Opinion of the European Economic and Social Committee on ‘How to support SMEs in adapting to

global market changes’

(own-initiative opinion)

(2010) (C 255/04)

Rapporteur: Mr CAPPELLINI
Co-rapporteur: Mr PAETZOLD

On 26 February 2009, the European Economic and Social Committee, acting under Article 29(2) of its Rules
of Procedure, decided to draw up an own-initiative opinion on

How to support SMEs (1) in adapting to global market changes.

The Consultative Commission on Industrial Change, which was responsible for preparing the Committee's
work on the subject, adopted its opinion on 26 November 2009. The rapporteur was Mr Cappellini and the
co-rapporteur was Mr Paetzold.

At its 458th plenary session, held on 16 and 17 December 2009 (meeting of 16 December), the European Eco-

nomic and Social Committee adopted the following opinion by 180 votes in favour and three abstentions.

Part 1

1. Conclusions and recommendations

1.1 The Committee acknowledges that SMEs take many paths
to internationalisation, employing different strategies and drawing
on different levels of support. This Opinion therefore seeks to
lay out eight recommendations to guide and inspire actions to
support SMEs in adapting to global market changes. Our
opinion is addressed to the EU institutions, the Member states, SMEs
and their associations, as well as to the EU’s wider organised civil
society.

1.2 Recommendation 1: Respect Entrepreneurs, their right to take
decisions and their need to bear the consequences of these deci-
sions. Business support should assist entrepreneurs in tackling
global market changes but must not substitute either the entre-
preneurial decision itself nor shield the entrepreneur from the risk
derived from the decision. Policy support for SMEs should effec-
tively reward innovation (in participating actively in cross sector
Framework Programme 7 (FP7) Technological Platforms) and not
be risk bearing, unless it is in response to specific market failures.
In these circumstances global market changes may have a dispro-
portionately large impact on smaller firms (such as those operat-
ing in global value chains or economies dominated by smaller
firms).

1.3 Recommendation 2: Reduce barriers to trade. Pursuing open
markets, through successful trade negotiations and ensuring the
legally correct use of Trade Defence Instruments by third coun-
tries, enforcing global trading standards and maintaining the

Internal Market, without neglecting symmetric market access, remain the most effective ways of supporting exporting SMEs. The best policy response is to ensure that those companies that are capable of exporting are not impeded from doing so by tariff or non-tariff barriers.

1.4 Recommendation 3: Encourage trade competitiveness through
raising quality. The benefits and quality of respecting European
standards and requirements, as well as of full participation in
quality enhancing programmes, such as FP7 and CIP, need to be
made known in marketing campaigns in third countries, organi-
sed by Member States, the European Commission and business
associations. At the same time, it should be stressed that respect-
ing EU standards is a condition for importing goods and services
into the EU.

1.5 Recommendation 4: trade policy must ‘Think Small First’. If part-
nerships are to be developed to deliver market access, SMEs need
to be coordinated more closely to match the complex process of
trade negotiations. The transparency of negotiations could be
improved by highlighting the SME dimension in all Sustainability
Impact Assessments (SIAs). Greater awareness of the representa-
tiveness of business representatives should also be taken. The
Market Access Database and IPR (Intellectual Property Rights)
helpdesks in new markets will also help. More work can also be
done in public procurement and prompt payment within the EU
to improve SME trade.

1.6 Recommendation 5: Tailor Policies to SME needs. There is a
divergence between the experiences of SMEs of obstacles to in-
ternationalisation and the perception of these obstacles by policy
makers. Support needs to be delivered through local and national
intermediaries that are familiar with SMEs and in practical and
accessible forms. Promoting personal links between companies by
subsidising first time visits is a good example of this. Much needs
to be done to match SME needs to policy, as the example of access

(1) For SME definition, please refer to Recommendation 2003/361/EC of

22.9.2010 Official Journal of the European Union
to finance demonstrates. Practical methods for assisting SMEs such as mediation, tax breaks, prompt payments and measures that facilitate the quick dispersal of funds through state aid exemptions are to be encouraged in particular for those sectors that are most exposed to globalisation and the economic and financial crisis (e.g. automotive amongst others).

1.7 Recommendation 6: Support SMEs through their workers. The aim is to ensure that SMEs are able to draw upon a skilled and committed workforce in the labour market. In order to maintain the competitiveness of the EU’s SMEs the supply of the highest levels of skills, for example in sectors like engineering, technical maintenance or construction, must be maintained. The Commission’s ‘Shared Commitment for Employment’ adds value to this process. The Social Dialogue, in particular the Sectoral Social Dialogue, must engage more to help SMEs work with their employees to maintain and develop new skills so they are first to benefit from new and existing opportunities in the internal market. To tackle global changes EU partnerships and lasting projects should be facilitated among SME organisations, business universities and research bodies in collaboration with emerging economies institutions.

1.8 Recommendation 7: Networks matter to SMEs especially as they become global. Networks provide opportunities for SMEs but also present specific problems related to intellectual property and dominating customers which can be better addressed through a sectoral approach. As a global player, the EU has not realised its potential to improve the role of SMEs as exporters to and importers from third markets. Of particular interest is the role that the EU and the Member States can play in supporting those SMEs which are sufficiently competitive to take a role as Initial and Intermediary Companies (ICs) in value chains. Greater focus must be placed on this issue in accordance with CCMI previous indications and taking into consideration the exigences of repositioning EU industrial policies in the global markets.

1.9 Recommendation 8: Innovate and Evaluate. Policy makers need to innovate in the real economy especially during demanding economic, social and environmental conditions. Policy has to respond quickly to new challenges, be evaluated on sound quality evidence and engage with representative stakeholders to learn from success stories and changes in performance. SMEs could play an important contribution to more energy efficient product/services and to the so called ‘green economy’.

2. SMEs play a vital role in the EU’s response to global market changes

2.1 The EU’s 23 million SMEs play a vital role in adapting the EU’s economy to changes in global markets. They employ two thirds of private sector employees, keep the labour market dynamic and contribute to the development of a competitive, innovative and inclusive EU economy. The processes of economic fragmentation and specialisation that characterise globalisation provides niches for SMEs to exploit. Greater recognition needs to be made for the contribution of SMEs to the prosperity of the EU and its various social, business and cultural models. SMEs are the backbone of the EU’s productive system and could increase their contribution to employment and the value added of the EU (2).

2.2 As the world’s largest exporter and donor of development aid the EU is already globally orientated. SMEs are a heterogeneous group and many will not have the strength, resources or desire to tackle global markets. The Committee would like to stress that ‘globalisation’ and ‘internationalisation’ are important issues even for SMEs that supply or are rooted only on local and regional markets (3). Globalisation has redefined the social compromises that embedded SMEs into national economic systems and the Committee recognises that the current crisis will alter again the way that SMEs are linked to their national and international markets (4). The strengthened role of the European Commission and the member states in this needs to be discussed and put on the EU political agenda. A single voice of the EU by the International Financial Institutions (as already requested by the Eurogroup representative to the Council) and common Eurogroup vision supporting the EURO area, could also strengthen SMEs role in their global positioning.

2.3 Many factors influence the response of SMEs to global market changes. Despite the commitment to make the Single Market a reality, few EU27 SMEs export or purchase from abroad (5). Smaller countries and larger companies tend to be more internationalised (6). The service sector, which is dominated by SMEs, contributes around 70 % of the gross value added to the EU27, but its total contribution to cross border trade was only 20 % during the relatively prosperous period of 2006 (7). Internationalisation destinations and sectors vary as do the paths chosen (e.g. export or joint venture) and the direction of trade. The obstacles to internationalisation also vary with the main export obstacle for SMEs being the lack of knowledge of foreign markets (13 % of exporting SMEs mentioned this as their prime obstacle), followed by import tariffs in destination countries and the lack of capital (both 9 %) (8).

(2) EUROSTAT SBS database, 2004-2005.
(3) Commission of the EU 2003 ‘Internationalisation of SMEs’ Observatory of European SMEs No 4.
(6) Observatory of European SMEs Internationalisation of SMEs No 4, 2003.
(7) Europe in figures - Eurostat statistical yearbook 2008.
(8) Flash Eurobarometer. #196.
2.4 SMEs have less cross-border activities than larger firms within and beyond the Internal Market. This may give the erroneous impression that the EU is for large companies and member states are for SMEs. The Committee stresses that SMEs are the backbone of the EU economy and play an important role in the EU social economy, especially when larger companies outsource to third countries.

The Committee therefore acknowledges the development of EU SME policies over the years from the 1986 SME Action Plan, the 1994 Integrated Programme, the various Multi Annual Programmes, the 2000 Lisbon Agenda, the 2000 European Charter for Small Business, the CIP (Competitiveness and Innovation Programme) and the Small Business Act for Europe (SBA).

2.5 Many firms operate without looking to public policy for support other than the removal of administrative and regulatory obstacles. For them the main justification for EU SME policy interventions remains to correct market failures. But in its previous Opinions the Committee has made its view clear that support for SMEs needs to be taken to another level if the ambitions of the SBA and the needs of the EU's 23 million SMEs are to be met. SME week has extended the scope of SME policy further as it seeks to 'Inform', 'Support', 'Inspire', 'Share' and 'Encourage' SMEs (as already indicated in the implementation of the 'Small Business Act for Europe' by the Opinion INT/445 of the EESC and recently by the Committee of the Regions.

2.6 This Opinion focuses specifically on recommendations to assist SMEs in exporting and policy designed to help SMEs manage global market changes. It is addressed to the European Commission, the European Parliament and the Member States, as well as to the SMEs and their associations, both cross-sectoral and sectoral. The Opinion begins by explaining why the traditional justification for intervening to address failures in the market may well be a vital component of this policy. But it also suggests that the mechanisms through which market failures are identified, policy solutions defined and executive responsibilities allocated are not always clear or well matched. For these reasons other principles designed to bring the policy closer to the SME and away from the abstract notion of the market need to be developed. To this extent the EESC could promote with other interested EU and National institutions, the elaboration of a Biannual Report at Global level to measure 'SMEs in their global market positioning through appropriate market indicators'.

3. Recommendation 1: Entrepreneurs take the decisions

3.1 Measures have to respect entrepreneurs, their right to take decisions and their need to bear the consequences of these decisions. Incentives to export can be extremely damaging by distorting markets and encouraging companies to take on risks that they are not prepared to manage. Policy should as a rule reward innovation and support commercial risk taking but not bear commercial risks, unless in response to specific market failures.

3.2 Globalisation presents complex challenges, both risks and opportunities, for SMEs and policy makers. Accessing global markets requires costly information, suppliers must be credible, and value chains present Intellectual Property Rights (IPR) challenges for SMEs. SMEs take many paths to internationalisation with some 'born' global and others learning slowly how to adapt. The challenge for policy makers is to seek to ensure that their understanding of the needs of SMEs matches those of the SME they seek to support. This is why the focus must remain on providing support while embracing entrepreneurial discretion.

4. Recommendation 2: Markets must be free

4.1 The focus on entrepreneurial discretion is the key justification for pursuing free markets and is a common assumption of EU SME policy. The SBA refers to getting more out of the 'Internal Market', the Committee has argued that improving the Internal Market is the most efficient way to improve the exporting capacities of SMEs (1) and better SME access to export markets is a central theme for the external dimension of the Lisbon Strategy (2). Reducing barriers to trade and pursuing open and competitive markets, through the conclusion of trade negotiations, enforcement of global trading standards and maintenance of the Internal Market therefore remain the most effective way of supporting exporting SMEs, provided that opening markets respects 'symmetric access' and does not endanger the 'acquis communautaire'. The best policy response is to ensure that those small businesses that are capable of exporting are not impeded from doing so by tariff or non-tariff barriers. Examples of appropriate actions include:

a. the completion of the Doha Round, WTO/GPA and bi-lateral agreements, and other international trade negotiations to address trade barriers both at the border (for example, tariff barriers, customs procedures) and behind the border (non-tariff barriers, standards, technical norms and regulations) (3);


b. actions to address poor or burdensome protection of intellectual property rights and related issues such as technology transfer such as Enterprise Europe Network, the IPR helpdesk of the P2europAware Project, the 'China IPR SME Helpdesk' and the 'European Business and Technology Centre' in India, 2008, in which the European Patent Office is involved;

c. continued actions to address discriminative government practice in the awarding of public procurement;

d. the European Commission's actions in response to MEP Guardians Cambó proposals which the Committee encourages the European Commission to report (14).

5. Recommendation 3: Encourage Trade Competitiveness through Quality

5.1 The complexity of issues surrounding the decision of an entrepreneur to become internationalised means that support for SMEs must be capable of being sensitive to the path taken, the alliances formed and the sectors involved. The Committee therefore supports the new General Block Exemption Regulation (GBER) for making the state aids framework more sensitive to SME needs. It will allow significant assistance to be channelled to SMEs where there is evidence that the market has not contributed to an efficient outcome for SMEs (15). The Committee has opined on the need for SMEs to participate fully in quality enhancing programmes such as those under FP7 (16) and to make use of the Commission's new Handbook on State Aids for SMEs. SME organisations should have a look at the Commission's training actions (17). Wider changes in business culture, value chains, market positioning, in particular for SMEs should be the subject of sector by sector policy monitoring at the EU level. Significant progress is needed in this area.

5.2 All companies that begin trading from within the EU are required to perform to the highest standards of consumer safety, corporate social responsibility and environmental sustainability. These are significant investments that the EU obliges companies to make and more could be done to raise the return from these investments. The Committee therefore encourages the member states, the European Commission and representative SME associations to consider ways of representing the quality of EU products/services to external markets. Horizontal marketing to raise awareness of the quality of EU products need not refer exclusively to 'CE marking' or 'made in Europe' campaigns. But disseminating awareness to Third Markets of the quality of goods on a sector by sector approach would be an important marketing tool that would assist many SMEs, especially those operating in new sectors (such as green energy). 'Fair trade' initiatives at regional/global level to involve successfully EU SMEs organisations should be object of more systematic research and evaluation.

5.3 SMEs purchase from outside of the Single Market as much as they export (18). SMEs from smaller Member States, and especially those operating in wholesale, retail and manufacturing, tend to source from beyond their national boundaries (19) but not from third countries. Continued promotion of European standards and CE-Marking, as well as better conformity assessment and market surveillance capabilities in third countries would increase the range of suppliers for importing into the EU. Building the capacity through which companies in third countries can comply will also provide business support in line with the Aid for Trade agenda of the EU and, as pointed out by the Chairperson of the WTO-TBT Committee, increase confidence and boost free trade and fair trade (20).

6. Recommendation 4: Trade policy must ‘Think Small First’

6.1 The Committee notes that particular SBA topics are relevant to the making of trade policy. SMEs are less able to address regulatory burdens and less able to make their views heard in policy circles (21). This applies equally to tariff and non tariff barriers. In accordance with the Commission's proposal for a 'stronger partnership to deliver market access' (22), business organisations should be active in the Market Access Partnership and its Advisory Committee 'MAAC'. In addition, it has to be ensured that the interests of SMEs are fully taken into consideration in all trade negotiations. Existing trade defence instruments, such as anti-subsidy and anti-dumping measures are not well suited for SMEs who lack the resources and competences to make effective complaints. The EU, China and EU India Round Table of the EESC could also facilitate the dialogue and preparatory works among respective EU civil societies (in particular SMEs and social economy categories).

(15) For examples of good practice by the member states see DG ENTR 2008 Supporting the Internationalisation of SMEs – a good practice guide.
(19) Flash Eurobarometer. #196.
6.2 The Committee recognises that the main channel for representing SME views is through the Member State and the Article 133 Committee and through trade associations and industry federations lobbying the Commission at the WTO. However, trade negotiations are complex and stronger partnerships for developing greater market access for SMEs, need to be developed and better coordinated across the trade policy network. The EC and Member states should also increase coordination of SME interests to better represent their interests in other standard setting bodies such as ISO. Examples of appropriate actions include:

a. Member States and the European Commission should make post hoc statements in Sustainability Impact Assessments (SIAs) on the processes through which they consulted SMEs and the representativeness of the associations that they consulted (23).

b. The Committee welcomes the Market Access Database (MADB) and resources for intellectual property protection including the IPR Helpdesks. Regular placements of European Commission officials in SMEs and in their respective National IPR contact offices, would greatly aid comprehension of the issues involved in these trade areas.

c. Discriminatory public procurement policies and late payment are areas of state action that are disproportionately damaging to SMEs (24). The Committee welcomes the 2006 implementation review of the Directive but feels that the effect of the financial crisis must be assessed. This would exercise moral pressure and capture good practice like the Irish Government’s June 2009 formal arrangements to reduce the payments period by central Government Departments to their business suppliers from 30 to 15 days.

7. Recommendation 5: Tailor Policies to SME needs

7.1 Policies must be tailored to meet the needs of enterprises, in particular SMEs, first and not those of the policy provider, delivery mechanism or principle of subsidiarity. Both the 2006 OECD APEC summit on SME internationalisation and the Commission Expert Group outlined obstacles to SME exports (25). However recent studies indicate that the views of policy makers and SMEs diverge on what these obstacles are and so what the solutions might be (26). SMEs have different legal and commercial backgrounds and approach internationalisation in many ways: in steps, through strategic entrepreneurship, through learning, through proximity and niche marketing and some are even ‘born global’, focusing on a global market focus from the outset (27).

7.2 The Committee has suggested a range of non financial measures through which to promote SMEs (28) including cooperation events (such as the discontinued INTERPRISE programme, subcontractor counter fairs) that facilitate face to face meetings between entrepreneurs (29) and training the trainers programme to help organisations defending the interests of SMEs, in order to improve the supply of bespoke consulting advice to SMEs.

7.3 A current example of the failure to tailor policies to SMEs is in the access to finance and credit insurance. These are main concerns for SMEs, especially for those exporting. Despite the massive public financial support of the banking system, enterprises perceive considerable shortage of credits and credit insurance available to them. This indicates institutional failures in the financial markets and calls for specific action to improve the supply of credit and credit insurance to business (10). The Committee therefore supports the conclusions of the OECD’s Turin Roundtable that has reasserted the importance of addressing the context in which financial institutions operate by calling for ‘reliable governance, tax, regulatory and legal frameworks that provide a level playing field for all economic entities irrespective of size’ (31).

7.4 The Committee also supports the Turin Roundtable’s other practical recommendations to assist SMEs in their financial management including:

a. making guarantees effective through better mediation between credit suppliers and SMEs;

b. dealing with cash flow problems through favourable tax and social security contribution exemptions or holidays and tax relief schemes for private investors in SMEs;

(23) See EIM 2009 Study on the Representativeness of business organisations for SMEs in the EU Zoetermeer, May.
(28) ib.n.9.
c. although this is not an SME specific item, it is imperative that all companies receive payments promptly both from value chains and from government departments.

7.5 The Committee also applauds the Temporary Framework for State Aid measures agreed in December and announced in the European Economy Recovery Plan. Notable are:

a. the new compatible limited amount of aid up to EUR 500 000 over two years;

b. allowing Member States to grant without notification of individual cases state guarantees for loans at a reduced premium, aid in the form of subsidised interest rate applicable to all types of loans; and subsidised loans for the production of green products involving the early adaptation to or going beyond future Community product standards;

c. the modifications concerning the Risk Capital Guidelines to increase the allowed risk capital injection in SMEs per year from EUR 1.5 million to EUR 2.5 million, and a reduction of the level of private participation from 50 % to 30 %.

7.6 SMEs must be given priority access to the EUR 5 trillion of funds promised over two years in the G20 communiqué. Allocations need to be closely scrutinised to ensure that they do reach their intended targets. SMEs in the new Member States are able to receive extraordinary support under the current Treaties.

7.7 A ‘single voice’ of the EU towards the International Financial Institutions (IFI), within the EURO currency and an EU with more coherent and coordinated economic, industrial and trade policies at global level, would be beneficial to both SMEs (as already stated in some spring hearings by the EESC on the current global economic and financial crisis)and Member States.

8. Recommendation 6: Support SMEs through their workers

8.1 Workers and the skills they bring are central to SME competitiveness. In the EU SMEs employ more of the total workforce than SMEs in the USA or Japan so it is vital that greater efforts are made to involve SMEs representative organisations in a social dialogue and other areas of policy. For example a greater supply of the skills of both qualified engineers and technically skilled workers would be possible if more effective involvement of SMEs in (collective) research and development and the commercial exploitation of such research (e.g. through licensing agreements) could be delivered.

8.2 SMEs should make the best possible use of the action plan for jobs of the Commission of June 2009 and of its policy of better anticipating the structural and industrial changes. The Communication ‘Shared commitment for employment’ puts forward three key priorities: maintaining employment, creating jobs and promoting mobility; upgrading skills and matching labour market needs and increasing access to employment. Specific issues of note include:

a. a EUR 100 million microfinance facility in the form of loans of up to EUR 25 000 tailored to businesses employing fewer than 10 people;

b. five million apprenticeships and other help for young people facing unemployment;

c. a sector-by-sector analysis of EU labour market to upgrade and match skills with labour market needs for both today and tomorrow;

d. a practical toolkit for companies and their workers to better manage business restructuring;

e. a guide for training in small businesses to help SMEs maintain and obtain the skills they need.

9. Recommendation 7: The importance of networks in the internationalisation of SMEs

9.1 Many SMEs are price takers not makers and more engage with international markets through supply and value chains and through importing than through exporting. These networks provide opportunities for SMEs but also present specific problems related to intellectual property and dominating customers which can be better addressed through a sectoral approach. As a global player, the EU has not realised its potential to improve the role of SMEs in third markets both as exporters and importers. Of particular interest is the role that the EU and the Member States can play in supporting those SMEs which are sufficiently competitive for taking the role as Initial and Intermediary Companies (IICs) in value chains. Greater focus must be placed on:

a. helping EU SMEs to move into the high value added parts of the global production process (through linkages to innovation, research and skills agendas, including those of universities);


b. introducing International Foreign Direct Investors interested in the EU internal market opportunities to SMEs to promote lasting industrial collaborations;

c. assisting SMEs in the problems that value chains and networks present them (intellectual property rights, prompt payment in respect of statutory and contractual obligations etc.);

d. coordinating and supporting existing networks, including national and EU SMEs export consortia, local clusters and SME representative organisations, to provide bespoke assistance to SMEs to better exploit their competences both in the Internal Market and neighbouring markets (e.g. cross border regions). Support from the Commission’s Europe Enterprise Network, the Chambers of Commerce and the bi-lateral Export Chambers of Commerce are helpful but could be further extended, and better coordinated between each other and with other existing networks and SME organisations active in this field. Different SMEs associated forms and business technical support solutions compliant with State Aid policies and WTO, could be object of further studies and measures.

9.2 The Committee has presented a number of Opinions on outsourcing and value chains (36). These have a direct impact on the European economy and especially the SMEs that internationalise in large numbers through these unique relationships. SMEs benefit from these global networks by sharing the risks of internationalisation, gaining access to new technologies and improving their efficiency through further outsourcing and specialising in their core competencies. But they also face specific challenges in understanding how they relate to the rest of the value chain, how to protect their own intellectual property within it and how to progress to more profitable stages of the value chain (37). The Committee maintains that there is still a lack of policy for Initial and Intermediate Companies and has specified the issues that need addressing in its previous Opinions.

10. Recommendation 8: Policy Innovation and Evaluation

10.1 The Committee recommends that better understanding is developed of the impact of the above policies through effective monitoring and evaluation of outcomes and of the regular re-assessment of objectives with specific reference to the internationalisation of SMEs facing global market changes through innovation in the short and long terms:

a. Trial and error should be seen as an important source of policy innovation that allows policy systems to learn and improve.

b. Evidence based policy should be used as a matter of course to inform policy decisions and more and frequent data should be better coordinated from a range of sources (e.g. through the EU SME Performance Review) (38).

c. A multi-stakeholder taskforce on internationalisation should support the European Commission in implementing its policies with representatives from the member states, the SMEs representative organisations, the EESC and the Committee of the Regions.

Brussels, 16 December 2009.

The President
of the European Economic and Social Committee
Mario SEPI

---


(37) OECD Enhancing the Role of SMEs in Global Value Chains.

(38) OECD 2008 Making Local Strategies Work: Building the Evidence Base.