



The Royal Academy
of Engineering

A Small Business Act for Europe

Response from the Royal Academy of Engineering to the EU Commission

March 2008

Response to EU Commission Consultation on the Development of a 'Small Business Act' for Europe.

The Royal Academy of Engineering welcomes the opportunity to contribute to the European Commission's consultation on the development of a 'Small Business Act' for Europe. The Academy brings together over 1,200 distinguished engineers, drawn from all the engineering disciplines. Its strategic priorities are to enhance the UK's engineering capabilities; to celebrate excellence in engineering and inspire the next generation; and to lead debate by guiding informed thinking and influencing public policy.

This response has been collated on the basis of input from our Fellows, and the findings of a series of regional seminars on university-SME interactions hosted by the Academy. A report of these seminars will be published in due course. Fellows' experience in the SME sector lies predominately in the establishment, management and financing of high-tech, high growth-potential SMEs, and our response focuses on the issues that impact most heavily on this strategically important sector: access to innovation, finance, procurement opportunities and skills.

The Academy has structured its response according to the headings set out by the European Commission. A response has also been provided through the Commission's online consultation facility.

General Question: What are the most important problems that European SMEs are facing and which prevent their growth? How to tackle them?

The Academy believes that arguably the greatest problem facing European SMEs is the lack of access to public procurement opportunities. The public sector constitutes a significant part of the marketplace, and can offer important sales experience to small innovative businesses. However, for a number of procedural and systemic reasons, it is proving very difficult for early-stage businesses to access public contracts.

There are several practical issues regarding the working of procurement procedures which give the Academy particular concern. SMEs, with little sales experience and resources, find it difficult to qualify for approved supplier lists. On a national and European level, there have been increasing moves towards placing larger contracts, which often lie outside the scope of SMEs' capabilities.

In addition, the Academy believes that the procurement rules themselves create problems for SMEs. SMEs have very limited sales teams, and are therefore only likely to apply where there is a simple sales process with a reasonably high probability of success and some ability to influence the requirements of the contract. The current system whereby all contracts are published in the European Journal means that any opportunities are guaranteed to be highly competitive, and that there is little or no flexibility in the terms of the contract. It is thus rarely cost-effective for SMEs to bid.

We are of the view that the EU must look again at the US Small Business Innovation Research model (as used, for example, by the Defense Advanced Research Projects Agency), which determines quotas for procurement from SME suppliers. In the Academy's opinion, the success of the US scheme constitutes a major factor in the contrasting rates of growth between 'high potential' SMEs in the US and Europe. The Academy believes that it is possible to find an EU equivalent of the Small Business Initiative which is compliant with single market state aid and competition legislation.

The EU should also use procurement to stimulate a degree of technology pull. This would underline the EU's commitment to research and innovation, increase the flow of opportunity for leading edge SMEs, and help promote emerging technologies within EU markets. Recent UK proposals that would commit each Government department to publishing an Innovation Procurement Plan as part of its commercial strategy should be studied carefully in the EU, and, if they prove successful, could usefully serve as a model of best practice for EU governments and institutions.

Better Regulation for the Benefit of SMEs

SMEs look for simplicity and stability in regulation. While there are certainly areas where directly applied EU legislation impacts unfairly on SMEs, the Academy believes that it would be more useful to address the individual regulations on a case by case basis than to replace the current legislative framework for SMEs with a new system that runs the risk of creating greater complexity.

Some of the potential legislative changes listed in the Commission's consultation paper cause us concern. Attempts to differentiate the way legislation is elaborated and applied according to the size of the company could add to the complexity of the legislative landscape, and damage the very SMEs they are intended to protect. The Academy believes that there should remain one common European definition of an SME, not multiple definitions for different industries or countries. Any expansion of the definition of SMEs to include larger firms would provide no help to high growth start-ups, and could in fact hinder their development by increasing the range of companies eligible for a limited pool of official SME support.

The Academy's position is that no changes are needed to the current SME definition. However, if changes are to be made, the Academy believes that the new system should be as simple, straightforward and user-friendly as possible.

Putting SMEs at the forefront of Society

The Academy is of the view that entrepreneurship needs to be taught as consistently as possible throughout the entire education system. The arrangements at the University of Ulster, where nearly all taught courses contain a module on entrepreneurship, constitute an example of best practice which could usefully be adopted in other universities in the EU.

The Academy welcomes the Commission's efforts to encourage entrepreneurship and promote a risk-taking culture throughout Europe. However, the Academy notes that nurturing entrepreneurs alone will not change the profile of Europe's businesses. Europe also needs a pool of quality Chief Executive Officers (CEOs) with excellent managerial skills who can bring high potential start ups to fruition. Networks of high tech CEOs are developing, but much more work needs to be carried out in management training and networking across European borders to reach the standard of the US.

Helping SMEs acquire the Skills they need

The Academy would be highly supportive of any proposals to implement cross border mobility programmes for entrepreneurs and apprentices. We believe that small high potential businesses should have as much access as possible to the skills they need – whether they come from the national skill-pool, other EU markets, or, indeed, from outside the EU.

The Academy believes that there is a need for greater support for work placement and knowledge transfer schemes involving small businesses, and that these exchanges could usefully take place across European borders as well as on a

national level. Such programmes are often viewed purely as a vehicle for delivering research expertise to SMEs, but they also play an important role in giving the brightest research students a feeling for the demands of business. The UK's Knowledge Transfer Partnerships scheme is a good example of a technology transfer scheme which also functions as a useful introduction to entrepreneurship and business practice.

Facilitating SMEs' Access to Market

The Academy believes that barriers exist which prevent SMEs from engaging effectively in the production of standards. Very few SMEs can supply staff to help draw up standards on a pro-bono basis, with the result that the standards delivered in new technologies tend to favour larger companies, which can afford to spare key staff members. It would make sense to pay SMEs or networks of SMEs for staff involvement in the production of standards.

The Academy also believes that there are gaps in the provision of standards which may hinder the development of entire technology markets. The relatively slow take-up of nanotechnology based products and processes could be due in part to a lack of end-to-end standards for development, characterisation, and safety certification.

Facilitating SMEs' Access to Public Procurement

In addition to the broader problems over access to public procurement identified above, the Academy would like to draw the Commission's attention to a specific issue which arises in national and EU procurement of IT systems. The use of mathematically formal specification and development methods has not become routine in the EU, despite proven European strengths in these areas, primarily concentrated in SMEs. The Academy recommends a move to a two-phase procurement process for major IT systems. An SME would be employed to help the client develop, formalise and analyse their requirements before the main development contract is placed. This role would be analogous to the use of architects and consultant engineers in civil engineering. This new system would result in higher quality, more cost-effective IT projects, and would also help to grow a cohort of European SMEs with vital experience in the development and delivery of large scale projects.

Encouraging SMEs to tap opportunities outside the Single Market

At present, there is a tendency to adopt a scatter-gun, high level approach to key strategic markets. The Academy feels that the EU would be better served by a narrower and deeper focus built around a relatively small number of SMEs that have a real chance to break through in key markets. A funding scheme could be devised where companies could apply on the basis of the submission of a detailed business plan for significant financial support for export activity in well defined areas.

European Business Centres can be of use if they are set up along the right lines, and build upon best practice identified in international business networks developed by EU member states. Use should be made of EU historical and cultural links to priority countries, as well as regional networks and trade and sector groups. The selection and presentation of candidate firms must also be very carefully handled. It will be very important to select firms which have real potential to succeed and to present them as confident international players in their own right rather than as clients which are dependent on EU assistance. Our Fellows find the networks established by UK Embassies and the British Council very useful, and a European business support network set up along these lines would be very welcome.

The US and Asia should be viewed as priority markets. The Academy feels that direct support for sales and licensing arrangements in Asia would be particularly beneficial.

Improving SMEs' Access to Finance and Innovation

High potential SMEs hoping to access finance are often dependent solely on the resources available in domestic venture capital markets. The Commission should encourage the development of pan-European venture capital markets across national borders by facilitating the growth of autonomous European networks of both SMEs and venture capitalists.

What are the main problems that SMEs face in accessing various EU support programmes such as the 7th Framework Programme for Research and Development?

The landscape of support for SMEs is fragmented and over-complicated, with EU schemes, national bodies, and NGOs all competing to offer assistance to the limited number of SMEs which have both the ability and the motivation to grow and develop. The Academy believes that there should be more integration and complementarity among schemes, both at national and EU level.

The Framework Programmes are the main source of EU support for companies associated with the Academy. We have concerns over the complexity of the Framework proposal process and the administrative burden it places on SMEs, which often have to employ extra staff specifically to write proposals. Such overheads can cause serious damage to early stage start ups. The delay between the call and project award is also too long for SMEs which are often working on limited timescales and need to make progress very rapidly. We see the need for a fast-track, lower-value, one or two partner grant scheme for SMEs; in this respect, the Academy is very interested in the continuing evolution of the Eurostars programme. A two-stage funding system, where a short project outline was vetted first, and detailed documentation only requested at the second stage, would also represent a marked improvement over the current system.

Would you suggest any other Obstacles or additional Issues to address to improve SMEs' Access to Finance and Innovation?

We see potential problems in access to early stage financing. In the UK today, this is substantially provided via business angels who invest via a tax efficient mechanism called the Enterprise Investment Scheme. We understand that recent improvements in the scheme set out in the 2008 UK Budget are currently awaiting clearance under SARC European Community state aid guidelines. In our view, this is an excellent scheme which has led to the development of many angel groups and investment in many early stage SMEs, and it should be developed and encouraged.

Would you suggest any other Obstacles or additional Issues to address to further enhance the Innovation Capacity of SMEs?

Industry-Academia co-operation across the EU makes an important contribution to enhancing SMEs' access to innovation through technology transfer and formal or informal consultancy services; in many cases, such co-operation facilitates the hiring of high quality graduates. However, SMEs which approach universities with a view to co-operation often find themselves confused by a lack of clear contact points, and a web profile overwhelmingly directed at prospective students. A useful aid to improving SME access to innovation would be to ask each university to nominate a contact point for all dealings with SMEs, and to have that person's details prominently displayed on their website and promotional materials.

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31 March 2008

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