

# Executive Summary

*The annual report on European SMEs is part of the SME Performance Review, one of the main tools the European Commission uses to monitor and assess countries' progress in implementing the Small Business Act (SBA) on a yearly basis. It provides a snapshot on the size, structure and importance of SMEs to the European economy and an overview of the past and forecast performance of SMEs from 2008. This year's edition is focused on the R&D and innovation (R&D) performance of these SMEs.*

## Overview

In 2018, there were slightly more than 25 million SMEs in the EU-28, of which 93% were micro-SMEs. SMEs accounted for 99.8% of all enterprises in the EU-28 non-financial business sector (NFBS), generating 56.4% of value added and 66.6% of employment in the NFBS.

Based on a Spring 2019 forecast, EU SME value added is predicted to grow by 4.1% in 2019 and 4.2% in 2020, while EU SME employment is expected to grow by 1.6% in 2019 and 1.4% in 2020. However, the economic outlook has weakened since this forecast, so this growth may have to be revised downwards.

## Key Findings

### ***SMEs account for the majority of the increase in value added (60%).***

Micro SMEs generated 28.5% of this increase, while small and medium-sized SMEs accounted for 16.9% and 14.1%, respectively.

***SMEs have made a much stronger contribution to the growth in value added in recent years*** (i.e. from 2016 to 2018) compared to the longer period of 2013 to 2018. The increase in the SME contribution is almost entirely due to micro SMEs. The contribution of medium-sized SMEs has declined during this period.

***Most of the increase in EU-28 SME value added and employment was generated in less knowledge-intensive industries.***

***Labour productivity has grown, largely due to the growth in the value added.*** The performance of EU SMEs was significantly stronger than that of their Japanese and US peers in terms of growth in employment and the number of enterprises.

***SME value added and employment grew in all Member States in 2018*** for the first time in years. Overall, in 2018, EU-28 SME value added grew by 4.1% and EU-28 SME employment by 1.8%. Micro SMEs have driven this recovery - they recorded by far the strongest value added and employment growth of all SME size classes.

### ***Trends in SMEs innovation activities vary substantially between Member States***

Almost 50% of EU SMEs undertook some innovation activity<sup>1</sup> over the period 2014-16, the last years for which such data are available. Some of these SMEs developed disruptive innovation or breakthrough innovation, while others have focused on more incremental innovation. The participation of SMEs in innovation activities varies greatly across the EU-28, with the share of innovating SMEs in the total SME

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<sup>1</sup> Disclaimer: For the purposes of this report, the term "innovating company" refers to the companies that have introduced a new or significantly improved product or service to the market; a new or significantly improved production process or method; a new way of selling goods or services, or a new organisation of management. The data comes from the companies' self-assessment of relevant activities. Innovating companies come from all sectors and are not limited to the disruptive or digital sectors. Non-innovating companies are not precluded from introducing innovations in the future.

population ranging from 10% in Romania to 66% in Portugal. For the EU-28, the share of innovation was broadly stable from 2004 to 2016.

This EU-wide stability masks considerable differences between Member States. The proportion of innovative SMEs increased in Austria, Belgium, Croatia, Estonia, Greece, France, Hungary, Lithuania, Latvia, Portugal and the United Kingdom, while it fell in Cyprus, Czechia, Germany, Finland, Malta, Romania, Slovakia, Slovenia, Spain and Sweden. The divergences between Member States are partly explained by differing industry trends.

***Eight of the top 30 start-up ecosystems in the world are in the EU.*** Although start-ups are present in all Member States, a number of smaller Member States (Cyprus, Estonia, Lithuania, Latvia and Malta) stand out as having the highest start-up intensities in the EU. The recently released *European Startup Monitor 2019* provides more detailed information on the EU start-up population.

## **Policies to stimulate innovation by SMEs**

The analysis in this report suggests that a two-pronged policy approach - by the EU as part of a new SME Strategy, and by Member States as part of their innovation and SME strategies - would be most conducive to stimulating innovation..

Improvements in the overall innovation environment (such as improving the quality of the domestic research systems) would have important spill-over effects and stimulate innovation by SMEs, especially in those Member States which rank less highly in the EU Innovation Scoreboard.

Such broader policies would need to be complemented by policies directly targeting innovating SMEs and those that currently do not plan innovation activities, such as providing funding (grants, vouchers, tax credits), helping SMEs access the skills required for their innovation activities, and providing mentoring, advice and networking opportunities. Public funding of some of the SMEs' innovation activities would be particularly valuable in Member States where such funding has declined in recent years.

Based on this overall strategic approach, the report highlights a number of specific policy conclusions:

1. There is a need to increase the in-house R&D activities of the SMEs. This could be achieved by increasing grant and non-grant support via the European Regional Development Fund (ERDF) operational programmes under the next long-term EU Budget. In the longer term, to incentivise SMEs to carry out in-house R&D, their cooperation with larger innovative enterprises and research and technology organisations should also be considered.

Adopting an open innovation mindset and business model could also help SMEs to overcome some of the barriers and challenges they face. However, for a culture of open innovation to be successful, it is essential that SMEs engaging in open innovation have the absorptive capacity to do so. Open innovation could also be supported through IT-based platforms such as the platform of the Lombardy region co-funded by the ERDF and which seamlessly integrates with the internationalisation services of the Enterprise Europe Network.

2. There is ample evidence to confirm that skills shortages represent a major barrier to innovation. EU level actions hand in hand with national/regional measures should help increase the innovation management capacity of SMEs. EU-level programmes could particularly support the cross-border access of SMEs to skills to allow them to engage in innovation.
3. As a higher share of university graduates in science, manufacturing, engineering and construction correlates with a higher share of innovative SMEs in the EU-28. Member States should continue to reinforce their support for their education systems so that more graduates from the STEM-disciplines (Science, Technology, Engineering and Mathematics) are available on labour markets.
4. Further barriers include a lack of internal and external funds, especially for innovative SMEs with regard to scaling up their innovations. European level programmes such as the future Horizon Europe plan to address market gaps in scale up financing through the European Innovation Council (EIC) and the future InvestEU programme plans to provide support for the financing of innovative SMEs at all stages of their development.

5. For innovative SMEs it is still important to receive support in finding collaboration partners. The Enterprise Europe Network as an EU-level action of the COSME programme should play an important role in connecting not only SMEs but also different competencies (e.g. Key Enabling Technology centres, digital innovation hubs, testing laboratories, and investors) that are needed to implement innovation projects.
6. The support of incremental innovation should receive as much attention as those of a break-through or disruptive nature.
7. At EU-level, with the incoming Commission and the start of a new long-term EU budget, there will be a further improvement in the synergies between the various innovation policy tools.