

Overview of European Union SMEs sector

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Abstract: In an international landscape characterized by continuous structural changes and a growing competitive pressure, the role of SMEs is becoming increasingly important, in their capacity as providers of employment opportunities and key-players in the prosperity of local and regional communities. The paper highlights evolutionary benchmarks of the EU SMEs, with special reference to three indicators, namely the number of firms, number of employees and gross value added. The main EU documents relating to SMEs are briefly presented, specifically the "European Charter for Small Enterprises" and "Small Business Act" for Europe. In the final part of the paper we have analyzed the "skills and innovation" principle, which is of major importance in the context of the "A Union of Innovation" Initiative, included in the Europe 2020 Strategy.

Keywords: European Union, SMEs, Small Business Act, skills and innovation. JEL Classification: L25, L26, M10, M21, O10.

1. Introduction

Small and medium enterprises are at the heart of European policies of sustainable development, as they considered one of the key factors for the success of the Europe 2020 Strategy, by their contribution to economic growth and job creation, as well as for their role in innovation and EU competitiveness.

According to the assessments in the 2012 Report of the European Commission, SMEs have demonstrated their resilience and flexibility in the face of new challenges posed by the crisis, contributing greatly to the economic recovery and the restoration of the economic parameters in the Community [4].

European Union capacity, in its ensemble, and of member states to materialize growth and innovation potential of SMEs will decide their future and prosperity in community space. Given that SMEs function in different national and local environment presents a great diversity, community politics focused on SMEs must take account on such diversity and to respect subsidiary principle.

The Vice-President European of Commission, Antonio Tajani, commissioner for enterprise and industry, states that "SMEs are over 99% of total of enterprises and hire over 90 million people in Europe. They represent our economy engine and must remain powerful, competitive and innovative. State members must act quickly to ensure full implementation of "Small Business Act". SMEs play an important part in our industrial assets frame, and, thus, must we develop potential, especially in export growth. Such will mean, on one hand, to ensure access to more finances, and, on the other hand, to support daily functioning by efficient implementation of "Small Business Act", Therefore, a

development of new culture of entrepreneurship and innovation is necessary in Europe, for creating and strengthen a business environment for European citizens to be encouraged in initiation of new entrepreneurial activities {11, 12}.

In the last year, the European Commission put even a stronger emphasis on supporting entrepreneurship and small businesses, at the same time with re-launching Community policies supported by dedicated support instruments and by the inclusion of SMEs in the industrialization, competitiveness and innovation strategies for Europe. The European Commission also calls for the establishment of a national framework as consistent and favorable as possible for SMEs within all Member States [10].

2. Evolutionary benchmarks of the EU SMEs

Presently, the European Union includes the activity of almost 20,7 million SMEs, which represent 99,8% of the total of private enterprises. Such firms handle two thirds of workforce and accomplish 55% of community companies' business number. Also, SMEs have a contribution of 57% to creating added value in European Union (45% industry, 59% services and 81% constructions). SMEs represent an important component of European industry, using 80% of workforce in constructions, textiles and furniture.

They represent a permanent source of labour, solving many social problems, as well as a vector of sustainable economic development.

Strategic indicator which marks the development status of SMEs in European

Union is their density, the number of active SMEs per 1000 inhabitants.

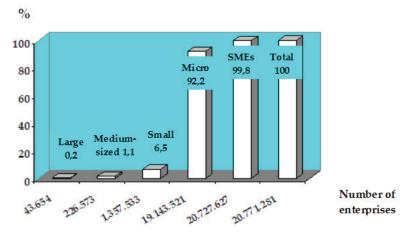
This indicator offers essential information concerning government politics efficiency of encouragement and assistance for SMEs, while they reflect sector and regional tendencies [3].

Presently, European Union has a density of 41 SMEs/1000 inhabitants.

The performances of small and medium enterprises in the European Union are measured and assessed by means of three main indicators, namely the number of firms, number of employees and gross value added.

Most of the EU SMEs, i.e. 92.2%, are microenterprises with less than 10 employees, according to the methodology existing in the European Union. Approximately 6.5% are small enterprises with a number of employees ranging between 10 and 49, and a rate of 1.1% is represented by the medium-sized enterprises, which have a staff of between 50 and 249 employees, according to the classification in the Community (Figure 1).

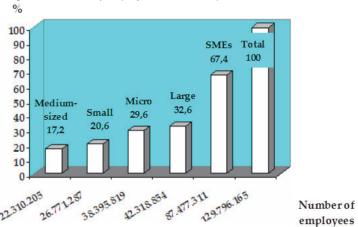
Figure 1. Number of enterprises in the European Union, on size classes, 2012



As regards their contribution to employment, SMEs have provided in 2012 67.4% of the total number of jobs existing in the non-financial economy in the European Union, thus maintaining the level of 2011, yet exceeding the level of 2010 (66.9%) (Figure 2). The share of gross value added achieved by the SME sector declined in 2011 and 2012,

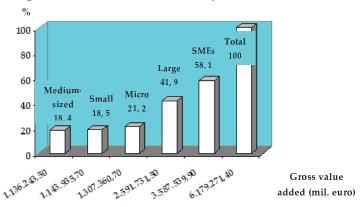
falling to an average of 58.1% of the total value achieved in the EU economy (Figure 3).

The SME performances evaluated by means of Eurostat structural data regarding the number of enterprises, number of employees and gross value added define the general image of the SME sector in the European Union.



 $Figure\ 2.\ Number\ of\ employees\ in\ EU\ enterprises,\ on\ size\ classes,\ 2012$

Figure 3. Gross value added in EU enterprises, on size classes, 2012



The number of employees was the most severely affected, and the increase of the number of SMEs has been stopped. The only indicator with a clear recovery after 2009 was the gross value added, which has resumed its growth in all size classes.

In 2011, SMEs in three European countries (Austria, Germany and Malta) were able to exceed the 2008 levels of the indicators regarding the value added and number of employees. A positive case was also registered in Belgium, Finland, France and Luxembourg, where the values were maintained in 2011 at levels similar to those in 2008, while in the other countries the SMEs have not managed to recover losses since 2009. From the perspective of the evolution of the gross value

added and number of employees in the period comprised between 2008 and 2012, the EU states were placed in four groups (Table 1) [4]:

- ➤ The group of countries where the gross value added and number of employees registered an ascending trend;
- ➤ The group of countries with a positive variation of the gross value added and a negative variation in the number of employees;
- ➤ The group of countries with a negative variation of the gross value added and a positive variation in the number of employees;
- ➤ The group of countries in which the two indicators registered a descending trend.

Year Indicator evolution	2009	2012
Gross value added (+) Number of employees (+)	Germany	Austria, Belgium, Bulgaria, Cyprus, Denmark, Estonia, Germany, Hungary, Ireland, Latvia, Lithuania, Romania, Luxembourg, Malta, Neth- erlands, Slovakia, Spain, United Kingdom
Gross value added (+) Number of employees (-)	Belgium, Netherlands	Czech Republic, Finland, France, Italy, Poland, Slovenia, Sweden
Gross value added (-) Number of employees (+)	Bulgaria, United Kingdom	Czech Republic, Finland, Italy France, Poland, Slovenia, Sweden
Gross value added (-) Number of employees (-)	Austria, Czech Republic, Cyprus, Denmark, Esto- nia, Greece, Hungary, Ire- land, Latvia, Lithuania, Italy, Luxembourg, Malta, Romania, Slovakia, Spain, Sweden, Poland, Portugal, Finland, France, Slovenia	Greece, Portugal

Community states show several particularities which result from the distribution of SMEs on main economy branches. In Italy, Denmark, Finland and Sweden these firms own an important part of the industry, while Germany, Luxemburg and France SMEs are well represented on services area. In Greece, which present a lower economic development compared to above mentioned states, firms are more oriented on commercial activities. As a conclusion, between the level of development of a country and the percentage of SMEs in industry and services there is a direct proportionality relation [2]. A worthy to be mentioned issue is the consolidation of industry firms' position, which is due to personnel reduction in great enterprises, externalization of their activities, developing of subcontracting relations, as well as applying certain government and community program to support small and medium sized organizations. In the context of European integration process, SMEs with industrial activities are considered target groups.

3. Support for EU SMEs

Nowadays, the General Direction "Enterprises and Industry" functions within European Commission, which have an important role implementing "Europe of 2020" strategy, answering two of the seven main initiatives, such as [13]:

- ➤ "An industrial politics adjusted to globalization era", with the role of improving business environment, especially for SMEs and to support development of solid and sustainable industrial basis, which can compete worldwide level;
- ➤ "A Union of Innovation", with the role to improve general conditions and access to financing for research and innovation sector, to allow transformation of new ideas on products and services to generate economic growth and employment.

The two initiatives are essential for Europe economy to become more competitive and innovative to a more efficient use of resources, thus to face present and future challenges.

According to provisions of European Commission Work Program, activities of "Enterprises and Industry" General Direction aim substantiation and take on measures to allow implementation of "Europe 2020" strategy within industrial and business sector [14].

In order to create favourable environment for small enterprises and entrepreneurial initiatives, the General Affairs Council adopted in June of 2000 "European Charter for Small Enterprises" [8]. This document emphasizes that small enterprises have an important part in sustaining social and regional development, representing examples of initiative and commitment. Main objectives of "European Charter of Small Enterprises" are the consolidation of innovative and entrepreneurial spirit, development of a regulatory, fiscal and administrative frame which can stimulate entrepreneurial activity, improvement of entrepreneur status, as well as facilitate access to best research results, to advanced technologies and finances during the

whole firm's cycle of existence.

By this European Commission the state members were required to consider ten direction of action for small and medium enterprises to benefit from digital economy advantages [9]:

- ➤ Education and training entrepreneurs;
- ➤ Faster and less expensive business initiation;
 - ➤ Better legislation and representation;
 - ➤ Ensuring necessary skills;
 - ➤ Improvement of online access;
 - ➤ Internal market consolidation;
 - ➤ Fiscal system and financial issues;
- ➤ Consolidation of technologic capacity of SMEs;
- ➤ Use of successful e-business models and ensuring quality care for SMEs;
- ➤ Development of a more powerful and more efficient representation of SMEs interest on national and European Union level.

In 2008 "Small Business Act" for Europe was adopted, first comprehensive politics framework for European Union SMEs and its member states [1]. Main objective of "Small Business Act" for Europe is improving general strategic approach of entrepreneurship, to stabilize irreversibly the principle "Think Small First".

"Small Business Act" for Europe relies on Commission and member states strategic achievement, creating a new strategic frame to integrate existent instruments of enterprise politics and it is inspired by European Charter of Small Enterprises and modern politics of SMEs. To implement this ambitious strategic agenda, the Commission proposes a genuine political partnership between European Commission and member states, to meet principles of subsidiary and proportionality.

"Small Business Act" promotes and set of 10 principles meant to guide the creation and implementation of domain public politics, on European level, as well as member states' level. These principles are:

- ➤ Creating an environment in which entrepreneurs and family enterprises can prosper and where entrepreneurship is rewarded;
- ➤ Ensure that honest entrepreneurs who have failed can get second chance;
- ➤ Definition of rules by the "Think Small First";
- ➤ Make public administrations responsive to SME needs;
- ➤ Adapt public policy tools to SME needs, facilitating SMEs to public procurement and judicious exploitation of the possibilities for SMEs to benefit from state aid;
- ➤ Facilitating SME access to finance and implement a legal and business environment supportive to timely payments in commercial transactions;
- ➤ Support SMEs to benefit more from opportunities offered by the Single Market;
- ➤ Promote upgrading of skills in SMEs and all forms of innovation;
- ➤ Helping SMEs to turn environmental challenges into opportunities;
- ➤ Encourage and support SMEs to benefit from growth of markets outside the European Union.

4. Skills and innovation in SMEs

There is a close correlation between the share of business innovation in general and the share of innovative SMEs. Germany ranks first in the hierarchy of EU states as regards the share of innovative companies, with a percentage of 80%. The lowest share of innovative enterprises was registered in Latvia, Poland, Hungary, Lithuania, Bulgaria and Romania [10]. In Germany and Austria there is a greater concentration of staff in SMEs in the production of high and medium technology, or in science-intensive services. In the context of such aspects and the "A Union of Innovation" Initiative, included in the "Europe 2020" Strategy, the "Skills and Innovation" principle presents major importance among the principles of the "Small Business Act" for Europe. This principle is defined by the 10 indicators, namely [5]:

- ➤ SMEs introducing product or process innovations (% of SMEs);
- ➤ SMEs introducing marketing or organizational innovations (% of SMEs);
- ➤ SMEs innovating in-house (% of SMEs);
- ➤ Innovative SMEs collaborating with others (% of SMEs);
- ➤ Sales of new-to-market and new-to-firm innovations (% of turnover);
- ➤ SMEs participating in EU funded research (number per 100.000 SMEs);
 - ➤ SMEs selling online (% of SMEs);
 - ➤ SMEs purchasing online (% of SMEs);
- ➤ Enterprises providing training to their employees (% of all enterprises);
- ➤ Employees' participation rate in education and training (% of total no of employees in micro-firms).

If we look at the latest "SBA Fact Sheets" developed by the "Enterprise and Industry" Department of the European Commission, we find that, for 8 of the 10 indicators, the

EU average value (recorded for the whole European Union) has remained at the same level in recent years.

The only exceptions are the "SMEs purchasing online (% of SMEs)" indicator, for which the Community average value decreased from 28 in 2010 to 16 in 2012, and the "Enterprises providing training to their employees (% of all enterprises)" indicator, for which there was a sharp drop from 58 in 2005 to only 24 in 2010 [5,6].

Consequently, it is essential that, in the next period, the European Commission, through its "Directorate-General for Enterprise and Industry", initiate new programs to support innovative SMEs in the Community and to allocate funds to stimulate the innovative and creative processes in SMEs. It is also important to encourage companies to provide training programs for their employees, especially in the current context of the new knowledge-based economy having as its pillars knowledge and innovation.

European Commission will continue to give priority to SME sector. Review "Small Business Act" in line with "Europe 2020" goals, as well as recent developments on European and international level, meaning taking action structured along following lines [12]:

➤ improving access to finance for investment and development;

➤ smart regulation to give SMEs the opportunity to focus on core activities;

➤ full use of the Single Market;

➤ helping SMEs to cope with problems posed by globalization and climate change.

5. Conclusions

According to the assessments in the 2012 report of the European Commission, SMEs have demonstrated their resilience and flexibility in the face of new challenges posed by the crisis, contributing greatly to the economic recovery and the restoration of the economic parameters in the Community.

In the last year, the European Commission put even a stronger emphasis on supporting entrepreneurship and small businesses, at the same time with re-launching Community policies supported by dedicated support instruments and by the inclusion of SMEs in the industrialization, competitiveness and innovation strategies for Europe.

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