



SME Entrepreneurship in Europe – and what about Malta?

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On 9th July 2010 euractiv.com, a EU news website quoted some interesting points from a study about SMEs: “Small firms which trade internationally create more jobs and are more innovative. However, just one in four SMEs has exported in the last three years, prompting the European Commission to promote "internationalisation" in its forthcoming innovation strategy...there is concern at the low interest in international trade among SMEs. Just 4% of those not doing business outside their home country plan to branch out beyond their borders.”

The Why

The subject of SMEs interests me because I have owned and managed SMEs for the last 18 years and I have firsthand experience in the limitations and difficulties faced by such entities. In fact, as is the case with many businesses in Malta, my experience is in managing Micro companies, meaning companies with a staff complement of less than ten. I am also a member of the SME Committee at the Malta Chamber of Commerce, Enterprise and Industry where my fellow committee members and I try to work towards improving the SME environment for all concerned, especially through lobbying and advice given to policy makers. I am also an entrepreneur, a bug that I do

not feel I was born with, but that I believe I acquired with time.

The report quoted in the beginning came hot on the heels of the SME week celebrations in Brussels, where the European Commission has started “celebrating” the importance of SMEs and entrepreneurship in Europe, every year, through a one week event in Brussels and all participating European countries. An important step that the Eurocrats have taken in this regard is the construction of a Small Business Act (SBA), which is a document that, quoting the relevant EU page, “...reflects the Commission's political will to recognise the central role of SMEs in the EU economy and for the first time puts into place a

comprehensive SME policy framework for the EU and its Member States.” This 10-principle policy document requires that each member state adopt these principles into their own national policies, strategies and legislative frameworks. A working document on how the EU member states are doing in implementing these recommendations is also on the website. A whole article, or more accurately a whole book, could be written about the what, why and how most member states (including Malta) have not adopted the SBA or implemented the action plan involved.

I was chosen to represent Malta in this year's SME week

celebrations in May (last year, Malta's ambassador in the first such initiative was Ms Angele Giuliano), and I may add that it was an interesting experience. I had the opportunity to meet around 30 SME entrepreneurs representing their respective countries, with such a range of diverse cultures, languages, industries and of course, characters. The common factor, which was palpably felt, was the strong entrepreneurial spirit – the come on let's do business type of attitude. The European Commission made a nice brochure with each of our profiles, which can be viewed or downloaded through the SME week web pages. I have used the encounters I have had with some of these entrepreneurs as good examples of entrepreneurship and in some cases internationalisation in a few talks I have given. People find it interesting to hear about how a couple from Albania have created an export-oriented manufacturing firm that makes customised sportswear in flexible quantities, or a Bulgarian

lady who set up a contract firm aggregating small furniture makers to go for large contracts in Germany and France. How a Finnish lady spent two years in Biotech research and design before launching a long-lasting scent-containing pendant on an international level via fashion houses, and having about 20 shareholders in her company. Or the trials and tribulations of a young Portuguese man as he moves from his home market to Spain, Mexico and Brazil with his fascinating scientific toys and games. These are just some of the stories gathered during the two days I was in Brussels and if I had had more time I would have garnered much more, and gone deeper into their travails. But the encounters I had set me thinking about Malta's own success stories (and failures) on an international level. Do we have many, or any? And what are we doing right or wrong? I decided to start looking into it a bit, and try to come up with some points, mostly through the good old system of research.

The Research

My study is ongoing, so the reader may get more doses in future issues, but the current research has unearthed some interesting facts, especially when comparing these with data from other countries. This data was lifted off some documents called SBA Fact Sheets found on the EU website.

I chose the countries for comparison relatively arbitrarily, but not without some justification. I wanted some countries for which I had good entrepreneurs' stories, but I also wanted to compare Malta with countries that are "within reach" in some way or other. Bulgaria, Estonia and the Czech Republic are ex-Soviet block countries, with high development potential since their "liberation", all starting from a relatively low GDP base and moving up at varying speeds and with varying success. Finland, admittedly one of the richest countries in the world, is a high benchmark to attain. However, let's not forget

	GDP PC €	Export € (billion)	Export PC €	Businesses p. 100 people	S&M %	Entrep rate %	Entrep desire %	Admin regul. Probs	State aid to SME %	Finance access probs	Turnover from Export %	Various Innovation Indicators
Malta	18 900	2.5	6 600	8	99.2	5	33	43	1	35	3	Mostly 10 % pts below EU average
EU-27 Average	26 000				98.7	24	31	33	11	21	5.6	
Bulgaria	10 000	15	2 000	4	98	N/A	N/A	41	N/A	21	N/A	15-20 pts minus
Estonia	15 000	7	7 000	4.5	87	31	33	24	8	11.5	12	Mostly 7 pts plus
Finland	28 000	50	10 000	4	98.6	29	31	17	7	7	5.5	Mostly 10 pts plus
Portugal	17 250	35	3 300	8	99.3	26	30	23	2	24	5	EU average
Czech Rep.	20 000	100	10 000	9	99	25	37	54	22	22.5	5	EU average
Iceland	32 000	12.5	14 500	6	98.4	35	41	19	N/A	21	N/A	EU average

that Finland is a relatively small country, at the periphery of Europe. Which brings me to Iceland: smaller population than Malta, also an island, and very peripheral. Finally I included Portugal as a fellow "Mediterranean" or southern country (apologies for the inaccuracy). I purposely avoided the EU powerhouses and large countries for the reasons mentioned earlier.

So how rich are we?

Malta's Gross Domestic Product (GDP) per capita – a rule of thumb measure of a country's standard of living – stands at just under €19000 just above Portugal's €17250 and just below the Czech Republic's round €20000. Lower down the ladder we get Estonia's €15000 and Bulgaria's €10000. The EU-average stands at €26000, which is exceeded by the two Nordic countries of Finland at €28000 and Iceland €32000. These figures may have changed since the financial crisis, especially in the case of Iceland where their financial system imploded.

Size Matters

In all EU countries the percentage of Small and Micro companies is pretty high. From the countries studied, Estonia has the lowest frequency at 87%, with Portugal the highest at 99.3%, just above Malta's 99.2%. There seems to be no direct relation between this factor and the GDP per capita, but some

other interesting factors beg attention.

Malta has around 40 large companies (headcount of 250 or more), according to the SBA fact sheet provided by the DG Enterprise and Industry of the European Commission. This equates to under 1 company for every 10 000 people in Malta, and about half the average of such companies in EU member states. The rest of the 34 000 odd companies are SMEs (99.9%), of which only approximately 200 (0.6%) are Medium-sized (between 50 and 250 people), again practically half the EU average. The rest are small (about 1200 companies or 3.5%) or micro (95.7%).

These numbers seem to exclude the incidence of a considerable number self-employed, which according to the EU agency Eurofound, add up to over 21000. Practically all of these are also micro organisations, with about two thirds involving no employees except the one self-employed. Malta's amount of self-employed seems to be just over one percentage point under the EU average of self-employed incidence. An interesting aside is the remarkable under-representation from this figure of self-employed women at under one-fifth of the total. For the intents of this article, although the self-employed will not feature in the statistics provided, due to the fact that

Malta's count remains within (just below, in fact) the EU average, most statements should still hold, and in some cases should become even more emphatic.

For example, analyzing the SBA figures produces ratios of the number of businesses with respect to population, with Malta and Portugal having 8 businesses per hundred people, while Finland and Bulgaria have 4 businesses per hundred people. Adding the number of self-employed will change these figures, but will not change the comparative ranking significantly.

How Entrepreneurial?

The percentage of those who have started a business which is still active or currently taking steps to start one puts Malta at a paltry 5%, especially when compared to the EU average of 24%. All the countries in the study have an above average quota (except Bulgaria where data was not available), with Iceland's 35% and Estonia's 31% topping the charts.

When asked about their desire to be self-employed however, Malta fared much better at 33% - 2 percentage points higher than the EU average. Only the Czech Republic (37%) and Iceland (41%) had higher percentages, with Portugal having the lowest at 30%.

I find the very low percentage of entrepreneurs mentioned worthy of further investigation, especially considering the relatively high number of businesses per 100 people mentioned earlier. However, when the figures are taken at face value, the large gap between those who are and those who want to be makes one wonder: Is it an issue of hurdles or are we a nation of wishful thinkers?

How International?

Malta exports approximately €2.5 billion per year, which would be the equivalent of €6600 per capita. I did not come across an EU average in this case, however from the countries chosen, Iceland takes the gold medal with €14500 per person, followed by Finland and the Czech republic with €10000 per capita. Estonia is also just ahead of us with €7000. Only Portugal (€3300) and Bulgaria (€2000) trail behind. What may be important to note is that about half the Maltese export figure is due to a single foreign-owned company. It would be worth investigating how much more of the €2.5 billion figure is also due to foreign-owned companies, and how that compares to other countries. Would other countries' export figures also be mostly due to foreign companies or would they have more home-grown export champions? Maltese businesses' turnover seems to be more due to local income than from

export, with the export percentage of the total standing at 3% compared to the EU average of 5.6%.

A small local pilot study carried out by myself with the help of 4 MCAST students has also started giving some interesting indications. Four reasons were mentioned as possible hurdles towards internationalising. In general, people seem to be:

1. Disheartened by the administrative procedures required to set up shop abroad,
2. Overwhelmed by the international competition,
3. Worried about the money required,
4. Discouraged by the needs of their families.

How Innovative?

The SBA fact sheet is also not very flattering for the Maltese with respect to Innovation. In general, we seem to be lagging about 10 percentage points below the EU average, with only Bulgaria scoring lower from the countries studied.

Some More Indicators

Some more points of interest that seem to be worth comparing include the issue of problems with administrative regulations and the difficulties encountered in accessing finance. While the EU average for the former is 33%, Malta has 43% expressing this concern.

Only the Czech companies, at a whopping 54% seem to find their administrative regulations worse. In the case of access to finance, 35% of Maltese SMEs experienced difficulties in accessing finance, compared to the EU-average of 21%. In this issue Malta ranks the absolute highest from the countries studied.

One final indicator worth noting is the support from the State, through a mechanism called State Aid. In this case, Malta ranks lowest with just 1% of this aid being allocated to SMEs, compared to the EU average of 11%. Estonia and Finland provide 8% and 7% shares respectively to their SMEs and the Czech Republic seems to be the absolute outlier with an astounding 22%. Even Portugal, a country that does not seem to have a stellar reputation in these matters, provides twice the share that Malta provides. It seems that 99% of State aid goes to the large companies in Malta. I still need to confirm this from official sources, but if this were true, that means that Malta gives its support almost exclusively to the few large companies, with practically no focus on Malta's SMEs. When comparing this to other countries, this means that although we have half the percentage of large companies than the EU average, the Maltese Government provides them with an uber-dose of support, much higher than the

EU average, to the detriment of Malta's SMEs.

Concluding for now

As mentioned earlier, this is a work in progress, with no definite deadline. What I have unearthed until now has possibly raised more questions than answers. However, it has also, hopefully provided food for thought, especially about what we are doing, and what we could be doing. May I also remind the reader that I was usually comparing with the EU average. However, it is a well known fact that the EU (with few member states as exceptions) is not an

epitome of positivity towards entrepreneurship, SMEs or internationalisation. Just read any economic journal. I intend to keep on digging, and hopefully there will be some insights that may be useful.

It was a pity I did not have more time to pick my entrepreneur colleagues' brains, since we were put on a pretty hectic schedule of activities at the two days we spent in Brussels as part of the SME Week celebrations. I think most of us could not shake off the feeling that, with all the good intentions, the Commission

could have done, and could be doing, much, much more if it is really serious about encouraging SME entrepreneurship. Although I am sure that there are good, altruistic people who mean well, the aftertaste in this "celebration" was that we have still not moved beyond the lip service. However, the Commission, and the European Parliament, are not the only targets for improvement. Mentality and active improvements need to be encouraged and seen at National and Government level, in our civil servants and ultimately, in ourselves.