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EUROPEAN UNION IN FUNCTION OF DEVELOPMENT AND PROMOTION OF SMALL AND MEDIUM ENTERPRISES

ABSTRACT

Small and medium enterprises are a vital force for economy development. Activities on EU level are necessary in order for unique commodity market to remain open and fair. Modern entrepreneurship has a dominant significance in economy and often referred as entrepreneurship economy or entrepreneurship society.

In EU, around 99 % of the enterprises are designed as small and medium enterprises.

SME represents 98 % enterprises and 67 % of working places and crucial force for economic growth, innovations, employability and social integrations in EU. Hence, European Commission promotes successful entrepreneurship and enhances the business environment for SME.

SME in Europe represents a sociological phenomenon since SME provides solutions to so many existential questions, economic growth and development, business competitiveness and development of working places.

This paper is concerned with the current situation of SME in Europe and examines the possibilities of SME for further development as a crucial economic force in EU, strategic EU needs as well as the politics for promotion of SME. The paper present current statistical data.

Keywords: *small and medium enterprises, EU, development, promotion*

1. INTRODUCTION

In developed societies, entrepreneurship is the creator of new business activities. The main entrepreneurship' goal is to create new values by developing new business. Entrepreneurship creates employment opportunities, crates possibilities for new business development, innovations and investments on new global markets. Furthermore, it has a main role in productions so it is fair to say that develop society that organize economic life cannot exist without entrepreneurship.

Small and medium enterprises present a very heterogeneous group. They are usually operating in the sectors of trade, agribusiness, manufacture and service. Large

number of the business are innovative, driven to growth while others remain small and they are usually family owned business for generations with no need to change or resize. Small and medium enterprises are usually classified by the number of the employees or by values of their assets.

SME represent a key role in transition and developing European countries. Development of SME is viewed as one of the key instrument in poverty reduction. Small number of SME sector is able to identify the possibilities that arise for the globalization and trade liberalization and to create a response to market changes. SMEs due to their size and limitations in human resources and in financial assets are controlled by bureaucratic procedures, inadequate access to finance and humble state of infrastructure.

2. SMES IN EUROPE

2.1. Definition of the SMEs

The definition of SMEs varies from country to country depending on the criteria selected. These criteria reflect, among others, the structure and nature of the economy as well as the extent of industrial development. The number of employees, the scope of financial assets, or the level of sales turnover used to define SMEs are to a great extent a function of whether an economy is advanced, emerging, or developing. In other words, the definition of an SME in the advanced economies would consist of higher number of employees, larger financial assets or sales turnover than their counterparts in developing economies. However, the number of employees constitutes the main variation across national statistical systems.¹

For the last twenty years, the EU has had to negotiate with national governments and a variety of sectoral concerns over its role in SME policy often with competing notions of what an SME is. The EU currently defines SMEs as those companies with fewer than 250 employees, which are independent from larger companies, with an annual turnover of less than €50 million and an annual balance sheet total not exceeding €43 million.²

¹ Khalfan M. *et al.*, *Towards a growing, Competitive and dynamic Small and Medium - Sized Entreprises*, Oman, 2014, p. 4

² Dannreuther, C., *EU SMS policy: On the edge of governance*, 2007., p. 8, available at: [<https://www.cesifo-group.de/DocDL/forum2-07-focus2.pdf>] accessed March 29, 2018

Enterprises qualify as micro, small or medium-sized enterprises if they fulfil maximum ceilings for staff headcount and either a turnover ceiling or a balance sheet ceiling³ (Table 1).

Table 1. SME Definition

Enterprise category	Staff Headcount (number of persons expresses in annual work units)	Turnover	or	Balance sheet total
Medium- sized	< 250	≤ € 50 million		≤ € 43 million
Small	< 50	≤ € 10 million		≤ € 10 million
Micro	< 19	≤ € 2 million		≤ € 2 million

Source: Commission Staff Working Document, European Commission, Brussels, 2009., p.3. available at: [https://ec.europa.eu/energy/sites/ener/files/documents/sec_2009-642.pdf] Accessed April 2, 2018

The staff headcount is a crucial initial criterion for determining in which category an SME falls. It covers full-time, part-time and seasonal staff and includes the following: employees, persons working for the enterprise being subordinated to it and considered employees under national law, owner-managers, and partners engaged in a regular activity in the enterprise and benefiting from financial advantages from the enterprise. Apprentices or students engaged in vocational training with apprenticeship or vocational training contracts are not included in the headcount. The annual turnover is determined by calculating the income that enterprise received during the year in question from its sales and services after any rebates have been paid out. Turnover should not include value added tax (VAT) or other indirect taxes. The annual balance sheet total refers to the value of company's main assets.⁴

2.2. SMEs as an important drive for economic growth in Europe

From a worldwide perspective, SMEs are recognized as engine of economic growth because of their dependence on indigenous skills and technology, innovativeness and expansion of industrial linkages. SMEs are endogenously based enterprises as their linkages with the large multinational corporations lead to rapid growth

³ Commission Staff Working Document, European Commission, Brussels, 2009, p. 2, available at: [https://ec.europa.eu/energy/sites/ener/files/documents/sec_2009-642.pdf] Accessed April 2, 2018

⁴ The new SME definition, User guide and Model declaration, Enterprise and Industry Publication, European Commission, 2005, p. 15 , available at: [<https://www.eusmecentre.org.cn/sites/default/files/files/news/SME%20Definition.pdf>] Accessed April 2, 2018

and expansion of SMEs. They also play a vital role in employment generation and poverty reduction. In addition they contribute towards resource mobilization, revenue generation through export earnings, increase in savings, and equitable distribution of income, promotion of craftsmanship, egalitarian structure of society and development of an entrepreneurial culture. SMEs are also instrumental in skill acquisition through a system of informal apprenticeship and provide training ground for upgrading and developing skills.⁵

In European Union, some 23 million SMEs provide around 75 million jobs and represent 99% of all enterprises. However, they are often confronted with market imperfections. SMEs frequently have difficulties in obtaining capital or credit, particularly in the early start-up phase. Their restricted resources may also reduce access to new technologies or innovation. Therefore, support for SMEs is one of the European Commission's priorities for economic growth, job creation and economic and social cohesion.⁶

Overall, in 2016, SMEs in the EU-28 non-financial business sector accounted for:

- almost all EU-28 non-financial business sector enterprises (99.8 %);
- two-thirds of total EU-28 employment (66.6 %); and
- slightly less than three-fifths (56.8 %) of the value added generated by the nonfinancial business sector⁷

Micro SMEs are by far the most common type of SME, accounting for 93.0 % of all enterprises and 93.2 % of all SMEs in the non-financial business sector. However, micro SMEs account for only 29.8 % of total employment in the non-financial business sector, while small and medium-size SMEs accounted for 20.0 % and 16.7 % respectively of total employment. In contrast to the very uneven distribution of the number of enterprises and employment across the three SME size classes, their contribution is broadly equal in terms of value added, ranging from 17.8 % (small SMEs) to 20.9 % (micro SMEs).⁸

⁵ Khiza, S. K., M. Wasif Siddiqi., *The Determinants of Export Performance: Evidence from small engineering units in Guranwala, GjurT nd Sialkot Sidtricts*, Interdisciplinary Journal of Contemporary research in Business, Vol 3, no1, 2001, p. 1411-1412

⁶ The new SME definition, User guide and Model declaration, Enterprise and Industry Publication, European Commission, 2005., p. 5., available at: [<https://www.eusmecentre.org.cn/sites/default/files/files/news/SME%20Definition.pdf> accessed] Accessed April 2, 2018

⁷ Annual report on European SMEs, Focus on self employment, London- Luxemborg, European Commission, European Union, 2017, p. 10-11, available at: [https://ec.europa.eu/jrc/sites/jrcsh/files/annual_report_-_eu_smes_2015-16.pdf] Accessed April 2, 2018

⁸ *Ibid.*, p. 11

3. POLICIES FOR DEVELOPMENT AND PROMOTION OF SME IN EUROPE

In order to develop and strengthen the entrepreneurship potential of the European population,

especially of the young generations that will enter the labor market in the coming years, European institutions place specific focus on stimulating Member States to incorporate entrepreneurship as part of the school curriculum in all levels in their educational systems. Entrepreneurship education aims at preparing people to be responsible and enterprising individuals. It helps people develop the skills, knowledge, and attitudes necessary to achieve the goals they set out for themselves. By teaching entrepreneurship skills in classes, young people can find better opportunities in the labor market in the future.⁹

Traditionally, formal education in Europe has not been conducive to entrepreneurship and self-employment. However, as attitudes and cultural references take shape at an early age, the education systems can greatly contribute to successfully addressing the entrepreneurial challenge within the EU.¹⁰

SMEs must be able to respond quickly and efficiently to market signals to take advantage of trade and investment opportunities and reap the benefits of the international trading system. Among others, business development services (BDS) help SMEs to learn implement competitive business practices and strategies. The Committee of Donor Agencies for Small Business Development define BDS to include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion. Disillusionment with the public provision of BDS has led to a market-based approach: traditional programs have been supply driven, they have crowded out potential private sector BDS suppliers with free or subsidized services, they have been limited in outreach, and of low-quality due to limited institutional capabilities (*e.g.* civil service based SME consultants without business experience).¹¹

⁹ Assessment of the effectiveness of the EU SME policies 2007-2015, Study, European Economic and Social Committee, 20 April 2017, p. 39, available at: <https://www.eesc.europa.eu/sites/default/files/resources/docs/qe-02-17-762-en-n.pdf> Accessed May 11, 2018

¹⁰ Assessment of the effectiveness of the EU SME policies 2007-2015, Study, European Economic and Social Committee, 20 April 2017, p. 40, available at: <https://www.eesc.europa.eu/sites/default/files/resources/docs/qe-02-17-762-en-n.pdf> Accessed May 11, 2018

¹¹ Promoting Entrepreneurship and Innovative SMEs in a Global Economy: *Towards a more responsible and inclusive globalization*, 2nd OECS conference of ministers responsible for small and medium – sized enterprises; OECD, Istanbul, Turkey, 63-5 June, 2004, p. 30-31

Even though it is hard to give a grade of effectiveness of all measures, it cannot go without the evidence of concern that is given to SMS sector in different ways: entrepreneurship promotion, consultant hiring to help the entrepreneurs, building awareness and active education of entrepreneurship and for entrepreneurship, as shown in Table 3.¹²

Table 2. Historical timeline of EU SME politics trough phases

Phase	Features
1952.-1986.	<ul style="list-style-type: none"> - measurements based upon profession and self-employment - bigger awareness about SME importance in RU after parliamentary elections - 1982. as European Year of SME (EYSME)
1986.-1990.	<ul style="list-style-type: none"> - defines action plan for SME, distinctive horizontal measurements (aimed on resolving business and market environment questions) and vertical measurements (aimed upon questions of financing, acquiring skills...) - usage of “soft” laws and open consultations (for maintaining sovereignty of EU countries which resulted in complicated development of EU politics)
1990.-2000.	<ul style="list-style-type: none"> - insight of heterogeneity among business (micro enterprises, medium and large) - directionality on coordination, development and measurement of good practice
2000.-	<ul style="list-style-type: none"> - Lisbon strategy – process directionality of SME politics - European Charter on small enterprise - European Council in Santa Feira - “Think small first” principle - Small Business Act – 2008.

Dannreuther, C. (2007), *EU SME policy: on the edge of governance*, CESifo Forum, 2/2007, cited in: Vuković, K.: *Mala i srednja poduzeća u ekonomiji EU*, FOI, Varaždin, 2012, p. 75-76

Business Development Services include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion. A distinction is sometimes made between “operational” and “strategic” business services. Operational services are those needed for day-to-day operations, such as information and communications, management of accounts and tax records, and compliance with labor laws and other regulations. Strategic services, on the other hand, are used by the enterprise to address medium- and long-term issues in order to improve the performance of the enterprise,

¹² Vuković, K., *Mala i srednja poduzeća u ekonomiji EU*, FOI, Varaždin, 2012, p. 75-76

its access to markets, and its ability to compete. For example, strategic services can help the enterprise to identify and service markets, design products, set up facilities, and seek financing. The market for operational services may already exist, since there is often articulated demand and willingness to pay for these services. In contrast, markets for strategic services.¹³

While a large proportion of BDS involves short-term professional (for entrepreneurs and professional staff of SMEs) and vocational (for the workforce) training, it cannot substitute for deficiencies in the education and training system of an economy. The ability of SME to adjust to the competitive pressures that come with trade liberalization and globalization will very much depend on the level of skills that are available within transition and developing economies. The education and training systems have the opportunity to influence the level of entrepreneurial activity in transition and developing economies, where new and innovative enterprise creation is a priority.¹⁴

Access to funding – both national and international credit – is one of the main constraints on the creation, survival and growth of SMEs, especially the most innovative of them. Another challenge is related to public administration and officials who are often poorly trained too much red tape and often a lack of transparency. In addition, the inadequate quality of key infrastructure such as roads, telecommunications, and electricity and water distribution networks often leads to poor yields on private investment in projects that depend on such infrastructure. The economic and financial crisis makes the difficulties for SMEs worse, firstly because it is more difficult to find funding and secondly because it leads to a drastic fall in demand for goods and services. In general, SMEs are more vulnerable in times of crisis for several reasons. On the one hand, it is difficult to reduce their size, because they are already small. On the other, their financial structure is weaker and they often suffer the backlash difficulties faced by large companies.¹⁵

Support politics of SMSs are concerned in maximizing the number of people that are starting own business and building a simple operative environment for small business. Main goals of that politics is quality and quantity. Politics that is oriented toward encouragement of fast-growing business emphasizes quality and

¹³ World Bank, “Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention”, *Committee of Donor Agencies for Small Enterprise Development*, 2001 Edition, February, Washington D.C., p..1

¹⁴ Promoting Entrepreneurship and Innovative SMEs in a Global Economy: Towards a more responsible and inclusive globalization,^{2nd} OECS conference of ministers responsible for small and medium – sized enterprises; OECD, Instambul, Turkey, 63-5 June, 2004, p. 32-33

¹⁵ Fathallah, U., *Report on The role of small and medium-sized enterprises in the Mediterranean*, ARLEM, Morocco, 2012, p. 3-4

dynamics as priority. Table 4, clarifies the two approached in encouraging small and medium business, that differ in goals, approach based on availability and availability of resources. ¹⁶

Table 3. Main differences between SME politics and support politics of fast-growing business

	Main support SME politics	Entrepreneurship support politics of fast-growing business
Politics goals		
Goals connected to entrepreneurship	Encourage as many people to become entrepreneur	Encourage the right people to become entrepreneurs
Goals connected to business	Increase number of business	Increase growth of new business
Goals connected to business surroundings	Improve surroundings for small project functioning	Improve surroundings for functioning of project oriented on growth
Availability of resources		
Source	Mostly form public sources	Combination of public and private sources
Type of financing resource	Loans, incentive	Loans for resource and development, incentives for innovations, business angels, risk capital, initial public offer
Dominative service	Standard advises on building business, business planning and operative	Expert advices on financing, strategic planning, organization growth
Principle of service distribution	Insure equal access to everyone	Select promising recipient (resource focusing)
Focus on life cycle	Remove obstacles for new business entries	Remove obstacles for growth of new business
Administrative obstacles	Reduce administrative procedures for small business	Simplify dramatic changes based on production volume
Attitude toward failure	Avoid bankruptcy and failure	Embrace failure and bankruptcy but reduce their economic and social expense
Connections with other politics	Industrial politics, social and work politics	Industrial politics, innovative politics, work politics

Source: Autio et. Ar. (2007): *High-Growth SME Support Initiatives in Nine Countries: Analysis, Categorization and Recommendations*, MTI Publications, Helsinki, p. 79., cited in: Vuković, K.: *Mala i srednja poduzeća u ekonomiji EU*, FOI, Varaždin, 2012, p. 98-99

¹⁶ Vuković, *op. cit.* note 12, p. 97-98

EU policies and programmes continue evolving to become more SME-friendly in the complete lifecycle of enterprises, from birth to development and growth, and further innovation to final transfer. With the current financial and economic crisis, there is however a need and opportunity to speed up the delivery of support to SMEs in the Member States and at regional level, as well as within the European Commission. An important part of improving delivery would be to examine for instance how to better coordinate the European, national, regional levels in their strategies, policies and funding to SMEs. In the longer term, this links to the debate about shaping the budget of the future for post-2014, where we surely need better links between directly funded programmes and shared management.¹⁷

4. CONCLUSION

Challenges faced by SME sector do vary from country to county in EU but it is undeniably one of the most propulsive sector for economic growth of most EU country. SME sector has positive effect on competitiveness of certain economy, has positive impact on employment, it challenges the innovativeness and creativeness of certain economy.

One of the biggest opportunities for entrepreneurship innovation lies in entrepreneurship incubators and business clusters. Another opportunities for developing economies lies in trade, agriculture, service and handcraft. It is the responsibility of the EU countries to recognize these innovative possibilities and make incentives to enable and help new entrepreneurs to enter the market.

Nevertheless, SME sector requires more policies and promotions from EU. One of the biggest area that need additional promotion and reinforced policies is the education sector for entrepreneurs and inclusion of education of entrepreneurship in educational system. Access to funding and in most cases, bureaucracy public administrations represent a big obstacle for new entrepreneurs. SME financing is still considered one of the biggest challenge for countries in development and for least developed countries in EU.

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