



**European Union
Statement**

**International Labour Conference
104th session
(1st-13th June 2015)**

**Committee on Small and Medium-Sized Enterprises and Decent and Productive
Employment**

**Q1. What is the contribution of SMEs, and specific differentiated segments
within SMEs, to employment creation and what is the quality of employment in
SMEs?**

Geneva, 1st June 2015

- CHECK AGAINST DELIVERY -

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Creation**

EU Statement

Q1. What is the contribution of SMEs, and specific differentiated segments within SMEs, to employment creation and what is the quality of employment in SMEs?

Madam Chair,

I speak on behalf of the EU and its Member States.

Small and medium-sized enterprises (SMEs) are the backbone of Europe's economy. They represent 99% of all our businesses and in the past five years, they have created around 85% of new jobs, a figure considerably higher than the 67%-share of SMEs in total employment. According to the most recent Annual Report on European SMEs, they produce 58 cents of every euro of value added. In short, SMEs are a set of enterprises that are crucially important to jobs and growth in the European Union.

But, as we already indicated in our opening statement, behind the classification of SMEs as one group lies a whole world of differences, with SMEs differing in size, activities and working methods. Let's focus on size first. Nine out of ten European SMEs are micro-enterprises, which mean that they employ less than 10 employees. As such, micro-enterprises are a source of roughly one third of all employment in the European Union. By contrast, large companies, employing more than 250 workers employ only slightly more workers. Small-sized enterprises (employing up to 49 workers) and medium-sized enterprises (up to 249 workers) engage 21% and 17% of the working population respectively and also constitute significant, but smaller, sub-segments.

When looking closer at the performance of these different size-classes, it becomes clear that the number of 58 cents per euro is but an average: medium-sized-enterprises – on the whole – outperform micro- and small enterprises when it comes to the value added per occupied person. But

even medium-sized enterprises – in general – cannot live up to the value added per worker in larger firms. Economies of scale seem to matter.

Adopting a sectorial approach, it becomes clear that SMEs in some sectors in Europe have done quite well over the past few years and have consistently contributed to employment growth - despite the bleak economic outlook - while SMEs in other sectors have done rather poorly. The construction sector, that had consistently showed positive employment growth in the first decade of the millennium, has been declining over the past few years, just like sectors such as mining.

Given these sectoral differences, several Member States have sought to promote employment in specific sectors, or to help specific sectors overcome the sudden fall in demand, while others have focused more on improving the enabling environment for businesses across the board. Some of the approaches used will be shared when we reach question three.

A third way of looking at SMEs is their age. From enterprises that have been “in the family” for generations, to modern start-ups, the European Union boasts many flavors when it comes to the longevity of SMEs. The report stipulates that employment growth within SMEs is to a large extent driven by younger enterprises. Young is indeed beautiful, when we look at European data on this , but the reality is also grim: young enterprises are less likely to survive than older enterprises – about half of them have disappeared after five years – but they do create many more jobs than older ones. New enterprises demonstrated a net job creation of 17.5 million workers, compared to 200,000 for young enterprises and even minus 4.2 million workers for established enterprises in the period 2004-2010.

Furthermore, the economic crisis and policy uncertainty have hampered job creation. The SMEs are strongly dependent on external financing and the willingness and capability of banks to provide loans to them. Despite several actions by the European Central Bank and notwithstanding the promotion of alternative ways of financing such as crowdfunding, access to finance remains a problem for SMEs. This is a matter of concern since the lack of resources may have curbed the number of start-ups, that are – as we just explained - important net job creators. Attention for start-ups, setting an enabling environment for them and equipping persons with entrepreneurial skills, are examples of policies that aim to strengthen the growth and innovation potential of SMEs. Given the important role that SMEs play in the European economy and the fact that the market is continuously changing, policies that address the needs of SMEs are thus essential to facilitate employment growth and innovation. We will come back to policies we have adopted when discussing question 3.

It is clear that the contribution to employment of SMEs is sizeable and even crucial, but what about the quality of employment in SMEs? Frankly, this question is much harder to answer, not in the least due to the lack of comprehensive data. Although the report reproduces some qualitative European data in its third chapter that deals with constraints faced by SMEs and their workers, much more could and should be done to measure the quality of employment in SMEs in a meaningful way and to enable analyses between countries and regions.

The quality of jobs covers many different aspects, ranging from wages, formal training and (flexibility in) working hours to health and safety implications, work autonomy and the meaningfulness of the work that's being done. The quality of jobs has a significant effect on the quality of life of workers and is related to the productivity of the workforce.

Within the European Union we have sought to assess not only the contribution to employment by SMEs but also whether or not SMEs lead to qualitatively better jobs. The overall conclusion drawn in a recent report on this is that SMEs score lower for most aspects of employment quality when compared to larger enterprises, but perhaps more importantly that there is a great need for more data on specific aspects.

Please allow me to highlight a few aspects relating to employment and job quality.

First on job satisfaction: studies on this show that the satisfaction about the job tends to be higher for employees of SMEs than for larger firms, with experts arguing that this is due to the 'soft' side of the work relationship. The face-to-face, less hierarchical relationships in SMEs and the work autonomy of workers in SMEs is apparently much appreciated. Recent research by the tripartite European Foundation for the improvement of living and working conditions found that the working climate is perceived to be better in smaller enterprises than in medium- and large establishments. However, differences between sectors can be stark.

When looking at the remuneration system in SMEs it appears that the systems in place in micro- and small enterprises are less developed than those in medium-sized and larger enterprises, notably in Europe. It seems that our SMEs make less use of profit-based payment systems when compared to SMEs in the United States. Data on wages in European SMEs, moreover, show that employees tend to receive lower wages than employees in larger enterprises, a tendency also seen in the United States and Japan. We will get back to possible reasons for this wage gap when discussing question 2.

Skills development and employee participation are more common in large enterprises than in SMEs. Clearly, economies of scale seem to matter in this regard. Although the majority of the EU Member States (22 out of 28) have established regulations on workplace representation, formal structures of social dialogue in companies with less than 50 employees are rather low. However, the coverage of collective agreements within micro- and small enterprises is relatively high, which might result from the centralization of national bargaining systems, notably the extension of collective agreements. Wage agreements cover 65% of small enterprises and 81% of large enterprises while employee representation varies between 34% in small and 88% in large enterprises. As before though, differences between Member States are stark.

What conclusions should be drawn from these findings? Above all, that it is very difficult to draw meaningful conclusions on SMEs as a whole. SMEs represent a very diverse group of enterprises. Within the EU, conclusions, particularly on qualitative aspects of employment in SMEs, are already difficult to draw. Moreover, data highlights that besides differences related to size class, also national, regional and sectorial circumstances have an impact on quality. Clearly, when developing policies to promote decent employment in SMEs, we cannot adopt a one-size-fits-all approach. We can also already conclude that the sheer economic importance of SMEs, at least in Europe, warrants attention to the quality of employment. We look forward, though, to delving a bit deeper into the more qualitative aspects of employment in SMEs when we take up our next discussion question.

Thank you, chair.