

Executive Summary

KEY MESSAGES

- The EU SMEs' strong recovery continues.
- SMEs' contribution to growth in value added and employment exceeded what would have been expected on the basis of their relative importance in the economy.
- Performance across the EU continued to vary, with six Member States generating SME value added in 2017 which was still below their respective levels of 2008.
- Fuelled by the economic recovery, between 2014 and 2016 the number of high-growth firms in the EU increased by 24%. Two-thirds of these enterprises come from only six Member States (Germany, the United Kingdom, Spain, France, Italy and Poland).
- The outlook for 2018 and 2019 remains positive but somewhat uncertain due to unsettled international trade conditions.
- SME internationalisation has contributed to growth. EU-28 SME exports of goods have increased by 20% since 2012.
- The Single Market is the go-to market for EU-28 SMEs. It accounted for 70% of the value of SME exports, with 80% of exporting SMEs selling to other Member States.
- The economic significance of the indirect contribution made by SMEs to exports is frequently underestimated.
- SMEs internationalise based on strategic choices. Available policy support can play a decisive role in influencing that choice.
- There is room for policy measures aimed at stimulating non-exporting SMEs to seek international expansion.

The EU SMEs' strong recovery continues

The resurgence of EU SMEs has continued over the past year and is set to extend into the near future. Over the period 2008 to 2017, gross value added generated by EU-28 SMEs increased cumulatively by 14.3% and SME employment increased by 2.5%.

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

EU-wide developments are not evenly reflected in Member States. In six Member States the 2017 level of SME value added was still below its 2008 level (Croatia, Cyprus, Greece, Italy, Portugal and Spain). In 15 Member States the SME employment level in 2017 did not reach its 2008 level (Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, France, Greece, Ireland, Italy, Latvia, Lithuania, Portugal, Romania, Slovenia and Spain).

EU-28 SMEs made a significant contribution to the recovery and subsequent expansion of the EU-28 economy. They accounted for 47% of the total increase from 2008 to 2017 in the value added generated by the non-financial business sector, and for 52% of the cumulative increase in employment in the sector. In fact, their contribution exceeded what would have been expected on the basis of their relative importance in the economy.

The number of SMEs in the EU-28 increased by 13.8% between 2008 and 2017. The number of newborn SMEs markedly exceeds the actual increase in SME population because of the high mortality rate of SMEs, especially among young enterprises. Each new SME that survived over the period 2012-2015 required the birth of 9 SMEs that did not.

The EU's start-up and scale-up firms benefited from the economic upswing. There are signs of a healthy development in the still small segment of scale-up firms, especially businesses which are expanding rapidly based on innovative products and a clearly devised growth strategy. In the EU-28, in 2016, there were 179,060 high-growth enterprises. The number of high-growth enterprises, i.e. firms with a three year-average growth rate in employment of at least 10%, is generally accepted as a proxy for scale-up firms. Between 2014 and 2016, the number of high-growth firms in the EU increased by 24%.

Two-thirds of these high-growth enterprises are concentrated in 6 Member States: Germany (23.9% of all high-growth enterprises in 2015), the United Kingdom (14.4%), Spain (8.6%), France (8.4%), Italy (7.6%), and Poland (6.4%). Together, these 6 Member States accounted for 69% of all high-growth enterprises in the EU-28 in 2015.

The recent increase in scale-up firms bodes well for the future, although the EU is not yet on a par with the dynamism of other partner regions and countries, such as the United States. Also, it cannot be taken for granted that the very favourable economic conditions in the EU which fuelled the recent increase in fast-growing firms will extend indefinitely into the future. This is why the EU is providing targeted support to this business segment, most notably through its 'start-up and scale-up initiative'.

The outlook for 2018 and 2019 remains positive

As for future projections regarding EU SMEs, value added in the EU-28 non-financial business sector is expected to increase by 4.3% in both 2018 and 2019.

EU-28 SME employment is projected to grow by 1.5% in 2018 and 1.3% in 2019.

This positive outlook is subject to a number of risks, such as the further development of BREXIT or potential international trade conflicts. The impact of these factors on EU SMEs is impossible to gauge at this stage.

The internationalisation of SMEs

The internationalisation of SMEs is this year's special theme, because the successful exploitation of markets abroad has proved to be an important driver of the recent growth of many EU SMEs.

SMEs can expand internationally in a number of different ways. Examples include exporting or importing goods and services, making outward foreign direct investment or attracting foreign investors to their business, becoming part of a national value chain which has an international focus, or being part of a global value chain, engaging in cross-border R&D and innovation collaboration, or licencing or franchising products or services.

EU-28 SME exports of goods have increased by 20% since 2012

The value of goods exports by SMEs has increased by almost 20% since 2012, slightly faster than overall SME value added. In 2016, 36.1% of all goods exports by EU-28 enterprises came from SMEs. SMEs represented 88.3% of all EU-28 enterprises exporting goods. Both indicators went up during the period between 2012 and 2016.

The Single Market is the key market for EU-28 SMEs. In 2016, almost 70% of all SME exports (in value) went to other Member States. The rest of the world accounted for only 30% of all SME exports.

Furthermore, in 2016, 80% of all exporting SMEs were engaged in intra-EU trade, while less than half of exporting SMEs sold to markets outside the EU-28, and slightly more than a quarter of exporting SMEs sold to both markets.

SMEs can benefit indirectly from foreign demand

Even non-exporting SMEs can participate indirectly in the global economy by being upstream suppliers of exporting firms. Such indirect contribution of SMEs to Member States' export performance is very significant. An OECD and World Bank study determined that in nine EU Member States, SMEs accounted for more than 50% of value added of exports, when indirect exports were taken into consideration.

Furthermore, SMEs that do not export and are not part of a global value chain also benefit indirectly from increases in foreign demand. This is because an increase in production and sales of exporting enterprises translates into a boost in domestic demand for goods and services.

Key factors identifying SMEs that are likely to export

The pattern of SME exports seems to follow the strategic choices of individual companies: while a large proportion of SMEs do not export at all, most of the exporting SMEs are regular exporters. Nevertheless, a number of characteristics distinguish companies that are likely to export.

The key factors which increase the likelihood that an SME will export are: belonging to a group, being older, being large (in terms of turnover), having the ambition to grow, being active in the goods sector, selling to other businesses or organisations, and being innovative.

Why and how best to help SMEs to internationalise?

Most frequently SMEs refrain from entering new markets because they do not entirely understand or have the ability to master the risks related to operating abroad.

This is why their individual needs usually fall into one of the following categories: 'provision of information on foreign markets, their legal and regulatory environment', 'connecting with new partners', 'mentoring, training', and 'providing financial support'.

On top of encouraging Member States to support their SMEs in exploring export opportunities and in furthering their actual export activities under the 'Internationalisation SBA principle', the EU has implemented a wide range of programmes which support SMEs interested in either exporting for the first time or in growing their exports. A good example is the Enterprise Europe Network, present in more than 60 countries, which helps European SMEs to develop business in new markets and to source or licence new technologies.

Notably, policy assistance that reaches out to SMEs which are currently not interested in expanding beyond their domestic market is currently not particularly well developed. Such measures could seek to overcome this lack of interest and eventually increase the percentage share of SMEs selling abroad.

Context of the 2018 SME Performance Review

The year 2018 marks the tenth anniversary of two important events for European SMEs.

Firstly, ten years ago, the European Commission adopted the communication “*Think Small First*” – A “*Small Business Act*” for Europe¹. Its broad objectives are to:

- improve the approach to entrepreneurship in Europe
- simplify the regulatory and policy environment for SMEs
- remove the remaining barriers to their development.

These objectives are underpinned by 10 principles, intended to encourage the development of/support for the implementation of EU and Member State policies.²

Secondly, the 2008 crisis and the ensuing recession, the worst since the depression years of the early 1930s, slowed down domestic demand, while strong EU-28 exports were for many years the main growth engine of the EU-28 economy.

Thus, SMEs in EU-28 Member States have been subjected to two opposing forces over the past 10 years: the implementation of the Small Business Act has supported the development and growth of European SMEs, while weak domestic economic conditions have negatively influenced their growth prospects.

The SBA achievements and the road ahead

More than 3 300 SBA policy measures have been adopted/implemented since 2011 in the EU-28 to implement most of the SBA recommendations and goals. However, much more could be done, especially under the principles of ‘skills & innovation’, ‘easing business transfers’, and ‘second chance’.

In addition, a detailed statistical analysis shows that the more extensive the implementation of the SBA, the better the performance of SMEs.

¹ Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, “Think Small First” – A “Small Business Act” for Europe, {SEC(2008) 2101}, {SEC(2008) 2012}, COM(2008) 394 final, Brussels, 25.6.2008.

² The 10 principles are provided in Annex 1.