CHAPTER 4.

SOCIAL INVESTMENTS AS A CONTRIBUTION TO SMES DEVELOPMENT

SOCIAL INVESTMENT AS A STEP TOWARDS AN INNOVATIVE STRATEGY FOR EUROPEAN SMES

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The competitiveness and innovative development of national economy significantly depends on competitiveness of enterprises. Generally, entrepreneurship means an individual’s ability to transform ideas into action, including creative decisions, innovation, and ability to manage projects and their risks in order to achieve the goals. The vast majority of enterprises that operate within highly developed national economies are small and medium-sized enterprises (SMEs). Therefore, SMEs have emerged as a driving force for more inclusive and prosperous societies. At a time of total globalization SMEs contribute not only to the separate countries’ economic growth. Their fostering also benefits the growth of separate regions and international organizations.

The general belief about SMEs as the drivers of growth and prosperity are presented in a number of recent empirical studies and applied researches [1 — 6]. In particular, SMEs are often concerned as the backbone of the economies development in Europe (EU SMEs), providing not only a significant part of regional value added, but other kinds of innovative opportunities for further economic growth. The European Commission pays
attention to the main pillars, which are considering as the SMEs’ activities results, including job creation, development of innovation, economic growth and social integration in the EU. However, the EU SMEs official statistics currently is able to identify SMEs only by employment size, namely by representing them as enterprises with fewer than 250 persons employed.

Within the 2016 — 2017 timeframe, 99 out of 100 European enterprises were SMEs. This is all but 0,2 % of entities which operated in the EU non-financial sector and 57 % of value added in the EU non-financial business sector. In recent ten years, there has been a total increase in the number of EU SMEs for 10,8 % or 2,3 million enterprises, which have increased value added for more than 10,9 % or 497 billion EURO.

However, in 2016, these SMEs also accounted for 67 % of EU employment or employed 91,71 million people. The last ten years have seen a growing trend towards employment by EU SMEs by 0,6 % or 531 000 jobs. In 2016, SMEs employment increased by 1,6 % in compartment with 2015 [1; 2; 3].

The compartment on the latest data on number of people employed by SMEs in different EU countries is represented in Fig. 1.

**Fig. 1.** The number of people employed by SMEs in different EU countries, % *

* Source: compared by author on the basis of [1]
Data from European Commission researches suggest that SMEs can generate diversified types of outcomes, including such of social nature (Fig. 2).

**Fig. 2.** SMEs’ contribution to European economic and social increase, %*

*Source: compared by author on the basis of [1; 2]*

Thus, in some cases, strong economic prospects are not only associated with the value added. For example, a high level of SMEs’ activities creates a capacity to pursue further employment growth.

However, support measures for SMEs development quit often are still unbalanced in European countries. There are still some European national economies, which legislation and national strategies are not able to pay enough attention to small business’ peculiarities [7]. Traditionally, SMEs’ activities are still mostly held within the national market. Generally, the internal factors are used to identify the main conditions for SMEs’ building and further management, namely:

– the timeframe of business existence;
– the level of innovativeness;
– high growth strategies, which were implemented by SMEs;
– pursuing sound investment strategies;
– high-skilled management;
– marketing researches, concerning level of competitiveness and potential customers.

At the same time, SMEs’ competition worldwide need to complete a number of external conditions, including:

– positive international image of entrepreneurship;
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– favorable macroeconomic and international conditions;
– supportive business regulations;
– effective public and regional services;
– access to external finance, including regional and international funds;
– high-skilled resources availability increase;
– labour and production costs management [1].

The above mentioned factors represent the different sides of society. Therefore, we concern them within four main components within PEST analysis, namely political, economic, socio-cultural and technological components in Europe. PEST analysis describes the current framework of macro-environmental factors and is used to develop different strategies within a managerial conception (Fig. 3).

<table>
<thead>
<tr>
<th>Political component</th>
<th>Economic component</th>
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<td>1. SMEs’ tax policy</td>
<td>1. Economic growth both on the national and European levels</td>
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<td>2. Environmental law</td>
<td>2. The level of interest rates</td>
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<td>3. Preferential tariffs for SMEs</td>
<td>3. Exchange rates’ level, including cost of capital for SMEs’ development</td>
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<td>4. Political stability</td>
<td>4. The inflation rate</td>
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<td>5. Labour law, including self-employment politic</td>
<td>5. The cost of exporting goods and services</td>
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<td>6. The cost of imported goods and services</td>
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<th>Social component</th>
<th>Technological component</th>
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<td>1. Traditions and SMEs’ culture within European framework</td>
<td>1. Innovative SMEs’ widespread</td>
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<td>2. Health politic</td>
<td>2. SMEs’ R&amp;D activities</td>
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<tr>
<td>3. Population growth rate and age distribution</td>
<td>3. The rate of SMEs’ technological changes</td>
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<tr>
<td>4. Career attitude and safety politic</td>
<td>4. Automation and technology incentives</td>
</tr>
<tr>
<td>5. European SMEs’ ethical policy</td>
<td>5. EU SMES’ outsourcing decisions</td>
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* Fig. 3. EU SMEs’ PEST analysis*  
  * Source: compared by author

The scanning of above mentioned components is used to manage the different EU SMEs’ development strategies. Such methodology supports an overview of wide range of macro-economic and environmental factors that
are able to be taken into consideration within an external analysis, conducting a strategic analysis and market researches.

The barriers for EU SMEs development mean that there is often limited access to international markets because of the perception of higher risk and competitiveness. For instance, up to now, 25% of EU SMEs’ representatives have mentioned the finding of customers as the main problem for their development (Fig. 4).

![Fig. 4. The main problems for EU SMEs in 2016, %*](image)
* Source: compared by author on the basis of [2]

In terms of the main business issues and challenges faced by SMEs in 2016, the issues of “finding customers” and “availability of skilled staff or experienced managers” were highlighted as the most pressing. In addition, regulation, competitiveness, cost of production or labor and access to finance are mentioned among the key issues that create the main part of SMEs’ problems. At the same time, the above mentioned issues deeply depend on each other. For instance, to find new customers SMEs need to develop their activities within new markets. This means that they should be able to produce more competitive and innovative products, which is impossible without high skilled stuff involvement. SMEs’ abilities to support and educate their stuff and to produce innovative goods and services depend on their access to finance.

As far as “access to finance” is mentioned as one of the most important barriers for SMEs’ activities, there is a need to improve the financing environment and develop the potential of different financial sources for small
and medium businesses both in separate European countries and in the whole Europe.

Thus far, the European Commission works to improve the financing environment, creating new possibilities for EU SMEs [8; 9]. The systematic approach is used to concern an action plan to improve access to finance for SMEs [8] as a part of an overarching framework for the EU policy on Small and Medium Enterprises (SMEs) that is summarized in accordance with the Small Business Act (SBA) [8]. The aim of such work is to improve the general approach to SMEs’ activities in Europe, simplifying the regulatory and policy environment for SMEs, and removing the remaining barriers to their development. The four strategic priorities for SMEs development are separated within SBA (Fig. 5).

![Fig. 5. Strategic priorities for SMEs development in Europe*](image)

* Source: compared by author on the basis of [8]

The first step of the European Commission’s strategical SMEs’ activities is supporting the Commission’s Regulatory Fitness and Performance (REFIT) program that ensures the EU legislative functions within SMEs’ activities and removes unnecessary burdens for effective business [10]. The main REFIT issues are defined, including:
- jobs, growth and investments;
- digital single market;
- energy union and climate;
- internal market;
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- a deeper and fairer economic and monetary union;
- a balanced and progressive trade policy to harness globalization;
- justice and fundamental rights;
- migration;
- a strong global actor;
- democratic change.

Such kind of activities is able to show results. In particular, within the three years’ timeframe more than 130 new initiatives to simplify and reduce regulatory burdens have been proposed to Council and Parliament. Nearly 80% of all REFIT initiatives include a quantification of regulatory costs and more than 60% include a quantification of regulatory benefits [11]. As the result, REFIT initiatives help companies to reduce compliance costs for businesses. This supports the entrepreneurship promotion that means encouraging people to build a new business and make it easier to grow such business.

In accordance with the European Commission’s researches, there are only 37% of Europeans, who would like to set up their own business. In compartment to this, there are more than 51% of such people in the USA and China. In general, the European environment steal does not offer the perfect foundation for an entrepreneurial career, including such main factors as difficult access to financial sources and markets, difficulty in development and transferring businesses, the fear of punitive sanctions in case of failure, and burdensome administrative procedures. Therefore, the principle of “think small first” has to become among the first priorities for European and national policies [12].

Some of the main SMEs’ challenges and appropriate actions in EU, proposed by the 2020 Action Plan, are given in Table 1.

Data from Table 1 show us that taking the “Think small first” principle as a reference means mostly a particular approach to regulation will enhances business development, supporting investment growth. On the one hand, boosting small business competiveness and developing is part of development strategy within national economy. On the other hand, SMEs’ support means improvement for the whole European Union’s worldwide competitiveness among other economic blocks around the world. Therefore, improvement of financing environment for small businesses in Europe plays a significant role within European SMEs’ strategy implementation.
### EU SMEs’ challenges and actions*

<table>
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<th>№</th>
<th>Main SMEs challenges</th>
<th>Areas for immediate intervention</th>
<th>Key actions in Europe</th>
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<tr>
<td>1</td>
<td><em>Education</em></td>
<td>appropriate education and training system to provide high-skilled labour to support further growth and business management; reigniting the European business culture and upbringing the new generation of entrepreneurs;</td>
<td>– investing in primary business education; support of universities; investing in particular business foundations activities for an entrepreneurial ideas development; entrepreneurial learning and entrepreneurship promotion; a pro-business culture fostering in Europe</td>
</tr>
<tr>
<td>2</td>
<td><em>Markets and finance</em></td>
<td>supporting SMEs within their business lifecycle</td>
<td>– micro-credit initiatives; deploy SME-geared EU financial instruments on a broader scale; improve SME access to the non-lending financing routes; enhance the banking capacity and potential of other investors to lend to SMEs</td>
</tr>
<tr>
<td>3</td>
<td><em>Business development and transferring</em></td>
<td>removing existing administrative barriers and supporting entrepreneurs in crucial phases of the business lifecycle.</td>
<td>– reduce the volume and improve the quality of EU regulation applicable to SMEs and entrepreneurs; unleashing additional business opportunities in the digital century; transfers of businesses; bankruptcy procedures and second chance for honest businessmen; regulation burden reduction.</td>
</tr>
<tr>
<td>4</td>
<td><em>Business sanctions</em></td>
<td></td>
<td></td>
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<tr>
<td>5</td>
<td><em>Administrative procedures</em></td>
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*Source: compared by author on the basis of [7; 8; 12; 13]*
In particular, the European Commission works to improve the availability of financial resources to SMEs by supporting the provision of financial sources, including loans and venture capital through different financial instruments. The European Commission also stimulates particular EU countries to share such SMEs’ policy on improving access to finance. The experts of World Economic Forum pay attention to key phases of the entrepreneurial lifecycle and define the first priorities for investing on each phase (Fig. 6).

**Fig. 6.** The first priorities for investing on each phase of SME’s business cycle*

* Source: compared by author on the basis of [14]

On the first phase the most important conditions to start a small business include:

- SMEs’ environment improvement;
- a positive attitude towards business;
- highly-developed skills to start an enterprise;
- a cultural, ethical and social framework that encourages self-employed;
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– the opportunity to create an innovative idea and actual market offerings;
– financial support for beginners in small and medium business.

However, the basic condition is financial support that is able to encourage future SMEs’ representatives to develop their idea and support its implementation within national and European market. In addition, the risks of financing on the stand-up phase are increasing more rapidly than on the farther phases. Mostly, the start-upper already has the progressive innovative idea, but there are a lot of questions about the possibility of its implementation, available demand and managerial skills within the process of SME driving.

EU policy makers should highlight the strategy with main directions, which aim to provide the financial support that helps to estimate all available conditions to start a business and to understand the probability of current start-up success. There is a crucial role of entrepreneur education, which was regarded as the most meaningful form of prior exposure to entrepreneurship by the majority (54 %) of the World Economic Forum respondents. Therefore, on this phase, the primary investment purpose is to develop entrepreneurial thinking, education, culture and the way of thinking. This means the main role of social investments.

Nowadays, social investments are widespread and developed both on the level of national economies and generally in Europe. The main reason for such changes is such as following: people always had their social needs and tried to find new solutions for pressing them. Social investments have spurred its development recently. Such tendencies are connected with the severe employment and social consequences of crises for many of Europe’s citizens.

On top of that, the growing of ageing population in Europe, fierce global competition and social changes became burning societal challenges. The sustainability and adequacy of Europe’s health and social security systems as well as social policies in general is at stake. This means Europe need to have a fresh look at social, health and employment policies, but also at education, training and high-skills development, small business support, industrial policy and urban development, to ensure socially and environmentally sustainable growth, jobs and quality of life in Europe [15].

The EU social investment strategy means implementation of an integrated policy framework which takes into account the main social, eco-
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Economic and budgetary factors and is focused on the following groups of activities:

– investment in SMEs’ social protection systems that respond to the main social needs at critical moments throughout business cycle. The main SMEs’ needs satisfaction helps to reduce the risk and to avoid further higher social spending, providing an optimal level of their stuff health and education protection;

– development of investment strategies in accordance with targeted social SMEs’ policies goals, providing sustainable social protection systems;

– upgrading active inclusion of social investment strategies within SMEs’ business strategies, including education, training and job-search assistance, housing support and accessible health care, which are the main areas of policy with a strong social investment dimension.

The second above-mentioned start-up phase means the SMEs’ expansion. Therefore, the main business purpose is access to capital. In particular, EU SMEs face the following main issues within the current phase:

– access to follow-on funding, which especially affects the growth of start-ups, including human capital development;

– creating of SMEs’ ecosystem and financial support of connection within such system, for instance, sharing business social initiatives with financial sector representatives;

– creating new opportunities, including financial support of market researches and social advertisement activity, which widespread already existing markets, supply chains and simply to gain additional support;

– developing infrastructure, including business support schemes implementation, new work places creation and the important technical and managerial conditions for their productive work creation;

– changing of social and cultural views into SMEs’ peculiarities, including of special meetings, conferences and other informational events organization, providing necessary instruments for developing business activity.

Nowadays, the European Commission proposes to focus on the following four main areas of SMEs’ financial support, namely:

• removing unnecessary financial regulations and easing tax burdens;

• creating incentives to businesses and/or investors, including social investments stimulation and activation;
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- providing particular funding and support programmes, including also social goals;
- promoting and raising the profile of small social-oriented business and the start-up ecosystem [1].

The particular instruments to support SMEs’ social investment programs include:
- cluster growth supporting;
- innovative hubs supporting that available to provide particular SMEs’ trainings and mentoring;
- investment in creating SMEs’ networking opportunities, and facilitating access to financial sources for starters;
- creating connections between business representatives, innovators, mentors, researchers and universities networks;
- boosting further educational SMEs’ programs.

Thus, on the second phase, the SMEs are developed and become significant within national economies and international markets. At the same time, on the third phase scale-up SMEs are already stronger than they were before. The small business growth means social activity and influences an existing social services system. On the last phase of SMEs’ development, the authority should be interesting in providing particular financial instruments and additional advantages not only to networks and organization that are able to support SMEs’ social functions, but also social active SMEs.

The practical directions to support and provide SMEs social investment on the scale-up phase are following:
- the market-based development of alternatives to lending assistance in Europe;
- activation of mid-tier businesses and fast growing SMEs’ social activities;
- SMEs’ stability and improvement of its lending capacity support;
- secure better possibilities for banks and insurance companies to be involved in implementing alternatives to lending for social-oriented SMEs.

EU SMEs’ securing programs are realized with a wide range of instruments, including such instruments and methods as:
- hybrid funding methods (mezzanine finance);
- equity funds and venture capital;
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– small-business credit and bank lending programs for SMEs;
– SME bonds;
– SMEs’ guaranties;
– regional SMEs’ supporting programs.

Thus, the current research to provide favorable conditions for social active SMEs development in Europe is aimed to differentiate three main stages within the SMEs’ life cycle, namely the stand-up phase to stimulate entrepreneurship initiatives, the start-up phase and the scale up phase.

The favorable conditions for SMEs creation and development on the first phase mean stimulating of business culture and positive image financing. These create no short-term income, but develop entrepreneurs’ potential and access to the right skills. Therefore, the investments in SMEs should be social investment. In general, the main purpose of stand-up phase investment is to concern on the possibilities, which SMEs already have and to develop their potential.

The major factor for start-up phase SME development is access to capital. Therefore, the available legal framework both on the national and regional levels should encourage social business infrastructure and small business eco-system creation. These kinds of activities stimulate to rapid SMEs growth and high skilled development.

Finally, the scale-up SMEs are strong enough to create additional value and social influences for society. The authority is able to remove existing regulation and financial burdens, promoting and stimulating both SMEs and financial institutions to provide social programs.

REFERENCES

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