# Course Title: C.1.1.2 SMEs in Europe

# Abstract:

This module entails the basics of the role of Small and Medium-sized Enterprises (SMEs) in the economy. It discusses the particularities of SMEs as compared to other types of business. Questions addressed are: Isn’t an SME just a small version of a large company? What is the significance of SMEs on the national economies? Why do SMEs receive so much attention from the EU and its member states? Are there special support programs for SMEs?

Nowadays SMEs are seen as key elements in economic growth, employment, and innovation. The trend is that the recent growth in smaller firms is noticed with a corresponding reduction in the number of larger firms. SMEs have different characteristics than larger firms, but due to the variations per industry and lack of research done among SMEs, it is hard to state what exactly these characteristics are. This module will explore these characteristics. It will lay the foundations for the Internationalisation of SMEs in the following modules.

# Learning Objectives:

* Learning Objective 1: Describe the organisational life cycle
* Learning Objective 2: Describe the stages of growth of a small business
* Learning Objective 3: Explain the significance of SMEs on the economy
* Learning Objective 4: Understand the qualitative and quantitative definitions of small and medium-sized enterprises
* Learning Objective 5: Describe some characteristics of SMEs
* Learning Objective 6: Describe the advantages and disadvantages of small-sized companies

# Comment:

Blue font is for interactive parts.

# Assessment Method:

**Class exercises for students:**

1) Describe the definition of an organisation, let students write their thoughts on paper. This way they can’t be influenced by other students’ answers. Only when they have written at least 3 elements of a definition, the class discussion can take place. Let students one-by-one tell what they have. The lecturer can collect the answers on the whiteboard and group them into categories.

* People intentionally grouped together, in its most basic form, not even a legal entity
* Goal oriented, must have a purpose, strategy, or short-term goals
* Resources (financial, human resources, materials)
* Structure, roles, responsibilities
* Planned activities

2) Importance of a Small Business

* What kind of contributions does small business make to the local economy (that larger business is less capable of doing)
* First let students individually look for different sources of information on the Internet. Based on what they have read they write a list of at least 5 items. Then form teams of 5 students, they put together their lists and select a final list of 5 items. Each team gives a short presentation of the 5 items on a poster. Let the teams have a short class discussion. You can ask about what was not selected to appear on the final list, why did they leave it out of the final list?
* On the next slide, there are some items the students could have come up with.

3) Characteristics of a Family Business: What are the advantages and disadvantages of having a business run by members of the same family?

* Ask students if they have any experience working for a family firm. There are some ethical considerations?
* Pro: strong bonds, long-term perspective, often not overly focussed on profits
* Con: no transparency, if you’re not part of the family you’re in the outer circle. Promotion to a higher position could be affected if you’re not part of the family, not based on merit but family relation

Reference: European Family Businesses. (June 2012). Retrieved from: www.europeanfamilybusinesses.eu

Family businesses in Europe have been widely equated to SMEs in public and policy discussions. However, this neglects the fact that there are also large family businesses. Family businesses can be small, medium-sized or large, listed or unlisted. Arguably, the most defining features of family businesses are the ownership aspects as they are crucial to the business life of the firm. Taking the ‘ownership perspective’ rather than the ‘company size’ perspective can help improve understanding of the phenomenon.

**Why family businesses are important?**

Field research into family businesses has shown that this form of enterprise has significant benefits to the economy and society at large:

* Most studies show that in terms of accounting performance, family businesses are more profitable over the long term
* Family businesses are less likely to lay people off and more likely to hire
* Family businesses are better for the communities in which they live and invest more in their communities both for business investment and in terms of philanthropic activities
* Family businesses take a long-term view and thus balance short-term rewards with long-term sustainability and prosperity
* Family businesses use less debt and are therefore more stable

However, family businesses have vulnerabilities:

* Around the world, family businesses typically have successful transitions at the rate of 30% per generation which means that 30% make it in the family from first to the second generation, 10% from second to the third generation, 3% from third to fourth and fewer than 1% from fourth to fifth and beyond
* According to the best available research, the importance of family business has been equated to:
  + GDP - in most countries around the world they are 60 - 90% of non-governmental GDP
  + Jobs - in most countries around the world they are 50 – 80% of all private sector jobs
  + Start-Ups - 85% of all business start-ups are started with family money
  + Job growth - in the United States, family business represents more than 75% of net job growth
  + Weighting - in most countries around the world, family businesses are between 70 and 95% of all business entities

**Homework:**

* Read the recommended literature: Greiner, L. E. (1998). Evolution and Revolution as Organizations Grow. Approximated workload of 2 hours for students
* Extra reading material: Kachaner, N., George Stalk, J., & Bloch, A. (2012, November 1). What You Can Learn from Family Business. Harvard Business Review, Approximated workload of 2 hours for students
* Look up SME support in the home country. What kind of stimulus programs and or subsidy programs are there for SMEs. Let students write an A4 paper with links to websites. The output of this exercise can be used in the project later on. Approximated workload of 2 hours for students.

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| # of  Session | Session Contents | Method(s) | Learning Objectives of Session | Material | Time (mins.) | Comments |
| 1 | **SMEs in Europe** | | | | **220** |  |
| Introduction to SMEs | PowerPoint lecture | Just introduction to the learning objectives | Slides 1 and 2 | 5 | Ask the class if they ever paid attention to SMEs in other courses. Check previous knowledge base |
| Is this a small business?  Some points of discussion: legal status, ownership or employee, and the profit motive | Exercise 1: Individual writing followed by class discussion:  Let student write down their own thoughts, and then have a class discussion. In this way, they will not be influenced by the ideas of others. | Trigger active learning; prelude to Learning Objective 4 | Slide 3 picture | 10 |  |
| Organisational Life Cycle | PowerPoint lecture | Learning Objective 1 | Slides 4-5-6 | 10 |  |
| Stages of Growth of Small Business | PowerPoint lecture | Learning Objective 2 | Slides 7,8 | 10 | Discuss growth, but also decline and failure. Show recent data on failure rates. Let students reflect on risk-taking. |
| What is the role of small business? | Exercise 2, individual and team writing, class discussion: Students write first individually and then share in teams a list of items. Teams report back to the class their findings. Discuss results in class. | Learning Objective 3 | Slide 9  (“solution” on slide 10) | 60 |  |
| Facts on the Importance of SMEs | PowerPoint lecture  Discuss also the likelihood that students will end up working for an SME | Learning Objective 3 | Slides 11-14 | 10 |  |
| Definitions of SMEs | PowerPoint lecture  Short exercise: If students are from different countries, they can look at categorisation in their home country of SMEs and share that with class | Learning Objective 4 | Slides 15-23 | 20 |  |
| Characteristics of SMEs | PowerPoint lecture  Perhaps some students worked for an SME and can tell some characteristics | Learning Objective 5 | Slides 25-26 | 10 |  |
| Effects of Size on Business | PowerPoint lecture | Learning Objective 6 | Slides 27-30 | 10 |  |
| Characteristics of Family Business | PP lecture and exercise 3, class discussion (slide 31) | Learning Objective 5 | Slides 31-34 | 10 |  |
| Summary and Class Closing |  |  | Slides 35-36 | 5 |  |
| Closing exercise | Support/Funding in the EU and Your Home Country for SMEs | Group work in class: teams do research and present the results on a poster | Relevant for the student consulting project (C3) later on | Slides 37-38 | 60 | You can also make this an assignment for homework and/or grading (give students 2-3 weeks) |