

DEVELOPMENT AND PERSPECTIVES OF SMEs IN THE EUROPEAN UNION

Ph.D. Senior Researcher, Gabriela PICIU

”Victor Slăvescu” Financial and Monetary Research Center,
Romanian Academy, Romania

E-mail: gabriela_piciu@yahoo.com

Abstract: *The article includes a brief overview of SME development in the EU, in the context of their sustainable development. Following the financial crisis of 2007-2008, SMEs in the EU-28 have contributed significantly to the recovery and further expansion of its economy. This contribution of SMEs to the European economy has exceeded expectations, the number of newly established SMEs has far outstripped the growth of already existing SMEs. New and expanded businesses have benefited from economic growth, especially for fast-growing businesses, based on innovative products and a growth strategy. In the years 2008-2018 it was intended to improve the entrepreneurship approach in Europe, to impose regulatory and SME policy and to remove remaining barriers to their development. Also, the article proposes solutions for improving the activity of SMEs by implementing the circular model and their transition from the linear economy to the circular economy.*

Key words: *development SMEs, efficiency, sustainability, tranzition, circular economy.*

JEL Classification: *L1, O12, O52.*

1. Introduction

SMEs are the ideal actors in the free market economy because they are private enterprises with decentralized management; are motivated, flexible and adaptable and represent the most dynamic segment.

They also have a rapid response to consumers' needs and are fast-tracking niche markets, supporting both the competitive mechanism and their large number, and contribute significantly to GDP formation, with a significant share in the structure of exports.

Through paid taxes they have an important role to play in taxing, creating national budgets, creating most jobs, both directly and indirect, forming the "backbone" not only of the economy but also of society:

At European level, the contribution of small and medium-sized enterprises to job creation, growth, social stability and innovation is officially recognized and appreciated as essential to boost competitiveness.

The official definition (Recommendation 2003/361/EC) of SMEs takes into account three different factors (employment level, turnover level and balance sheet size).

SMEs comprise three different categories of businesses: micro, small and medium-sized enterprises (Table1).

Tabel no. 1. Categories of SMEs

Categories of SMEs	Employees	Turnover	Total balance sheet
Micro-enterprises	< 10	< €2 million	< €2 million
Small businesses	< 50	< €10 million	< €10 million
Medium enterprises	<250	< €50 million	< €43 million

Source: Commission Recommendation of 6 May 2003 concerning the definition of micro, small, and medium-sized enterprises (2003/361/EC), Official Journal of the European Union, L 124/36, 20 May 2003

The Small Business Act for Europe adopted in June 2008 reflects the political will of the European Commission to recognize the central role of small businesses and to codify it in a coherent framework for the EU and its Member States.

Its aim is to improve the fundamental approach of entrepreneurship in our society and to anchor the Think Small First principle in European policy and administration.

European SMEs should benefit from greater and better targeted support, so that in the long term they maximize their potential to create sustainable growth and more jobs.

The Small Business Act (SBA), adopted in June 2008 and revised in February 2011 (Commission of the European Communities, 2008; European Commission, 2011e), applies to all SMEs and includes the following ten principles and a variety of measures, including facilitating them to turn environmental challenges into opportunities:

1. Create an environment where entrepreneurs and family businesses can thrive and entrepreneurship is rewarded. Entrepreneurship should be encouraged, especially among young people and women.

2. Ensure a second chance for entrepreneurs who have faced bankruptcy, promoting a positive attitude in society.

3. Design rules according to the Think Small First principle.

4. Increase the responsiveness of public administrations to the needs of SMEs.

5. Adapting public policy tools to the needs of SMEs and facilitating their participation in public procurement processes and more effective use of state aid opportunities.

6. Facilitating SMEs' access to finance and developing a legal and business environment to support the timely payment of commercial transactions.

7. Support SMEs to take advantage of the opportunities offered by the Single Market.

8. Promote the improvement of AIMM's skills and all forms of innovation.

9. Support SMEs to turn environmental challenges into opportunities.

10. Encourage and support SMEs to take advantage of market growth.

According to the EC, SMEs are the backbone of the European economy, in 2017, non-financial SMEs in the EU-28 were:

- 99.8% of all non-financial enterprises in EU-28;

- 56.8% of total EU employment;

- 28% of the added value generated by the non-financial business sector.

2. The role of SMEs in ensuring economic growth in the EU

Following the financial funding of 2017-2018, EU-28 SMEs have made a significant contribution to the recovery and further expansion of its economy, accounting for 47% of the total increase in 2008-2017, the gross added value generated by them increased cumulatively by 14, 3%, and employment among SMEs increased by 2.5%.

This contribution of SMEs to the European economy has exceeded expectations, increasing by 13.8% between 2008 and 2017. The number of SMEs already outstripped the growth of already existing SMEs.

The overall economy generated a cumulative increase of 16.5% in added value and 1.8% in terms of employment.

Small micro-enterprises are the most common types of SMEs, accounting for 93.1% of all enterprises and 93.3% of all non-financial SMEs (Table 2).

Table 2. Number of SMEs and large enterprises in the EU-28 non-financial business sector in 2017, added value and employment

	Micro	Small businesses	Medium enterprises	Total SMEs	Large enterprises	Total Enterprises
Number of SMEs	22,830,944	1,420,693	231,857	24,483,496	46,547	24,530,050
%	93.1%	5.8%	0.9%	99.8%	0.2%	100.0%
Added value € (trillion)	1,525.6	1,292.1	1,343.0	4,160.7	3,167.9	7,328.1
%	20.8%	17.6%	18.3%	56.8%	43.2%	100.0%
Employment	41,980,528	28,582,254	24,201,840	94,764,624	47,933,208	142,697,824
%	29.4%	20.0%	17.0%	66.4%	33.6%	100.0%

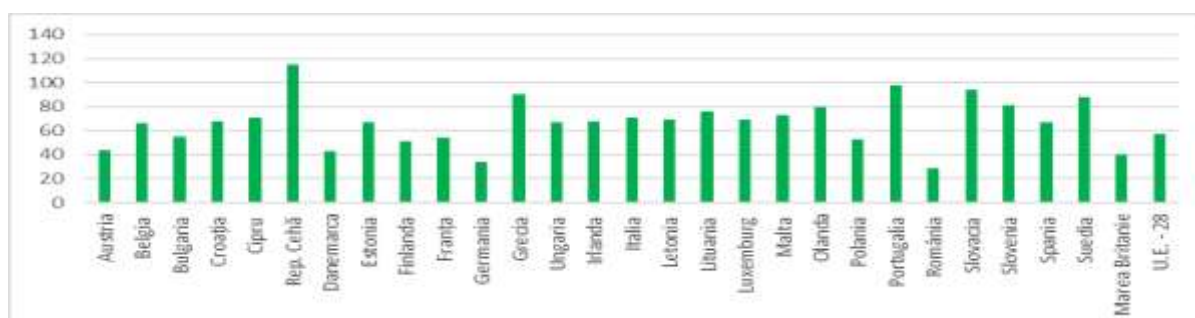
Source: Eurostat, 2017, National Statistical Offices, DIW Econ

However, small SMEs accounted for only 29.4% of total employment in the non-financial sector, while small and medium-sized SMEs accounted for 20.0% and 17.0% respectively of total employment for work.

Unlike the uneven distribution of the number of enterprises and jobs in the three SME size classes, their contribution is generally equal in terms of value added, ranging from 17.6% (small SMEs) to 20.8% (microenterprises).

The prevalence of SMEs varies greatly in the EU-28. Although in 2017 there were 57 SMEs per 1000 inhabitants in the EU-28 economy, with the exception of Germany and Romania with 34 or 29 SMEs (Figure 1).

Figure 1: Number of SMEs per 1,000 inhabitants in the non-financial business sector in EU-28 and Member States in 2017

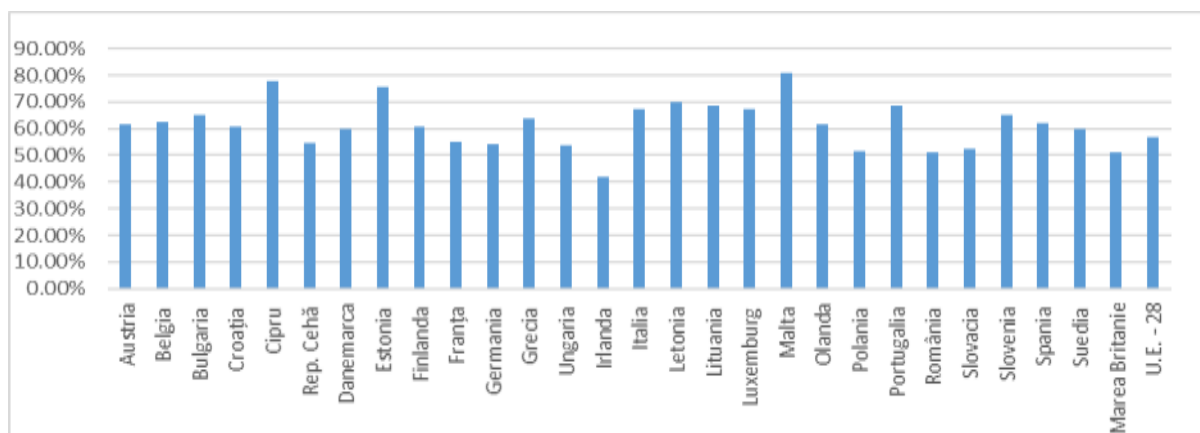


Source: Eurostat, 2017, National Statistical Offices, DIW Econ

The differences in the prevalence of SMEs in the EU-28 reflect almost entirely the very wide range of small and medium-sized micro-enterprises in the 28 EU Member States, as the number of small and medium-sized SMEs varies relatively little among EU Member States.

This significant variation in the number of small and medium sized micro-businesses per 1,000 inhabitants reflects a whole range of different causes, such as the industrial structure of the economy, the adoption and promotion of public policies that encourage self-employment and business creation, especially micro-level of entrepreneurship and general economic conditions (Figure 2).

Figure 2: Contribution of SMEs to the non-financial business sector in Member States in 2017 - share of value added of SMEs in total added value

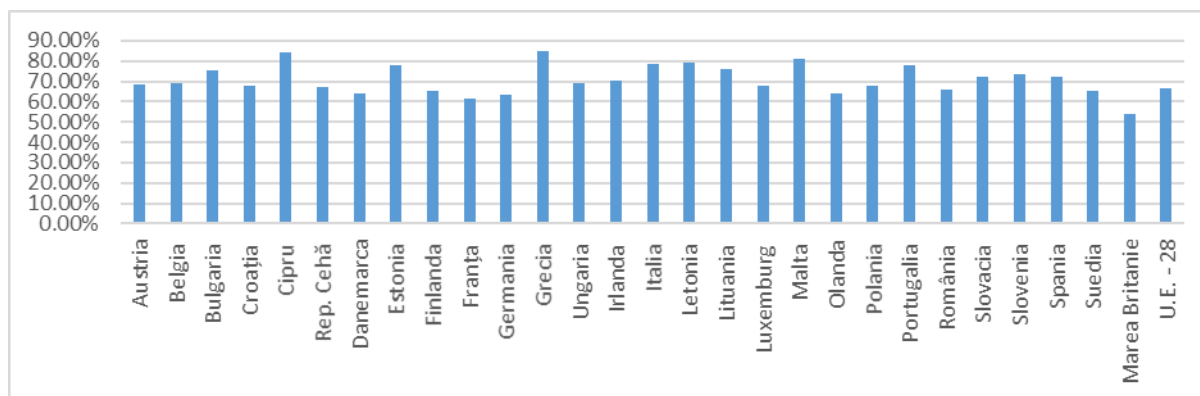


Source: Eurostat, 2017, National Statistical Offices, DIW Econ

The contribution of SMEs to the economies of the EU-28 Member States also varies greatly. For example, in Cyprus, Estonia, Malta and Latvia, SMEs accounted for 70% or more of total value added in the non-financial business sector in 2017, while in Ireland the share of SMEs in the added value generated by the sector non-financial was below 42%.

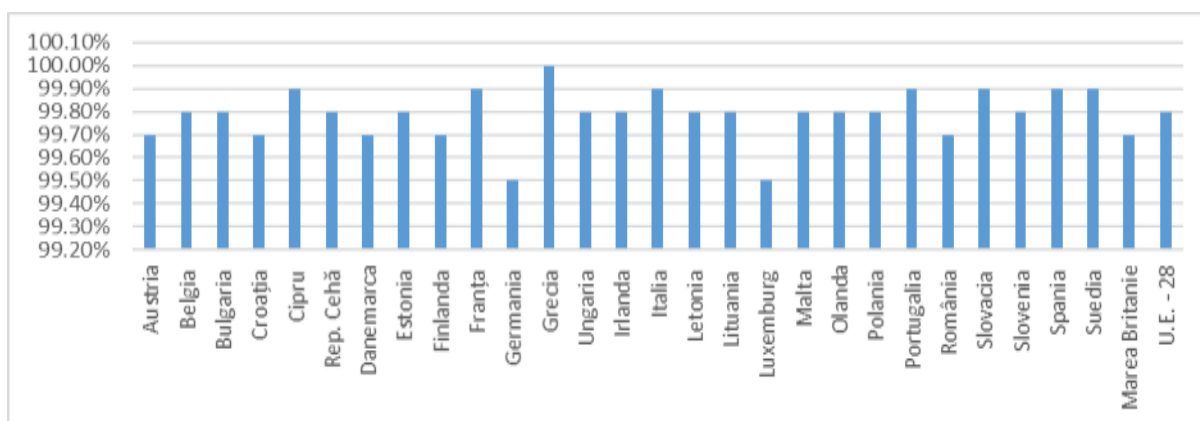
In the case of employment, SMEs in three Member States: Cyprus, Greece and Malta) accounted for around 80% or more of total employment in the non-financial sector in 2017, while in five Member States, the SME occupancy rate in the non-financial sector in 2017 was less than 65%. (Figure 3, 4)

Figure 3. Contribution of SMEs to the non-financial business sector in Member States in 2017 - SME employment share in employment



Source: Eurostat, 2017, National Statistical Offices, DIW Econ

Figure 4. Contribution of SMEs to the non-financial business sector in Member States in 2017 - share of SME enterprises in the number of enterprises in the non-financial sector



Source: Eurostat, 2017, National Statistical Offices, DIW Econ

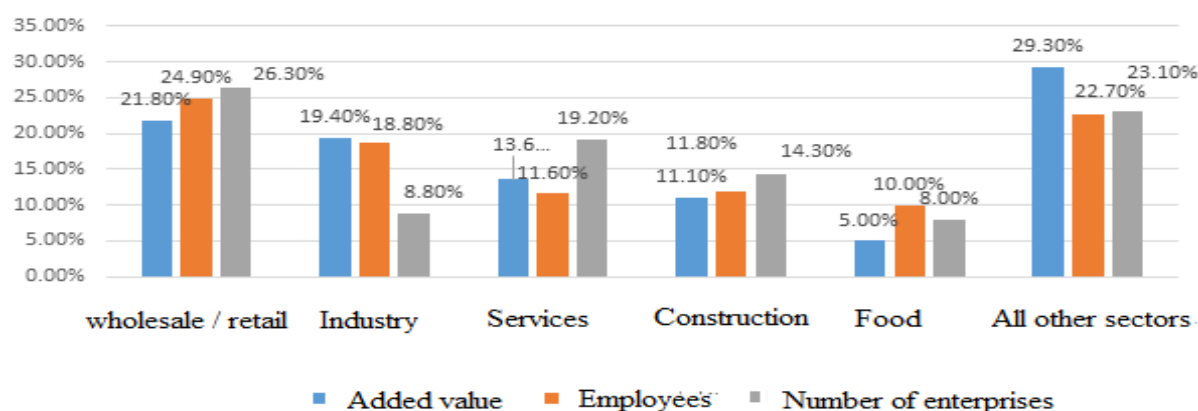
In most Member States, the share of small and medium sized enterprises is between 30% and 40%.

The share of SME added value of small SMEs shows much lower variations in all 28 EU Member States, ranging from 21% for Ireland to 35% for Croatia. On the other hand, the share of SMEs in the value added of medium-sized SMEs shows much greater variations, ranging from 19% for Ireland to 42% for Luxembourg.

The share of the different size classes of SMEs in the non-financial SME sector shows a somewhat larger dispersion in 2017, ranging from 27% in Luxembourg to 67% in Greece for small SMEs, 19% in Poland to 36% in Germany for small SMEs and 13% in Greece to 37% in Luxembourg for medium-sized SMEs.

EU-28 non-financial business SMEs are strongly concentrated in 5 sectors, namely "accommodation and food services", "business services", "construction", "production" and "wholesale and retail". Together, in 2017, they accounted for 71% of the total added value of SMEs generated by the EU-28 non-financial business sector and 77% of employment among SMEs and SMEs in the sector as a whole. Of these five sectors, the 'wholesale and retail' sector accounted for a total of approximately ¼ of the total added value of SMEs, employment and SMEs as a whole in the EU-28 non-financial business sector 2017 (Fig. 5).

Figure 5. Share of SME added value, employment and number of SMEs in the EU-28 non-financial business sector in 2017 represented by the 5 major SME economic sectors



Source: Eurostat, 2017, National Statistical Offices, DIW Econ

There is a great political interest in encouraging SMEs to become more innovative and export, as many SMEs are currently operating in characterized sectors, either with low levels of knowledge or technological intensity or with low export intensities: about $\frac{2}{3}$ of SMEs (in terms of the number of SMEs in the EU-28 non-financial business sector) were active either in knowledge-intensive industries or in low- of technology. The concentration of SMEs in these two industrial groups is mainly due to the large presence of small and small SMEs (Table 3).

Table 3. Distribution of the added value of EU-28 SMEs, employment and the number of enterprises in each of the three SME size ranges

The size of the SME	Added value			No. of Employees			No. of SME		
	M	S	M-S	M	S	M-S	M	S	M-S
Services that do not require knowledge	20.8%	16.3%	14.3%	27.4%	17.5%	11.9%	56.3%	3.5%	0.5%
Services requiring knowledge	10.9%	7.4%	7.7%	10.7%	5.3%	5.4%	28.0%	1.0%	0.2%
Low-tech industries	1.6%	2.6%	3.7%	2.8%	3.2%	3.5%	4.8%	0.6%	0.1%
Medium technology industries	1.4%	2.8%	3.7%	1.8%	2.6%	3.0%	3.2%	0.5%	0.1%
High-tech industries	0.6%	1.9%	4.3%	0.6%	1.4%	2.8%	0.9%	0.2%	0.1%

Note: M = micro-enterprises; S = small enterprises; M-S = medium-sized enterprises

Source: Eurostat, 2017, National Statistical Offices, DIW Econ

Similarly, 93% of SMEs are active in industries characterized by very low or low export intensities, again reflecting the concentration of microenterprises and small enterprises in these two industrial clusters.

3. Transition of SMEs towards the circular economy

In the process of achieving a European circular economy, SMEs and social enterprises have been recognized as particularly important, particularly in terms of their contribution to activities such as recycling, repair and innovation (European Commission, 2014, 2015a). Due to the high share of costs associated with raw materials and energy consumption, the European Commission has initiated actions to closely monitor the

difficulties SMEs encounter in addressing the environmental challenges of opportunities. These efforts have resulted in finalizing an action plan on the concrete ways in which the European Union and the Member States intend to support SMEs in exploiting the opportunities for moving to a green economy (European Commission, 2014).

In addition to European initiatives in the field of green jobs, increasing resource efficiency and circulating economy, the European Commission proposed in 2014 a document to support green economy-specific actions implemented by SMEs.

The Green Paper on Small and Medium-Sized Enterprises aims at a more efficient use of all resources and aims to contribute through a series of measures to improving the efficiency of resource use, to encourage entrepreneurial initiative in all types of activities specific to green economy and specific to exploit the opportunities of value-added chains of environmental protection and, last but not least, to support the access of green SMEs to the market.

In the category of circular economy facilitators: developing innovative business models (incorporating the principles of circular economy with lasting effects on the economic system); developing policies to support eco initiatives in product design so as to extend the life of products resulting from the productive process; recycling and reuse of products; prevention and optimization of waste management.

A series of empirical studies refers to facilitators such as organizational culture on environmental protection, the interest of circular economy management, government support for the implementation of circular economy activities, recognition by consumers and suppliers of efforts made for the adoption of business models specific to the circular economy, low financial risk for switching from a linear business model to a circular one, adherence to networks where the concept of business sustainability is being promoted.

4. Conclusions

Given that in Europe small and medium-sized enterprises generate most jobs and VABs, their structural flexibility and the ability to develop niche products and services, often in untested markets, SMEs could receive consistent financial support to develop solutions, products and services that play an important role in achieving global goals and enabling the European economy to fully exploit the opportunities offered by the transition to the circular economy.

At the same time, it is acknowledged that the impact that SMEs have on the environment is less well known. Recognizing the role of SMEs has resulted in a series of European initiatives to support their work, so a formal definition of them has been the natural consequence but also a necessary tool to help SMEs identify themselves and then be able benefit from European measures and programs defined to support their development.

According to this definition (European Commission, 2003), an enterprise must simultaneously meet conditions for the number of employees (less than 250 employees), turnover (EUR 50 million), total balance sheet value (43 million euro) and access to significant additional resources to be included in the category of small and medium-sized enterprises.

In the process of achieving a European circular economy, SMEs and social enterprises have been recognized as particularly important, especially as regards their contribution to activities such as recycling, repair and innovation (European Commission, 2014, 2015a).

Due to the high share of raw material costs and energy consumption, the European Commission has initiated actions to closely monitor the difficulties SMEs encounter in addressing environmental challenges related to opportunities. These efforts have led to the

finalization of an action plan on concrete ways in which the European Union and the Member States intend to support SMEs in exploiting opportunities for moving to a green economy (European Commission, 2014).

In addition to European green jobs initiatives, increasing resource efficiency and the running economy, the European Commission proposed in 2014 a document to support green economy-specific actions implemented by SMEs.

The Green Paper on Small and Medium-Sized Enterprises aims at a more efficient use of all resources and seeks to contribute through a series of measures to improve the efficiency of resource use, to encourage entrepreneurship in all types of green economy-specific activities and exploit the opportunities of added value of environmental protection and, last but not least, supporting the access of green SMEs to the market.

The Europe 2020 strategy addresses the development of SMEs, growth and jobs, with three flagship priorities:

(1) Intelligent growth (Innovation Union, Youth on the Move, Digital Agenda for Europe);

(2) Sustainable growth (resource-efficient Europe, an industrial policy geared to the globalization era);

(3) Inclusive Growth (An Agenda for New Skills and New Jobs, European Platform against Poverty).

În anul 2014 sub denumirea de „O Uniune a inovării”, a fost lansat noul program de cercetare - Orizont 2020, sumele disponibile pentru acesta sunt de 80 mld. euro.

Printre obiectivele acestui program se regăsește inovarea industrială care include sijn pentru IMM-uri, cu o finanțare de 17 mld. euro.

O altă inițiativă este „O politică industrială adaptată erei globalizării” care are în centru activității sale furnizarea sprijinului necesar IMM-urilor, asigurându-le suport în procesul de adaptare la fenomenul de globalizare prin simplificarea procedurilor administrative sau facilitarea accesului la credite.

In 2014, under the name of "Innovation Union", the new research program - Horizon 2020 was launched, the amounts available for it amount to € 80 billion.

Among the objectives of this program are industrial innovation, which also includes SMEs for SMEs, with a budget of € 17 billion.

"An industrial policy geared to the globalization era" is initiative which is at the heart of its work to provide the necessary support to SMEs by providing them with support in adapting to the globalization phenomenon by simplifying administrative procedures or facilitating access to credit.

Another initiative adopted is the Enterprise Start-up and Enlargement Initiative, which aims to boost innovative entrepreneurs across the EU by focusing on "risk-capital investments, legislation on insolvency, taxation and intellectual property" (European Commission, 2017h).

References:

1. Acs, Z.J., Morck, R., Shaver, J.M. and Yeung, B., 1997. The internationalisation of small and medium-sized enterprises: A policy perspective. *Small Business Economics*, 9(1), pp.7-20.
2. Breckova, P., 2018. Export Patterns of Small and Medium-Sized Enterprises. *European Research Studies Journal*, 21(1), pp.43-51.
3. Brouthers, K.D. and Nakos, G., 2004. SME entry mode choice and performance: A transaction cost perspective. *Entrepreneurship Theory and Practice*, 28(3), pp.229-247.

4. Buckley, P.J., 1989. Foreign direct investment by small and medium-sized enterprises: the theoretical background. *The Multinational Enterprise*, pp. 24-45. London: Palgrave Macmillan.
5. Eden, L. and Miller, S.R., 2004. Distance matters: Liability of foreignness, institutional distance and ownership strategy. *Theories of the Multinational Enterprise: Diversity, Complexity and Relevance*, pp. 187-221. Emerald Group Publishing Limited.
6. Eurostat, 2017. National Statistical Offices, DIW Econ.
7. Hagsten, E. and Kotnik, P., 2017. ICT as facilitator of internationalisation in small-and medium-sized firms. *Small Business Economics*, 48(2), pp.431-446.
8. Hollenstein, H., 2005. Determinants of international activities: are SMEs different? *Small Business Economics*, 24(5), pp.431-450.
9. Johanson, J. and Vahlne, J.E., 1977. The Internationalisation Process of the Firm - A Model of Knowledge Development and Increasing Foreign Market Commitments. *Journal of International Business Studies*, 8(1), pp.23-32.
10. Laufs, K. and Schwens, C., 2014. Foreign market entry mode choice of small and medium-sized enterprises: A systematic review and future research agenda. *International Business Review*, 23(6), pp.1109-1126.
11. Nakos, G. and Brouthers, K.D., 2002. Entry mode choice of SMEs in Central and Eastern Europe. *Entrepreneurship Theory and Practice*, 27(1), pp.47-63.
12. OECD, 2014. *Venture capital, in Entrepreneurship at a Glance 2014*. OECD Publishing, Paris Annual Report on European SMEs 2017/2018.