

The Financial and Economic Crisis and SMEs

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Abstract

This paper picked a topic of small and medium-sized enterprises to highlight several related problems. It is dedicated to the characteristics of small to medium enterprises, its definition and role within financial and economic crisis and present recession. There are analysis and comparison of their development during the last five or ten years in the Czech Republic and EU. The data based on which the analyses and comparison were carried out was obtained from the public databases and other cited sources. The paper is trying to respond to the question: “How is the development of SMEs dependent on business?”

Keywords: small and medium-sized enterprises, financial and economic crisis, business cycle

Introduction

During the last five years dramatic new imperatives have emerged for companies to take action against crisis which had a strong impact on entrepreneurial activities. Small and medium-sized enterprises make up more than 99% of businesses and play a central role in each economy. Günter Verheugen, Member of the European Commission responsible for Enterprise and Industry described SMEs as follows: “Micro, small and medium-sized enterprises are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment”. However, small and medium-sized enterprises are often confronted with market imperfections. SMEs frequently have difficulties in obtaining capital or credit, particularly in the early start-up phase. Their restricted resources may also reduce access to new technologies or innovation. Therefore, support for SMEs is one of priorities for economic growth, job creation and economic and social cohesion.

This paper picked a topic of small and medium-sized enterprises to highlight their problems within crisis and present recession.

Methods and Objectives

Small and medium enterprise or small and medium-sized enterprise (SMEs, small and medium-sized businesses, SMBs and variations thereof) are companies whose personnel numbers fall below certain limits. The abbreviation “SME” is used in the European Union and by international organizations such as the World Bank, the United Nations and the World Trade Organization (WTO). The term “small and medium businesses” (or “SMBs”) is predominantly used in the USA.

To define SMEs there are various possibilities. According to European Union law or more precisely European Commission Recommendation 2003/361/EC there are three broad parameters which define SMEs: number of employees, either turnover or balance sheet total a their autonomy. It is necessary to note that while it is compulsory to respect the staff headcount thresholds, an SME may choose to meet either the turnover or balance sheet ceiling. It does not need to satisfy both and may exceed one of them without losing its status. The definition offers this choice since, by their nature, enterprises in the trade and distribution sectors, have higher turnover figures than those in manufacturing. Providing an option between this criterion and the balance sheet total, which reflects the overall wealth of an enterprise, ensures that SMEs engaged in different types of economic activity are treated fairly (European Commission 2006).

As the Table 1 shows the category of micro, small and medium-sized enterprises consists of enterprises which employ less than 250 persons and which have either an annual turnover not exceeding 50 million €, or an annual balance sheet total not exceeding 43 million €.

Table 1: Thresholds of SMEs categories

Enterprise Category	Staff Headcount	Annual Turnover Not exceeding	or	Annual balance sheet total Not exceeding
Medium-sized	< 250	€50 million		€43 million
Small	< 50	€10 million		€10 million
Micro	< 10	€2 million		€2 million

Source: Commission Recommendation 2003/361/EC

The staff headcount is a crucial initial criterion for determining in which category an SME falls. The annual turnover is determined by calculating the income that your enterprise received during the year in question from its sales and services after any rebates have been paid out. Turnover should not include value added tax (VAT) or other indirect taxes. The annual balance sheet total refers to the value of company’s main assets according to Council Directive 78/660/EUC (EEC 1978).

The last criterion is autonomy. In general, most SMEs are autonomous since they are either completely independent or have one or more minority partnerships (each less than 25%) with other enterprises. If that holding rises to

no more than 50%, the relationship is deemed to be between partner enterprises. Above that ceiling, the enterprises are linked (European Commission 2012).

For EU member states use of the definition is voluntary but the Commission is inviting them together with the European Investment Bank (EIB) and the European Investment Fund (EIF) to apply it as widely as possible. Individual EU member states have had their particular definitions of what constitutes an SME. Other definitions have the use of Eurostat, Czech Statistical Office or Czech Social Security Administration (ČSSZ) for the purpose of keep a record of SMEs. The number of employees is the main criterion for classification.

Eurostat definition:

- Small companies employ up to 20 employees,
- Medium-sized enterprises have up to 100 employees.

ČSSZ – Czech Social Security Administration classification:

- Small companies employ up to 25 employees,
- Medium-sized enterprises have more than 25 employees.

Since the average European enterprise employs no more than six people, most can be considered as SMEs. Small and medium-sized enterprises make up more than 99% of businesses in Europe and play a central role in each economy. They are a major source of jobs and a challenge for competitiveness. SMEs are very flexible, their strengths are ability to identify new needs of consumers and industrial operators as well as their potential for absorbing new technologies and effect on local development.

The paper is trying to respond to the question: “How is the development of SMEs dependent on business cycle and financial and economic crisis?” The data based on which the analyses and comparison were carried out was obtained from the Czech Statistical Office and Eurostat database, ARAD – Czech National Bank’s public database and other public sources.

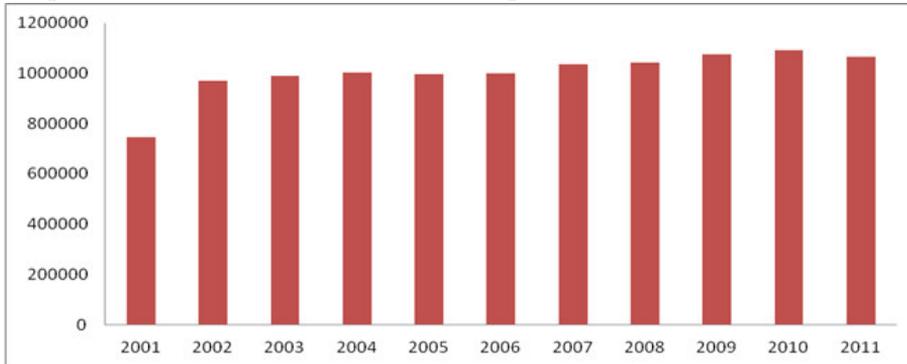
Results and Discussion

Trends SME performance indicators in the Czech Republic

In 2011, there were over 1 066 787 enterprises that employ less than 250 persons in the Czech Republic. It represents 99,84% of all businesses. About 93% of the total business sector consists of micro enterprises, which employ less than 10 persons. During the period 2002 – 2011 the number of SMEs remained relatively stable, the number was reduced in 2011 (there were 25 598 enterprises less).

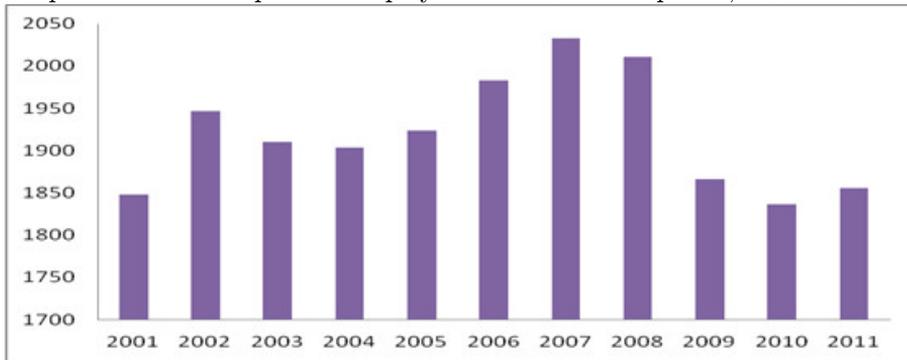
While the number of SMEs remained rather stable, the development of employment in 2001 – 2010 is unfortunately a different one. Employment in SMEs kept declining in 2003-4 and also in 2008 – 2010 during the financial crisis. The largest declines in SME employment were in manufacturing, construction and real estate.

Graph 1: Number of SME in the Czech Republic, 2001 – 2011



Source: ČNB 2012

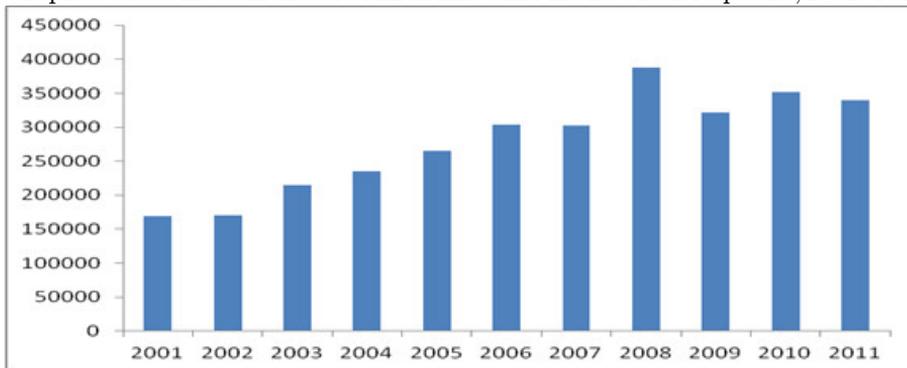
Graph 2: Number of persons employed in the Czech Republic, 2001 – 2011



Source: ČNB 2012

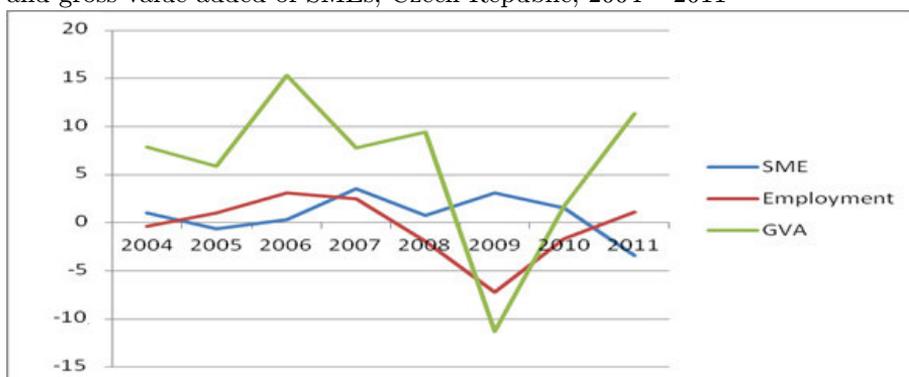
In order to better understand the situation of SMEs it is also useful to analyze further aggregates, such as gross investment or gross value added. Investments by businesses are typically seen as an indicator of the level of confidence in the economy.

Graph 3: Gross investments of SME in mil. CZK in the Czech Republic, 2001–2011



Source: Czech Statistical Office

Graph 4: Annual growth percentages for number of enterprises, employment and gross value added of SMEs, Czech Republic, 2004 – 2011

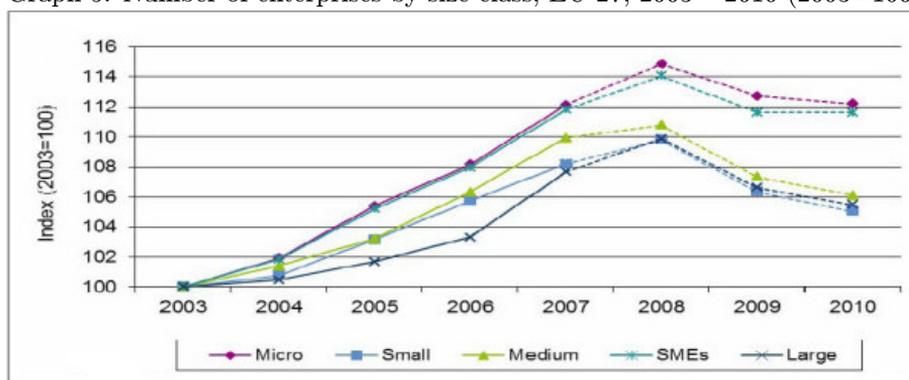


Source: MPO 2012

Trends SME performance indicators in the European Union

Small and Medium Enterprises (SMEs) remain the back bone of the EU economy. Given that 99.8% of all enterprises are SMEs – a ratio that has been fairly stable over the past years – the typical EU’s enterprise is an SMEs, or more specifically a micro-enterprise with less than ten employees. In 2010, 19.2 million micro-enterprises operated in the EU, comprising 92% of all European enterprises. Altogether these SMEs provided more than two-thirds (87.5 million) of all employment opportunities in the private sector in EU-27. Also, 58.4% of the total Gross-value Added (GVA) produced by private businesses in the EU in 2010 was accounted for by SMEs (Annual Report on EU SMEs 2012).

Graph 5: Number of enterprises by size class, EU-27, 2003 – 2010 (2003=100)

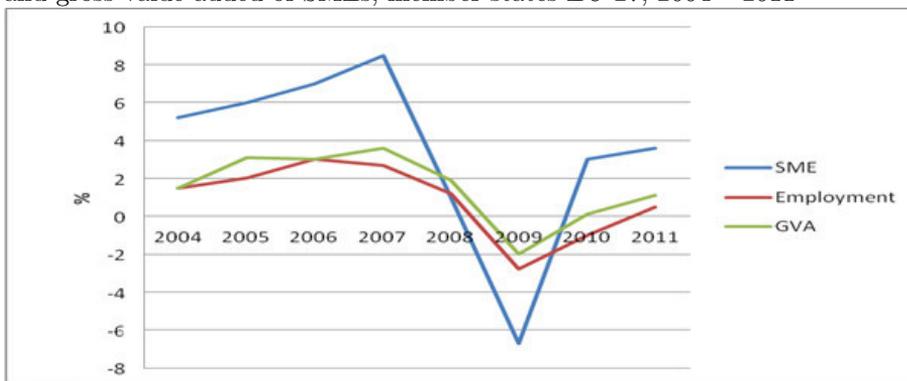


Source: Annual Report on EU SMEs 2012

The crisis that hit the EU-27 in 2009 had immediate impact on SMEs. The number of SMEs in 2009 fell, with small and medium size classes being hit harder than micro firms. In comparison with this declining the gross value

addend (GVA) and employment of the EU SMEs has declined not so significantly (UEAPME 2010).

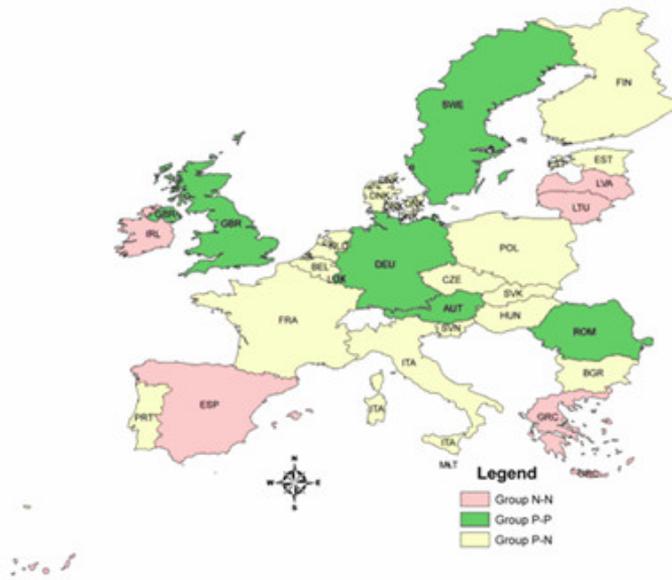
Graph 6: Annual growth percentages for number of enterprises, employment and gross value added of SMEs, member states EU-27, 2004 – 2011



Source: Eurostat/National Statistics Offices of Member States

The effects of the crisis on EU SMEs are not equal across all Member States with different branch characteristics and economic performances in each country. In order to better understand how the crisis effects on national SME sectors on the member states level, it is interesting to analyse the performance of a number of alternative country groupings.

Figure 1: Categorisation of SME performance of EU Member States according to estimated value added and employment growth rates, 2010



Source: Report on EU Small and Medium sized Enterprises 2010/2011

In Annual Report on EU Small and Medium sized Enterprises 2010/2011 we can find following map in which EU member states are grouped together and are focused on their individual growth rates of GVA and employment of SMEs in 2010.

N-N countries:

The group of N-N countries has a negative growth rate of both GVA and employment and covers Greece, Ireland, Spain, Latvia and Lithuania.

P-P countries:

The group of P-P countries has a positive growth rate of both GVA and employment and includes Austria, Germany, Luxembourg, Malta, Romania, Sweden, and the United Kingdom.

P-N countries:

The group of P-N countries has a positive growth rate of GVA but a negative growth rate of employment, a so-called jobless recovery, and contains Belgium, Bulgaria, the Czech Republic, Denmark, Estonia, France, Italy, Cyprus, Hungary, Netherlands, Poland, Portugal, Slovenia, Slovakia and Finland.

Conclusion

Small and medium enterprises are far more than large enterprises affected by the external business and the regulatory and macroeconomic environment, e.g. taxation, political stability, inflation, infrastructures and regulations. There is a clear link between the overall macro-economic growth or recession of an economy and the performance of its SME sector.

The main causes of the economic crisis and present recession are the overall negative effect on total demand, the increase in customer payment terms, the bankruptcy or closure of major business partner and the problems with obtaining finance. The future development of SME sector critically depends on the further macro-economic and political developments, especially, but not exclusively, as regards the Eurozone. The government's cuts during the time of economic weakness are not the best solution, particularly for SMEs. Governments should act to reduce the impact of the current recession on SMEs and provide support to small and medium-sized enterprises. This support is available in different forms such as grants, loans and, in some cases, guarantees, either directly or through programmes managed at national or regional level, such as the European Union's Structural Funds. SMEs can also benefit from a series of non-financial assistance measures in the form of programmes and business support services.

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Finanční a ekonomická krize a MSP

Tento příspěvek se zabývá problematikou malých a středních podniků. Objasňuje charakteristické rysy malých a středních podniků a jejich vymezení. Zabývá se jejich problémy v průběhu nedávné finanční a ekonomické krize i současné recese, analyzuje jejich postavení a srovnává jejich vývoj během posledních pěti až deseti let v České republice i zemích EU. Analýzy i srovnání vychází z údajů dostupných ve veřejných databázích a dalších uvedených zdrojích. Příspěvek hledá odpověď na otázku, jak je vývoj MSP závislý na ekonomickém cyklu.

Klíčová slova: malé a střední podnikání, finanční a ekonomická krize, ekonomický cyklus

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