INDICATORS,C,Z,2;&zSelection=DS-372181INDICATORS_OBS_FLAG;DS-372181INDIC_SB,V97460;DS-372181NACE_R2,B-N_X_K642;&rankName1=INDICATORS_1_2_-1_2&rankName2=INDIC_SB_1_2_-1_2&rankName3=NACE-R2_1_2_-1_2&rankName4=TIME_1_0_0_0&rankName5=GEO_1_2_0_1&sortR=ASC_8&sortC=ASC_-1_FIRST&Stp=&cStp=&rDCh=&cDCh=&rDM=true&cDM=true&footnes=false&empty=false&wai=false&time_mode=NONE&time_most_recent=false&lang=EN&cfo=%23%23%23%2C%23%23%23.%23%23%23
- ¹⁹ Eurostat (2020), Business demography by size class (from 2004 onwards, NACE Rev. 2), available at: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=bd_9bd_sz_cl_r2&lang=en
- ²⁰ Eurostat 2017, available at: <http://ec.europa.eu/eurostat/web/structural-business-statistics/data/database>
- ²¹ Eurostat (2020), *ICT security measures taken by vast majority of enterprises in the EU*, available at : <https://ec.europa.eu/eurostat/documents/2995521/10335060/9-13012020-BP-EN.pdf/f1060f2b-b141-b250-7f51-85c9704a5a5f>
- ²² Erhvervsstyrelsen (2020), *Hver fjerde SMV har ikke implementeret selv de mest essentielle digitale sikkerhedstiltag*, available at: <https://erhvervsstyrelsen.dk/hver-fjerde-smv-har-ikke-implementeret-selv-de-mest-essentielle-digitale-sikkerhedstiltag> and Monitor Deloitte for Erhvervsstyrelsen (2018): *IT-sikkerhed og datahåndtering i danske SMV'er*, available at: <https://erhvervsstyrelsen.dk/it-sikkerhed-og-datahåndtering-i-danske-smver>
- ²³ Global Entrepreneurship Monitor (2019), National Expert Survey (NES) of the Global Entrepreneurship Monitor (GEM), available at: <http://www.gemconsortium.org/wiki/1144>
- ²⁴ Erhvervsstyrelsen (2020), Statistik for kompensationsordninger, available at: <https://erhvervsstyrelsen.dk/statistik-kompensationsordninger>
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- ²⁸ European Commission (2020), The Digital Economy and Society Index (DESI), available at: <https://ec.europa.eu/digital-single-market/en/digital-economy-and-society-index-desi>
- ²⁹ data.eib.org/eibis/graph?t=INVESTMENT_NEED&i=Proportion%20of%20a%20firm's%20machinery%20and%20equipment,%20including%20ICT,%20that%20is%20state-of-the-art&y=2018&d=size&si=SME&co=cc
- ³⁰ OECD (2020), Financing SMEs and Entrepreneurs 2020, available at: <https://www.oecd-ilibrary.org/finance-and->

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³¹ Ibid.

³² See Note 30

³³ EIB (2020), EIB Investment Survey, Proposition of firms that are finance constrained, available at: data.eib.org/eibis/download?&i=Proportion of firms that are finance constrained&c=Denmark&c=EU countries&y=2018&s=SME