

SME Strategy and Industrial Strategy Position Paper

June 2020



In her opening speech to the European Parliament, President Von der Leyen highlighted the importance of Family Businesses to the European Economy and highlighted her commitment to them:

"Think of the family-owned businesses all across our Union. They were not built solely on shareholder value or the next bonuses. They were built to last, to pass down generations, to provide a fair living to employees. They were built on passion for quality, tradition and innovation."

As such, with no single reference in the current paper, the fact that Family Businesses are not mentioned anywhere is a glaring omission in the new SME strategy. Whilst EFB welcome the new Industrial Strategy and accompanying SME strategy from the European Commission, it recognises that changes need to be made to the SME strategy to reflect the issues and struggles that effect the business, political and societal environment following the COVID-19 crisis and also to reflect the points specific to Europe's Family Businesses listed below. EFB also welcomes the fact that the Commission recognise the importance of Industry in the future of the EU, the digitalisation process and the green transition, and family businesses look forward to being at the forefront of this green and digital transition.

Transfer of Business

Whilst EFB welcomes the specific reference to the transfer of business process in the paper, it is concerned about the angle in which it is explored. **Transfer of Business is at the core of Family Businesses** and this is a form of internal, intergenerational change. It is important to note that for family businesses, the transfer of business is not a process of selling for profit to an external actor. For family businesses, the transfer of business process can be one of the most difficult challenges that they face and is a tool for survival and the passing down of a business to the next generation. As specifically referenced by President Von der Leyen, "they were built to last, to pass down generations". In a world of multiple challenges and rapid economic changes family businesses are guarantors for stability and orientation for customers, employees and societies alike.

The European Commission must highlight the difference between internal and external transfers of business and work to provide the favourable conditions for each process to take place effectively and independently of one another. EFB calls for an improvement of the legal framework for the transfer of family businesses. This would ensure the survival of family businesses and prevent distress sales.

Education on the transfer of business process must also be provided to ensure businesses can plan for this process effectively and so that the amount of businesses lost to this process is limited. This education should also include family business-specific education in governance structures, owner strategies and innovation strategy, in particular in countries where, for historical reasons, the family business concept is not as well established, which would contribute to their long-term success. The transfer of business and succession can come at any time regardless of the meticulous planning that goes into a structured timeline, so businesses need to be prepared.

Medium-Sized Businesses

Moreover, EFB calls on the Commission to address the specific issue around medium-sized businesses. Mid-sized businesses are neglected, being too big to be included in the SME definition yet being too small to be included in the large business definition. By establishing a **medium-sized businesses definition**, the Commission's recognition of the potential of the lock in effect of the SME definition would be directly addressed. A "Go for Growth" initiative would help to encourage SMEs to grow to become medium-sized businesses contributing more to society and the economy and would work to provide Medium Sized Businesses with the specific support they need for growth.

SMEs would therefore be encouraged to grow sustainably, with the provision of a transition period and education where these businesses are able to learn and update their processes to adapt. The fundamental role of medium sized businesses and SMEs would thus be accurately seen as a strategic asset rather than just the significant difference between small and large businesses. Medium sized businesses would also be able to challenge large businesses in terms of long-term development, employment, investment, turnover, added value and export.

The creation of a new definition for "Medium Sized Businesses" would lead to better representation of the European economic fabric, a very first stage in adapting the regulatory framework to the problems encountered by rapidly growing SMEs and medium sized businesses in the EU. It would also enforce the Commission to refresh their procedures for access to public procurement contracts for businesses that contribute to the outreach of manufacturing, employment, growth and innovation across Europe.

Equity and SME Listing

As we have learnt from the COVID-19 crisis, it is vital for companies to have a strong equity base to ensure that they are crisis resistant. **Crisis resilient companies can help cocreate crisis resilient economies.** Similar to the financial crisis ten years ago family businesses this time are using their equity for the absorption of pandemic induced losses. Due to this careful behaviour, family businesses are contributing a lot to the recovery of the European economy many of them without asking for either grants or loans. Family Businesses tend to build up equity as part of their long-term strategy even though it becomes more challenged by tax policy and macroeconomic distortion. However there are very few incentives for businesses to do this in current member state legislation. **The Commission needs to encourage the provision of tax incentives to build the equity base of companies.** This is a valuable lesson we need to learn from the COVID-19 crisis. We need to work to build the equity of companies in Europe to help

them build up strong reserves for when the next crisis hits, as after all, it is a matter of when, not if, the next crisis hits.

Moreover, whilst EFB welcomes the Commission's proposal of SME listing and believes that it is a good way to encourage greater investment and financing of our SMEs, we recognise that the process **may not be the correct decision for all businesses**. For family businesses in particular, the extra administrative burden and the potential loss of control present difficult and moral challenges which can disincentivise owners from listing their business. The desire to nurture their business and ensure that it is able to be passed down to the next generation as smoothly as possible is a key decision for family businesses to consider when exploring the possibility of SME listing. To this endeavour, the promotion of a two-tier system of share ownership has proven to be an effective tool for family companies to inject paid-in-capital into the business, choosing to list using two classes of shares usually one with super-voting power, the other without.

Sustainability

One thing that needs to remain a key focus on the legislative period following the COVID-19 crisis and should be a key focal point of the SME strategy is sustainability. **Sustainability is a key part of family businesses and their social fabric**. Their longevity means that their business plans are naturally sustainable and that family businesses can strive to make a difference to the world, as good citizens to their local community. Many family businesses have been pioneers of this drive towards sustainability and have put the UN sustainable goals at the forefront of their business plans. Henceforth, they are pioneers of sustainable and responsible business and can help, alongside the sustainability advisers, other SMEs in their journey to becoming a sustainable business. **Family Businesses can and are willing to help in the green transition of industry and our economy**.

EFB calls on the European Commission to put a balanced and feasible Green Deal at the forefront of the COVID-19 recovery and use it as one of the biggest drivers of the EU economy in the years to come, whilst ensuring that it is done so in an economically viable way.

As called for in our Position Paper on the Green Deal, EFB calls on the European Commission to continue with their planned expansions of the EU Emissions Trading System (ETS) despite the COVID-19 pandemic and encourages them to push ahead with the cross-sectoral introduction of the ETS to other sectors such as building, transport or agriculture .

Conclusion

Family Businesses remain a key part of the future of Europe in the recovery from the COVID-19 crisis and are ready to play their part, along with the wider SME community. EFB looks forward to seeing the Commission's updated Industrial and SME strategies and to working closely with the Commission in the coming years to provide the best possibility for environments to thrive in the coming years and help industry shift to a greener, digitalised future.

European Family Businesses (EFB) is a federation of 15 national family business organisations. European Family Businesses strives to make political decision makers aware of the contribution of family businesses to society and to promote policies that are conducive to long term responsible entrepreneurship. Our members represent a turnover in excess of one trillion Euro, and over 9% of European GDP.