Small and Medium sized Enterprises in the EU

What is an SME?

Small and medium-sized enterprises (SMEs) are defined as all entities engaged in an economic activity, irrespective of their legal form with fewer than 250 employees and which are independent from larger companies. This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity.

There are three types of SME:

**Microenterprises** are defined as enterprises which employ fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.

**Small enterprises** have between 10 and 49 employees and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.

**Medium-sized enterprises** have between 50 and 249 employees and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

In Europe, there are 23 million small and medium sized enterprises (SMEs), accounting for over 98% of businesses. They have provided two thirds of the total private employment and around 80% of new jobs created over the past years.

In Malta, SMEs number almost 30,000 enterprises, accounting 99.9% share of all enterprises in Malta. While almost 88,500 persons are employed in SMEs, or 76.3% of the employed, SMEs contribute Euro 3 billion or 64.5% of all value added.

<table>
<thead>
<tr>
<th>Number of Enterprises</th>
<th>Employment</th>
<th>Value added</th>
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<tbody>
<tr>
<td></td>
<td>Malta</td>
<td>EU27</td>
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<tr>
<td>Micro</td>
<td></td>
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<tr>
<td></td>
<td>26,840</td>
<td>96,1%</td>
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<tr>
<td>Small</td>
<td>1,170</td>
<td>3,8%</td>
</tr>
<tr>
<td>Medium-sized</td>
<td>236</td>
<td>0,8%</td>
</tr>
<tr>
<td>SME's</td>
<td>28,877</td>
<td>96,9%</td>
</tr>
<tr>
<td>Large</td>
<td>44</td>
<td>0,1%</td>
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<tr>
<td>Total</td>
<td>29,921</td>
<td>100,0%</td>
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</tbody>
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*Estimates for 2011, based on 2005-2009 figures from the Structural Business Statistics Database (Eurostat). The estimates have been produced by Cambridge Econometrics. The data cover the "business economy" which includes industry, construction, trade, and services (NACE Rev. 2 Sections B to J, L, M and N). The data does not cover the enterprises in agriculture, forestry, fishing or the largely non-market services such as education and health. The advantage of using Eurostat data is that the statistics from different countries have been harmonised and are comparable across countries. The disadvantage is that for some countries these data may be different from data published by national authorities.*
The Small Business Act (SBA)

The Small Business Act (SBA) enacted in the European Union in 2008 provides a set of 10 principles to guide the conception and implementation of policies both at EU and Member State level. These principles are essential to bring added value at EU level, create a level playing field for SMEs and improve the legal and administrative environment throughout the EU.

The ten principles of the SBA are to:

- create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded
- ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance
- design rules according to the “Think Small First” principle: this means listening to SMEs before introducing new laws, examining the effect legislation will have on small businesses, and helping companies in need of support.
- make public administrations responsive to SMEs’ needs
- adapt public policy tools to SME needs: facilitate SMEs’ participation in public procurement and better use State Aid possibilities for SMEs
- facilitate SMEs’ access to finance and develop a legal and business environment supportive to timely payments in commercial transactions
- help SMEs to benefit more from the opportunities offered by the Single Market
- promote the upgrading of skills in SMEs and all forms of innovation
- enable SMEs to turn environmental challenges into opportunities
- encourage and support SMEs to benefit from the growth of markets

Implementing the Small Business Act for Europe (SBA) requires the drawing up of periodic Fact Sheets. The aim of the annually updated Fact-Sheets is to improve understanding of recent trends and national policies affecting SMEs. Since 2011, each EU Member State, including Malta, has appointed a high-ranking government official as its national SME envoy. The SME envoys are to spearhead the implementation of the SBA agenda in their countries. The Malta Fact Sheet for 2012 may be downloaded at:

Some benefits for SMEs

The European Commission has developed and implements a range of policy measures specifically to assist SMEs in Europe. These policies are aimed at creating the conditions in which small firms can be created and can thrive. If the EU is to achieve its goals of speeding up economic growth and creating more and better jobs, it will be SMEs which play the biggest role. In particular, SMEs are the main source of new jobs in Europe.

Less red tape: rather than adding to red tape, Single Market rules often replace a large number of complex and different national laws with a single framework, reducing bureaucracy for citizens, and compliance costs for businesses, who pass those savings on to consumers. It has also become easier to start or buy a business: the average cost for setting up a new company in the former EU-15 has fallen from EUR 813 in 2002 to EUR 554 in 2007, and the time needed to register a company administratively was reduced from 24 days in 2002 to about 12 days today. But more progress is needed.

Huge potential market: any business in the EU automatically has close to 500 million potential customers on its doorstep. This allows larger businesses to benefit from enormous economies of scale, while new markets have been opened up to small- and medium-sized businesses which previously would have been dissuaded from exporting by the cost and hassle.

Much easier to do business: trade within the EU has risen by 30% since 1992. The absence of border bureaucracy has cut delivery times and reduced costs. Before the frontiers came down, the tax system alone required 60 million customs clearance documents annually: these are no longer needed.

Better value for taxpayers: as a result of more open and competitive public procurement rules, governments have more money to spend on priorities such as health and education. For example, the price of railway rolling stock has dropped, with studies pointing at savings from 10% to 30%.

The Enterprise Europe Network helps small business to make the most of the European marketplace. Working through local business organisations, it helps to:

- develop business in new markets
- source or license new technologies
- access EU finance and EU funding

SOLVIT handles problems with a cross-border element that are due to bad application of EU law by public authorities within the EU member states.
1. Starting up

Even in their home EU country, burdensome, expensive or complex procedures involved in starting a business are often major disincentives to many would-be entrepreneurs. However, public authorities and support networks can help.

One example is by providing one-stop shops for all sectors and points of single contact for the service sector to simplify the formalities required to register a company. These should enable entrepreneurs to register a new business in one go, saving time and money.

Outside their home EU country, the EU freedom of establishment principle allows entrepreneurs to create a company in any EU country on an equal footing with nationals there. As with nationals, entrepreneurs have to comply with certain conditions such as abiding by professional codes of ethics, acquiring proper authorisations and proving they have the required qualifications.

Instead of starting a new business, taking on an existing company might be an attractive option for budding entrepreneurs, with advantages such as ready-made production structures, customer networks and reputation.

If failure is a potential risk at any time in the business lifecycle, many successful companies only exist today because their founders refused to give up after failing and believed in second chances.

2. Managing

Managing a business implies significant responsibilities and tasks. Keeping accounts, paying taxes, recruiting and supervising qualified staff can all be decisive factors for success. Staff management requires particular skills - setting wages, complying with social security rules, matching skill sets with jobs.

Businesses are also legally bound to submit statistics. When compiled in the national and European statistical datasets, these can then help companies evaluate markets and develop commercial strategies.

Managing a business - especially a small one - also requires owners to keep a constant and close watch on finances, to anticipate difficulties and avoid insolvency.

3. Expanding

While different legislations and trade barriers can make it difficult for businesses to expand into new markets within and beyond the EU, cross-border cooperation between companies from different EU countries can help them increase their competitiveness.

Businesses can establish production agreements, joint ventures, franchises, technology transfers and collaborative research projects. Supplying services and products through an
intermediary can save time and money. They can also enter new markets by opening a branch or a subsidiary in another EU country or through mergers.

At the same time, EU businesses - even small ones - can grow and become more competitive by seizing opportunities in global markets.

4. EU market

Any business in the EU can benefit from the huge European market: 27 countries with over 480 million consumers. The principle of free movement of goods, allowing goods to be transported and sold anywhere in the EU, is a cornerstone of the EU market. To a certain extent, complex and varied national laws have been replaced by a single set of European rules, cutting down on costs and inconvenience for businesses wanting to trade in other EU countries.

The EU market for goods is already highly integrated but there are still a lot of legal and administrative barriers affecting trade in services. In order to release the untapped potential of services markets in the EU, the Services Directive was adopted in December 2006. It will have to be fully implemented by all EU countries by end 2009.

However companies can already bid for public contracts in other EU countries.

To make the EU market work efficiently, businesses have to respect a number of rules and compete fairly. Anticompetitive behaviours, such as the abuse of a dominant market position, price-fixing agreements and unwarranted public support, are prohibited.

5. Research & innovation

Innovation is key to competitiveness - especially in today's global markets. New knowledge is generated not only through research and technology but also through new marketing and management solutions - advertising on pizza boxes, improving the tracing of electrical waste, finding new ways to monitor consumer behavior or organising the way you do business more efficiently.

To stay competitive, European businesses need to be more inventive and invest more in innovation, research and technological development, so they can adapt their business models to the challenges of the global economy and be better equipped to develop new products or services - and sell them.

Counterfeiting and piracy deprive innovators of the rewards they have earned. Intellectual property, covering all forms of industrial innovation, but also copyrights for software, literature, arts and music, must be protected to encourage innovation.
6. Responsible business

Companies' legal obligations towards the environment and their employees are part of their responsibility and they have to regulate the wider impact of their activities.

- **Environment** - Companies have a key role to play in curbing pollution and climate change by minimising their greenhouse gas emissions, managing waste efficiently and using natural resources responsibly. Going green may seem costly in the short term, but in the longer term it can be good for business, enhancing competitiveness, promoting innovation and generating new markets.

- **Employees** - Businesses have obligations regarding labour law and work organisation. They are legally required to prevent discrimination at work, ensure that all employees - men and women, local and foreign employees - are treated equally and guarantee the safety and health of workers in every aspect related to the work. Improving lifelong learning and social dialogue also help build a better workplace.

- **Voluntary action** - All business must meet the minimum rules required by law, but forward-thinking companies can develop environmental and social strategies that go beyond the minimum requirements. This approach contributes to enhancing competitiveness, as well as the sustainability of business operations, and helps to achieve economic success over the long term.

7. Finance and support

- **Access to finance**

While big companies generally resort to financial markets to generate investment, small businesses only have access to finance through limited sources.

- **Bank loans**

Before lending, banks estimate the relative risks of businesses, anticipating their growth and ability to repay. They will refuse a loan when it represents a potentially high risk and low return, which is often the case for smaller loans.

A third party can make it easier for a bank to grant a loan through a **guarantee scheme**, in which it covers part of the risk taken by the bank.
• Equity

Small companies that present too high of a risk for banks and are unable to secure loans can raise capital by selling equity in the business.

Investors will provide risk capital to small, innovative businesses with potential for high growth if they anticipate a substantial profit from their share in the company.

• Loan/equity combinations

Also called mezzanine finance or quasi-equity, combinations of loan and equity are often used to finance expansion or transfer of ownership for mature companies, where risks for investors are easy to assess.

Three parties are involved in transfers of ownership: the investor, providing the cocktail of loan and equity; the seller, who generally receives cash, and the buyer, who gets a significant percentage of company shares and an acceptable level of company debt.

Although the complexity of this financing means it is usually available only for transactions above €5 million, mezzanine finance is increasingly involved in smaller transactions.

• Subsidies

To encourage companies to focus their efforts on certain areas of business activity, such as innovation and the environment, the EU and national governments offer incentives in the form of subsidies, typically co-financing activities within projects.

• Business support

Businesses - especially small ones - can be put off from exploring the many opportunities in the EU market by obstacles like language barriers, lack of market information, or poor knowledge of administrative requirements and procedures.

Business support services set up by public authorities can help by giving companies the information and personalised assistance they need to access the EU market and exploit their potential for growth.

Delivered by experienced personnel, support services offer help locally - this is key to understanding a company's specific needs.

In addition to personalised assistance, authorities also consult businesses on their needs and provide them with comprehensive information tools.
8. Exit strategy

An entrepreneur may decide to stop doing business for a number of different reasons:

- **retirement** - transferring ownership is complex and must be planned well in advance of retirement but, if the company has an established market presence, the owner should consider handing it on, as it preserves all of the company's achievements, especially skills and jobs.

- **voluntary closure** - entrepreneurs simply decide to close down their business and therefore have to follow the relevant national procedures.

- **bankruptcy** - sometimes businesses are forced to stop trading. It may be because they are unable to adapt to the continuous changes that are part and parcel of business life - increased global competition, new products on the market, new technologies - or because of unforeseen events, such as the failure of a major customer.

To minimise losses for all concerned, early action is vital - either by planning a rescue strategy or deciding to liquidate.

Bankruptcy need not put honest entrepreneurs off starting afresh. Many restarters learn from their mistakes and their new businesses often prove more successful than others.

Adapted from:


Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises