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Contributions to the political debate by the Cologne Institute for Economic Research

European SME Policy

Recommendations for a Growth-Oriented Agenda

Author:

Klaus-Heiner Röhl
Telephone: 030 27877-103
Email: roehl@iwkoeln.de

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PO Box 101942 - 50459 Cologne

Konrad-Adenauer-Ufer 21 - 50668 Cologne

www.iwkoeln.de/en

Abstract

The economic policy of the European Union influences the almost 23 million small and medium-sized companies in the 28 Member States in a variety of ways. Yet, there exists no coherent EU policy on small and medium-sized enterprises. With the Small Business Act of 2008, small and medium-sized enterprises received greater attention, but this primarily applies to start-ups and small companies. As a result of the European debt crisis, start-ups and established small and medium-sized companies have returned into focus for policy-makers in Brussels. They hope that SMEs create more jobs and growth. Despite this, the concerns of SMEs are still not at the heart of economic policy and regulation. That is also clear when looking at the EU budget and its high agricultural expenditures. It is particularly problematic that larger family companies with over 250 employees or a turnover of 50 million euro are regarded as large companies. They are treated in the same way as big corporations. A better targeted EU policy on SMEs should reduce red tape for companies and include family companies that have grown beyond the defined SME thresholds. Additionally, it should recognise medium-sized industrial enterprises as key partners in implementing the objective of reinvigorating European industry by 2020.

1. Introduction

Small and medium-sized enterprises (SMEs) are of paramount importance to the European Union (EU). Almost 23 million small and medium-sized companies offer work to 90 million people – that is two thirds of the entire working population in the private sector. Regulations and economic policy decisions at the EU level, however, do not adequately reflect this vital role played by SMEs.

How can the great potential that medium-sized companies possess for employment and growth be unleashed in Europe? We will discuss this question thoroughly throughout this paper. First, we give an overview of the business landscape in the SME-sector in the EU. Although the EU does not have a coherent SME policy, its decisions do have an influence on small and medium-sized companies in a number of ways. The closest approach to the idea of a European SME policy is the Small Business Act (SBA). However, the SBA focusses on small companies and self-employed persons rather than on larger medium-sized and family-owned companies. Subsequently, we will look at the Member State level and use the criteria of the SBA to compare the Member States' economic policy in the area of SMEs. The EU uses its budgetary means to support business investments, i.e. research and development, as well as the agricultural sector, thus influencing the SME-sector substantially. That is why we will analyse these areas of the EU budget and their relevance for SMEs more closely. Finally, suggestions will be made for how a European SME policy should be designed which can remedy the deficits discussed and exploit the economic potential of small and medium-sized companies to the fullest.

The "Mittelstand" and SME policy

Traditionally, the terms "Mittelstand" (meaning enterprises with fewer than 500 employees and bigger family-run companies) and small and medium-sized enterprises (SMEs) have basically been used as synonyms – at least in Germany. When defining the Mittelstand in academia, the qualitative feature of the unity of ownership and management was added to the quantitative criterion for SMEs – up to a maximum of 499 employees (Günterberg/Kayser, 2004; IfM, 2016b). The EU definition of "small and medium-sized enterprises" (SME), however, draws the line to large companies much lower at only 250 employees (European Commission, 2003, 2016a). As the EU definition is relevant for international comparisons, but also for the granting of EU-funds, it has increasingly been used. Thus companies in Germany belonging to the Mittelstand by the standard national definition with 250 to 499 employees have fallen out of the EU-definition of SMEs, despite the fact that nothing has changed in their typical SME-like structure – unity of ownership and management with often strong regional ties (BDI, 2015). For this reason, the broader definition of the Mittelstand put forward by the Bonn Institute of Mittelstand Research (Bonner Institut für Mittelstandsforschung) (2016c) now focuses on the qualitative aspects of the Mittelstand and thus distinguishes between bigger family-owned enterprises and the quantitatively defined SMEs (IfM, 2016c). The unity of ownership and management influences the strategic decision-making processes that operate within a family instead of within the employed managers (Welter et al., 2015, VIII). This key aspect to the stability of companies in the Mittelstand is neither considered in the EU definition of SMEs nor in the economic policy built on it. The following summary gives an overview of the size-related company classification in the EU. In addition to SMEs, midcap-companies with up to 3,000 employees and/or a turnover of up to 500 million euro play a decisive role for the European economy, especially in Germany, the United Kingdom and some northern European countries. These enterprises are not included in the EU's SME definition, but are often regarded as Mittelstand in Germany. Though they are not covered by the SME-oriented programmes of the EU, the promotion of investments of these enterprises is an objective of EIF and EFSI funds (cf. section 5).

Overview 1: Overview of EU definition of small and medium-sized enterprises

	Number of persons employed	**Annual turnover** in Euros	**Balance sheet total** in Euros / year
Micro enterprises	Up to 9	Up to 2 million	Up to 2 million
Small enterprises	10 to 49	Up to 10 million	Up to 10 million
Medium-sized enterprises	50 to 249	Up to 50 million	Up to 43 million
Large enterprises	250 and over	More than 50 million	More than 43 million

The criteria of annual turnover are alternatives.
Source: European Commission, 2003.

A specific economic policy for the Mittelstand comprises the areas of economic policy that relate primarily to SMEs and family companies (Röhl, 2005). Essentially, Krämer (2003) saw the compensation for the size disadvantages of small and medium-sized enterprises due to economies of scale as the primary goal of SME Policy. Alongside a policy in favour of existing SMEs, Mittelstand policy also encompasses the regulative and economic policy framework for starting new businesses. Yet, Mittelstand policy goes beyond pure funding of SMEs and start-ups. Several instruments of competition policy, like merger control or antitrust rules, also help to implement core objectives of SME policy in limiting economic power and promoting equal competitive opportunities for enterprises of different sizes (Klodt, no date).

2. The Mittelstand and small and medium-sized companies in the EU

Small and medium-sized companies dominate the European economies in terms of numbers, but also make a key contribution to employment and value added. Including self-employed persons, there are almost 23 million SMEs in the EU business sector, in which 90 million employees added a gross value of 3.9 billion euro (European Commission, 2016b, 1). The business sector excludes the (partially) public areas of health and social services, as well as education, the financial sector and agriculture. An overview of the key data for companies in the EU business sector is shown in Table 1. Italy, France and Spain show the highest absolute SME numbers, followed by Germany and the United Kingdom. Overall, around 136 million employees produce a gross value-added of 6.86 billion euro in 23 million European companies. Making up 93 percent of all companies, very small companies with a maximum of 9 employees dominate the European business landscape. The total SME sector, with companies with less than 250 employees, covers two-thirds of employees and is responsible for 57 percent of the gross value-added. The labour productivity of the SME sector is consequently 14 percent lower than in large-scale enterprises.

Table 1: Enterprises in the EU: Underlying data
Enterprises in the business sector, 2015

	Companies in 1,000	**employees** in millions	**Gross value-added** in billions of Euros	**Employees per company**	**Gross value-added per company** in millions of Euros	**Gross value-added per employee** in 1,000 Euros
Micro enterprises	21,356	40.06	1,454	1.9	68.08	36.30
Small enterprises	1,378	27.50	1,233	19.9	894.32	44.83
Medium-sized enterprises	224	23.17	1,251	103.1	5,568.74	53.99
SMEs overall	22,959	90.73	3,938	4.0	171.52	43.40
Large enterprises	44	45.17	2,924	1016.0	65,769.94	64.74
Enterprises overall	23,004	135.90	6,862	5.9	298.30	50.49

Source: European Commission, 2016c, SBA Fact sheet EU 28

Since 2013, employment in the almost 23 million SMEs has seen a steady upward trend with a growth rate of 1.1 percent in 2014 and 1.5 percent in 2015 (European

Commission, 2016b, 9). At first glance, the recovery since the great recession of 2008/2009 is continuing. Yet behind this positive development, there are highly varied growth rates in the Member States (European Commission, 2016c). The economic growth in Germany – the biggest EU economy – and the positive employment trend in the United Kingdom – the second biggest EU economy – disguise persistent problems in a number of other countries continuing to suffer from the crisis.

Additionally, Europe has a deficit in high-tech SMEs. Highly innovative SMEs and those with high technological intensity play a significant role in the growth and sustainability of economies. But to date, despite positive trends in large cities like London, Stockholm or Berlin, Europe is far behind the USA when it comes to high-growth, high-tech start-ups (Röhl, 2016).

The changes in employment from 2013 to 2015 show that there are far more low-tech than high-tech companies in the EU manufacturing sector. Only a very small group of high-tech companies – 1 percent of European SMEs – experience a growth advantage over the other groups, but not the 4 percent of companies in medium high-tech industries (European Commission, 2016b, 30, 87). The technology intensity in the manufacturing industries is determined by the OECD definition (2011). Despite specific funding measures, such as the "SME Instrument" within the scope of the Horizon 2020 research programme (European Commission, 2016d, e; cf. Section 5) and the objective of the Lisbon Strategy to turn Europe into the most dynamic, knowledge-based economic region in the world (European Commission, 2004), high-tech industries are not growing strongly.

Larger medium-sized enterprises: Family companies and hidden champions

Successful and growing SMEs at some stage break the threshold of 250 employees. From a legal perspective, despite having incomparable structures, they are then treated in the same way as corporations in the EU. Many companies with more than 250 employees, in particular in Germany, are owner-managed enterprises. The entrepreneurial Mittelstand thus also includes family enterprises with up to 500 million euros turnover. This gives an indication of the different "Mittelstand culture" in Germany compared to most EU countries, where there are only a few large family-run companies. The ongoing panel study by the IfM (2016a) for the Federation of German Industries (BDI) on larger-scale family companies in Germany has quantified the number of family companies with an annual turnover of more than 50 million euro at 4,686 (2015), 62 percent of which have over 250 employees. A comparable study on the significance of large-scale family enterprises in the EU as a whole is still pending, despite the renewed interest of the European Parliament in this matter (2015).

A key segment of larger-scale enterprises in the Mittelstand are the "hidden champions". These are globally established medium-sized companies that are leaders in their market segment. Simon (2007, 29) defined the following criteria for hidden champions:

- The company is in the top 3 in its respective sector globally or is at least the market leader in its home continent.
- It has an annual turnover of up to 3 billion euro.
- The company is not well known among the broader public.

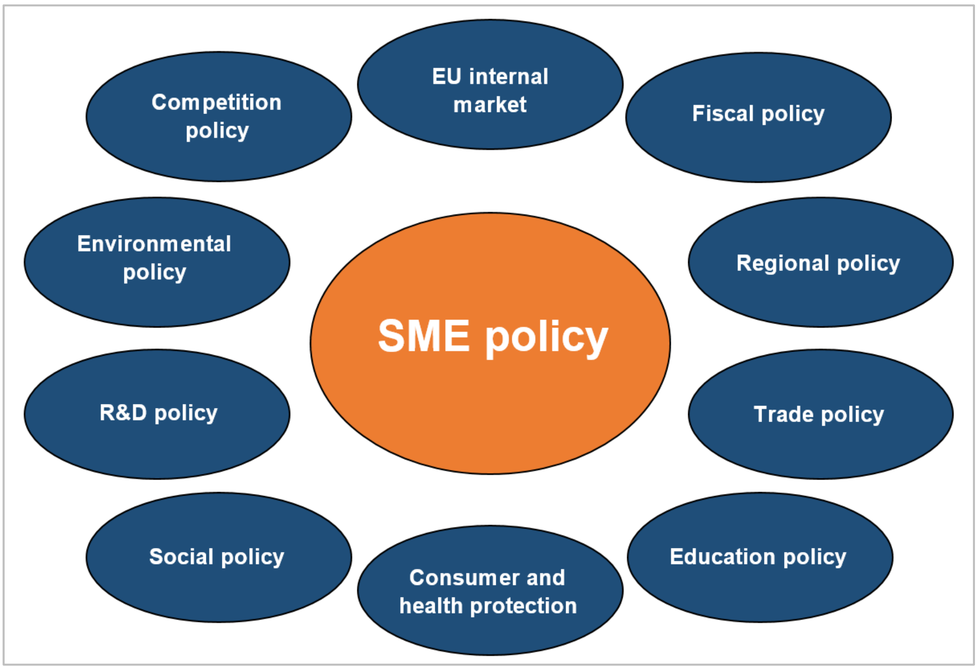
The upper turnover limit is raised from time to time, as hidden champions would otherwise grow beyond the limits of the definition based on their success, because their turnover grows by 8 percent per year on average (Simon, 2007, 47). Against this backdrop, it should be considered to adapt the turnover threshold for the EU's SME definition and raise it, for example, to 75 million euro.

In many aspects, hidden champions have a Mittelstand structure, despite operating worldwide. They generally grow organically and consistently, not as a result of debt-financed acquisitions (Simon, 2007, 47 et seq.). Due to their high equity capital ratio, they are economically sustainable. Thanks to the high degree of specialisation, constant innovation and customer orientation, mass producers with lower production costs are kept at a distance. The majority of hidden champions are industrial companies, but there are service providers, too. Simon (2012, 2014) has identified about 2,700 hidden champions around the world, around half of which are located in Germany. Consequently, only a few hundred are located in other EU member countries. This can be interpreted as a sign for a lack of larger medium-sized companies with global market reach in other EU countries but Germany.

3. European policy for the Mittelstand and the Small Business Act

In the EU, there has been no consistent policy for the Mittelstand, including midcaps and family enterprises, to date. Despite the Small Business Act (see below), there is also no consistent SME policy, but nonetheless there are a number of policies and measures relevant to medium-sized companies. The EU policy areas shown below are of importance for SMEs in Europe (Figure 1), but not all of the policy areas depicted in figure 1 have a direct influence on the Mittelstand. The access of small and medium-sized companies to the internal market is certainly key to their development opportunities, but this is not primarily an issue of company size. Within the scope of the SBA, however, barriers to entry are to be reduced, as cross-border operations are expensive for SMEs, in particular when different regulations have to be considered in addition to the language barriers.

Figure 1: EU policy areas with an influence on the Mittelstand



Source: IW Köln

The EU research and development policy for SMEs will be discussed below when looking at the EU budget. We will also analyse the EU's regional and structural policy, which make up for a significant share of the EU budget, as well as the agricultural policy, which remains dominant from a financial perspective. EU competition policy imposes strict limits for the granting of state aid to individual companies applying to funding from EU programmes, but also to national subsidies by the Member States. There are exceptions for SMEs here, which can be justified as compensation for disadvantages resulting from their small size and in terms of competition policy due to their small market influence. The strict size restriction appears particularly problematic for companies with a Mittelstand structure just beyond the threshold of 250 employees who are treated like large-scale enterprises under EU competition law even though they have far fewer administrative, legal and financial resources.

The Small Business Act: development and contents

The European Union goes back to the European Coal and Steel Community (ECSC), founded by six states in 1951. It thus started as an economic alliance. Later on, agricultural policy with its focus on small-scale business structures was a key concern of the European Economic Community (EEC), founded in 1958. Nonetheless, it took a long time for SMEs to come into focus of European politics. In 2000, the European Charter for Small Enterprises was passed, which, as an element of the Lisbon Strategy, was intended to strengthen the competitiveness of small companies in Europe (European Commission, 2002).

But even this Charter was implemented hesitantly. In order to remove red tape for SMEs, the High Level Group on Administrative Burdens was finally implemented in 2007 (Stoiber Group, European Commission, 2014b). In the following year, the Small Business Act was passed with the aim of stimulating start-ups in the EU and to give SMEs better framework conditions. As a European legal act for SMEs, the SBA comes closest to an independent European SME policy. However, it mainly contains recommendations for the EU Member States, with few legally binding regulations and little financial support. As a means of achieving the SME policy objectives of the SBA, there are ten basic principles and a series of steps to implement them. Around 90 political initiatives and 5 legal acts on the national and the EU level have been intended to drive the implementation of the SBA since then (European Commission, 2008).

Overview 2: The ten guiding principles of the "Small Business Act"

1.	Promoting entrepreneurial spirit
2.	Principle of a second chance for unsuccessful entrepreneurs
3.	Legislative rules according to the "Think Small First"-principle
4.	Responsive administration for SMEs (e.g. E-Government)
5.	Improved access to public procurement and state aid for SMEs
6.	Facilitated access to funding options and better business environment
7.	Improved chances on the European Single Market
8.	Promoting access to knowledge formation and innovation
9.	Ecological innovation / opportunities for environmental technology
10.	More assistance for exploiting opportunities on foreign markets

Source: European Commission, 2008

Since 2008, a series of measures have been adopted which are intended to improve the framework conditions for SMEs. Several of these measures aim at the Member States or need to be implemented on a national or regional level. From the EU Commission’s perspective, the following six fields of action are particularly suited to improve the conditions for SMEs in the interests of the SBA (European Commission, 2008; 2015a).

Improving market entry: A total of 600 organisations and institutions supporting enterprises in 50 countries have come together with the support of the EU to form the Enterprise Europe Network (EEN). Its mission is to improve the market access for SMEs and find partners for them in other EU countries (EEN, no date). The institutions involved are chambers of industry and commerce, technology centres, universities and development agencies, which also take on an advisory role as a member of the EEN. Information, contacts and services for SMEs are all provided via the EEN.

Promoting a culture of entrepreneurship: To strengthen the entrepreneurial spirit in the EU, events are run by EEN members and other institutions of the countries involved, e.g. universities. There are also mentoring programmes for start-up founders, especially for women to reduce the strong gender gap in founding companies across Europe (Kelley/Singer/Harrington, 2016, 24). The principle of a second chance for founders who start another company after a failure is promoted. In addition, best practice examples for SME-friendly administrative actions and measures to strengthen a culture of entrepreneurship in the 28 Member States are promoted (Röhl, 2016).

Supporting Entrepreneurship: Supporting entrepreneurship by facilitating and subsidising start-ups is one of the key points in the SBA (cf. also Röhl, 2016). This aspect of the programme is closely linked to strengthening a culture of entrepreneurship, but specifically relates to promoting start-ups and less to increasing the number of people interested in founding a company by strengthening the entrepreneurial spirit in general.

Improving framework conditions in all sectors: The introduction of the "Think Small First" principle is intended to serve as a guideline for EU regulations and administrative actions in the Member States. To bring this principle to life, particular attention is paid to improving legislation and regulation (see below). In addition, support is provided to adjust to environmentally friendly, energy-efficient and resource-related business practices with low carbon dioxide emissions and the use of new technologies, while striving for the integration of SMEs in global value chains.

Intelligent regulation and simplified administrative procedures: Small companies often lack the resources required to go through complicated administrative procedures and to grasp and fulfil extensive regulations and laws. This should be taken into account in the legislation by reducing guidelines to the absolute minimum, using generally understandable language and providing appropriate exceptions for small companies and start-ups (Röhl, 2011). A review of all proposed legislation relating to SMEs is desirable in this context. According to the "Only once" principle, administrations should not ask for the same information several times, but rather make existing information available to other administrative bodies.

Programme for Competitiveness of Enterprises and SMEs (COSME): The "Competitiveness of Enterprises and Small and Medium-sized Enterprises" (COSME) programme is a funding instrument exclusively for SMEs that was created at EU level. However, this programme has very limited resources with approx. 2.5 billion euro for the budget periods from 2014 to 2020 (European Commission, 2015b, cf. Section 5).

The SBA concentrates on recommendations for the Member States for measures in favour of start-ups and small enterprises, whereas the SME-sector is still given little consideration in the legislation and budget on the European level. The SBA recommendations are important, but far removed from an "actual" and extensive European SME policy. To that end, growth-friendly policies would have to be given greater consideration, including the reduction of obstacles constraining growth imposed by the national authorities (such as labour market regulation, taxation, bureaucracy). In addition, the strict threshold of just 250 employees needs to be questioned. It causes a mid-sized company to be treated like a large corporation in the EU, such as its competitors with 10,000 or more employees.

Members of the European Parliament also look critically at the strict size restriction of all policies and benefits to SMEs with less than 250 employees, not taking into account qualitative aspects. In a motion for a resolution from the EU Parliament, the Committee on Industry, Research and Energy called for family companies to be paid greater consideration in EU economic policy, stating that they were particularly important for growth and employment in Europe (European Parliament, 2015). The problem of the strict upper limit of 250 employees is stressed here: “…whereas many family businesses that no longer meet the definition of SMEs, but are also far from being major corporations, are ineligible for specific funding opportunities and some administrative exemptions; … this inevitably leads to unnecessary red tape, which is a great burden, especially for these mid-cap family businesses” (European Parliament, 2015, 4).

The creation of very small enterprises and the encouragement to be self-employed as core SBA objectives are important steps in light of the labour market problems in several European countries, but fall short where it is not just a case of getting people to work "at any price": The price often is a low labour productivity in very small enterprises. In general, larger companies are more productive (European Commission, 2016b, 4, 22 et seq.). Most large-scale companies are not corporations, but rather have between 250 and around 1,000 employees. The size classes contain increasingly fewer companies with higher class size measured by the number of employees. Therefore, the highest concentration of enterprises in the large enterprises segment is located just a little beyond the SME threshold.

EU red tape and measures to contain it

The removal of red tape for start-ups in particular is one of the recommendations of the SBA (European Commission, 2008). The consultation on the renewal of SME policy also includes this point (European Commission, 2015a). However, more should be done here. Several economically successful EU countries such as Germany, the Netherlands and the United Kingdom have introduced a systematic control of administrative burdens on companies, whereas the control of the costs of red tape on EU level has been more superficial. The most promising step to removing red tape on EU level was performed by the High Level Group on Administrative Burdens (European Commission, 2014b).Over the course of its work between its implementation in late 2007 and the conclusion of its activity in 2014, it advised the European Commission on removing red tape. The mandate of the group was extended twice. It consisted of 15 volunteer experts chaired by Edmund Stoiber, former Governor of Bavaria. Only in the third and final work period from 2012 to 2014, the primary objective was to reduce administrative burdens on SMEs. In 45 statements and reports, the experts called for measures to cut red tape in 13 priority areas, including tax law, statistical requirements and public procurement. However, the recommendations were only partially implemented. Evidently, the political resistance within the EU Commission and a number of Member States was too strong. Another approach to measure the impact of legislation is included in the EU Commission's impact assessment, which was started in 2006 as part of the smart regulation strategy of the Barroso Commission (REFIT, European Commission, 2012a, 2012b). In 2015, the impact assessment was upgraded with the implementation of the Regulatory Scrutiny Board (European Commission, 2015c). The new institution has a broader mandate that includes the examination of the quality of evaluations and checks of existing legislation (Regulatory Scrutiny Board, 2016, 6). Though officially an independent body, the Regulatory Scrutiny Board is firmly entrenched in the structure of the European Commission with its chair serving in the rank of a Director-General. Red tape has so far not been the main concern of the EU's impact assessment. Therefore, a truly independent body outside the Commission's structures with this aim is still missing.

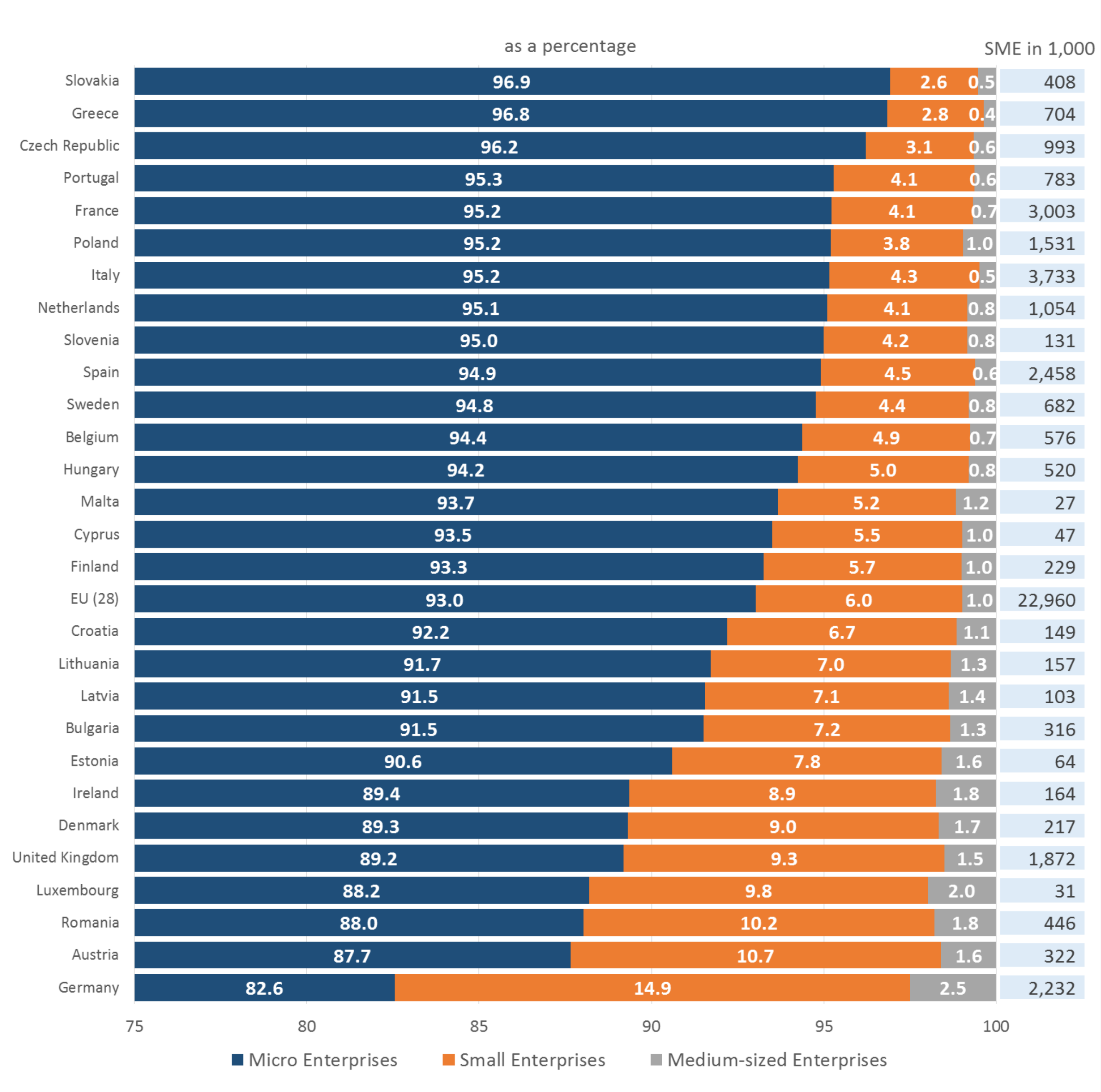
Similarly to the national level in a number of Member States (Röhl, 2008), there has been the aim to reduce the costs of administrative burdens on companies caused by the EU legislation by a quarter. This aim was officially achieved – overall, the European Commission (2014b) put a figure of 33 billion euro on the savings achieved. However, the creation of a permanent European supervisory authority for administrative burdens has been recommended, as there are constantly new provisions creating red tape. A sustainable improvement of the situation for SMEs cannot be achieved by a one-off check of existing regulations or by a general impact assessment. The deployment of a permanent committee to perform specific assessments for the costs of bureaucracy caused by European law is one of the recommendations of the "Stoiber Group" (European Commission, 2014b). However, this has not yet been implemented so far.

4. SME policy in the EU Member States

In this section, the business landscape and SME policy of the EU countries will be looked at in greater detail against the backdrop of the SBA recommendations. The development of the workforce in the SME sector of the EU Member States was characterised by a decline caused by the recession in 2009 and a recovery from 2010 onwards, but this took effect very differently in the Member States. In Southern European countries, a weak recovery led to another recession with stagnating or even declining SME employment. The situation in the countries in Central and Northern Europe was very different; particularly in Germany, where employment increased by over 20 percent. The current development over the period from 2015 to 2017 shows big differences between the EU Member States as well. On average in the EU, a 2-percent-increase in SME employment is expected.

An overview of SME size classes in the Member States is shown in Figure 2, which illustrates the percentage size distribution within the three segments of the SME sector. Germany has the highest proportion of medium-sized enterprises and also leads in the area of small companies. By contrast, in the large Member States France, Italy and Spain, it is the micro companies that dominate. Alongside Germany, Austria, Romania, Luxembourg, the United Kingdom, Denmark and Ireland have an above-average share of small and medium-sized enterprises, whereas the other EU Member States have a company size structure based on very small (or micro) companies. In total, Germany has the most employees in SMEs with over 17 million, followed by Italy, the United Kingdom and France. With respect to gross value-added, the order changes somewhat. The British SME sector is very strong when it comes to value-added with 731 billion euro, just slightly behind Germany.

Figure 2: SME-Employment by size class
28 EU Member States, 2015



Source: European Commission, 2016c, our own calculations

Evaluation of SME policies

The following overview provides an evaluation of the SME policies of the 28 Member States by the Directorate-General Growth in the EU Commission in collaboration with DIW Econ (cf. European Commission, 2016c). The economic policy relating to SMEs is assessed in the light of the SBA objectives. Of the 9 criteria listed in the original documents, one (environment) was not taken into account here, as it constitutes more of a superordinate policy objective rather than an SME success factor. In two cases, two related areas – state subsidies / public procurement and reactive administration, and internationalisation and the internal market – were grouped together for the sake of greater clarity.

Overview 3: SBA country profiles compared to the EU28 average

SBA country profiles in comparison to the EU (28)	Employment and gross value-added	Entrepreneurship	Internationalisation and the internal market	Qualification and strength of innovation	Access to funding	State subsidies / public procurement; reactive administration
Belgium	Better	Worse	Better	Better	Better	Worse
Bulgaria	Average	Worse	Worse	Worse	Average	Worse
Denmark	Worse	Average	Better	Better	Better	Better
Germany	Better	Average	Average	Better	Average	Average
Estonia	Better	Better	Better	Average	Better	Better
Finland	Average	Better	Average	Better	Better	Average
France	Worse	Average	Worse	Average	Average	Average
Greece	Worse	Average	Worse	Worse	Worse	Better
Ireland	Average	Average	Average	Better	Average	Better
Italy	Worse	Worse	Average	Average	Worse	Worse
Croatia	Worse	Worse	Average	Worse	Average	Average
Latvia	Worse	Better	Average	Average	Better	Better
Lithuania	Average	Better	Average	Worse	Average	Better
Luxembourg	Better	Average	Better	Better	Average	Average
Malta	Better	n/a	Better	Average	n/a	Average
The Netherlands	Average	Better	Better	Better	Worse	Average
Austria	Better	Average	Better	Better	Worse	Average
Poland	Worse	Worse	Worse	Worse	Better	Average
Portugal	Worse	Better	Average	Better	Average	Average
Romania	Worse	Better	Worse	Worse	Average	Average
Sweden	Better	Average	Better	Better	Better	Better
Slovakia	Average	Average	Worse	Worse	Average	Worse
Slovenia	Worse	Worse	Average	Average	Average	Worse
Spain	Worse	Worse	Worse	Average	Worse	Worse
Czech Republic	Worse	Worse	Average	Average	Average	Average
Hungary	Worse	Worse	Worse	Worse	Better	Average
United Kingdom	Better	Average	Average	Better	Better	Average
Cyprus	Worse	n/a	Worse	Average	Worse	Average

Better evaluation than EU (28) average
EU (28) average
Worse evaluation than EU (28) average
n/a = not applicable

Source: European Commission, 2016c, our own assessment

Only a few countries achieve primarily above-average evaluations. These include the Baltic and Scandinavian countries. Of the Southern European countries affected by the crisis – Italy, Spain, Greece and Portugal – only the latter was able to make its way into the "green zone" in two areas – entrepreneurship as well as qualification and strength of innovation.

Among the four biggest EU countries, **Germany** is slightly above average. The trends in gross value-added and employment and the field of qualification and innovation are key assets, while entrepreneurship and reactive administration are weak points. In 2015 and the first quarter of 2016, a total of 23 policy measures were implemented which had a bearing on the SBA agenda (European Commission, 2016c, Fact sheet Germany; Röhl, 2016).

France. Since the start of the crisis in Europe, the development of French SMEs, like the economy of the country as a whole, has been very sluggish. With respect to SME policy, however, France has seen progress in the areas of access to public procurement, funding and the dismantling of regulations (European Commission, 2016c, SBA Fact sheet France). The administrative burden of founding a company was significantly reduced, meaning that the country was able to catch up with the leading states in the Doing Business report and is currently number 27 of the 190 countries examined (Worldbank, 2016).

The **United Kingdom** has the best economic policy assessment profile in terms of the SBA among the big countries, with above-average values in all areas other than the environment, access to the internal market and state funding / public procurement. The United Kingdom has therefore proven itself to be a very business-friendly location, which was further strengthened in 2015/2016 by a total of 33 measures to support SMEs, 20 of which were contained in the Small Business, Enterprise and Employment Act (SBEE) (European Commission, 2016c, SBA Fact sheet UK, 4).

Italy performs poorly in the assessment of the policy measures. In 2015 and 2016, the then acting Renzi government did, however, adopt 27 measures to implement the objectives of the SBA. These aimed at the facilitation of start-ups, better access to finance, qualification and research and development, internationalisation and company-friendly administration (European Commission, 2016c, Fact sheet Italy 2016). These reforms came very late – some seven years after the worldwide recession. Furthermore, the persistently strict regulation of the labour market prevents SMEs from unleashing their potential for growth. Companies are firmly stuck in the "small business trap".

5. Areas of the EU budget relevant to SMEs

Direct SME policy – COSME

With "Competitiveness of Enterprises and Small and Medium-sized Enterprises" (COSME), the EU created a programme for the first time that is intended to drive forward the implementation of the SBA objectives and is thus a direct EU SME policy instrument. But with budgetary resources of around 2.5 billion euro for the budget period from 2014 to 2020 – 0.2 percent of the EU budget volume – the financial resources are negligible (European Commission, 2014c). In relation to the 23 million SMEs in the 28 EU Member States, the COSME budget is only 15.53 euro per company per year. The measures are primarily aimed at improving the framework conditions and providing information for SMEs. Only relatively few direct subsidies for companies are linked to COSME. These include loans at favourable conditions for start-ups and SMEs in the European investment funds EIF and EFSI (see below).

EU regional and structural policy

The EU regional and structural policy serves the purpose of bringing less developed regions closer to the Community average. One third of the EU budget – for the budget period up to 2020 approximately 408 billion euro – is allocated to the area of "Economic, social and territorial cohesion", comprising the Community's regional, structural and cohesion policy. The term cohesion policy is used on the one hand for the EU policy for less developed Member States, but also serves as an umbrella term for its regional and structural policy. Within this budget segment, almost half – around 200 billion euro – is allocated to the regional policy for underdeveloped areas. Another tenth is allocated to regions that only just exceed the criteria for structurally weak regions – less than three-quarters of the EU average gross domestic product (GDP) per capita. The main instrument is the European Regional Development Fund (ERDF), while further funds are allocated via the European Social Fund (ESF). The Cohesion Fund is intended for those EU members with a GDP of less than 90 percent of the EU average.

The funds are primarily used for investment grants for companies. Strengthening the competitiveness of SMEs is one of the 11 thematic objectives of the EU cohesion and structural policy in the current budget period. In the preceding period from 2007 to 2013, a total of 95,000 start-ups were supported by the EU Structural and Cohesion Fund and 300,000 jobs were created in SMEs (European Commission, no date). In light of the size of the EU and its roughly 90 million employees in 23 million SMEs this does not speak in favour of a strong SME orientation of the EU structural policy during the deep recession of 2009 and the subsequent second dip.

In order to achieve a higher participation of SMEs in the EU funds in the current budget, not only have the thematic objectives been more strongly oriented towards SMEs, but the public procurement rules have also been adapted accordingly. The distribution of the ERDF funds between the 11 thematic objectives varies greatly for the individual Member States. The EU Members have considerable freedom to determine the deployment of the funds according to their national requirements, even if their respective funding programme needs to be coordinated with and approved by the European Commission. In the Member States, a maximum of one-fifth of the structural funds from the Regional and Cohesion Fund is used for the aim of strengthening the competitiveness of SMEs, with Portugal and Finland in the lead. Half of the Member States achieve levels of just 3 to 10 percent. In Germany, that figure is 13.4 percent – significantly beneath the leading group, which consists of the Scandinavian countries, Portugal, the United Kingdom and Austria. However, the pursuit of another of the 11 objectives defined by the EU – such as strengthening research and development and innovations (objective 1) – does not mean that no funds are given to SMEs in the respective country.

Further instruments of the European structural policy: EIF and EFSI

The instruments of the EU economic policy relevant to SMEs also include the European Investment Fund (EIF), which specialises in funding SMEs by providing equity, loans and guarantees. The EIF, which was established in 1994, did not have enough funding power to tackle the crisis in parts of the Eurozone according to the European Commission (Claeys/Leandro, 2016; European Commission, 2017). That is why the Strategic Investment Fund (EFSI) was additionally introduced in 2015. The EFSI is intended for risky and innovation-based projects, mobilising investment funds of 315 billion euro for growth-relevant private investments and public projects. This sum is underpinned by guarantees in the amount of 21 billion euro – 5 billion euro from the European Investment Bank (EIB) and 16 billion euro from the EU budget – with the EU funds coming primarily out of the research and development budget (Horizon 2020) and the budget for Trans-European infrastructures (European Commission/EIB/EIF, 2016). Some 31 percent of the EFSI funds are reserved for SMEs (European Commission/EIB/EIF, 2016). Yet it is questionable whether the important criterion of "additionality" in the EU investment offensive can be achieved. Expert committees decide whether investments fulfil the EFSI criteria. In light of the pressure of awarding 315 billion euro within 3 years, however, it appears unlikely that projects will be rejected due to lack of additionality. Claeys and Leandro (2016) have shown in a study of 55 approved projects that in the case of 42 of them, very similar investment plans had been funded by the EIB outside the EFSI.

In Germany and other EU countries that have recovered well from the recession in 2008/2009, it is relatively easy for companies to access finance via the capital market due to the low interest rates environment. In Southern Europe, investments are low and lending to companies is significantly below the level prior to the crisis. Yet this may be primarily attributable to a lack of demand for credit than to a lack of supply. To what extent the EFSI has led to additional investments in the EU is therefore unclear.

Research and development policy: Horizon 2020

Within the framework of the EU budget from 2014 to 2020, the research and development (R&D) funding has been expanded. At around 80 billion euro, 6.5 percent of the EU budget has been allocated to the "Horizon 2020" programme. Despite the aim of strengthening the participation of SMEs in R&D funding. However, Horizon 2020 is still primarily geared towards large-scale industrial research. The key area of the R&D programme for SMEs is the "SME instrument" of Horizon 2020, which promotes technology-based start-ups and R&D investment with a volume of 3 billion euro for the current budget period (European Commission, 2016e).

Within the objectives of Horizon 2020, such as "fundamental industrial technologies", "societal challenges" and "collaborative research" around 20 percent of the funds are intended for SMEs. A total of 7 percent of the Horizon budget in the three stated objectives is reserved for SMEs, with the remaining 13 percent to be achieved through the participation of SMEs in joint research projects with large enterprises and public institutions. However, the overall proportion allocated to SME is not explicitly defined within the framework of Horizon 2020, because of the complex awarding criteria in the various programme areas. All in all, it could be noticeably below the 20 percent mark, as no clear-cut SME quotas have been set in most of the objectives of Horizon 2020.

The Common Agricultural Policy

The EU's agricultural policy is also important, especially to SMEs in rural regions. In the EU budget for 2014 to 2020, 41.6 percent of the funds are provided for agricultural subsidies and investments in rural areas. In light of the large volume of around 510 billion euro, the funding policy for the budget segment "Sustainable growth; natural resources" – as the scarcely growth-oriented agricultural policy is euphemistically known – exerts a great deal of influence on the development of SMEs. The agricultural budget has over two hundred times the volume of the COSME programme for SMEs. At 74 percent, almost three-quarters of the budget for sustainable growth and natural resources are allocated through the European Agricultural Guarantee Fund (EAGF) in the form of direct payments and market-based disbursements to agricultural producers (European Commission, 2014c). Yet some 23.6 percent of the funds and thus, around 100 billion euro in the budget period running up to 2020 are allocated to the European Agricultural Fund for Rural

Development (EAFRD). These funds are mostly used for investments in agricultural enterprises, but also for investments of other SMEs in related areas like the food industry.

6. Summary and recommendations for a renewed European SME policy

The economic policy of the European Union influences the 23 million SMEs in a number of ways, but to date there are still only some elements of a cohesive European SME policy in place. From its origins in the 1950s to 2007, the Mittelstand has rarely been considered in the EU's policies. With the Small Business Act of 2008 and the current COSME programme, the situation has changed slightly. Since the European debt crisis, start-ups and established small and medium-sized enterprises are increasingly coming into focus of the EU institutions. The hope is that they will create jobs that large companies and the public sector can clearly no longer provide in the countries hit hardest by the crisis. Despite this, the concerns of bigger SMEs – midcaps and family enterprises – are still not the focus of European policy. This becomes clear when looking at the European Union's budget, which is still dominated by agriculture with 41 percent of its expenditures and only partially prioritises SMEs in other key areas, such as structural policy with one-third of total expenditures and research and innovation policy with approximately 8 percent.

Companies with 250 or more employees are excluded by the EU definition for SMEs. These midcaps are lumped together with large corporations, despite often being owner-operated companies with strong roots in their region of origin. The structure of most enterprises with 250 to 1,000 or even 3,000 employees is typical of medium-sized enterprises and they make a key contribution to economic stability. In countries with a high proportion of medium-sized enterprises and large companies that only just fall outside the EU's definition of SMEs – such as Germany, the United Kingdom and Austria – the 2009 recession was quickly overcome and unemployment is significantly lower today than the European average. Thus, there is strong evidence that the EU regulation framework and economic policies should also take into account enterprises with typical medium-sized structures that exceed the narrow constraints of the current SME definition.

Strengthening SMEs in Europe with a view to protectionist tendencies around the world. The threat of barriers to trade as a result of the pending Brexit and a new protectionist trade policy of the United States under President Trump are endangering prosperity in the world, making an agenda for better conditions for

SMEs and family enterprises in Europe potentially even more important. In addition to the already extensive recommendations to strengthen start-ups within the scope of the SBA, the growth of small and medium-sized companies is increasingly coming into focus. Notwithstanding that the SBA implementation on Member State level also needs to be pushed through.

The growth of existing companies can potentially produce a significantly greater employment and value-added effect than through start-ups alone. Start-ups play a key role for the enforcement of new technologies in particular – yet this typically applies to only a few percent of all newly created companies (Bersch, 2014). Otherwise, there can be a "revolving door" effect, where market entries in already heavily occupied industries result in the closure of existing enterprises. Larger medium-sized companies are on average more productive and export more than small and very small enterprises (cf. Section 2.2.1), which also speaks in favour of an improvement in growth conditions for existing SMEs.

Changing the SME threshold. The limit of an annual turnover of 50 million euro has not been increased since the EU definition of SMEs was adopted, meaning that based on economic growth and inflation alone, more and more companies are exceeding this threshold, even if they are still within the employment limit of 250 employees. The maximum turnover for SMEs should therefore be increased, for example, to 75 million euro. The balance sheet total limit, which is currently at 43 million euro, should also be increased. It would also be beneficial to regularly adapt the upper thresholds for turnover and the balance sheet total to the growth of the nominal gross domestic product.

Driving forward measures for deregulation and to remove red tape. The removal of administrative burdens helps all companies, but due to the one-off costs of information and fulfilling administrative regulations these measures have a greater effect on SMEs. The removal of red tape and regulations that impede open markets in Europe should therefore be pushed forward with more intensity. This aim is already anchored in the SBA to some extent, but its implementation needs to be improved and accelerated. To that end, building on the work of the Stoiber Group (cf. Section 3), the EU Commission should establish an EU-wide supervisory authority for regulations and red tape on the level of the leading Member States in this area in order to significantly reduce the administrative burden. This could be done in the form of a new institution based on the High Level Group on Administrative Burdens (European Commission, 2014b), as is suggested by that group in its final report. A second possibility would be a strengthened Regulatory Scrutiny Board outside of the EU Commission. Examples from EU Member States are the Nationaler

Normenkontrollrat (NKR) in Germany and the Better Regulation Executive (BRE) in the United Kingdom.

Including family companies. The qualitatively defined large SMEs, consisting of medium-sized joint-stock corporations (midcaps) and, more importantly, large family companies, should be paid more attention in EU policy in order to capture the growth potential in the enterprise segment above the SME limit of 250 employees and annual turnover of 50 million euro. Countries with above-average enterprise numbers in this size segment, such as Germany and the United Kingdom, show higher growth and more economic stability. In contrast to smaller SMEs, these companies with 50 to 500 million euro turnover are far more strongly represented on the international markets and have a higher productivity than SMEs, in particular when compared with small and very small enterprises. The growth barriers for existing medium-sized companies, not at least those close to the SME limit of 250 employees, should be reviewed. The recommendations of the SBA, however, have dealt primarily with barriers for start-ups.

The consideration of companies just beyond the SME threshold seems especially important in growth-oriented policy areas. This particular applies to the innovation policy, where the Horizon 2020 programme cuts off the SMEs at 250 employees, despite the fact that continuous R&D work is only possible for larger companies. In contrast, the technology-oriented areas of funding in Horizon 2020 not reserved to the SME segment appear better suited to "really" large enterprises than companies with several hundred employees in light of the complexity of the tenders, meaning there is a gap for companies with 250 to around 2,000 employees in R&D policy.

Linking SME policy to industrial policy objectives. In light of the declining share of industrial value-added in several important EU Member States and the EU 28 as a whole, the EU Commission has set the ambitious target of stopping the trend towards de-industrialisation and even reversing it by 2020. The share of the manufacturing industry should then once again amount to one-fifth of overall value-added (European Commission, 2014a, European Commission, 2012c, 4). Strengthening the European industry was already one of the objectives of the Lisbon Strategy, which has not exactly been crowned in glory (European Commission, 2005). For the 20-percent-target for industrial value-added not to remain an unattainable desire again, the interests of medium-sized industrial companies in particular should be paid greater attention to. This applies to enterprises below the 250 employee threshold, but also for those above it.

The setting of political priorities in favour of industrial value-added is also a necessity in order to achieve this objective. Otherwise, there will still be the risk that the 20-

percent-policy objective will remain just as ineffective as the Lisbon Strategy, which was intended to make Europe the "most competitive and dynamic knowledge-based economic area in the world" by 2010 (European Parliament, 2000; European Commission, 2004). This strategy fizzled out not least because the simultaneous "prioritisation" of all desirable political objectives – economic, social and environmental – essentially setting no priorities at all and leading to mutual neutralisation as a consequence.

The climate policy should be designed in such a way that it does not indirectly promote the de-industrialisation of Europe. The 20 percent target for manufacturing industries cannot be achieved with environmental technologies and clean industries alone. If the basic industries in the metals and chemicals sector are forced out of the EU by increasingly strict requirements in terms of CO_2-emissions, value chains might be torn apart and industry in Europe as a whole would be weakened further (cf. Bardt/Chrischilles, 2012). Such a process could also creep in slowly as investments in the corresponding industrial sectors no longer counteract the depreciation of existing equipment over extended periods. An effective strategy to strengthen industry should therefore also consider the investment conditions across entire value chains, not only certain industries such as environmental technologies, which are explicitly named in the SBA.

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