How to Improve the Growth Potential of Belgian Companies

What makes them tick; what gets them stuck?

Conducted by Bain & Company in co-operation with VBO FEB
Foreword

Belgium has a long tradition of entrepreneurship based on product and technology innovation, coupled with deeply ingrained productivity. Over the years, scores of studies have measured how competitive Belgium is and to what extent, compared to its industrial neighbours.

What is particularly important to understand is how the entrepreneurs themselves view their growth potential and what are the possible growth levers and obstacles they encounter in their path to value creation. To this end, we have carried out an extensive research project. The results indicate a high potential for Belgian companies to build a strong competitive position and to enjoy equally robust growth prospects.

This conclusion helps allay any fears tied into our lack of natural resources or to the fact that we have but a small domestic market. Neither one of these deters productivity nor value creation, as both Sweden and Switzerland have already demonstrated. Particularly at a time when market integration is gaining critical momentum in Europe.

This novel research provides a platform for broader discussion at all levels - government, employers’ organisations, and individual companies - for creating the necessary conditions to unleash our country's tremendous growth potential.

To that end, we hope the VBO-FEB and Bain & Company can play a part.

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Finding the factors for growth

Belgian companies have the distinction of boasting the highest productivity in Europe. You would think that is a sure recipe for growth. Yet Belgian companies cannot claim the same ranking in growth as they do in productivity. Why is that?

To what extent are the following factors and obstacles to growth on a scale from 1 to 10?
If you ask Belgian managers where they see the greatest constraints to growth, they will put the external factors of high taxes and labour costs at the top of the list. It is true that competitive taxes and labour costs are a pre-requisite to improving the competitiveness of Belgian companies and raise their growth potential. It is also true that corporate taxes in Belgium are high, making growth more difficult.

It would seem that significant growth is still possible for companies that adapt to external conditions – that sway with the punches and seek opportunity in adversity. On the other hand, the companies with growth concerns may well view the fiscal and social cost as a black hole.

Other small countries such as Finland, Sweden and Switzerland do not have a competitive advantage over Belgium in terms of availability of natural resources, size of their home market or cost of labour. Yet they have been able to produce a significant number of world-leading companies. So there must be some other factors to explain the difference.

It is precisely those “other factors” that this report attempts to identify – factors that distinguish highly successful companies from the less successful ones.

Companies in European top 500 in terms of Market Capitalisation

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Do Belgian companies have growth potential?

Belgium has fewer successful large international companies than countries such as Sweden and Switzerland. But the country is full of small and medium size companies, which represent its future in terms of economical development. Because growing companies are beneficial to a country’s economy in terms of wealth and job creation, establishing the right conditions to allow companies to grow is of the utmost importance for the economy. Based on this fact, the VBO-FEB wanted to ascertain the roadblocks to the development of these companies and what initiatives could be developed to improve the growth potential of all Belgian companies (large and small).
Belgium needs more growing international companies.

The objective of this study is to analyse the growth objectives and growth potential of Belgian companies. The study is based on a detailed questionnaire that was answered by top management of approximately 1000 Belgian-owned companies, a representative sample containing companies of all sizes and sectors. The questionnaire was supplemented by selected benchmarking research comparing Belgium to other countries such as Sweden, Switzerland, and Finland. This allows a comparison between Belgian companies and those in other countries on the dimensions identified to be highly critical, and leads to identifying major obstacles to be overcome if Belgian companies are to become more successful.

Based on these findings, a set of recommendations and proposed action steps at all levels (government, employers’ organisations, companies) are proposed to “unlock” the growth potential of Belgian companies.

Bain & Company and the VBO-FEB would like to thank all those who participated in the study for their time, their contribution and their kind co-operation.
Guts, talent and means are the recipe for growth

What does it take to be a fast-growing enterprise?

Any successful, dynamic company must be in possession of three key attributes: guts, talent and means. These characteristics together are the recipe for growth.

Strength in all of these three dimensions is what makes a company successful, what we call a “value builder”.
“Guts”, the right attitude, covers the notions of ambition (setting ambitious targets) and risk-taking. But also a number of personal characteristics that top management should have, but that also need to be transmitted to the workforce. These are, for example, drive, openness, assertiveness, optimism, and an entrepreneurial spirit.

“Talent” is the competence to be successful in the venture. For example, the quality of management (vision, strategy deployment), creativity and innovation, R&D effort, and the availability of skilled labour.

“Means” refers to investment in the venture. This covers investment in whatever it takes to fuel company growth (for example, mergers and acquisitions (M&A), new technology, brand, etc.) and the availability or accessibility of the necessary resources (availability of capital, openness to external parties and ownership structure).

For each of these three dimensions, a number of parameters have a distinguishing effect on a company’s growth prospects (as estimated by management). Using these distinguishing factors, companies were classified as either “strong” or “weak” on each of the three dimensions. That finally gave us eight distinct groups of companies, ranging from “followers” (weak on all three dimensions) to “value builders” (strong on all three dimensions).

The groups who are strong in two of the three dimensions are called “high-potentials”, since they lack only one aspect to become “value builders”. Risk-averse high-potentials, for example, only need more “guts” to become “value builders”.

Finally, there are three categories that are strong in only one dimension. Those who are strong in attitude only, for example, are called “impulsive dare-devils”, since they are weak on the competence and investment dimensions.
One Belgian company out of two has the potential (or almost) to grow

Using the above analysis, companies can be divided into various categories.

First come those which have all three attributes. We call them the “value builders” since they show strong growth by continuously building up the company. It is to be noted that these companies create wealth not only for their shareholders. They also do so for the whole of society since they create new jobs, pay more taxes, and have an indirect impact on other companies (suppliers, for example).
All this has a positive impact on a country’s economy. Every company can become a “value builder” since “value builders” are spread across all company sizes and all sectors.

- Of the Belgian companies surveyed in the study, 14% can be designated “value builders.”

Next come the “high potentials.” These are companies that are missing only one of the three key attributes of growth. They can be what we term “intuitive high-potentials” because they have ambition and invest accordingly but are short on “competence”; or “under-investing high-potentials” for obvious reasons; or “risk-averse high-potentials” because they have the skills and make investment but lack the right attitude to success.

- The study identified 31% of Belgian companies as “high-potentials.” (strong in two dimensions)

These are the companies that should be the focus of actions to increase their growth, since they are the easiest to convert into “value builders”.

The third overall category can claim only one of the essential attributes of growth.

These companies need to develop the two other areas, aiming first to become “high-potentials” and subsequently to advance to “value builder” status. Though they will not be the prime focus of recommended actions, they will surely also be able to benefit from any measures that are designed to boost the “high-potentials”

- 32% of Belgian companies are well positioned on only one dimension

Finally, there are the companies that are weak on all three attributes. We call them “followers.”

These companies will have to overcome even more difficulties in order to grow and become large successful international companies. They may well benefit indirectly from any improvement actions designed to help “high-potentials” climb the ladder of success. But their chances of ever becoming “value builders” are rather limited.

- 23% of Belgian companies can be termed “followers”

The chart below shows the proportional breakdown of Belgian companies depending on whether they have zero, one, two or all three of the requisite characteristics for growth.

The following chapters will each focus on the three key attributes and where the surveyed companies fit into the overall picture. They will diagnose the Belgian business landscape based on the study results and offer recommendations for action.
A “winning attitude” is essential to succeed. Ask any Olympic champion. But it’s true of business, too. A winning attitude is not just a matter of guts and grit. It translates into actions and behaviours such as: setting ambitious targets and building a strategy to get there; risk taking, especially in entering new markets or countries; leadership and entrepreneurial spirit; openness to external growth; or the ability to meet challenges and upheaval head on.

**Diagnosis**

Quite a number of Belgian companies are not growing as strongly as they could because they have not fully instilled an attitude that would enable them to grow.
The first manifestation of the “attitude gap” is to be seen in their growth ambitions. While most companies certainly expect to grow, the growth targets they plan on could be more ambitious. Indeed, over 35% of companies stated that they foresee a significantly lower rate of growth in the coming five years than that experienced last year.

14% of Belgian companies plan to double their size in the course of the coming five years (“strong growth” in the chart above).

14% is not a high number, especially compared to the 26% that do not expect to grow at all in the next five years. These percentages are relatively consistent across all company sizes, so there does not seem to be a correlation between current size and growth forecast.

In addition, close to two thirds of the companies surveyed stated that they consider themselves to be in a mature stage of development. This is again true of small companies and of large ones and an indication that more ambitious targets and an injection of entrepreneurial spirit and risk-taking might well create the impetus that is necessary to stimulate growth.

What about risk-taking?

The study looked particularly at the penetration of foreign markets, as well as the openness to external growth through Merger and Acquisition activity – which is also linked with the “investment” attribute.

It would appear that some Belgian companies tend to focus more on their domestic market – which is small – rather than making a determined, ambitious effort to enter new markets.

Almost 60% of the surveyed companies stated that the market they are active in is international in scope, that is, European or worldwide. The chart shows that about one third of the companies active in international markets generate less than 30% of their revenues abroad, which means they bring in over 70% of their revenue from Belgian customers. There is certainly an opportunity to shift gear in this area. Building on their domestic strength they could probably increase revenues quite substantially by attacking foreign markets.
It is certainly positive that 65% of companies consider increasing their market share in their current market a top priority. However, the fact that less than half of the companies that consider their market to be international mention entering new markets as a top priority, shows that there is room for more ambitious internationalisation targets.

In addition, companies that do export are, in their majority, hesitant to take the risk of setting up proprietary export structures and in installing production facilities abroad. Indeed, only 40% of exporting companies have established a subsidiary or sales office abroad. Again, this is linked to the “investment” attribute and means that many of them are operating through agents and distributors, or exporting out of their domestic facilities. While this may work reasonably well, the Belgian companies in question are missing the opportunity to acquire market intelligence and are not yet ready to make the commitment that would assure them longer-term growth.

A second point concerning risk-taking is that of external growth. It is used only rarely as a vehicle for company expansion. Two thirds of Belgian companies have little or no experience with M&A activity. Yet, stimulating external growth might well lead to higher overall company growth and more rapid development.

**What about turbulence?**

Turbulence is a fact of life in commerce and industry. And in today’s economic environment, many industries are undergoing some degree of upheaval of one degree or another. Turbulence creates opportunities because it forces companies to take decisions about what their core market is, and how to allocate resources. Typically, companies that react properly to turbulence take a disproportional part of the total profit pool in the industry.

It is surprising, then, that 32% of the surveyed companies can identify no turbulence factor at all in their industry, even when prompted. And when they do identify turbulence, the response to it is sometimes quite unexpected.

Consolidation is the most commonly identified source of turbulence. Then again, as we have seen, the vast majority of Belgian companies, even those that quote “increasing consolidation” as a turbulence factor, have little or no experience with M&A (The chart below covers only those companies that quoted “consolidation” as a turbulence factor). And close to 20% of them have no intention to engage in any M&A activity, either in an acquisition capacity or in a selling one. This is an area where greater initiative and a certain
A high amount of risk taking would probably bring benefits to many companies. But it is not just a case of risk-taking alone. M&A is a complex process and an area where competence needs to be significantly developed.

Similarly, a number of companies that see “globalisation” as a turbulence factor in their industry do not react in a way one would expect. Indeed, almost half of the companies who mention “globalisation” as a turbulence factor realise the vast majority of their revenues inside the Belgian borders, and 30% realise no exports at all.

**Decision makers**

We now turn to the question of who takes the decisions in the company – and by extension, whose attitude it is that determines the growth prospects and plans of the company. Here it should also be noted that a large proportion (some 80%) of the companies surveyed were family-owned, a proportion that corresponds pretty closely to the general business landscape in Belgium.

The survey showed a strong link between ownership structure and management on one side and setting growth targets on the other. As the chart shows, companies led by non-family managers or first-generation owners are more ambitious in their growth targets than subsequent generations. These two categories are well represented in the “strong growth” companies (right-hand column). Various hypotheses could be developed to explain this phenomenon; suffice it to say that later generations of owners appear to confine themselves to the “comfort zone”, as they have much more to lose than the other groups.

**Consequences**

Companies that have the right attitude have higher growth prospects. On the other hand, lacking the right attitude seems to play a role in inhibiting growth and deserves attention.

The companies demonstrating only the key attribute of “attitude” have been designated “impulsive dare devils.” They clearly show higher growth prospects than those termed “followers,” which have none of the three attributes. That indicates that it pays off in terms of growth to have the right attitude and be prepared to take certain business risks. That having been stated, the “impulsive dare-devils” in turn enjoy lower growth prospects than “value builders.” So the right attitude is a starting point that needs to be reinforced by the right competence and the right investments.

“Risk-averse high-potentials,” that is, those companies that have the necessary competence and are not shy to invest, would improve their growth prospects if they were able to adopt a more ambitious attitude and prepared to take more risks.
Recommendations and proposed action steps

First it has to be realised that limited growth ambition and a hesitancy to take risks is possibly to a large extent culturally related. No one would challenge that business success is socially and financially more rewarding in countries like the U.S. than in Belgium. However, some things can still be done.

♦ Government

The government can play an indirect role in stimulating companies to take more risk or show more ambition.

It can make it easy for companies to execute their plans when they show ambition and the willingness to take risks. In so doing, the government would be facilitating an entrepreneurial spirit by promoting the creation of new start-up companies and new subsidiaries within the same group or easing take-overs and successions of existing companies.

Specifically, the government can create easier working conditions by reducing the administrative burden and streamlining the handling of procedures. It can also provide better support for companies in handling the administrative procedures.

Government can furthermore create an optimal legal framework in which entrepreneurship is stimulated. Making the legislation on equity compensation less strict, and improving the legislation on compulsory settlement (“Chapter 11”) are prime examples.

♦ Employers’ organisations

There are several areas where employers’ organisations can help their member companies move up the ladder of success by helping them acquire the right attitudes.

Together with government, they can help companies by playing a more active role in promoting start-ups and entrepreneurs. They could act more as an “entrepreneurship centre”, with the roles of:

• Gathering, centralising and distributing information, advice and know-how on administrative procedures, available government support, pitfalls of expansion or setting up new subsidiaries, etc.

• Organising courses or meetings, possibly in the form of experience sharing

• Acting as a first point of contact for companies engaging in new ventures

• Bringing different parties into contact with each other (entrepreneurs, private or institutional investors, banks, …)

• Supporting or defending companies that are experiencing difficulties or are in conflict with the authorities, banks or investors (“mediator”)

Employers’ organisations can also step up their discussions with the government and other interested parties to build optimal conditions for an entrepreneurial spirit to develop. They can also work on positioning enterprise risk-taking and an entrepreneurial approach as virtues and sources of satisfaction and profit, for example by working together with other parties like schools and universities.

Finally, employers’ organisations can position themselves more as being representative of entrepreneurs and small companies by communicating more around the theme of “entrepreneurship” and by organising events that are specifically aimed at small companies and start-ups.
Companies

It is virtually impossible for companies to increase ambition and the willingness to take risks without making significant internal changes. Therefore, the companies themselves are the main drivers of improvement in the area of “attitude.”

So what can companies do? Here is a non-exhaustive list of suggestions and recommendations that can help modify attitudes and behaviours within the enterprise.

- Make a determined effort to build a company culture where the “status quo” is outlawed and where new growth opportunities are continuously and proactively explored. Companies could even stimulate their employees to become entrepreneurs themselves.

- Analyse the market to identify turbulence factors and learn how to exploit them to advantage. That means taking action where appropriate to convert a potential threat into an opportunity.

- Create incentive schemes that stimulate growth and risk-taking. This might include high risk-high reward compensation schemes such as making management compensation more dependent on results achieved and value created in ventures that involve a certain business risk. Another form of stimulation is a programme that lets employees share in the equity – the aim being to raise their ambition level and to instil (or increase) a results-oriented attitude among employees.

- Improve decision-making structures and attract risk-oriented managers. Here there are various possibilities, such as bringing on board external board members and external managers. In the latter case, those companies in international markets should not hesitate to look abroad when hiring top managers. Also, corporate governance should be examined and improved.

- When it fits the company’s growth needs, seeking external investors and persuading them to take a stake in the company is a pro-active move, since external investors are often more willing to take risks and push for growth.
Diagnosis

Competence comes from knowledge. Knowledge covers not only the skills and know-how of the people in the company to do their job. Nor even the availability of skilled people on the labour market. Knowledge also means leveraging the creativity and capacity of the people to innovate as well as investing in research and development in new technologies, services and manufacturing processes. And knowledge includes understanding the market dynamics and market potential in the fields in which a company is active.
Around 45% of Belgian companies have the “talent” or competence to grow successfully. Compared to other countries, it is not possible to state categorically that Belgium is better positioned or not, except on R&D expenditure, where Belgium is clearly lagging behind.

**Know your market**

A first step for companies would be to revise their business definition and in particular the way they see the market and their positioning in it. Many companies have a narrow view of their market and their role in it. Indeed, the majority of companies (58%) describe themselves as niche players. This figure rises to 72% for small companies. But even a lot of large companies (those with revenues over 5 billion BEF), which tend to have a broader view of the market, see themselves also as niche players.

A broader business definition would help these companies establish a more accurate baseline and, as a result, give them much greater room for growth.

The above situation is compounded by the level of knowledge on the dimensions of the respective markets. Over three quarters of the companies admitted that they did not know the size of the market in which they operate. And 63% were not familiar with their own market share. Additional research unearthed the fact that those who claim to know their market share and the size of the total market tended to overestimate the first or underestimate the second.

The chart below shows that this narrow view of the market is still prevalent among companies that are active in a European or worldwide market. Three out of 10 claim to be the dominant player in their industry. And half of them state that the dominant player in the industry is a Belgian company. Only companies with a relatively limited definition of their market could express this opinion.
Belgian companies do not really see the need for access to external knowledge and know-how. When looking at what they see as obstacles to growth, the most commonly quoted were corporate tax and high labour costs. Lack of access to external knowledge was ranked last.

Yet, injecting knowledge is a source of growth. Companies that have set up an internal R&D department or use the work of universities or external research firms and advisors generally bring more new products to the market. The chart above highlights this. Companies that consider one of those three sources (internal R&D, university research, private research organisations) important to them are those that make a higher proportion of revenue from recent products. Those that consider none of the three as an important source of knowledge make most of their money from old products.

Yet there is a clear correlation between bringing more new products to the market and growth. The chart below shows that the higher the innovation level is, the higher the expected growth. Half of the companies expecting a strong growth make a substantial proportion of their revenues from products launched within the past five years.

Additional research showed that Belgium invests less in (public and private) R&D than comparable countries. While Sweden invests 3.9% of GDP in research and development, Finland 2.9% and Switzerland 2.7%, the figure in Belgium is only 1.6%.

The charts below show a similar (though not quite so dramatic) picture: frequency of technical co-operation among companies on the one side (1st graph) and technology transfer from universities to companies on the other (2nd graph). Compared to Sweden, Switzerland and Finland, both technological co-operation
among companies and technology transfer from universities to companies are less widespread.

Belgium could also benefit considerably by more rapidly adopting new technologies. Penetration of information technology is greater in the three quoted countries than in Belgium. In Finland, there are over 12 Internet hosts per 100 inhabitants. In Belgium the figure stands at just under 3 (Switzerland stands at 4.3 and Sweden at 4). Similarly, in the year 2000, 76% of the Finnish population (and 70% of Swedes) were using a mobile phone compared to 47% in Belgium.

**Lack of skilled labour?**

People bring their competence to the business and its growth, and on this front Belgian companies feel there is a concern. The availability of skilled labour, next to high labour cost and high corporate taxes, is perceived as the major obstacle to growth. Even truly international companies, who are able to tap onto foreign labour markets for their hiring, quote the availability of labour as a major problem.

But data from the IMD World Competitiveness Yearbook 2000 would indicate that Belgium is better placed in this respect than Sweden and not far behind Switzerland and Finland. Certainly improvement is possible and desirable to address companies’ concerns, but the labour market situation does not seem to be a competitive disadvantage for Belgian companies.
If we use the same source to zoom in on the shortage of IT skills, an important issue in today’s digital economy from which most European countries increasingly suffer, we see Belgium on a par with Finland (where the shortage is equal to 8% of demand). Sweden and Switzerland are in a more difficult situation.

**Consequences**

“Talent” or competence clearly is a key ingredient of growth. Those companies with a solid level of know-how and knowledge (and who work on expanding it) tend to have higher growth prospects than those without. A shortfall of knowledge is an obstacle to growth.

Looking at our categories of companies, an analysis shows that the “competent conservatives” (that is, those who have the “talent” but need to work on the other two key attributes) clearly have higher growth prospects than the “followers.” This demonstrates that having the right competencies pays off in terms of growth. On the other hand, the analysis also shows that the “competent conservatives” enjoy less growth potential than the “value builders.” So competence alone is not enough. It needs to be supplemented by attitude and investment.

By extension, the “intuitive high-potentials” would improve their growth prospects if they were to focus on acquiring the necessary competencies.

**Recommendations and proposed action steps**

**Government**

There are a number of actions government can take to help raise the competence of enterprises.

A top priority should be given to stimulating dialogue between academia and business. Universities and high schools, with the government’s support and encouragement, can play a much greater role in sharing their knowledge and know-how with companies. They can do this, for example, by providing easier access to companies that seek specific knowledge or know-how – on technical issues, business issues, environmental issues, etc. Or, the other way round, by actively promoting student internships in companies to gain practical experience. But in general, a more intense dialogue between universities and business would also help the academic institutions to deliver the education and skills that fit the needs of industry.

Benefits would also be reaped by stimulating spin-offs to capitalise on university research, preferably in close co-operation with private enterprises.

The government should give priority to stimulating R&D investment. There are various avenues for doing this. The most obvious is perhaps an increase in public spending on R&D (universities, public research institutes...). But the government can stimulate private spending on R&D through financial and fiscal benefits. In this respect, a good strategy would also be for the government to bring focus to R&D investments by creating centres of excellence.
that home in on one specific area of research. Finally, the government can work on improving the legal framework relating to patents.

The government can play an important part in dealing with labour issues, for example, by providing a legal framework that offers the flexibility of facilitating the recruitment of people on a project basis. This can lead to a more effective use of the available skills. It can also support education and training by stimulating the choice of education where the labour shortage is highest, or by subsidising the development of special in-company training programmes.

**Employers’ organisations**

Employers’ organisations can help in creating the right conditions to cultivate talent, mainly by facilitating communication, on the one hand between companies and government, universities and high schools, and on the other, among different companies within the same sector.

In this respect, employers’ organisations can play a “bridging role” on R&D and innovation issues among companies and between companies and academia. They can do this by actively gathering, centralising and distributing information to companies and by bringing different companies into contact with each other – those who are facing the same problems and could benefit from cooperation, or those who can learn from the specific know-how of their counterparts.

They can also stimulate co-operation in R&D and innovation between companies and academia by providing frameworks for successful co-operation and advising both sides of the benefits and opportunities. In addition, co-operation within sectors can be promoted, for example, by organising R&D on a sector level (as is already the case in a number of sectors). Employers’ organisations can also support companies in their participation in European and international R&D programs and can provide input to the government concerning the most judicious use of funds for R&D investments.

The “bridging role” on educational matters can be further developed by taking the lead in negotiations and discussions to ensure that the education dispensed by the academic institutions is in line with the skill-set companies need. They can also organise campaigns to attract students to professions with the biggest labour shortage and promote or run training courses, possibly in cooperation with universities and high schools.

**Companies**

Perhaps the first thing the companies themselves should do is to strengthen their market and business knowledge. This could take the form of assessing their market and business model (What exactly is our market? What is our position in that market? What are our unique capabilities and competitive edge in that market?); and by constantly tracking changes in the market (new competitors, turbulence…) to be sure of making the right decisions.

Companies should also investigate opportunities to invest more in R&D and focus more on new products – by carrying out market research to ascertain customer needs and by actively approaching universities and potential business partners.

Seeking and exploiting external sources of knowledge and know-how would be beneficial to many companies. That could mean engaging in information interchange with other companies and academic institutions.

And when the labour market situation is particularly constraining, companies would do well to promote the concept of life-long learning by providing employees with training and personal development plans.
Diagnosis

Investment can be a very powerful lever for growth. But it requires a certain dose of risk-taking (see “attitude”) and, of course, the resources to invest. A number of Belgian companies are hesitant to invest in their growth, possibly because they do not have the means.

Others seem to adapt their growth targets and their prospects to the capital that is available to them, rather than looking at the situation the other way round.
**How much capital?**

The good news is that the vast majority of Belgian companies (around 90%) pump their profits back into the company to fuel its growth. But then, most companies, especially the ones that are not growing, rely only on profit investment to finance their operations.

At the other end of the scale, 53% of companies with high-growth plans consider profit re-investment as insufficient for their ambitions and need extra capital.

65% of private companies do not have a minority shareholder. And 75% of minority shareholders are other private investors. In the quest for additional capital, the survey indicates that its source is evenly spread between equity (mostly from existing shareholders) and debt. When asked if they would consider opening their capital to external parties to stimulate growth, 70% of the companies surveyed were not enthusiastic. They represented a cross section of the companies, that is, independent of size and sector. When you look at the responses from the no-growth companies, the figure goes up to 80% (see the left hand column in the chart below). On the other hand, half of the companies forecasting strong growth were more flexible on the subject of external investors.

Therefore, there seems to be a correlation between openness to outside capital and growth prospects.

**International investment**

Investment in the international side of the business could do with a boost. For example, exporting Belgian companies do not engage frequently in fixed investments in an international structure.

For the most part, they tend to prefer operating through variable cost intermediaries such as agents or distributors. This should be seen in conjunction with the
readiness to take risks as seen in the “attitude” chapter.

Also, only one out of three exporting companies has established production facilities abroad.

♦ The M&A question

Although companies are quite ambitious in their intentions regarding future mergers and acquisitions, the survey shows that, historically, investment in M&A activity has not been high. 65% of Belgian companies have very little experience in M&A or none at all.

This is a pity, because it appears that companies that have participated in acquisitions in the past have significantly higher growth prospects than those that have not. Of the “value builders” in this study, 75% of them have had some M&A experience over the past five years. Growth seems to be fuelled, at least in part, by past acquisitions.

Looking to their future M&A activity, a fairly large proportion of companies (40%) expect to be in acquisition mode. The numbers depend on the size of the company. The bigger the company, the more likely they are to make an acquisition.

On the other hand, 12% of companies expect to be bought out. Here, as expected, the number is higher for smaller companies than for larger ones. But then, 28% of companies (again mostly the smaller ones) state spontaneously that they will not engage in any M&A activity at all.

When we look more closely at the acquisition activity that is expected to take place, over half of the companies that plan to acquire will do so within Belgium.

Most of the other potential targets are in Europe. Looking from the other side, of the Belgian companies expecting to be acquired, 70% believe they will more likely be the target of foreign companies.
The figures on past M&A activity in Belgium are borne out by additional research data. Compared to Finland, Sweden and Switzerland, Belgium is not a particularly M&A-intensive country.

The value of M&A deals per year by domestic companies (averaged over the last 6 years) as a percentage of GDP is much lower in Belgium (7%) than in Switzerland (18%), Sweden (13%), and Finland (11%). And the total value of acquisitions in the respective countries shows a similar trend.

The same findings are reflected in the number of acquisitions per million inhabitants. Looking at number of deals per year by Belgian companies, the figure is 28, compared to 72 in Switzerland, 58 in Sweden and 54 in Finland. M&A activity is clearly not as much a part of the business culture in Belgium as it is in other countries.

**Ownership and capital**

A conclusion that can be drawn from the survey results is that the ownership structure is a determining factor in a company’s growth ambitions rather than the converse.

Access to debt or generation of cash-flow is not perceived as a particularly serious obstacle to growth. It should also be noted here that there is no significant difference between high-growth companies and no-growth companies in terms of seeing capital as an obstacle to growth.

On the other hand, although investments are fairly high, Belgian companies consider that it is difficult to access venture capital. Yet other data does not bear this out. The UNICE Benchmarking Report 2001 showed that there is a significant supply of risk capital available in Belgium for seeding new companies. Belgium is clearly ahead of other countries of similar size in this respect.

Figures from the EVCA (European Private Equity and Venture Capital Association) show that the number of equity investments in Belgium (averaged over 1998 and 1999), at 36 per million inhabitants, is in the middle range compared to the other countries. Switzerland stands at 24 per million inhabitants and Finland at 61. Looking at the same activity in terms of value, the picture changes little. Belgium stands at 0.19% of GDP. While Sweden is at 0.31%, Finland at 0.17% and Switzerland at 0.13%.
Initial Public Offerings (IPOs) are another indicator of the investment-friendliness of a country’s business community. And here again, Swedish, Swiss and Finnish companies are more active than Belgian companies. On average during the 1997 to 1999 time frame, Belgium recorded 1.6 newly listed national companies per year per million inhabitants against 4.8 for Sweden. Finland and Switzerland stood at halfway between the two.

Another point where Belgian companies are lagging far behind other countries is in using funds from institutions like the EBRD (European Bank for Reconstruction and Development). On a comparable basis, Swedish companies use these funds fifty times more than Belgian companies!

**Consequences**

The “blind investors” category of companies – that is, those eager to invest but lacking the other two attributes of “attitude” and “competence” – show better growth prospects than the “followers.” This indicates that the willingness to engage in appropriate investments is a contributor to growth. However, they do not have the same growth potential as the “value builders.” So investment is not enough, but needs to be associated with the other two attributes to be assured of sustained success.

“Under-investing high-potentials” would benefit by being willing and able to invest more in their company.

**Recommendations and proposed action steps**

- **Government**

  The government’s role is primarily that of creating the conditions that will facilitate investment. Government, national and regional, can make a big difference here by focusing on introducing incentives that will not only stimulate companies to embark on promising business investments but can also take the concrete form of making material support available. That could include such facilities as land and real estate, subsidies for equipment purchase, providing the infrastructure that enterprises need, etc.

  A second area where government can be proactive is in creating an optimal legislative framework. For example, it can develop instruments that reconcile external investors and family control, allow fiscal consolidation, and sustain a stable legal and fiscal environment, notably social and fiscal ruling.

  The availability of funds is key to promoting investment. Government can help by ensuring that capital is available by developing liquid financial markets with special attention paid to small capitalisations (from a European perspective). And by helping to create the right conditions for
banks to provide loans, and equity investors (private equity, venture capitalists, holdings) to provide equity. Ensuring capital is available might also mean investing capital via government holdings or supporting venture capital investments.

**Employers’ organisations**

Employers’ organisations should be primarily concerned with information interchange and counselling. They should focus their efforts on convincing their member companies that investments are essential to growth and persuading them to invest in M&A, international expansion, R&D and new technologies. They should also stress the need, backed up with data, for openness towards the inflow of external capital.

An important function of employers’ organisations will therefore be to gather, centralise and distribute information concerning investments. They can then act as an interface between banks and investors on one side and companies in need of capital for their growth on the other side. They can provide considerable help and support to companies wanting to engage in new financing operations by providing them with information concerning potential sources of funding available – for example, investment support from the European Union, the European Bank for Reconstruction and Development, the World Bank, etc. They could even organise international missions and dialogues to this end.

**Companies**

There are, of course, a number of things the companies themselves can do. But the first action is to set clear, ambitious growth targets and then define the capital needed to achieve those targets. Doing it the other way round, that is, basing growth opportunities on the capital available, will not bring the same results.

Once the capital requirements have been ascertained, companies should show flexibility in allowing external investors to participate in fuelling their growth. Looking at possibilities such as venture capital or private equity, for example.

Then it is time to investigate investment opportunities in depth. Look for interesting M&A opportunities; invest in a brand if this is vital in the industry; seriously consider fixed investments abroad (to be able to capture the full margin and increase proprietary local market knowledge); and increase the investment in R&D and new technologies – see the “Competence” chapter.

Finally, companies can consider a stock exchange listing, and quoted companies can work on improving their transparency and communication vis-à-vis investors (investor relations).

**So what now?**

A joint effort of the government, VBO-FEB and employers’ organisations and companies can improve the growth prospects of Belgian companies. Especially the “high-potentials” should benefit from these actions and increase their efforts to become “value builders”.

This however does not mean that lowering corporate tax rates and social charges is not necessary. On the contrary, improving the competitiveness of Belgian companies in terms of labour and tax cost is a prerequisite to improve their growth potential and can be reinforced by other growth levers that are discussed in this report.
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The Federation of Enterprises in Belgium, VBO-FEB, is the employers’ organization par excellence for representing the Belgian business world. The VBO-FEB acts on behalf of companies and defends in particular the interests of companies on the economic, social, fiscal and legal front.

Through some 50 federations the VBO-FEB represents around 30,000 Belgian companies in various sectors, from industry to services. 25,000 of those are small or medium sized firms.

The VBO-FEB represents Belgian companies in nearly 140 national, European and international bodies.