

Building a better platform for international SME growth



Joe Carr
Global Leader of SME Advisory Services, Mazars



Fabrice Demarigny
Global leader of Capital Markets, Mazars

One of the key messages to come out of the 2008 financial recession was the need for business to focus on long-term economic growth and financial stability by adopting a business model that not only enhances performance, but also has a positive impact on society.

Small to medium-sized enterprises (SMEs) have been particularly hard hit by the weak economic environment. Yet employing more than 65% of the global private-sector workforce and accounting for 52% of total gross value added,¹ SMEs deserve an increased level of support by government, trade bodies and trusted financial advisors on the particular challenges they face.

One of the main challenges facing SMEs is the ability to participate in global markets. Access to global value chains is a crucial component of growth, yet many SMEs find themselves excluded. In particular, lending restrictions following the financial recession have meant SMEs have seen access to finance curtailed, which has in turn acted to put up barriers to entry.

Breaking barriers to inclusiveness

The challenge to improve global market participation and access to finance for SMEs is among a set of policy recommendations put forward in 2014 by the Business 20

(B20), which brings together the key business associations of the G20 countries. Designed to remove obstacles that SMEs are facing, initiatives include improving the transparency and availability of data on SMEs, which will help reduce the risk associated with lending to SMEs.

A realignment of the regulatory and capital market landscape to allow SMEs greater freedom to participate in global markets is a key element of change required. The development of tailored financial instruments such as loan guarantees as well as a review of transaction laws and the encouragement of equity finance will help provide a firmer footing for SMEs to operate more effectively.

Perhaps **the biggest challenge is to support SMEs embarking on an international expansion programme.** Access to local market information, protecting rights and compliance with international labour, social, environmental and quality standard laws can add to the complexity and costs SMEs face. Therefore, greater technical assistance and advice on how SMEs can deal with these issues is an essential plank in policy recommendations now on the table.

Importantly, the initiatives focus on collaboration and long-term economic growth. Championing the creation of a World SME Forum specifically set up to

cope with some of the unique problems experienced by SMEs is another fantastic step in the right direction. Not only will the Forum act as a conduit to highlight what SMEs need, but it will also provide wider access to training programmes that specifically address the skills SMEs require.

Reforming the landscape in which SMEs operate is without doubt an ongoing process. New research, continued debate and participation in legislation and regulatory change, as well as the formulation and adoption of new financial tools that both harness and develop SME growth, should be welcomed. The more practical and public information that is made available on how the SME sector functions can only help to shed further light on the particular constraints SMEs experience, as well as how they can overcome such hurdles.

Achieving a sustainable balance

Research shows that SME success is not solely about removing market barriers, but also about how they react to any change in the operating market environment.² Europe has been particularly hard hit by the global economic downturn, so it is useful to look at how SMEs in Europe are reacting, particularly as half of SMEs in terms of both number and employment across the European Union are involved in three sectors that are heavily reliant on domestic demand – construction, wholesale and retail, and accommodation and food services. Where domestic demand in these sectors has stagnated, many SMEs find themselves operating in a very competitive space where organic growth is now difficult.

The statistics suggest the need for some tough choices. As well as repositioning a product or service offering, consolidation with other SMEs to achieve economies of scale at regional or national level should be a viable consideration. Not least by improving access to credit, which tends to favour larger organisations. Although, it is important

to recognise that there is often a trade-off between size and the inherent agility to react quicker to fast-changing market and customer requirements – the trademark of SMEs. Not only does this enable SMEs to make decisions quicker than larger firms, it also means that they have often developed stronger personal relationships with their clients, which is an important ingredient for better business in society.

Better access to finance is a key agility factor for SMEs. In addition to access to credit, funding through capital markets should be a priority for policymakers. This can be achieved by encouraging angel investment, venture capital and private-equity investment with appropriate tax incentives, pooling of investment vehicles and by making disclosure and other regulatory requirements for smaller firms more proportioned to facilitate greater issuance and trading of SME debt and equity. The forthcoming European Capital Market Union has clearly identified alternative SME funding and the creation of a ‘funding escalator’ as its top priorities.

Getting the balance right is, therefore, key. **Rather than simply bigger being better, the more useful lesson to learn is that SMEs should be the “right size”.** So if a company is staying small, it needs to

ensure it maintains a niche focus and that it is deeply rooted in supply chains and the wider ecosystem to ensure the benefits of critical mass can be leveraged. This may involve outsourcing non-core activities and developing strong partnerships with others as an alternative to internal organic growth.

Linking with important sectoral clusters and ecosystems to enhance value chains and remain abreast of sectoral innovations and best practice is one way of staying ahead. At a national level, the SME sector may need to be treated, to some extent, as a numbers game. Certainly, if a significant portion of SMEs are forward-looking, developing and entering foreign markets, this will help to build scale within the SME sector.

Global lessons

Certainly, more in-depth analysis on the SME sector will help towards the formulation and adoption of high-level principles such as beneficial ownership transparency. Transparency around ownership and control of companies is a key issue in the battle against corruption, money laundering and tax evasion. Getting a consistent cross-border approach to beneficial ownership transparency, whereby there is agreement on benchmarking and compliance standards, will help simplify

and reduce the burden experienced by businesses, particularly SMEs.

Governments, trade bodies and professional firms such as Mazars now have an important role to play in raising awareness of the strategic challenges facing SMEs. **Key to this will be having the will and expertise to promote and participate in effective regulation, trust and transparency, so that businesses have the capacity, on a global scale, to change for good.**

1. The Association of Chartered Certified Accountants (ACCA)
2. Mazars’ survey – ‘How to be a standout SME’

Mazars is an international, integrated and independent organisation, specialising in audit, accountancy, tax, legal and advisory services. As of January 1 2015, Mazars and its correspondents operate across 92 countries. They draw on the expertise of more than 14,000 professionals to assist major international groups, SMEs, private investors and public bodies at every stage of their development.

