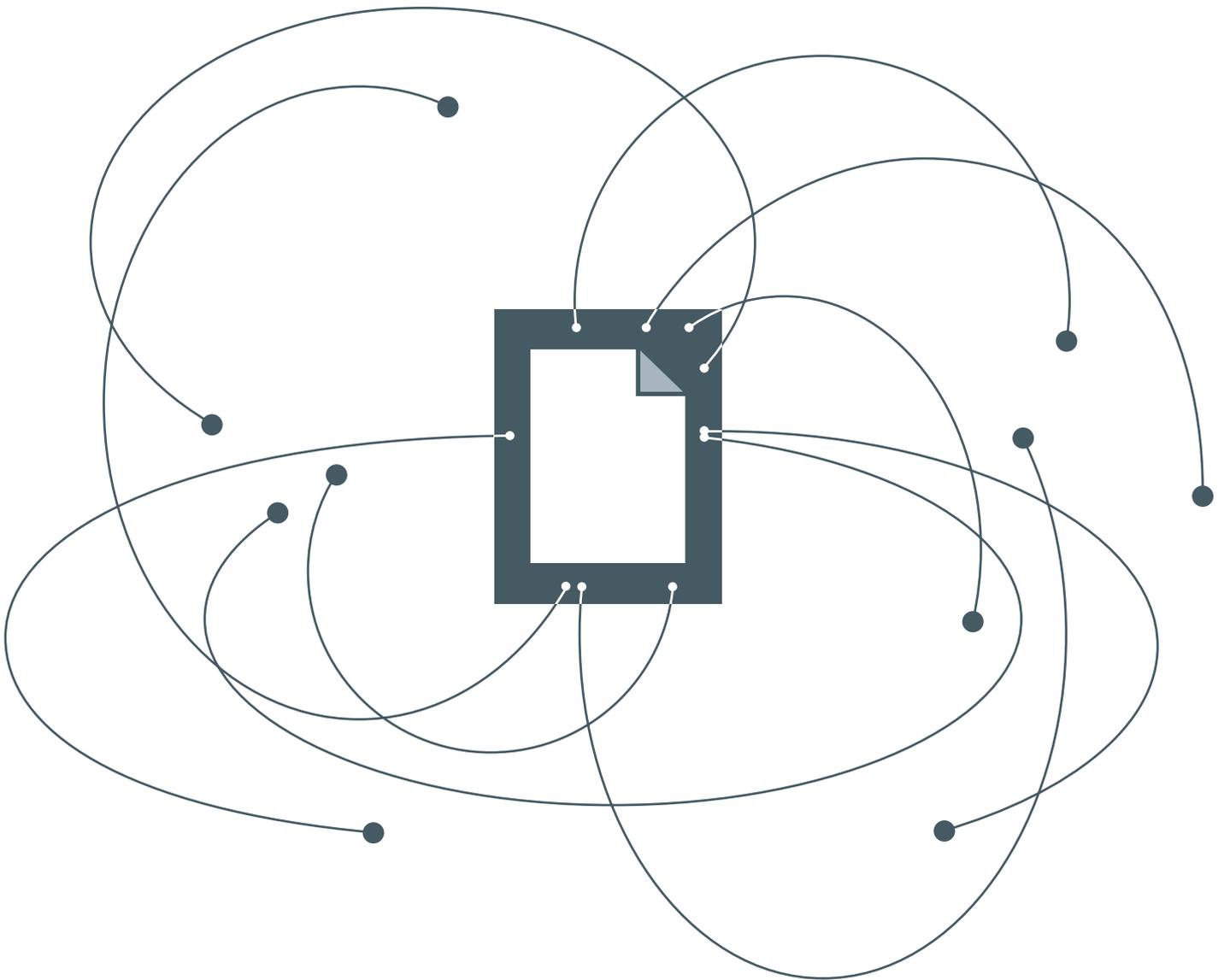


# SUSTAINABLE YOUNG SMES: INTERREGIONAL KNOWLEDGE EXCHANGE



## YOUNG SMES POLICY DOCUMENT



**YOUNG SMES**  
**POLICY DOCUMENT**

<b>01 Introduction</b> .....	02
<b>02 What are Young SMEs</b> .....	03
2.1 The role played by SMEs in the EU .....	04
2.2 Performance of SMEs in the EU in 2013 .....	05
<b>03 The Importance of Young SMEs to EU Economic Growth</b> .....	06
3.1 Policy relevance of Young SMEs .....	07
3.2 Small Business Act .....	07
3.3 Europe 2020 Strategy .....	08
<b>04 Specific problems faced by young SMEs</b> .....	09
4.1 Fragmented support offer .....	09
4.2 Business support design .....	10
4.3 Low levels of awareness of support available .....	10
4.4 Access to finance .....	10
4.5 Understanding the business environment .....	11
4.6 Access to knowledge .....	11
4.7 Access to new markets .....	12
4.8 Access to IT .....	12
4.9 Policy implications .....	13
4.10 Purpose of this Policy document .....	13
<b>05 Young SMEs Road-map methodology</b> .....	14
5.1 Stage 1: Investigate .....	14
5.2 Stage 2: Realise .....	15
5.3 Stage 3: Elaborate .....	17
5.4 Stage 4: Implement .....	18
5.5 Stage 5: Evaluate .....	20
<b>06 Conclusion and recommendations</b> .....	21
6.1 Conclusion .....	21
6.2 Recommendations to policy makers .....	23

# YOUNG SMES POLICY DOCUMENT

## 1.0

---

### Introduction

SMEs are vital part of a successful economy. Not only do they support supply chains, foster innovation and entrepreneurship but they essentially create sustainable communities through job creation. Supporting SMEs firstly to help them survive beyond their formative years, to help them grow into strong and competitive businesses and for them to help stimulate new business creation contributes to prosperous local and regional economies whilst at the same time reducing unemployment rates significantly.

However, research suggests that many SMEs will not make their 5th year. Between 3 and 5 years is the age at when a business is mostly likely to fail. Whilst there is currently an array of both public and private sector support to encourage entrepreneurship, support the creation of new business and help existing businesses, there is very little or even nothing in some area's to specifically support Young SMEs. Current business support provision is developed, delivered and implemented according to the sector, size or growth potential of a business. In some cases age is considered but typically that support is only provided until a business is 3 years old. This is not sufficient. To help the survival and growth of Young SMEs there needs to be a shift away from generic support to a more targeted approach aimed at businesses aged 3-5 years.

For this approach to succeed this shift needs to be recognised and adopted by policy makers such as government and regional economic development agencies at the national and regional level. Then for it to be implemented and delivered by key stakeholders such as local economic development authorities, chambers, universities, trade associations and business support organisations.

The important role that SMEs play as part of successful local, regional and national economies is recognised by the ERDF Interreg IVC Young SMEs Project. The project has been developed to look at examples of good practise that already exist across the 12 partner countries

to help support young SMEs and identify examples of best practise that could be transferred to other regions. As part of this process, a model has been developed to help transfer examples of best practise from one partner region to another. This model has since been refined into a “Young SMEs Road-map” so that it can be used as a tool by policy makers across Europe as an aid to developing and implementing local and regional action plans specifically to support young SMEs. Therefore, other European regions can now benefit from the young SME experiences to help them transfer and develop specific support to help the survival and growth of young SMEs.

It is intended that policy makers from across Europe will use this document to help them develop and integrate targeted support specifically for SMEs aged 3-5 years into regional action plans by following the steps identified in the road-map model described in section 5 – young SMEs road-map methodology.

## 2.0

---

### What are Young SMEs?

A SME is a business with fewer than 250 employees and is independent from larger companies. In addition, they have an annual turnover of up to 50 million euros or an annual balance sheet of up to 43 million euros. There are three types of SME: Micro-enterprises have fewer than 10 employees, small enterprises have between 10 – 49 employees, and medium enterprises with between 50 and 249 employees. Young SMEs are SMEs that are aged between 3-5 years. All SMEs are vitally important to the economic prosperity of the European Union. They are the lifeblood of prosperous, thriving economies. In Europe, they account for 99% of all private sector businesses and provide two thirds of private employment and approximately 80% on new jobs created over the past 5 years. They are also critical suppliers and partners working across the supply chain of the majority of large businesses, which enables the world of business to be driven forward.

However, these are tough times for all businesses but in particular, young SMEs. Cash flow problems and red tape, along with global economic difficulties, mean that businesses need support not only to help them develop and grow but simply just to survive. One of the biggest challenges that any SME faces is survival beyond its formative years.

Research shows that most new firms do not appear to survive beyond their 5th year. Statistics show that only 46% of businesses survive for 5 years (Eurostat, 2013). Therefore, there is a need to understand why SMEs are failing at this age, if they have specific needs and what they are and mostly importantly what we can do to help reverse this situation.

## **2.1 The role played by SMEs in the EU**

Micro, small and medium-sized enterprises (SMEs) play a central role in the European economy. They are a major source of entrepreneurial skills, innovation and employment. In the enlarged European Union of 28 countries, some 21.6 million SMEs provide around 88.8 million jobs and represent 99% of all enterprises. In 2013, they provided two out of three of the private sector jobs and generated 3,666 trillion euros in value added which equates to 28% of total EU GDP. Moreover, SMEs are the true back-bone of the European economy, being primarily responsible for wealth and economic growth, next to their key role in innovation and R&D.

In the non-financial business sector in the EU28, the six largest Member States (France, Germany, Italy, Poland, Spain and United Kingdom) account for almost:

- 66% of all SMEs
- 74% of value added generated by SMEs
- 69% of total SME employment

The share of the micro SMEs in the total number of SME enterprises ranges from 82% in Germany to 96% in the Czech Republic, Greece, and Slovakia.

Five key economic sectors account for approximately 78% of all SMEs in the EU28: manufacturing; construction; professional, scientific and technical activities; accommodation and food; and wholesale and retail trade. The same five sectors also account for roughly 71% of the value added created by SMEs in the EU28 and for 79% of total EU28 SME employment. Among the five key sectors, the retail/wholesale sector is the largest in almost all EU Member States.

## **2.2 Performance of SMEs in the EU in 2013**

---

SMEs have experienced tough times recently. Even though overall economic conditions improved marginally in 2013 economic growth is still very subdued and the overall macro-economic environment continues to be very challenging for SMEs.

According to the SME Performance Review (2014), SME performance in 2013 remains pretty much at 2008 levels. The rate of expansion of the value added generated by SMEs in the EU28 non-financial business sector was just 1% above 2008 levels, employment in 2013 was 2.6% below levels registered in 2008 and the number of SMEs fell by 0.9% in 2013 following a decline in 2012 also. Micro SMEs performed better than small and medium SMEs in terms of value added but less well in terms of number of businesses and employment.

At the EU level, SMEs have recovered to pre-crisis levels only in terms of value added and to a lesser extent, in terms of number of businesses. In 2013 there were 354,308 more SMEs than there were in 2008 and value added showed a small net increase of 44,313.75 million euros. Employment in 2013 was still 2.6% below levels registered in 2008, with a loss of 1,962,808 jobs.

This overall picture hides considerable variations across member states and industrial sectors. In 2013, the number of SMEs and employment increased only in two sectors business services (legal, accountancy, advertising etc.) and others (real estate, ICT etc.), while losses were seen in other sectors, particularly in construction. The performance in terms of value added was relatively more positive, with the exception of the construction sector.

Between 2012 and 2013, only a limited number of member states registered positive growth of above 0.5% (Lithuania, Latvia, Malta, Romania, Germany, Estonia, Denmark, Austria and Sweden). Across the EU, SMEs in many member states have not yet fully recovered from the recession and their performance in terms of number of businesses, value added and employment in 2013 was still below 2008 levels.

The net increase in the overall number of SMEs in the EU28 from 2008 to 2013 is explained by the growth in the number of micro firms. Micro firms constitute the largest share of the SME population, and their importance since 2008 is virtually unchanged. Small and medium-sized

SMES, on the other hand, dragged down the performance of the SME sector in terms of the number of SMEs.

In contrast, medium-sized SMEs account for almost 2/3 of the total increase from 2008 to 2013 in the value added generated by SMEs in the EU28 while small SMEs did not contribute at all to the growth in SME value added, and micro SMEs account for 1/3 of the growth in value added. The overall SME employment losses from 2008 to 2013 in the EU28 are accounted for mainly by micro firms (by 65%) and to a lesser extent by medium-size firms (by 27%), while employment levels at small firms fell only slightly.

Forecasts suggest that SMEs will continue to face difficult and risky times ahead but there is cause for some optimism. The SME Performance Review (2014), states that SME value added is expected to expand in 2014 and in 2015 and there will be a net increase of approximately 740,000 SME jobs by 2015 in EU28. Across specific sectors, services are expected to grow but employment in construction and manufacturing is forecast to shrink. Across Member States, SMEs in most Southern and Eastern European economies will still be far from full recovery in 2015.

Overall, the business environment for EU28 SMEs will remain fraught with risks. These risks have the potential to negatively affect future growth prospects of the SME sector.

### 3.0

---

## The Importance of Young SMEs to EU Economic Growth

Guided by a range of specific policies, the following section highlights the importance of SMEs and the need for them to create jobs and contribute to value added to support the economic growth of the EU. Generally speaking SMEs are most likely to create jobs and contribute to value added following the start-up phase, once they become established in the market and start to expand. Typically, this takes place as they enter years 3-5 or as they become young SMEs. We already know that there is a tough road ahead for SMEs per se but if we are to achieve the economic ambitions set out below, it is vital that we safeguard the future of young SMEs.

### **3.1 Policy relevance of Young SMEs**

---

If young SMEs are to have a significant impact on Europe's economy by creating jobs and contributing to value added, they need to survive and grow – take on more employees and expand their product ranges, markets and turnover. In many cases, the skills and experiences of an entrepreneur are not necessarily sufficient to grow the business. Further stages in the businesses development require new technologies and the skills to implement them, new staff with additional skills and access to new markets, as well as financial investment, direct business advice and support and help accessing new markets.

At European policy level, this need for SMEs to survive and grow has been recognised by the Small Business Act (2008) and the Europe 2020 strategy. The key role of SMEs in the European economy has been repeatedly acknowledged at the highest political level since the launch of the “Small Business Act” in 2008. This Act aims to improve the overall approach to entrepreneurship, permanently anchor the “Think Small First” principle in policy making from regulation to public service, and to promote SMEs growth by helping them tackle the remaining problems which hamper their development. The Act applies to all independent companies that have fewer than 250 employees.

### **3.2 Small Business Act**

---

A review of the Small Business Act in 2011 proposed a new set of actions in line with the Europe 2020 strategy to support SMEs in the following areas:

- Making smart regulation a reality for European SMEs.
- Paying specific attention to SMEs financing needs.
- Taking a broad-based approach to enhancing market access for SMEs.
- Helping SMEs to contribute to a resource efficient economy.
- Promoting entrepreneurship, job creation and inclusive growth.

### **3.3 Europe 2020 Strategy**

---

The Europe 2020 strategy developed by the European Commission in 2010 sets out a vision of Europe's social market economy for the 21st century. It demonstrates how the EU can arise stronger from the global economic downturn of previous years and how it can be turned into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. The 10 year economic strategy aims to focus on the creation of new jobs and a better quality of life by:

- Smart growth – developing an economy based on knowledge and innovation.
- Sustainable growth – promoting a more resource efficient, greener and competitive economy.
- Inclusive growth – fostering a high-employment economy delivering social and territorial cohesion.

In order to meet these priorities, the Commission has created 5 targets to be achieved through a series of flagship initiatives to boost innovation and growth.

#### **2020 targets**

---

**1** - 75% of the population aged 20-64 should be employed.

---

**2** - 3% of the EU's GDP should be invested in R&D.

---

**3** - The 20/20/20 climate/energy targets should be met.

---

**4** - The share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree.

---

**5** - 20 million less people should be at risk of poverty.

---

The importance of enterprise and entrepreneurship is highlighted as an on-going priority for the European Commission, where it is considered in more than half of the thematic objectives in the 2014-2020 Cohesion Policy. Improving rates of enterprise and entrepreneurship are considered vital for Europe's economic recovery. Regional policy makers have a key role to play in creating frameworks that support enterprise.

Young SMEs are vital to the success of the policy aspirations and targets set out by the Small Business Act and the Europe 2020 Strategy. Without a strong, diverse and buoyant young SME base across Europe the above aspirations and targets will not be met. By ensuring that young SMEs receive the support that they need, particularly, when they are at their most vulnerable, we can ensure that the EU can arise stronger from the global economic downturn of previous years and emerge into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion.

## 4.0

---

### Specific problems faced by young SMEs

As well as understanding how SMEs have and are forecast to perform in the macro-economic context, their pivotal role in European economic growth policy and how, in particular, young SMEs can contribute to this, it is also important to understand any issues and problems that young SMEs may face. Having this type of intelligence enables policy makers to develop action plans at the local and regional level that will have a real national and European impact.

There are a range of specific problems and issues that young SMEs face and these are typically as a result of their age and sometimes because of their size. As part of the work carried out by the Young SMEs Project, these were identified as: fragmented support offer, business support design, low levels of awareness of support available, access to finance, understanding the business environment, access to knowledge, access to new markets and access to IT.

---

#### 4.1 Fragmented support offer

In many regions, publicly funded support services aimed at young SMEs are fragmented and insufficiently joined up. They can also be provided in a reactive and ad-hoc way. There can often be duplication in the support offer which leads to confusion amongst the client group as to what support is available, from where and which is most appropriate for their needs. This sense of confusion can further be increased by the short-term nature of politics that can see regional business support structures being reorganised and rebranded in line with the political cycle.

## **4.2 Business support design**

---

A “one-size-fits all” approach is often taken by policy makers. Although, there are common business support needs for businesses per se, young SMEs need different supports from new or well established businesses.

## **4.3 Low levels of awareness of support available**

---

As stated above, many young SMEs are confused about the support that is available to help them beyond their formative years. However, many may not be aware that any support exists to help them in the first place! As well as policymakers ensuring a more simplified approach for young SME to access support, they need to make sure that it is also more visible.

## **4.4 Access to finance**

---

Access to finance is crucial for young SMEs if they are to grow and develop. With limited access to grant funds, loan, equity and debt finance are often the only options available. These include: overdrafts, factoring, leasing, venture capital, private and external equity and commercial loans. However, due to their age, limited track history and lower probability of survival than older businesses, young SMEs are deemed as high risk when it comes to finance. This risk tends to be reflected in higher interest repayment rates and less favourable terms of debt or equity financing. Young SMEs particularly suffer from a lack of credit history which can help facilitate access to finance as well as more favourable terms. This can also lead to lending that is based on collateral rather than expected rate of return. Young SMEs often suffer from a lack of good collateral which can adversely affect access to finance and credit ratings.

Access to finance continues to be a major challenge for young SMEs. To operate effectively, it must be accessible and it shouldn't be offered in isolation. It needs to be integrated into an integrated support package including needs analysis, guidance and on-going support. Also, different forms of finance are needed and policy makers are well placed to facilitate these via crowd funding and business angel's and potentially through the proposals for the Cohesion Policy 2014-2020 via microfinance schemes.

#### **4.5 Understanding the business environment**

---

The importance of understanding the business environment can easily be overlooked as a problem faced by young SMEs but it can have a huge impact. This involves understanding and working within the regulatory framework all well as understanding the support networks, both formal and informal, that are available to support young SMEs. Regulatory frameworks can have very different impacts from one business to another but in general the adverse impact of regulations on young SMEs can be particularly harmful. This is because young SMEs are less well equipped to deal with the problems arising from regulations as they tend to have less resources and know-how to enable them to navigate through the complexities of regulatory and bureaucratic networks. Furthermore, due to its “fixed-cost” nature, the cost burden of regulation is greater for young SMEs with limited access to financial resources than for more established businesses. Also, management time is also being absorbed which is crucial for young SMEs and investment ability may be compromised with the cost of compliance.

The aim of policies supporting young SMEs must be to reduce regulatory barriers and to create frameworks that enable businesses to take new products and services to market as quickly as possible.

Resources can be scarce for young SMEs, particularly, human resources. Unlike more established businesses, the owner/manager of a young SMEs has a multi-faceted role that can involve working at both the strategic and operational level, managing the day-to-day running of the business whilst ensuring that the business has the resources and capacity to survive and grow. There is often limited time to get involved with anything outside of the business. This is a problem as young SMEs may not have the time to understand the business support environment and what support is available to help them grow and survive, not only from formal sources but also from connecting to other similar businesses and networks that may be able to help.

#### **4.6 Access to knowledge**

---

Access to knowledge is vital for young SMEs - knowledge to help establish themselves in the market and then to help them innovate and grow. Young SMEs have a specific role to play in terms of knowledge

and innovation. They are generally more market and less research driven, quicker to respond to new opportunities and more oriented to small incremental advances. Due to their age, diversity, flexibility and quite often their size, young SMEs can be a unique source of knowledge and innovation by developing new markets and providing product diversity and innovation in fragmented existing markets. However, young SMEs can often find it difficult to access the knowledge or technology needed to help them achieve this, again due to a lack of time, resources and the sometimes slow rates of return. Other problems that young SMEs face in this context are that they don't know what they need to know until they have learnt something and this is sometimes exaggerated by a deficiency in business skills to self diagnose the needs and value of knowledge.

---

#### **4.7 Access to new markets**

It is important that young SMEs operate in a variety of markets. Reliance on a single or a few limited markets can be a high risk strategy, particularly, if the main customer ceases trading, or, if at an international level, a market faces political or economic difficulties. It is much less risky if a business operates across a number of markets. However, young SMEs often have problems accessing new markets particularly, at the international level. It can be difficult for young SMEs to access international markets due to a lack of experience as well as having the know-how and support to address exchange rate fluctuations, cultural differences, different technical standards, discriminatory public contract award procedures and bureaucracy.

---

#### **4.8 Access to IT**

Generally speaking, in today's competitive market place it is important for businesses to deliver their service or products as quickly as possible, to the highest of standards at minimum cost. For this to be achieved IT systems must be place that will standardise and improve a business's internal and external processes. For maximum impact this should cover all angles of the business including sales, marketing, finance, HR, production, logistics etc. The complex nature of identifying an appropriate system, the cost, implementation of it and the ongoing maintenance and on-going upgrade of it can exclude young SMEs from having such systems.

#### **4.9 Policy implications**

---

There are a range of specific issues and problems that young SMEs face and that must be addressed to support their survival and growth. Policy makers need to be aware of these issues and look at ways in which young SMEs can be supported within a wider policy framework so that they can play their part in creating economically prosperous regions. At the most basic of levels policy makers must strive to ensure that young SMEs have support to:

- A co-ordinated and easy to understand business support offer.
- A business support offer that is designed and delivered appropriately to meet the needs of young SMEs including all priority groups and business models.
- A visible and well communicated business support offer.
- Access to finance at reasonable cost.
- Work within the regulatory framework through simplified procedures and access to networks.
- Access to knowledge and innovation for them to develop new products and processes.
- Access to IT systems to help survive and growth in an increasingly competitive market.
- Access to new markets to minimise risk and ensure the long-term sustainability of the business.

#### **4.10 Purpose of this Policy document**

---

The purpose of this document is to provide a structured road-map methodology that shows policy makers how to integrate support for young SMEs into local and regional action plans. It has been developed by partners of the Interreg IVC Young SME Project.

The Interreg IVC Young SMEs Project has enabled a broad range of organisations from 12 partner countries to come together and share their experiences and examples of good practice around a number of thematic areas to show how policy makers can best support young SMEs. Exchange of this nature, starting with the identification of good practice and sharing of best practice has helped the group identify the processes involved in transferring best practice to other regions. At a 1 day workshop in Torun, Poland in Nov 2013, this learning was used to develop the following road-map methodology which can be used to inform policy and practise in individual regions across the EU to support young SMEs.

## 5.0

### Young SMEs Road-map methodology

The road-map methodology outlines a 5 stage process for policy makers to follow when integrating support for young SMEs into regional action plans (Table 1). The main stages are: intelligence gathering to see if young SMEs are facing survival and growth issues in the region, identification of barriers to survival and growth as well as possible solutions, creation of a holistic approach at the national or regional/local level, development of an implementation plan and monitoring and evaluating the impact of the support provided.

The methodology developed represents a dynamic but flexible process that will help policy makers develop a support mechanism that is needed, not only to support young SMEs and the benefits that they bring to regional and local economies, but also to help the European Union realise the ambitions and targets set out in the Europe 2020 Strategy.

Table 1 - **Young SMEs road-map methodology**

Investigate	Realise	Elaborate	Implement	Evaluate
Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Information: ▶ Gathering ▶ Interpretation ▶ Analysis ▶ Key trends ▶ Barriers ▶ Issues	Identify: ▶ Need for support ▶ Target audience ▶ Desire of YSMEs ▶ Support options-new / existing ▶ Potential resource implications	Agree: ▶ Stakeholders ▶ Commitment ▶ Communication ▶ Priorities ▶ Holistic approach ▶ Potential resources	Identify and agree: ▶ Regional / local consensus ▶ Action plan ▶ Roles & responsibilities ▶ Resources ▶ The "Vision" ▶ Target market	Monitor & evaluate: ▶ Survival rates & growth of YSMEs ▶ Wider impact ▶ Improvements ▶ Progression routes

### 5.1 Stage 1: Investigate

The first stage of the model deals with the collection of information to look at the wider business environment to see if young SMEs are indeed facing survival and growth issues. The analysis of this information should highlight key trends, particularly, around business survival rates as well as barriers to growth and any other issues that young SMEs face.

The information used should ideally be a mix of primary and secondary research from a range of levels but with the emphasis on the potential delivery area. However, it is important to consider more strategic information from the national or European level as this will allow policy makers to assess what is happening regionally or locally within a wider context. However, it is the more localised information that will highlight the issues that young SMEs are facing.

High level sources of secondary research include information from a range of sources including the European Union and Central Government Departments, financial institutions and member organisations. More localised secondary information is available from regional and local economic development agencies, business support services, universities and higher education, chambers, banks and regional and local media.

Primary research should also be considered at this stage. This will involve a programme of business engagement that specifically targets young SMEs and could take the form of tailored research, business surveys, consultation forums, focus groups or even on a one-to-one basis. The approach taken obviously depends on the available resources but again using a mix of the above will result in the best information. Whilst engaging with businesses it should also be determined if there is an appetite for business support from the business community because without demand there is little point in progressing to stage 2!

Following this stage of the model, policy makers should have a thorough understanding of the business landscape, in particular, the issues and barriers that young SMEs are facing, as well as whether there is a defined need and desire for the support from the business community. They should also be able to determine if there is a need for targeted support i.e., to specific sectors or geographical locations or whether ubiquitous support is required. This leads to the second stage of the model – “Realise” - that realises the need for intervention and looks at possible support solutions.

---

## **5.2 Stage 2: Realise**

Stage 2 is the realisation that support for young SMEs is actually needed. This is based on the findings from stage 1 where it has been identified that:

- There is an identified need for support in terms of helping the survival and growth rates of young SMEs
- Who the target audience is, and,
- Vitally, that young SMEs want supporting.

At this stage in the process, it is necessary to look at the potential support options available to young SMEs. A full analysis of the business support framework should be carried out to see if there are existing support programmes that could help them. Business support frameworks can be quite complex and are often very fractured so it could be a difficult task identifying what support currently exists. To facilitate this process, it may be useful to call upon a range of business support stakeholders, networks and partnerships to help collate this information.

If support does exist, the potential impact should be considered and whether it's fit for purpose. If the analysis shows that there is a general lack in provision then it may be necessary to draw up ideas and options around potential additional new support. All the options for support should be linked to the needs and issues identified in stage 1.

As well as developing new ideas, it could be prudent to look to examples of good or best practise that already exist from other networks, groups, areas, regions or countries that could be potentially transferred. The ERDF Interreg IVC Young SMEs Project has identified a collection of tried and tested good and best practise that exist in partner countries around the thematic areas of:

- Funding
- Cooperation
- Public and private sector co-operation
- Energy efficiency
- Premises
- Investment
- ICT
- Knowledge.

At this stage all potential support options should be considered as well as the resource implications in terms of developing, delivering and monitoring them and their potential economic impact. This is a really important point to consider especially when resources are limited. Value for money for each scheme should be determined.

Once this information has been gathered, an easy to follow matrix should be created that shows potential and new options for support as well as the resources required to implement it, the impact that it will have in supporting young SMEs and the wider economy and value for money. This information can then be used to inform stage 3 – Elaborate.

### **5.3 Stage 3: Elaborate**

---

In advance of this stage, intelligence has been gathered that demonstrates there is a need for support, who needs it and why. There is also a matrix of potential support that has been developed that highlights the impact that the support will have as well as value for money indications. Stage 3: Elaborate involves sharing the findings of the previous 2 stages with key stakeholders at a higher administrative level in order to gain commitment, support and an agreed holistic approach as a way forward. This is a vital stage in the road-map journey because without the support of high level stakeholders it will be difficult to proceed.

The high level stakeholders need to be informed about the issues that young SMEs are facing and the impact this is having on them and on the wider economy. They need to know that SMEs are at their most vulnerable when they are aged 3-5 years. As SMEs come out of their start-up phase (0 - 3 years) they should be looking at their next phase in their life-cycle as a period of growth. However, this is often not the case and, unfortunately, this is the age that they are most likely to fail. They need to be informed that this is a problem that is also impacting on the economic performance of the area or region but that with intervention and support the trend could be reversed.

At this stage it's important that this discussion takes place with the right stakeholders, those involved in high level decision making and those potentially involved in delivery. The high level stakeholders need to have the autonomy to be able to make decisions and shape policy at the national or regional/local levels as well as influence potential delivery mechanisms. These stakeholders could include political or government representatives, business membership or support organisations. Those involved in delivery could be economic development agencies, local enterprise partnerships and chambers. It is vital to engage both as there needs to be support at both these levels. As soon as a list

of appropriate stakeholders is established communication and the organisation of meetings should be initiated to facilitate collaboration and also build support and a common consensus. To build support and gain a common consensus, it may be useful to use tools such as SWOT analysis which may help stakeholders gain a better understanding of why support is needed.

Essentially at this stage all the stakeholders must agree and commit to supporting young SMEs. To ensure effective support it is also important that a commitment to a holistic approach is approved. Using the matrix developed as part of the previous stage, stakeholders can take a strategic view on the potential support options and agree a holistic way forward to help young SMEs. The issue of resources must also be addressed at this stage. For the support to be realised, there needs to be access to adequate resources to deliver it. At this stage it may only be commitment in principal from the high level stakeholders depending on the detail of the support programme, or support to help access European or national funds. Either way it is necessary to identify potential funds to help develop, deliver and monitor the support and commitment from stakeholders to help access it.

The support and commitment of stakeholders is of vital importance to this model as this will help ensure that support for young SMEs is embedded into national and regional business support frameworks. This will help facilitate the next stage of the model – Implement, which identifies the need to articulate support for young SMEs in Regional Action Plans.

#### **5.4 Stage 4: Implement**

---

Building on the previous 3 stages, information has been collected and analysed to determine the need for support, potential support options have been identified and collected into a matrix and support has been gained from stakeholders providing their commitment to helping Young SMEs. Now it is necessary to implement the support through the development of Regional Action Plans (RAP) with the focus on helping the survival and growth of young SMEs to help the economic prosperity of the area/region.

The Regional Action Plan describes proposals for integrating support for young SMEs into a region. It is the analytical description of how

support can be structured and provides strategic context in terms of vision, aims, objectives and targets to be achieved. Building a Regional Action Plan requires the description of the right measures to facilitate implementation, the identification of necessary funding for proceeding to implementation and the selection of the responsible organisation to carry out the measures. Action Plans require full consensus for implementation in their own region. The regional delegations ensure this by intensive communication and further development of the Regional Action Plans. This process ensures the continuous improvement and growth of Regional Action Plans.

The Regional Action Plan shouldn't be developed in isolation. They need to be embedded into the regional mainstream context. It is vital that Regional Action Plans demonstrate direct linkages to the priorities outlined in mainstream programmes. Regional Action Plans should include the following information:

- An overview of objectives and priorities of relevant national / regional / local mainstream programmes as well as the availability of potential budgets.
- Information about existing current regional activities that could be related to young SMEs.
- High level overview of the support to be available to young SMEs.
- Anticipated outcomes and targets to be achieved.
- A description of the decision making process for consensus building and implementation of the RAP in the context of mainstream programmes.
- Roles and responsibilities.
- An implementation schedule linked to the lifecycle of mainstream programmes.

Budgets and resource allocation should be identified as part of the development of the Regional Action Plan. The foreseen financial budget for supporting young SMEs should be considered along with potential funding sources. There should also be a description of the staff required during the implementation period and the management of the support programme for young SMEs.

Also, the involvement of regional stakeholders is essential for the development of Regional Action Plans. These stakeholders include political representation from regional/local or national government and

organisations responsible for developing and overseeing mainstream business support programmes. It should also include service providers at a regional or local level that will be involved in the implementation of support for young SMEs.

## **5.5 Stage 5: Evaluate**

---

This is the final stage of the model. At this stage it is important to evaluate and monitor the implementation and delivery of the Regional Action Plan. We need to know if the Action Plan is doing what we want it to do! We need to know if the plan is being implemented and delivered, by who, when, how and what the actual impacts are. This stage is vital in terms of measuring the success of the Regional Action Plan. In particular, to demonstrate that it's contributing to the wider economic development of the area or region by supporting the survival and growth of Young SMEs. It is the responsibility of the regional/local agency to manage this process and ensure that the impacts and outcomes are in line with the targets identified in the previous stage (Stage 4 – implementation).

To chart the progress of the Regional Action Plan, the regional (or local) authority should regularly collect detailed information on what is actually being achieved in terms of targets. In addition to this, information should also be collected about key milestones. Milestones should be set by the managing authority at the beginning of this stage in consultation with the delivering body. These will identify when key stages of the programme delivery are due to take place. The combination of information on both milestone and targets achieved at any one point in time will provide the managing authority with valuable information on which to understand the performance and impact of the Regional Action Plan.

The targets and milestones can also be used to provide an early warning system to inform the managing authority of any issues that there may be in implementing and delivering the support. This information can be used to help understand and unblock barriers to success and can be used to refine the programme to ensure smooth delivery. Conversely, this information can also be used to look at continual improvement of the programme.

Systems should be put in place to facilitate the collection and storage of this information. From the managing authorities point of view this

will ensure the consistency and quality of information and will aid the reporting process. For the delivery agent, it will ensure that they know exactly what information is required from them, when and in which format. The frequency of when this information should be collected is an important point to consider. As a minimum, it should be collected on a quarterly basis. However, if the information highlights that there are potential issues around delivery then this should be increased in line with the potential situation. It may also be prudent to supplement the collection of information with face-to-face “keep in touch” meetings which will allow the managing authority to look beyond the headline information that has been collected, and get a deeper understanding of how the programme is progressing.

As part of the evaluation process, consideration should also be given to what happens following the life span of the Regional Action Plan. Assuming the successful implementation of the Regional Action Plan, is the support delivered to young SMEs something that can become self sustaining without public sector intervention? For example, where a more co-operative approach could be taken with young SMEs that have been supported helping to support “new” young SMEs. Or will there be an on-going need for public sector intervention. Either way a forward plan should be developed.

## **6.0**

---

### **Conclusion and recommendations**

#### **6.1 Conclusion**

The importance of Young SMEs to economic growth cannot be underestimated. They are a great source of new jobs, they foster innovation and knowledge, encourage enterprise and entrepreneurship and support supply chains. They are a vital piece of the jigsaw needed to achieve the economic and social aspirations set out in the Europe 2020 Strategy aimed at creating new jobs, green economic growth and an inclusive society.

However, many young SMEs are struggling to survive beyond the age of 5 years. We know that a business is at its most vulnerable between the age of 3-5 years and it is at this age when they are most likely to fail. The specific problems that young SMEs face relate to:

- Access to finance, particularly, around reasonable rates of lending.
- Understanding the business environment
- Regulatory burdens.
- Access to knowledge.
- Access to new markets.
- Access to IT systems.

The difficulties and pressures faced by young SMEs must be recognised, and, if this trend is to be reversed, policy makers must get commitment to support young SMEs at the highest levels. Specific support to aid the survival and growth of young SMEs should be integrated into the regional framework via Regional Action Plans.

Fundamentally, Regional Action Plans need to be based on the needs and issues faced by young SMEs and linked to the wider economic aspirations of the area or region. They also need to clearly define, roles, responsibilities, timescales and resources required for delivery and implementation. They should also be regularly monitored and evaluated to track progress.

It is vital that the above is considered to ensure specific support is developed to support the survival and growth of young SMEs.

It is recommended that the road-map methodology described in this document is used by policy makers to integrate support for young SMEs into Regional Action Plans. The 5 stage methodology is meant to serve as a guide only, to help policy makers to identify the main stages involved in implementing such support. When using the methodology, local circumstances will have to be considered, in particular, the specific needs of young SMEs, governance structures and the potential resources available to deliver the support. However, it is recommended that the key issues identified below are addressed as part of the Regional Action Plan.

## **6.2 Recommendations to policy makers**

---

This section summarises the key messages that have arisen as part of the Interreg IVC Young SMEs Project and which should be considered by policy makers when implementing support for young SMEs. These are recommendations that have come from the 12 project partners and their support organisations during the life-time of the project and as a result of the 1 day policy guide workshop in Torun in Nov 2013. They are recommendations that should create the right conditions for young SMEs to prosper and help create the ambitions set out in Europe 2020:

- Consistent and stable policies are necessary. Changes brought about by politics or restructuring can confuse young SMEs greatly about the support mechanisms that are most appropriate and available.
- Linked to the above is the need for long term commitment and vision.
- Investment in support infrastructure and delivery is crucial.
- There needs to be high level, cross party and stakeholder commitment to ensure continuity and stability and to ensure success.
- Patience is required as tangible results may not be immediately achieved.
- Policies need to consider local issues and needs.
- Public sector agencies and delivery organisations need to be clear about their role and where they can add value.
- There should be a more simplified and consolidated approach to the availability and delivery of support for young SMEs.
- Regional Action Plans need to have clear objectives and targets as agreed by all stakeholders.
- Support needs to be visible and well communicated to Young SMEs, with access routes clearly defined.
- Young SMEs need access to resources including: physical and virtual spaces, business networks, finance, IT and knowledge.

# SUSTAINABLE YOUNG SMES: INTERREGIONAL KNOWLEDGE EXCHANGE



[www.youngsmes.eu](http://www.youngsmes.eu)

