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# Nurturing Small and Medium-Sized Enterprises in Europe

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## Introduction

Tourism is one of the world's major industries, responsible for economic growth, foreign exchange earnings, employment opportunities and regional balances in individual countries and across regions. This industry generates over 5% of the European Union (EU) gross domestic product and has strong linkages with other economic sectors. In fact, tourism triggers infrastructural developments that are related to the industry, such as airports, seaports, parks, roads and rails. Within the EU alone, the tourism sector consists of about 1.8 million businesses. Most of these tourism businesses are small and medium-sized enterprises (SMEs) and together employ 5.2% of the total European workforce; that translates to approximately 9.7 million jobs, with a significant proportion of young people (EU, 2010). This chapter considers relevant academic literature that differentiates SMEs from their larger counterparts. It maintains that small businesses are often constrained by their size and limited resources. Arguably, the accessibility to finance is one of the most critical factors for the SMEs' inception and growth. These entities are often viewed by financial institutions as relatively risky when compared to enterprises from other industries. Therefore, this chapter contends that tourism SMEs may easily find themselves in an equity gap where it may prove very difficult to raise capital for further investment. Consequently, national governments and other regulatory stakeholders are increasingly stepping in to support micro and small enterprises in many contexts. In this light, the European Union (EU) has reaffirmed its commitment for SMEs. As a matter of fact, the EU has drafted

the Small Business Act in 2008 and refined it again in 2011. The EU's commitment is quite evident from their frequent calls for research and training schemes in the subject areas of SMEs and tourism; where grants are frequently issued under the Marie Curie and Cordis FP7 programmes. Therefore, this chapter identifies specific policies and initiatives that are aimed at fostering a climate for job creation and competitiveness for SMEs in Europe. By the end of the chapter you should be able to:

- Define SMEs in the European Union context;
- Distinguish the differences between small and medium-sized enterprises and large firms;
- Learn about the European Union measures that support the financing needs of SMEs;
- Be knowledgeable of crowdfunding as an alternative form of financing.

## SMEs in tourism

The European Union has set its own criteria for SMEs, as illustrated in Figure 9.1.

Company category	Employees	Turnover (€)	Balance Sheet (€)
Medium	< 250	≤ € 50 m	≤ € 43 m
Small	< 50	≤ € 10 m	≤ € 10 m
Micro	< 10	≤ € 2 m	≤ € 2 m

**Figure 9.1:** EU Definition of Small and Medium-sized Enterprises. (Source: EU, 2003/361/EC; EU, 2015a)

These ceilings apply to the figures that represent individual firms. According to the above criteria, most businesses in Europe can be classified as SMEs as over 99% of enterprises employ fewer than 250 individuals (EU, 2015a). The terminology of what constitutes small or medium-sized organisations in tourism may vary in the literature (Storey, 1994; IC, 2011). For instance, in Canada small enterprises are defined as companies that have 99 employees or fewer, whereas the medium-sized enterprises are defined as those that have between 100 and 499 employees. The size of the enterprise is usually measured in terms of their staff count, sales turnover and/or profitability. Generally, SMEs may be regarded at sectorial level. Where in some industries the firms may be considered small, in others they are simply not recognised as SMEs.

There are many parameters which have often been used in the past to identify SMEs. In past academic literature, many authors have used multi-dimensional

concepts of SMEs. For example, Storey (1994) maintained that there are issues about uncertainty, evolution and growth, entrepreneurial leadership and informality which are important differentiating factors. However, the broad parameters which often categorise SMEs may not always be derived from the size perspective. Arguably, an organisation employing five people and another employing 100 can both be classified as SMEs. Yet, both companies can behave significantly differently in their approaches and practices. The small and medium-sized firm may not always be a 'smaller' version of the larger firm. The numerous theories relating to SMEs must consider all the distinctive variables which distinguish them from their larger counterparts. The most common and easiest criterion to define SMEs and to differentiate them from the larger firms is by using different thresholds, as illustrated in Figure 9.1 above.

## Characteristics of tourism SMEs

SMEs have a desire for independence, freedom from intervention and bureaucracy. Smaller businesses tend to exhibit less formal structures as they have looser control systems, less documentation on transactions and fewer procedural hurdles (Morris *et al.*, 2002). It may appear that there is better communication in such firms since the owner or manager is closer to the workforce. Therefore, the owner-manager of the smaller firm may be better placed to lead the organisation and to make the best decisions in the interest of all employees (Storey, 1994). For these reasons, SMEs may offer interesting work prospects as there can be closer social relationships between management and employees. This informal style of management may also translate to better communications with other stakeholders.

Moreover, SMEs can offer more varied duties and responsibilities, as employees may participate in different kinds of work in a stable workplace. The familiar environment is usually characterised by infrequent industrial disputes. The absence of trade unionism is particularly conspicuous among smaller businesses. An empirical study among small and medium-sized Chinese firms revealed that there are relatively fewer SMEs experiencing unionisation (Zheng *et al.*, 2009). In SMEs there may be fewer strikes since the collective element needed for strike action is absent and the potential conflict may be expressed through more individualistic means of protest such as absenteeism and labour turnover (Carragher, 2011). Some of the characteristics of SMEs as opposed to their larger counterparts are laid out in Figure 9.2.