

Competitiveness of Austrian companies, especially SMEs

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1 Short version

1.1 Background and objectives

The competition Austrian companies are confronted with continues to intensify, especially for small and medium-sized enterprises (SMEs). Despite the effectiveness and relevance of international regulations, national framework conditions can still be important in an increasingly globalised and digitalised economy by providing the basis for the competitiveness of companies. Consequently, the main research question of the study at hand aimed at analysing if the current Austrian framework is actually supporting companies (especially SMEs) to become competitive on the global market. The following chapters present the main findings and policy options with regard to major aspects of these framework conditions. Based on a literature review and interviews with stakeholders and experts, these aspects focus on labour law, taxes, foundation of enterprises, financing (the growth of) companies, trade regulations and skills shortages.

1.2 Main findings

1.2.1 Labour law

The current labour law in Austria hardly corresponds to the developments triggered or intensified by digitalisation and globalisation, in particular because it continues to focus on employment relationships with fixed working hours at a fixed place of work. A labour law appropriate to these developments must respond to this and create a balance between the fundamental changes in the world of labour and the continuing protection needs of employees. The following points are particularly relevant.

Raising the maximum daily working time to twelve hours according to the EU average would be a key element in improving the competitiveness of the Austrian economy. In order to cushion economically difficult times, the temporary extension of billing periods and the extended transfer of time credits would also be a suitable measure. This should be accompanied by

a transition from a reference frame of weekly hours of work to annual working time. However, the implementation in the corresponding national framework conditions is still missing, i.e. a corresponding amendment of the respective body of law is still in the parliamentary review process.

At the centre of the discussion of the different rights of wage earners and salaried employees is the unresolved question of who should bear the costs of aligning these rights. In October 2017, the Austrian parliament decided that wage earners and salaried employees should be on par with each other until mid-2018 concerning continued remuneration in case of illness and that the different notice periods should be equalized by 2021, with an exception for seasonally operating companies. In the labour management regulations, no alignment of the two groups of employees has been carried out so far. The distinction between wage earners and salaried employees in relation to transfers to another job, where the rules applying to wage earners and salaried employees have to be compared, continues to cause problems. The various regulations, which are reflected in the components of remuneration (e.g. surcharges) or termination modalities, complicate the personnel administration. This goes hand in hand with the different treatment of these groups by payroll accounting.

Instead of making a blanket distinction based on the assignment to the group of wage earners or salaried employees, employees should be differentiated depending on the kind of work (e.g. indoor or external work). On the question of the approximation of wage earners and salaried employees in individual employment law, the following compromise could be reached: beyond the already agreed equalization of the periods of notice, the termination dates could generally be abolished to allow more flexible handling. Existing collective agreements may continue to be allowed as permissible exceptions to these adjustments. In the case of an approximation, consideration should be given to those regulations, which are not analogously or have already been transferred to the other group (Section 16 of the Salaried Employees Act). In the event of far-reaching convergence, the consequences for employment contracts, which lead to considerable changes in the way companies operate and organize themselves, must be considered.

Both the Salaried Employees Act and the civil law (ABGB), in conjunction with the General Social Security Act, contain an obligation of the employer to continue paying salaries from the first day of an employee's incapacity for work due to illness. During this incapacity, the right to sickness pay is suspended as long as the employer has to pay more than half of the wage. As a rule, this applies for at least 6 weeks depending on the duration of the employment.

If, unlike in the case of occupational accident or occupational disease, the cause cannot be assigned to the working conditions, various points must be considered and a recommendation for action for the political discussion is therefore difficult to give. With regard to short illnesses, it would be possible to allow for a benefit-free period if the incapacity lasts shorter than three days, which would be in line with the social insurance model for freelancers. According to this model, the continuation of pay during the first three days of the illness would be borne by the employee (or the insurance carrier).

In the context of digitalisation, "crowdworking" or "cloudworking" are seen as a new way, but to a certain extent also a textbook case, of forming new service relationships. This type of work organisation is characterized by a crowdsourcing company ordering (often segmented) work via platforms to an undetermined number of people (crowd) for completion. By using crowd-based technologies, in which individual work steps can be evaluated and extensive feedback loops are conceivable, the conventional direct control mechanisms are changed in such a way that a work performance in the employment relationship according to traditional patterns can be negated. Still relatively few studies deal with this phenomenon in Austria on an empirical level. In any case, the emergence of this form of employment can be interpreted as an indication of present and future trends in a sub-sector of the labour market.

In place of a new Crowdworking Act, which would take up on the symptoms of this form of employment, a disclosure requirement should be introduced vis-à-vis these platforms. The increase in transparency would make it easier for employees, governments and social insurance institutions to classify

the employment relationships correctly. Because of the transnational nature of this subject, this should be done on the level of the European Union. However, before considering an event-related and independent work-related treatment of this topic, the focus of the policy should primarily be on increasing the transparency of the platforms and the problem awareness of those involved.

1.2.2 Taxes and duties

The financial burden (e.g. taxes) in Austria is generally high, but the level of social protection is correspondingly also higher than in other countries. According to the OECD, the incidental wage costs are above the average of all OECD countries. In addition, the development of unit labour costs is used to illustrate competitiveness over time. In this respect, Austria was above the average of other EU countries in 2014 and 2015. In the longer term, the shares in the export markets could develop to the detriment of Austria.

The question of which parts of incidental wage costs could or should be limited or cut is primarily a political one, since a reduction in taxes and other duties equals a reduction in the income of public authorities. In addition, the measures depend on the corresponding goals that are to be achieved. Reducing the cost of labour could nonetheless lead to an improvement in the competitiveness of domestic enterprises in the short-term.

1.2.3 Living expenses of founders

Company founders are of central importance to the competitiveness of the Austrian economy, especially in emerging market segments such as those created by digitalisation. One of the biggest challenges is to financially bridge the start-up phase. At present, there are already some corresponding support offers in Austria. For example, individuals who plan to establish their own company and who are registered as unemployed may access the Employment Service's (AMS) Business Start-Up Programme (UGP). Founders with an existing employment contract have access to significantly fewer

support services. Currently there is e.g. the opportunity to cover up to € 1,500 of a founder's own living expenses through the "Erste Vision Capital Fund". In return, the fund will get between 2-10 percent of the future income of the founder for a pre-defined period. Supportive impulses for the foundation of university spin-offs are currently being offered by the spin-off fellowships. The amount of funding ranges from € 100,000 to € 500,000 for a period of up to 18 months, which covers both personnel and material costs at 100 percent of the eligible project costs. In addition, services (such as further education, coaching and mentoring, etc.) of the knowledge transfer centres and their partners can be used.

Due to the central importance of financial and other incentives for potential founders, an adaptation of existing offers should be discussed. The spin-off fellowships should be extended to all non-university research institutions in Austria and the possibility of ongoing application to the programmes should be examined. In addition, a model that promotes start-ups with the intention of bringing an innovative new development to the market without any interim route through the research institutes could be conceived. This could be linked to the existing Business Start-Up Programme of the AMS.

1.2.4 Founding and financing of enterprises

Austria's successful participation in a globalised and digital economy somewhat depends on newly founded innovative or innovation-based growth-oriented companies (including university and corporate spin-offs). Company foundations based on digitalisation innovations and digital business models have an above-average demand for clear, transparent and above all time-saving regulations. Currently, the implementation of several facilitations for single founders are already in place in the sense of reducing bureaucracy, e.g. the possibility to found a company online via the company service portal (USP), the declaration about the establishment of the company and the registration for entry in the commercial register also via the USP or the foundation using the electronic foundation (e-foundation). The federal government's start-up program, which will run until 2020 with

a volume of € 185 million, aims to implement a series of measures to support start-ups in the start-up and growth phase. For the seed funding of the aws from 2017 to presumably 2019, additional € 20 million in funds will be made available. The Business Angels Fund was increased to € 32.5 million at the end of 2016.

In order to make founding a company in Austria more attractive and faster, some key obstacles in the foundation process should be removed: the audit obligation of the company register should be limited to the correct publication of the necessary information and (enforceable) execution deadlines including effective sanctions for non-compliance with the deadline should be introduced. Helpful formal instructions and sample applications should be published in advance. Likewise, English should become self-evident in dealing with the company register and English-language information and instructions on processes should be provided. Measures for the removal of notarial acts and notarial certification in the founding of limited liability companies appear vital as well.

One of the biggest obstacles to participation in opportunities created through digitalisation is access to financing (especially in the growth phase). In comparison, Austria scores below average in terms of access to equity and venture capital for SMEs and financing via business angels. As far as equity financing is concerned, state funding agencies in Austria are by far the most important source for companies. At present, for example, the aws Gründerfonds and the aws Mittelstandsfonds offer opportunities to at least partially offset the lack of private equity. In addition, there are a number of funding opportunities also in the federal states. In March 2018, the opportunities for investments created in 2017 by SME financing companies (MiFiG) were expanded and adjusted. Already in 2015, the Alternative Financing Act created a legal framework for alternative forms of financing. Current analyses assume that it is still too early to make a comprehensive assessment of the (positive) effects on Austrian SMEs.

Tax incentives for risky investments are a sensible option to make Austria more attractive to investors. In addition, incentives should be created to

make investments more worthwhile, such as the possibility to create different share classes in the GmbHG for investors, but also employees, or the creation of a possibility to write off risky investments in start-ups at least partially.

1.2.5 Trade and industry regulations

Trade and industry regulations govern numerous elements of the framework conditions of entrepreneurial activity in Austria and have been revised in several ways over the last few years (not least based on the corresponding decision of the Council of Ministers of July 2016). Central to the modernisation of the trade and industry regulations was the introduction of the so-called business license on 1.5.2018. In addition to the business license, a personalised trading license was created. Already in place is the extension of ancillary rights. Depending on the activity of the company, it might still be necessary to obtain a business license for a regulated profession. In such cases, usually none of the founders has a corresponding certificate of competency, which means that either the latter must be acquired afterwards or a managing director under trade law must be appointed. This causes additional expenses because no business activity is permitted during that time.

The further development of the trade regulations must take into account new business models, for example because of digitalisation. A unified trade would bring advantages for innovative companies. In general, the changes that were planned but have not been implemented yet, should be put in place, i.e. originally intended as part of the amendment of the trade regulations or the corresponding decision of the Council of Ministers. In particular, the initially discussed introduction of a so-called single license should be resumed.

The operating premises law is often being discussed as an obstacle to corporate activity. Depending on the activity and location of the company, different authorisations may be required for the commencement and continuation of business activities. For a long time, the main problems were the large number of approvals required and the duration of the processes.

This was confronted through the Trade and Industry Regulation Amendment 2017 by reducing the maximum duration of proceedings from six to four months. However, this does not apply to other procedures outside the trade and industry regulations. It remains to be seen whether the goal of an extension of the actual use of the simplified procedure from the present 20 per cent of all cases to 50 per cent of cases and a general acceleration of procedures can be achieved. An internal evaluation should be carried out in 2022. An unsolved problem still exists in the unclear database for an assessment of the duration of corresponding procedures, i.e. business registrations and plant permits. Meanwhile, a monitoring of procedures has been created, the first results of which will be available in 2018.

1.2.6 Skill shortages

The current level of skill shortages affects, to varying degrees, almost all sectors of the economy and has a variety of heterogeneous causes, ranging from a lack of appropriate education and training of available labour, to a general decline in the labour force potential and to regional mismatches (i.e. regional unequal distribution of vacancies and available labour). As part of the so-called "Start-up Paket", the Federal Government has taken measures to counteract the shortage of skilled workers, e.g. the "Rot-Weiß-Rot" card or the annually updated shortage list.

To tackle this issue, a large-scale campaign should be launched in Austria. Therein, suitable proposals and measures should be developed, coordinated and communicated, as well as the networking of all relevant actors achieved, under the joint leadership of the Ministry of Labour and Social Affairs and the Ministry of Economic Affairs. Changes or the abolition of access restrictions for the corresponding fields of university studies should be discussed. An overall strategy for skilled immigration should be developed and implemented. The corresponding responsibilities should be pooled in one ministry. In addition, the data and information base in terms of skills shortages need improvement.

For Austria, an international comparison between OECD countries shows that 15-year-olds in are lagging behind in ICT skills compared to other

countries. In addition, there are too few training places and apprenticeships in Austria in the longer term.

Vital for maintaining the competitiveness of Austria's SMEs are thus further education models that link the innovative capacity of young people with the experience of the older workforce. Basic ICT skills for the population at large are an important prerequisite to be better prepared for future challenges, especially with regard to the employability of low-skilled workers. In particular, companies could benefit from the increased use of digital teaching methods. Equally relevant in schools and educational establishments is the increased teaching of specific digital literacy, even though this would require greater educational reform in terms of teaching content and methodology. Finally, in the context of balancing priorities in compulsory education, the teaching of basic competences seems to be a priority, to create a basis for the later teaching of specific ICT skills.