



Rigorous empirical
research on
intellectual property

4 SMEs ✓

European Commission Annual Report on European SMEs, 2016-2017: Focus on Self-Employment



Author(s) + Article info: MULLER, Patrice / JULIUS, Jenna / Daniel HERR / KOCH, Laura / PEYCHEVA, Viktoriya / McKIERNAN, Sean

Author of the summary: Haris Tsilikas, PhD Candidate and Junior Research Associate, Max Planck Institute for Innovation and Competition

SUMMARY			
Document Title	European Commission Annual Report on European SMEs, 2016-2017: Focus on Self-Employment		
Author	Haris Tsilikas	Date	18.06.2018

Abstract

In its Annual SMEs Report, commissioned by DG for Internal Market, Industry, Entrepreneurship and SMEs, the EU Commission monitors the economic performance of European SMEs. In the 2016-2017 Report, special attention is paid to the performance of an important segment of SMEs, namely self-employment businesses, as well as to the performance of start-ups and scale-ups. It is noteworthy that, according to the report, 2016 marked the first year SME employment fully recovered from the 2008 financial crisis.

Summary

The report confirms the importance of SMEs for the European economy. Excluding the financial sector, SMEs account for the 99.8 percent of all registered European businesses, 66.6 percent of the overall employment, and 56.8 percent of the generated value added.

The SMEs' contribution to employment and value added is spread across sectors, being particularly important in construction, business services, accommodation and food services, and wholesale and retail trade. Even in manufacturing, a sector where large firms are prevalent, SMEs account for 58 percent of employment and 42 percent of value added.

Self-employment is also an important, and often understated, fraction of the employment in non-financial sectors, amounting to 13.8 percent of the total employment in non-financial sectors, according to 2014 data, the last year for which data on self-employment are available. However, self-employment is heavily skewed along national lines, ranging from as high as 29.5 percent in Greece and 21.5 percent in Italy, to 7.7 percent in Denmark and 8.7 percent in Sweden. Furthermore, self-employment rates vary across sectors, self-employment being widespread in agriculture, art and entertainment, construction, professional and scientific activities, and real estate.

SMEs' improving performance in 2016 is, according to the report, mainly due to an auspicious macroeconomic environment, and in particular a steady growth in aggregate demand, importantly

including both private domestic demand and exports. The more balanced growth of domestic and external sources of demand, contrary to the exports-dominated growth in the aftermath of the 2008 financial crisis, implies growth opportunities for SMEs across the board and not limited to export-oriented SMEs. Major challenges identified by SMEs include finding customers, availability of skilled staff and managers, and competition. Moreover, the report notes that knowledge-intensive technology sectors were the main drivers of the 2016 growth in SME employment and value added.

The report endorses a positive outlook for further SME growth in employment and value added in non-financial sectors for 2017 and 2018. In particular, the report forecasts a 1.0 percent and 0.9 percent SME employment growth for 2017 and 2018 respectively, as well as a 2.5 percent and 3.8 percent increase in SME-generated value added in 2017 and 2018 respectively. Importantly, value added growth for SMEs in 2018 is predicted to outpace the value added growth of the economy overall.

With regard to start-ups and scale-ups - essentially firms aiming at very high growth rates - the report notes that most new firms start very small: 70 percent of the newly-founded firms begin with no employees as self-employment enterprises, and 27 percent with 1 to 4 employees. Moreover, newly-founded firms are mostly active in non-ICT sectors; only 7.9 percent of new businesses belong in ICT industries. New firms are also characterised by very high 'mortality' rates. Although data on scale-ups are more limited, they nonetheless show that most firms fail to grow rapidly. Those who do, are concentrated in the services sector, and in particular in ICT.

The report identifies a favourable entrepreneurial culture and a strong entrepreneurial skill-set as factors congenial to start-up and scale-up growth. It distinguishes three stages in the life-cycle of young enterprises: the stand-up phase, the start-up phase, and the scale-up phase. Each stage calls for distinct public policy support measures. In particular, in respect of the start-up phase, the report stresses the salience of access to capital, a favourable regulatory framework, access to a skilled workforce and good infrastructure, and a thriving ecosystem of young firms. Access to capital and to a skilled workforce are also important in the scale-up phase, along with macroeconomic and regulatory environment, as well as supporting labour market regulation.