

PIN-SME recommendations to the Spanish Presidency of the EU

Enhancing competitiveness of the European ICT Small and Medium sized Enterprises (SMEs)

Introduction

- *50% of the EU productivity growth comes from the ICT sector.*

- *Micro enterprises (i.e. 1-9 employees) are more than 94% of the total number of enterprises*

- *Micro enterprises provide 30% of total employment in the ICT services industry.*

- *In computer services and related activities (NACE 72), SMEs are 99.4% of all enterprises.*

- *Eurostat data show that in 2006 ICT-SMEs provided 69% of the employment and 58% of the total turnover in 2006*

This paper presents the recommendations of PIN-SME, the European ICT SMEs' association, to the Spanish Presidency of the EU on policy initiatives aimed at enhancing the competitiveness of European ICT SMEs.

PIN-SME is an association formed in 2007 to represent the interests of Europe's ICT SME sector. Currently ten national and regional associations are members, representing some 50,000 ICT SME companies that account for around 200.000 jobs. PIN-SME aims to ensure that ICT SMEs get *talked to* rather than just *talked about*. It provides a voice for ICT SMEs in the policy and business arenas and is represented in several EU expert groups and taskforces.

Despite the essential role of ICT for the competitiveness of the European economy and the essential share of SMEs in the European ICT industry, too many of the ICT SMEs remain small and vulnerable to international competition. Although the trade of ICT services is on the increase, the SMEs in the sector represent a very small proportion of that international trade.

PIN-SME has identified a number of key policy recommendations addressing the issues that prevent the European ICT SMEs from achieving their full competitiveness potential. Those recommendations are reflected in a study aiming at identifying the current trends of the SMEs' competitiveness in the EU ICT industry which will be published

by the European Commission in the coming months.

On behalf of European ICT SMEs, PIN-SME wishes to bring those policy recommendations to the attention of the Spanish Presidency of the EU.

Recommendations

Improved European Directive on Late Payments

Late payments are a plague in commercial relations and affect the vast majority of enterprises. A solid legal framework to regulate the delays in payments is expected to have substantial and immediate consequences on businesses.

In particular, SMEs suffer more than larger firms from late payments. Large businesses owe more money to SMEs than SMEs owe to them. SMEs have in fact a weaker negotiating position compared to larger organisations. Additionally, smaller businesses usually do not have the expertise and resources to commit to debt collection that larger organisation have at their disposal. Another major reason why smaller businesses tend to be owed more than they owe, is that there is much less scope for them to obtain generous credit terms - larger firms, on the other hand, can use their negotiating strength to obtain much more favourable payment terms.

Along with its partner organisation UEAPME¹, the European Association of SMEs, PIN-SME wishes to propose the following recommendations concerning the Commission's proposal Late Payments Directive (COM (2009)126):

- **The period in which enterprises pay other enterprises should be limited to maximum 60 days;**
- **The scope of the directive should be extended to business to consumer relations;**
- **The period in which public authorities pay enterprises should in principle be limited to maximum 30 days; Exemptions on this principle are only allowed in some limited duly justified cases and can never exceed 60 days;**
- **The right to charge Interest rates should be turned into an obligation.**

¹ "UEAPME's position paper¹ on the Commission's proposal on the late payments directive (recast) COM (2009)126" is available at http://www.ueapme.com/IMG/pdf/0907_pp_late_payments.pdf

The following PIN-SME recommendations are supported by the “Study on the Competitiveness of the EU SMEs in the ICT services industry”² of the European Commission. The following extracts of the study are reproduced with the authorisation of DG Enterprise and Industry.

Internationalisation

- There are already national initiatives that provide financial support for export to new markets. However, efficient exploitation of export opportunities depends on a solid knowledge about specific markets, For the SMEs this represents an added cost that may act as a barrier to internationalisation. **Member States should assess if their infrastructure and market intelligence services reach their intended target audience and that there is a not an information asymmetry that prevent SMEs from fully exploring public support to internationalisation of SMEs in ICT services.** In cases where the infrastructure is not fully developed, it should be strengthened, and Member States must on an on-going basis take stock that the internationalisation infrastructure is updated and aligned to developments in different foreign markets. As part of knowledge infrastructures on internationalisation, there is a need for targeted information about support opportunities and regulations when expanding across EU borders. **The EU should work with the European industry associations to implement initiatives aimed at creating greater awareness of public export support initiatives.**
- Many SMEs in ICT services lack knowledge and skills pertaining to internationalisation. They lack knowledge about regulative environments in foreign markets and skills in setting up contract arrangements with suppliers, clients and representatives, and once in place managing international operations. **There is a need for industry led initiatives tailored to SMEs in ICT services to provide support and training where necessary aimed at specific markets both inside and outside EU.**
- Within the EU SME Portal, the feasibility of a web-based portal tailored to SMEs in ICT services to facilitate exchange of knowledge about export markets, trade opportunities and potential international partners and sources of further information should be explored. Furthermore, it should be explored whether such a portal could facilitate contract management and use of contract templates. **The Commission should take action with industry associations (and especially those catering for SMEs in the sector) to launch such a feasibility study. Links to national industry Associations would likely stimulate the uptake of such a service portal among SMEs in ICT services.**

Innovation and growth

- In cross border regions, ICT services clusters can benefit from the knowledge infrastructure, cross-border labour markets, and in a range of other areas. **The EU should therefore strongly encourage that that regulations and policy measures are such that they fully support the potential value added from**

² “Study on the Competitiveness of the EU SMEs in the ICT services industry” of the European Commission (study developed within the Framework Contract of Sectoral Competitiveness Studies – ENTR/06/054)

cross-border clustering. Dynamic clustering can have substantial effect on access to a specialised workforce, links and collaborations with the knowledge system and extended and dynamic partnering opportunities.

- EU initiatives to help fund SME expansions and innovation already exist. The problem is that there is an information asymmetry disfavours SMEs and promotional campaigns are not targeted at specific SME types. Therefore, **there is a need to assess how promotional campaigns about venture capital, EIB and EU funding opportunities with growth potential best target SMEs in ICT services as the basis for forward looking information campaigns. These campaigns should be tailored to where SMEs are in their lifecycle, and they should focus on SMEs with the capacity to innovate.**
- Venture capitalists may be a valuable source of equity for SMEs that need investments to accelerate growth on a global scale; however, there may be needs for many ICT micro companies that need investments to innovate, but on a more moderate scale. **Together with PIN-SME the European Commission should take action in cooperation with Member States to map and assess the type of financing products available for innovative SMEs in ICT services with a view to identifying gaps in financing regimes, and identifying which type of financing models work best for which type of innovation investments.**
- The Commission should establish an initiative to promote new partnership models for SMEs in ICT services, including different forms of collaboration (Open Source, franchise, PPP, etc.), opportunities through mergers and acquisitions. (...) The promotional campaigns should be tailored to different SME types according to innovation strategy, where they are in their lifecycle and their motivation for growth and innovation.
- There is a need for policy initiatives at Member State level aimed at reducing the cost and stigma of failure, e.g. allow a fresh start for entrepreneurs that failed (bankruptcy legislation) and create incentives and support for start-ups and small growth companies. (...)
- Member states with support from industry associations should promote business opportunities for ICT services SMEs in converging sectors and industries — e.g. financial, media, telecommunications, entertainment and healthcare sectors converging to different degrees with ICT sector. These promotional campaigns should among others raise awareness regarding cloud computing and other new opportunities for service innovation. A recent study (Pierre Audoin Consultants SAC 2009) of the Software and Software based services industry estimate significant (double digit) growth rates from 2008 to 2012 for emerging market segments comprising online advertising, mobility services, Service Oriented Architecture, Open Source Software, cloud computing, machine to machine services, web 2.0 services and Internet of things (including RFID).

Improved access to qualified labour

- **EU and Member States should remove barriers to attracting and maintaining qualified ICT services labour from other countries (also from outside EU).** A previous study commissioned to Danish Technological Institute (2008) showed that strict immigration laws and conditions for remaining in

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Member States after graduation or a PhD was perceived in some countries as a barrier to a broader recruitment base.

- Within the structural funds and the programme on Lifelong Learning, there are many promising examples of how networks of networks allow SMEs to benefit from joint activities and resources. **It should be encouraged that such examples are disseminated through business associations and trade organisations to the benefit of SMEs in ICT services.**

R&D and commercial Exploitation of R&D

- **Support is required for coordination of SME involvement in the ICT standardisation processes – through national standardisation organisations and through SME representative associations at EU level, including support for open standards (e.g. PIN-SME).** Access for SMEs in the standardisation processes and promotion of their involvement is usually provided by national standardisation organisations (NSOs). At present, however, SMEs participation in standardisation at EU or international level through NSOs is generally very low. Complementarily to the national participation system, there exist other initiatives at European level that have proven to be quite effective. This is the case of the European SMEs' representative organisation, NORMAPME, which has achieved good results and enhanced SMEs' involvement in standardisation. **Therefore, SMEs' participation in ICT standardisation should be supported through both NSOs and European SMEs' representative associations (PIN-SME).**
- Open Source is an area that offers great potential for SMEs in ICT services. However, this potential is not fully exploited because of dominance of proprietary vendors and insufficient market trust in Open Source as a reliable alternative. **Public authorities could play an important role in building customers' trust in open source solutions by introducing open specifications in public procurement. This would create better market access for open source solutions from ICT service SMEs.**
- **The EU and Member States should promote different IPR approaches taking into account the various business and standardisation models.** There is a need to identify good practices for SMEs in ICT services in addressing IPR and standards issues and disseminate these through national and European organisations. **IPR protection in some instances can be a barrier to the take-up of innovation amongst SMEs, and less of an incentive.** Increasingly, **SMEs thrive in ecosystems where interoperability and absence of high legal fences create a better business environment.**
- **SMEs consider Software Patents as a barrier to their business model, rather than as an incentive to innovate.** Software is already covered by another form of IPR, **the copyright: this instrument is very effective and adapted to this technology.** Copyright permit the development of the innovation that is mainly made by SMEs.
- SMEs in ICT services tend to not use legal fences and rather opt for technical alternative modes of protection. The lifecycle of software based service solutions is also often shorter than in other sectors and therefore of no interest to protect. Finally, the cost of litigation is too high compared to the value of revenues. Although market mechanisms have solved many issues and favours open interfaces, relying on market mechanisms is a risky approach. **Standards, therefore, should be maintained fully interoperable**

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and open. The EU and Member States should prioritise interoperability and openness in standards when referring to standards in legislation and public procurement.

- **Member states should set up support to help SMEs create a better link and understanding of R&D and standardisation.** SMEs need to understand this also as a commercial judgement. Opportunities in pre-commercial procurement from the public sector could be further developed through platforms for interaction between SMEs and public sectors customers.
- The Commission should examine how the various emerging business models (including different open source models) are impacted by regulations including those on protection of IPR.

About PIN-SME

PIN-SME, the PanEuropean ICT and eBusiness Network for SMEs, is the first European association of the ICT sector exclusively focused of representing the interests of SMEs. PIN-SME Founding Members are nine national sectorial SME associations from different EU countries and one ICT SME network from Germany. PIN-SME represents more than **50.000 enterprises**, which employ around 200.000 people across Europe.

PIN-SME members

BASSCOM - Bulgarian Association of Software Companies (BULGARIA), CNA -Comunicazione e Terziario Avanzato, Confederazione Nazionale dell'Artigianato e della Piccola e Media impresa (ITALY), ESTIC - Asociación Empresarial del Sector TIC (SPAIN), BestPractice-IT- G+F Verlags und Beratungsgesellschaft mbH (GERMANY), GPNI - Groupement Professionnel National de l'Informatique (FRANCE), it-forum midtjylland (DENMARK), UBIT Unternehmensberatung & IT (AUSTRIA), UKita, United Kingdom IT Association (UNITED KINGDOM), SwissMedia - Swiss IT & Multimedia Association (SWITZERLAND), VDEB – Verband IT-Mittelstands E.V. (GERMANY)

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