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Business Statistics' Studies

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**Costs of Context - business perspective: Small and medium enterprises seem to be more sensible to these costs than larger and micro enterprises. Main obstacles are related with the Judicial system, licensing and tax system**

The global cost of context indicator, which aggregates nine context costs domains, scored an intermediate value (3.04 on a 1 to 5 scale), having been slightly higher in small and medium companies than in large and micro enterprises. By business sector, companies from accommodation and food services, construction and real estate, manufacturing and agriculture, forestry and fishing, perceived higher-than-average costs of context.

Among the 9 areas of costs of context analyzed, the main constraints to business activity were identified in the judicial system. Licensing and the tax system followed as the most problematic areas, and these three registered the highest values, regardless of the size and business sector of companies.

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The growing integration of businesses in the global economy, poses new challenges and the need of constant attention to factors affecting their competitiveness. Among them, the costs of context stand out. Costs of context are negative effects resulting from rules, procedures, actions or omissions, that hinder businesses, and that are not attributable to the investor, its business or organization.

With this press release, Statistics Portugal disseminates the publication "Business costs of context – Business perspective". This publication synthesizes the results of the Business Cost of Contexts Survey (IaCC), with the main purpose of assessing these negative effects. The survey benefited from external contributions, namely from investigators and enterprises (willing to test it), and AICEP, to whom Statistics Portugal acknowledges.

IaCC focused on nine main areas, identified as potential areas of obstacle to businesses' activities: starting a business, licensing, network industries, financing, judicial system, tax system, administrative burden, internationalization and human resources. Companies were inquired on the levels of obstacle they perceived in the multiple areas and on the evolution between 2012 and 2014. Approximately five thousand non-financial companies were surveyed, constituting a stratified sample by size-class and business sector. The survey went from June 05 to August 11, 2015.

Most questions of the survey have a qualitative nature, expressed by a scale of response with 5 levels of intensity, with which the respondent may indicate the level of obstacle associated with each question. Without prejudice of indicating the distribution of responses by these 5 levels of intensity (and the percentage of non-responses), an

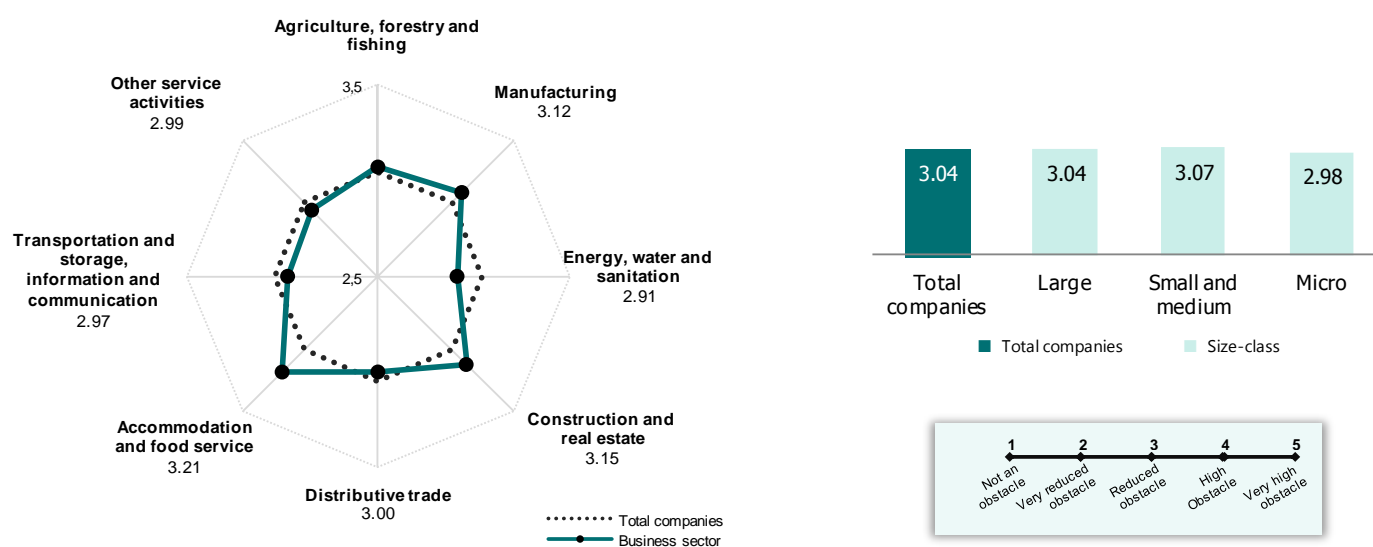
indicator was calculated to synthesize the companies evaluation of the obstacles. This indicator (the obstacle indicator) is the weighted average of the distribution of responses, by the 5 levels considered, and it varies in the range of values between 1 and 5.

Based on the results of the survey, composite indicators were created, summarizing the information on the multiple areas of costs of context, allowing for their comparability.

The global costs of context indicator was calculated, based on turnover weighted results, and taking into account the level of importance, of the multiple areas, attributed by companies.

Based on these results, the global cost of context indicators scored an intermediate value (3.04 on a 1 to 5 scale). By size-class, the small and medium companies perceived slightly higher costs of context (3.07). By business sector, companies from accommodation and food services (3.21), construction and real estate (3.15), manufacturing (3.12) and agriculture, forestry and fishing (3.07), perceived higher-than-average costs of context.

**Figure 1 – Global cost of context indicator by size-class and business sector**  
(Turnover)



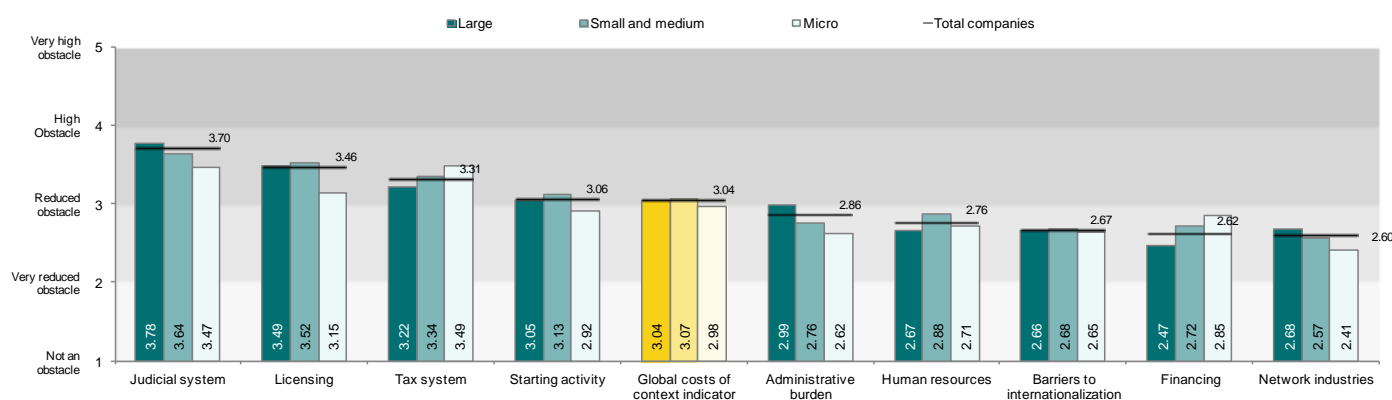
Source: Statistics Portugal, Business Costs of Context Survey

The main constraints to business activity were identified in the judicial system, with the highest obstacle indicator (3.70). Licensing (3.46) and the tax system (3.31) followed as the most problematic areas, and these three registered the highest values, regardless of the size and business sector of companies. Nonetheless, some differences in the ordination and the degree of the perceived obstacles were observed.

Small, medium and large companies perceived more obstacles in the judicial system and in licensing, while the tax system was the main obstacle for micro companies.

Network industries (2,60) and financing (2,62), did not constitute significant obstacles to the activity of most companies, with the lowest obstacle indicators.

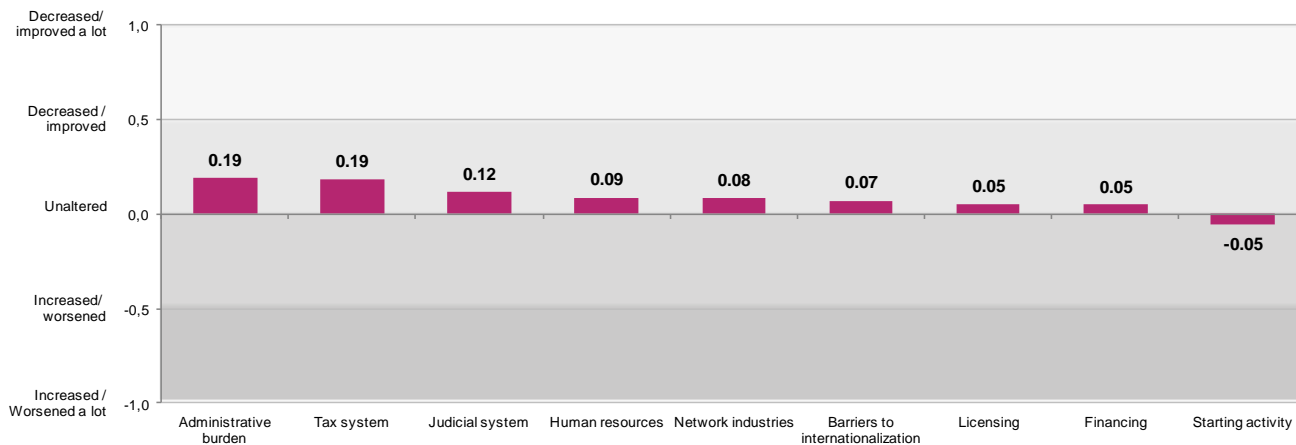
**Figure 2 – Obstacle indicator by area of costs of context and enterprise size-class**



Source: Statistics Portugal, Business Costs of Context Survey

Companies did not perceive significant changes to the obstacles, in most domains of the costs of context, between 2012 and 2014. Nonetheless, they indicated a slight increase in obstacles in all, but the starting of activity. The tax system and the administrative burden were those where companies expressed the highest increase in obstacles to their activity.

**Figure 3 – Obstacle evolution indicator by area of costs of context and enterprise size-class**



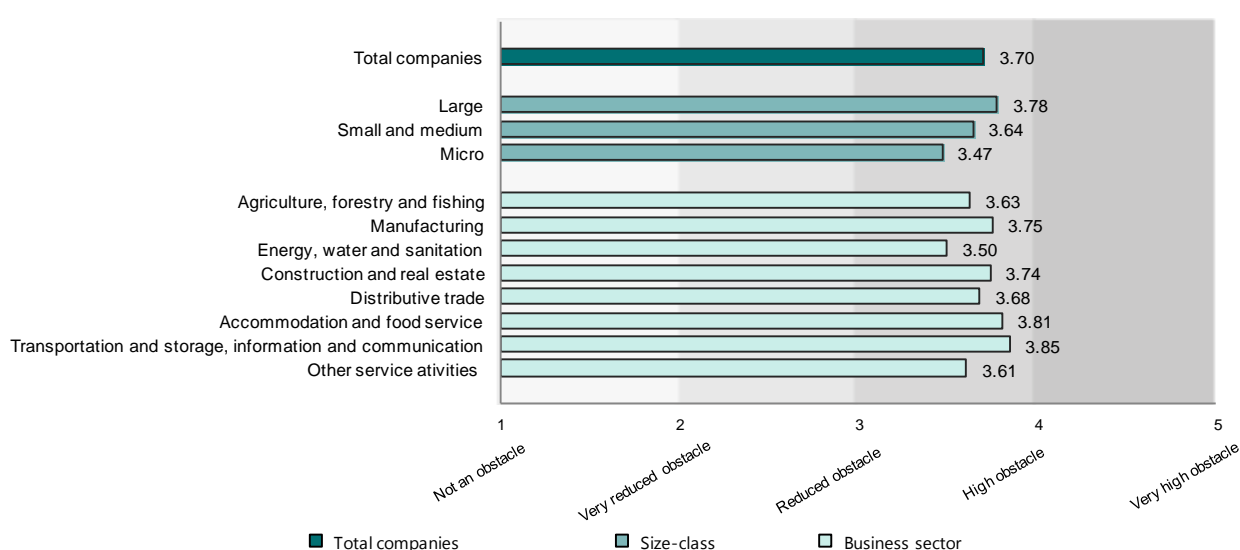
Source: Statistics Portugal, Business Costs of Context Survey

By area of the costs of context, the following is highlighted:

The **judicial system** was the area where companies perceived the highest obstacles to their activity. Tax disputes posed more obstacles to companies than those commercial or labour related. As for the characteristics of the proceedings, the main barrier was the related judicial length. The perceived evolution was of an increase in obstacles felt by companies, particularly those related to the costs of juridical support and court related expenses.

The obstacles in the judicial system were particularly high for large companies and to companies in the transportation, storage, information and communication sector.

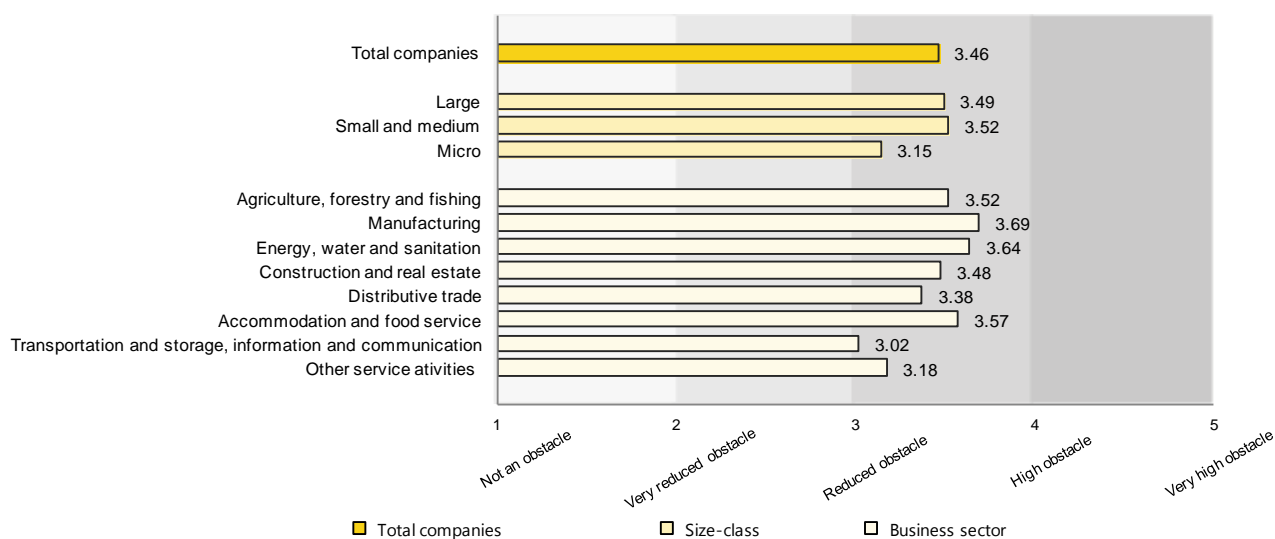
**Figure 4 – Obstacle indicator in the judicial system by enterprise size-class and business activity**



Source: Statistics Portugal, Business Costs of Context Survey

The complexity of some **licensing** and certification processes, posed important costs of context to companies. Among business sectors, the highest obstacle indicators were on manufacturing and in energy and water. In both, the main barriers were caused by the complexity of environmental licenses. In accommodation and food services and in distributive trade, the main obstacles came from municipal licenses. These obstacles were, also, felt more by small, medium and large companies than by micro companies.

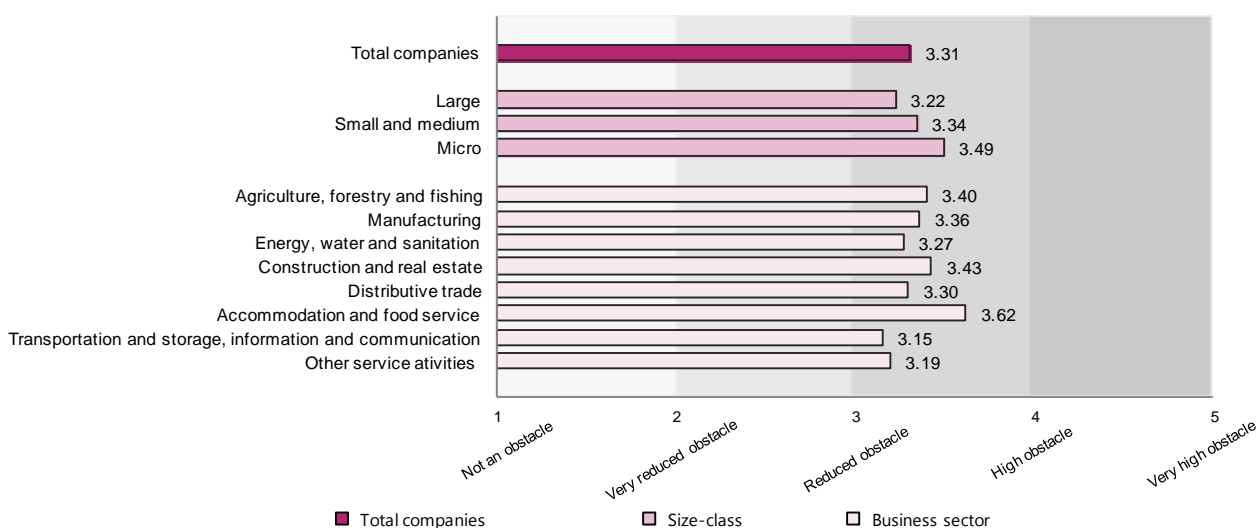
**Figure 5 – Obstacle indicator in licensing by enterprise size-class and business activity**



Source: Statistics Portugal, Business Costs of Context Survey

The **tax system** also posed a relatively high obstacle. VAT was the tax that posed the highest barriers to activity, particularly in the accommodation and food services sector. Micro companies indicated higher obstacles in the tax system, especially in the contributions to social security.

**Figure 6 – Obstacle indicator in the tax system by enterprise size-class and business activity**



Source: Statistics Portugal, Business Costs of Context Survey

The **starting of activity** did not constitute, to most companies, a big obstacle, and the situation remained relatively stable, with a slight improvement, between 2012 and 2014. The costs associated with the starting of activity (including fees to be born and the necessary capital) constituted the main barriers to this process, while the necessary time had the lowest obstacle indicator.

**Access to financing** did not constitute, in general and in each of the types analyzed, a high barrier to most part of the companies. The situation remained essentially unchanged to most companies. By business sector, some points of obstacle should be highlighted, particularly the access to middle and long term credit by construction and real estate, and accommodation and food services companies. By size-class, in spite of the globally low indicators, a higher obstacle indicator and obstacle evolution indicator was observed in micro companies.

Operations linked with **human resources** of companies did not constitute a high obstacle to their activity. A relatively higher obstacle indicator was identified in layoffs, particularly in the accommodation a food services sector.

**Internationalization** of businesses was still not an area applicable to most companies. The most common means for internationalization was through imports and exports, where no particular constraints to activity were identified. Opening of foreign affiliates or branches, although affecting a reduced share of companies, posed a relatively higher obstacle to them, particularly in the construction and real estate, distributive trade and manufacturing sectors.

The **administrative burden** did not, in general, pose a significant obstacle to business activity, however the results varied according to the entity analyzed. Information requests from and to the Tax authorities (AT), caused the main obstacles to businesses. Large companies were more affected by the administrative burden, while no major differences were found among business sectors.

**Network industries** did not constitute a major obstacle to the activity of companies, with the lowest indicator among all the domains of costs of context. Between 2012 and 2014 the situation has not changed significantly, with a slight tendency for an increase of obstacles, aggravated in the case of electricity and liquid fuels. For companies that identified, in network industries, high and very high obstacles, their cost tended to be the main problem. The exception was telecommunications, where the availability of the service was the main problem, with the quality also gathering a significant part of the responses.