



Flash Eurobarometer 486

Summary

SMEs, start-ups, scale-ups and entrepreneurship

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and co-ordinated by the Directorate-General for Communication

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Flash Eurobarometer 486 – Kantar

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(DG COMM "Media Monitoring and Eurobarometer" Unit)

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INTRODUCTION

Small and medium-sized enterprises (SMEs) are the backbone of the European economy. Over 23 million SMEs in the 27 Member States of the European Union collectively employ nearly 90 million people, make-up more than half of Europe's GDP and play a key role in adding value in every sector of the economy. In March 2020, the European Commission released the communication "An SME Strategy for a sustainable and digital Europe"¹, with three key pillars:

- Capacity-building and support for the transition to sustainability and digitalisation;
- Reducing regulatory burden and improving market access;
- Improving access to financing.

This strategy aims to considerably increase the number of SMEs embracing digital technologies and engaging in sustainable business practices.

The SME strategy also outlines the relative shortage of successful scale-ups as a key challenge. European start-ups and scale-ups face specific challenges as they attract and retain talent, secure market opportunities and grow. While many EU countries have taken appropriate actions to improve the business environment, a further joint effort of the stakeholders across the EU is needed in order to make Europe the most attractive start-up and scale-up continent.

However, it is difficult to form a consistent picture of the experiences of start-ups and scale-ups across Europe. As their definitions vary, there is little comparative information about start-ups and scale-ups in the EU that uses a consistent definition, and this study aims to fill some of that gap².

The main areas of the SME strategy are covered in this study, which uses the following definitions:

- SMEs are considered to be companies that have less than 250 employees, and have a turnover less than 50 million euros, whereas micro enterprises are defined as a subset of these SMEs, solely based on the number of employees (thus those with 1-9 employees).
- Start-ups are considered to be young enterprises, founded in 2015 or later, that have introduced any kind of innovation in the last 12 months, and plan to grow in terms of turnover and/or employment.
- Scale-ups are considered as enterprises founded prior to 2015, that have achieved significant growth since 2016 (thus in the last three years) in employment and/or turnover. Growth in turnover must have been at least 30% to qualify on a turnover basis. To qualify as a scale-up on the basis of employment, there must have been a growth of at least 30% in the case of firms with 10 or more employees, or, in the case of micro firms, an increase of at least 3 employees.

The Executive Summary presents the main findings on EU27 SMEs, start-ups, scale-ups and entrepreneurship, with its last section also comparing SMEs in the EU to SMEs in the United States of America (US). Further insights, including on all 12 non-EU countries and territories also surveyed by the Kantar network, are provided in the main report and in the additional desk research report of this study.

The survey data primarily provides a benchmark for the pre-COVID-19 period (as the large majority of interviews were still carried out before the start of the most significant COVID-19 effects

¹ https://ec.europa.eu/info/sites/info/files/communication-sme-strategy-march-2020_en.pdf

² Different definitions, approaches and methodologies related to start-ups and scale-ups exist and are used in different contexts. For example, there is a clear distinction between the newly born enterprises data of the Eurostat and the start-up data arising from this Eurobarometer. The high-growth concept/data of the Eurostat is also different from this Eurobarometer's concept/data related to scale-ups. However, the work done under this Eurobarometer and the work of the Eurostat complement each other.

expressed e.g. through national confinement measures). In this sense, the results provide a timely overview of SMEs' long-term strategic concerns undeterred by the specific emergency issues.

EXECUTIVE SUMMARY

SMEs predominantly provide services, nearly four in ten are solely owned by one person and just over one quarter exported in 2019

- Over four in ten (44%) SMEs are located in a large town or city, or (42%) in a small town or village and 10% in a rural area. A total of 12% are located in an industrial area. One in ten (10%) say they are located near a border with an EU country, while 2% say they are near a border with a non-EU country.
- SMEs, start-ups and scale-ups are more likely to mainly provide services than goods. About two thirds of them provide mainly services and about one third mainly goods.
- Just over one quarter (26%) of SMEs exported goods or services in 2019, with other EU countries the most common destination (23%). Start-ups (33%) and scale-ups (34%) are more likely to have exported than SMEs (23%) which are neither start-ups nor scale-ups.
- For 67% of SMEs that export to non-EU countries, exports outside of the EU account for less than 25% of their total turnover.
- SMEs that mainly sell goods are more likely to have exported than those that mainly sell services (35% vs 22%).
- Fewer than one in twenty SMEs sell goods online to buyers in other EU countries (4%), which compares to 11% of large enterprises.
- Almost four in ten (38%) SMEs are solely owned by one person, half (50%) are owned by more than one person, and some have other ownership structures. Around 2% of start-ups and scale-ups are co-owned by business angels.
- One in twenty (5%) SMEs interviewed are not-for-profit enterprises.
- More than one in ten (14%) SMEs are members of an industry cluster or another SME business support organisation in their region.

Half of respondents are the founders of the SME, and a large share are seasoned entrepreneurs

- Half (50%) of respondents are either sole founders or co-founders of the SME.
- About four in ten (42%) of the interviewed founders of the SME have also established or co-established other enterprises.
- Almost one fifth (18%) of the SME founders surveyed have closed – without bankruptcy – other enterprise(s) that they owned or co-owned, while 4% say they have closed other enterprise(s) due to bankruptcy.
- Over one in ten (12%) respondents who are sole founders or co-founders of the SME have sold other enterprises that they owned or co-owned.
- Founders interviewed among start-ups and scale-ups are more likely to have also established other enterprises before (48-50% vs. 40% of the founders of other SMEs). Respondents who are founders of start-ups are also the most likely to have closed (23% without bankruptcy and 9% due to bankruptcy) or to have sold other enterprises (16%) they owned or co-owned.
- One in twenty (5%) of the interviewed start-up founders plan to relocate the headquarters of their enterprise to another EU country.
- Amongst owners of an SME, which was originally established by someone else, 39% took over the enterprise from family members.

Around half of SMEs surveyed have increased their turnover and/or employment since 2016, and they are likely to plan growth in terms of turnover rather than in employment

- About half (49%) of all SMEs say their turnover has increased since 2016, while 30% say it has been stable, and 16% that it has decreased.
- Half (50%) of SMEs with at least 10 employees say they have increased their employment since 2016, 38% say numbers have remained stable and 10% say they have decreased.
- About a third of micro enterprises also say they have increased their employment in the last three years, thus since 2016: 24% say their enterprise has grown by 1-2 employees, while 8% say it has grown by at least 3 employees. Just under a half of micro enterprises (47%) say that the number of employees has stayed the same, 14% say it has decreased by 1-2 employees and 7% say it has decreased by at least 3 employees.
- In the last three years, thus since 2016, around two thirds of start-ups and scale-ups among micro enterprises – and over four in five start-ups and scale-ups among enterprises with at least 10 employees – have also increased their employment.
- More than four in ten (44%) SMEs have (or had, as these results predominantly reflect plans that were in place prior to the COVID-19 pandemic) plans to grow the number of their employees. A slight majority (51%), however, already said they had no plans to grow their employment in the next few years, while 5% were unsure.
- Start-ups (76%) were the most likely to say they had plans to grow their employment in the next few years, followed by scale-ups (62%).
- Two thirds (66%) of SMEs plan (or planned, prior to COVID-19 pandemic) to grow turnover in the next few years, compared to 82% of large enterprises.
- Start-ups were more likely to have had higher growth targets than other SMEs, and this was particularly the case for growth of more than 20% per year: 38% of start-ups planned this level of turnover growth over the next few years, compared to 22% of scale-ups and 5% of other SMEs that are neither start-ups nor scale-ups.
- Almost one in five (17%) SMEs (compared to 28% of start-ups and 24% of scale-ups) that plan to grow in employment or in turnover, intend to do so in other EU countries.
- More than one third (34%) of SMEs have a strategic growth plan, and around one third plan to grow by introducing innovation (33%), by operating in growing markets (33%), by entering new markets (32%) or by increasing digitalisation in their enterprise (31%).

More than one in ten SMEs that do not plan to grow say their enterprise does not have employees with the skills or expertise needed for it to grow

- Almost four in ten (39%) SMEs that do not plan to grow say there is no intention for their enterprise to grow beyond its current size, while 37% say there is decreasing demand for their products or services or the market is saturated.
- Just over one third (34%) of SMEs that do not plan to grow say additional regulatory or administrative burdens and requirements would be too high for their enterprise to grow.
- For one in five (20%) SMEs that do not plan to grow, the current location of their enterprise does not allow for growth and there is no desire to relocate, while almost as many (19%) say their enterprise does not have the financial resources to grow.
- More than one in ten (13%) SMEs that do not plan to grow say their enterprise does not have employees with the skills or expertise needed for it to grow.

- Nearly one in ten (8%) SMEs that do not plan to grow say their enterprise does not plan to grow because it would lose benefits linked to its SME status.

The majority of SMEs are positive about most aspects of their business environment, but point to regulatory obstacles or administrative burden as the biggest problems

- Seven in ten (70%) SMEs said (prior to COVID-19 pandemic) that their enterprise would be able to obtain external financing if they needed it. Start-ups and scale-ups (both 76%) were even more confident in this.
- Almost eight in ten (79%) SMEs say the infrastructure for businesses, such as available office space and internet connectivity is good, while 77% say this about the overall strength and performance of their regional business environment and 62% say this about access to and collaboration with business partners.
- The majority (55%) of SMEs think the availability of staff with the right skills is good, with 50% saying access to private and public finance is good and 49% saying the same for the quality of support services for business provided by private and public actors.
- Large companies are much more likely than SMEs to say the legal and administrative business environment is good (76% vs 65%).
- In general, large enterprises are considerably more likely than SMEs to rate the various aspects of their business environment positively.
- The areas that pose the biggest problems for SMEs are regulatory obstacles or administrative burden (55%), payment delays (35%) and access to finance (21%).
- SMEs that mention the regulatory obstacles or administrative burden as one of the biggest problems for their enterprise are significantly more likely to rate the legal and administrative environment as poor, than SMEs that do not cite it as one of the biggest problems (39% vs 19%).
- Skills, including managerial skills, are one of the biggest problems for 17% of SMEs, while 13% mention difficulties with digitalisation. Almost one in ten (9%) say difficulties with innovation is one of their biggest problems, while 8% mention internationalisation and 7% access to data.
- When describing their key problems in their own words, SMEs mention most often problems of regulation (26%, this includes problems of bureaucracy and administrative burden) and problems of finance (23%, including payment delays/cash flow, access to credit, etc.), followed by recruitment (16%, including issues such as recruitment of adequately skilled employees and retaining top talent).
- Over four in ten (42%) SMEs say that the availability of support to help enterprises become more sustainable is poor.

The majority of SMEs have introduced some kind of innovation in the past 12 months, however the majority also say there are barriers to innovation

- Almost six in ten (58%) SMEs have introduced innovation in the past 12 months. The most common innovations are new or significantly improved product or service (25%), introducing an innovation with an environmental benefit (21%) or introducing a new way of selling their goods or services (20%). Almost one in five (17%) have introduced social innovations. Large enterprises are more likely than SMEs to have innovated in each of the areas listed in the study.
- One in twenty (5%) SMEs surveyed have a patent or a patent application, compared to 17% of large enterprises, 10% of start-ups and 9% of scale-ups.

- Over seven in ten (71%) SMEs say there is at least one of the listed barriers to innovation in their enterprise. The most common difficulties are predicting the market response (35%), the legal or administrative environment (31%), a lack of financial resources (also 31%), or a lack of skills (22%). At least one in ten mention a lack of technology infrastructure (15%), a lack of collaboration partners (14%), or difficulties with protecting intellectual property (10%).

A large majority of SMEs proceed with digitalisation, but are held back by uncertainty about future digital standards, IT security issues and a lack of IT infrastructure

- About one in five SMEs (21%) have a strategy or action plan to digitalise. This compared to 43% of large enterprises, 30% of start-ups and 28% of scale-ups.
- A large majority (76%) of SMEs say they need to introduce digital technologies or have already adopted some of them.
- Almost one in five (18%) SMEs said their enterprise does not need to adopt any digital technologies, but it is important to note that given the timing of the survey, these results predominantly present reflections that were in place prior to the COVID-19 pandemic.
- More than six in ten SMEs (62%) have adopted at least one of the listed advanced digital technologies, with the most common being cloud computing, i.e. storing and processing files or data on remote servers hosted on the internet (43%), followed by high-speed infrastructure (32%) and smart devices (21%). One in ten (10%) use big data analytics, while 6% use artificial intelligence (AI). No more than one in twenty SMEs use robotics (5%) or blockchain (3%).
- Start-ups and scale-ups are more likely to have adopted each of the advanced digital technologies listed in the study than other SMEs. Big data analytics is used by 18% of start-ups and 15% of scale-ups, as compared to 8% of other SMEs that are neither start-ups nor scale-ups. The same pattern is observed for artificial intelligence (AI) which is used by 11% of start-ups, 9% of scale-ups and 5% of other SMEs.
- More than six in ten (62%) SMEs say they are facing at least one of the listed barriers to digitalisation in their enterprise. The most mentioned are uncertainty about future digital standards (24%) and a lack of financial resources or regulatory obstacles (both 23%). Information technology (IT) security issues and a lack of skills are both barriers to digitalisation for one in five (20%) SMEs, while 19% mention a lack of IT infrastructure and 17% say internal resistance to change is a barrier to digitalisation. The older the company, the more likely they are to mention internal resistance to change as a barrier to digitalisation.
- Start-ups are more likely to mention the lack of financial resources (29%) as a barrier to digitalisation, and both start-ups and scale-ups cite regulatory obstacles (30% and 27%) more frequently than other SMEs as one of the barriers to digitalisation.

One third of SMEs already have a strategy or action plan to become sustainable, and four in ten may consider it in the future

- 91% of SMEs say they are taking at least one of the environmental or social sustainability actions asked about. The most common actions are improving the working conditions of their employees (66%), recycling or reusing materials (61%), reducing consumption of or impact on natural resources, saving energy or switching to sustainable energy sources or promoting and improving diversity and equality in the workplace (each 52%). Almost half (49%) are engaging employees in the governance of the organisation. Three in ten (30%) are developing sustainable products or services, while 24% are evaluating the impact of their enterprise on society.

- Nearly all the environmental and social sustainability actions asked about are more frequently taken up by start-ups and scale-ups, with the only exception being recycling or reusing materials, where there is no difference between start-ups, scale-ups and other SMEs.
- About one third (34%) of SMEs say they have a strategy or action plan to become a sustainable enterprise, although only 13% have already implemented it and 21% say that it is in the process of being implemented. Four in ten (40%) say they may consider such a strategy or action plan to become a sustainable enterprise in the future, while 18% say they do not have it and will not have one in the future.
- Start-ups and scale-ups (both 44%) are more likely to have a sustainability strategy or action plan than other SMEs (31%) that are neither start-ups nor scale-ups. Also, the more “rural” the start-up, the more likely they are to be developing sustainable products or services.

Barriers to SME sustainability include a lack of consumer or customer demand, but also the view that becoming sustainable is not compatible with their current business model, and a lack of awareness of how to integrate sustainability into their business model

- Seven in ten (70%) SMEs say they are facing at least one of the of the listed barriers that prevent their enterprise from becoming sustainable, i.e. combining long-term success and profitability with a positive impact on society and the environment.
- The most mentioned barriers to sustainability are lack of consumer or customer demand (30%), lack of financial resources (27%), the view that becoming sustainable is not compatible with their current business model (24%) or that there is a lack of awareness of how to integrate sustainability into their business model (23%). More than one in ten say becoming sustainable would not be profitable (15%) or that there is a lack of skills to become sustainable (also 15%), while 7% say a lack of willingness from management is a barrier preventing their enterprise from becoming sustainable.

Comparing EU SMEs to US SMEs reveals some similarities as well as some differences

- The proportion of EU SMEs that have increased their turnover by at least 30% since 2016 is nearly the same as such proportion of US SMEs (19% in the EU vs 20% in the US). SMEs in the EU and SMEs in the US also have a similar proportion (16% in the EU vs 14% in the US) of those that have decreased their turnover during the same period.
- Among the biggest problems enterprises face, EU SMEs are more likely to report regulatory obstacles or administrative burden (55% vs 30% of US SMEs), payment delays (35% vs 29% in the US) and access to finance (21% vs 13% in the US). However, EU SMEs (17%) are less likely to mention skills, including managerial skills, among the biggest problems as compared to US SMEs (26%).
- The same share of SMEs in the EU as in the US (both 13%) say that difficulties with digitalisation are among the biggest problems for their enterprise, and access to data is also mentioned in this respect by the same share of EU SMEs and US SMEs (both 7%).
- Although nearly the same proportion of EU SMEs (70%) as US SMEs (71%) face barriers that prevent their enterprise from becoming sustainable, a higher proportion of SMEs in the US say that becoming sustainable is not compatible with their current business model (34% vs 24% of SMEs in the EU). The same pattern appears looking at those that say becoming sustainable would not be profitable (26% in case of SMEs in the US vs 15% of SMEs in the EU), or that there is a lack of willingness among the management to become sustainable (mentioned by 16% of SMEs in the US vs 7% in the EU).

