

SMALL AND MEDIUM SIZED ENTERPRISES

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Abstract

Small and Medium Enterprises (SMEs) are entrepreneurial organizations with a limited number of employees and/or with fixed financial parameters; a unique definition of SMEs is not given in the economic literature, since quantitative and qualitative parameters have to be considered and can provide different results with respect to the same population of firms.

Entrepreneurial organizations with a limited number of employees and/or with fixed financial parameters. In general it is difficult to find a definition for small and medium sized enterprises which is unanimously accepted, given the fact that there are classifications that take into account only quantitative parameters or exclusively qualitative ones or even a combination of both. With regards to the quantitative classification parameters, primarily the following ones should be mentioned: staff headcount, annual turnover, invested capital, market share and value added. Concerning the qualitative criteria which are used to characterize SMEs, there are mainly four elements to be listed: there is often a coincidence of ownership and management, as well as a simple organisational structure, often a non-leading position in the market the company operates in, and finally a predominant reliance on self-financing to sustain entrepreneurial development.

1. European SME definition

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By issuing Recommendation n° 1442 (6th of May 2003), the Commission provided a revision of rules with effect from 1st January 2005 concerning the new SMEs definition. This definition is applied to all Community policies, programmes and measures launched by the **European Commission** to support and facilitate SMEs. According to this definition, an economic actor that wants to be defined as such has to fulfil the following requirements:

- Be an entity engaged in an economic activity.
- Have less than 250 employees (micro enterprises employ fewer than 10 persons, small enterprises fewer than 50 and medium sized enterprises fewer than 250 persons). The headcount has to include all employees, persons working for the enterprise being subordinated to it and considered to be employees under national law, owner-managers, partners engaged in a regular activity in the enterprise, while apprentices or students engaged in vocational training as well as colleagues on parental leave or maternity are not to be considered in the headcount.
- Have either an annual turnover not exceeding 50 million **euro**, or a total annual balance sheet not exceeding 43 million euro (for micro enterprises an annual turnover or an annual balance sheet not exceeding 2 million euro, with regards to small enterprises an annual turnover or an annual balance sheet not exceeding 10 million euro, for medium sized enterprises an annual turnover not exceeding 50 million euro or an annual balance sheet not exceeding 43 million euro).

One of the principal objectives of the new definition is to insure that support measures are granted only to those companies which genuinely have a need. This is the reason why this definition introduces some methods on how to calculate the effective rates and the financial thresholds to obtain a more realistic picture of the economic status of the company. To reach this goal a distinction between different types of enterprises was introduced: autonomous companies (enterprises with a participation that does not imply controlling positions), partner companies (enterprises which establish major financial partnerships with other enterprises,

without one exercising effective direct or indirect control over the other) and linked companies (enterprises which form a group through the direct or indirect control of the majority of capital or voting rights). (For a more detailed definition of SMEs please have a look at http://ec.europa.eu/enterprise/enterprise_policy/sme-definition/index_en.htm).

For the member states the application of this definition is on a voluntary basis but the Commission together with the **European Investment Bank (EIB)** and the European Investment Fund (EIF) has invited them to apply it as extensively as possible.

2.SME Definition in Italy and in the World

In Italy for example, one can find diverse definitions referring to statistical data based only on one quantitative parameter with organisational nature (those companies which have a headcount up to 250 employees are considered to be SMEs); or given the strict legal definition which applies to the Community recommendation 2003/361 EC and to the headcount criteria adds another two quantitative parameters with structural nature, namely annual turnover and balance sheet or in conjunction with an assessment carried out by Unioncamere (where the definition of SMEs includes also those companies with up to 500 staff members). While there are multiple official definitions for SMEs worldwide, which led the **OECD** declare that "*the characteristics of a SME definition reflects not only the economic, but also the social and cultural dimension of a Country*"²; the international organization has contemporaneously committed itself in these years to bring the requirements to be an SME in the different countries to a common and homogeneous level. Just to give some examples we referred to the recommendation

²OECD, SME Statistics: towards a more systematic statistical measurement of SME behaviour, 2nd OECD CONFERENCE OF MINISTERS RESPONSIBLE FOR SMEs, Istanbul 3-5 June 2004 page 11-12.

for the legal SME definition in the European Union based on three quantitative criteria; also in the United States of America the headcount of staff members is of paramount importance, with the exception of business sectors which do not produce goods where the annual turnover is taken into consideration, but this is conveniently differentiated per macro-sectors; in Brazil different criteria and thresholds are utilized for various legal and fiscal aims; in Japan work force and capital or investments determine the dimension even if the thresholds vary with regards to the business sector (as well as in Korea).