



Medium size enterprises

Defeating large companies, challenging conventional beliefs

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Summary

1. Problems of definition and their consequences
2. Relationship between size and performance
3. MSEs' geography
4. MSEs vs multinationals
5. The case of Italy: does doing business create or destroy value?
6. What the aggregate data hide: heterogeneity
7. Tax burden and financial soundness



Problems of definition and their consequences

Section 1

What we and others are looking at: defining MSEs

Problems of definition and their consequences

Section 1

Parameters	This survey	European Commission - Eurostat
Staff headcount	50-499 employees	50-249 employees
	<i>AND</i>	<i>EITHER</i>
Annual turnover	€ 15-330m	€ 10-50m
		<i>OR</i>
Total assets	None	€ 10-43m
	<i>AND</i>	<i>AND</i>
Independence	Controlling stakes held neither by larger Italian companies nor foreign entities	Holdings of less than 25% of the capital in one or more other enterprises; and/or to be held by an outsider by less than 25% of the capital
NB	SME no more than an anagram of MSE (different phenomena)	
	Independence is not mirrored in official statistics at all	

Source: compiled by R&S

Only if MSEs are properly addressed can their true performance be revealed

Problems of definition and their consequences

Section 1

	MSEs (DE, FR, IT, SP) (this survey definition)	MSEs (DE, FR, IT, SP) (EC turnover definition)
Average number of employees (units)	162	100
Average turnover (€ m)	42	21
Net value added per employee (€ ' 000) (a)	53.5	48.4
Labour cost per employee (€ ' 000) (b)	42.7	42.5
Unit labour cost (b/a in %)	79.8	87.8
Borrowings / net tangible worth (%)	79.0	87.6
GOM / interest and financial charges	5.2	4.2
ROE	5.2	3.7
ROI	8.2	5.8
<i>NOM / VA</i>	17.4	10.6
<i>VA / CI</i>	39.7	42.6
<i>Interest and dividends / CI</i>	1.3	1.3

Source: compiled by R&S based on own data and ECCBSO figures; 6,339 and 17,852 MSEs respectively; only parent company accounts; MSEs from ECCBSO database are compliant with EC turnover limits only

Relationship between size and performance

Section 2

MSEs: the growth options

(see: F. Coltorti, R. Resciniti, A. Tunisini and R. Varaldo (eds): *Mid-sized Manufacturing Companies: the New Driver for Italian Competitiveness*, Springer 2013)

Relationship between size and performance

Section 2

Size growth

- ◆ Through investments or via M&A, it is still an option and we don't want to dismiss it, but it needs to be pursued cautiously, as getting bigger means becoming riskier; targets are: contiguous market niches, leveraging on brand awareness and technological affinities, or new geographical markets

Relationship growth

- ◆ Access and use of external resources through the networks of relationships, both national and international, which MSEs are “genetically” able to develop and manage; the networks extend vertically with upstream and downstream partners as well horizontally

Capability growth

- ◆ Refers to the development of MSEs' knowledge through continuous R&D investments, learning-by-doing processes, ongoing evaluation of clients' needs, and market requests. Capability growth is boosted by business relationships, producing exchanges and combinations of complementary knowledge, business ideas, technological solutions and client need-tuning

Beware

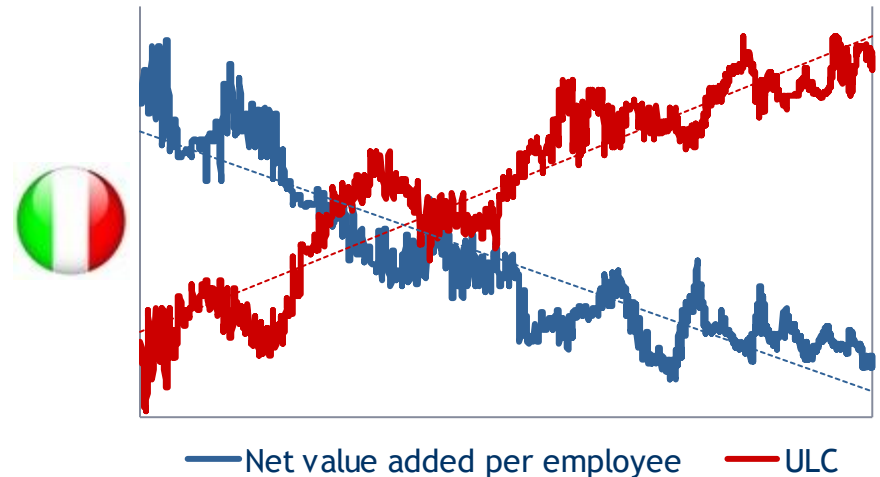
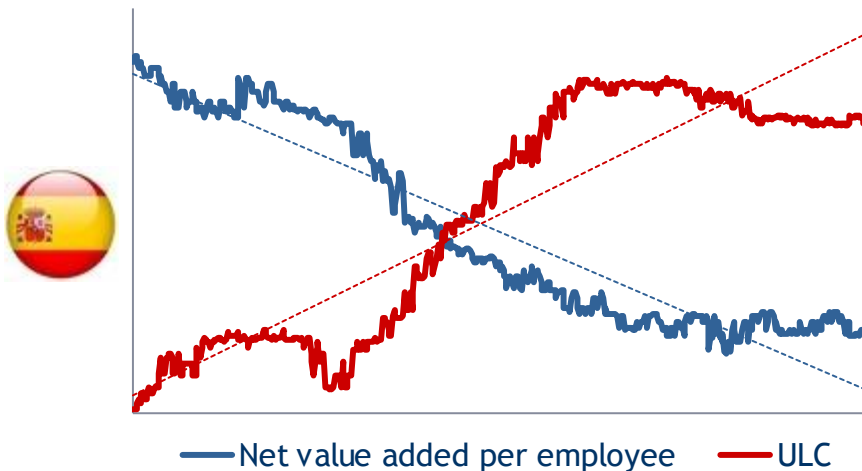
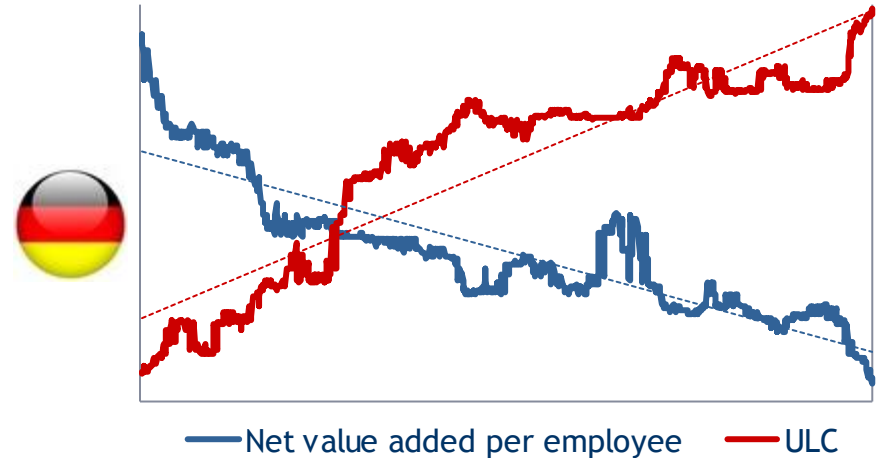
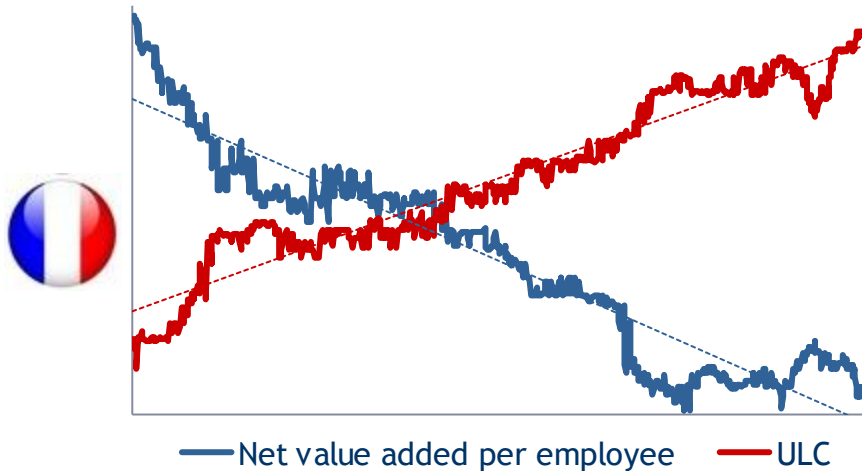
- ◆ MSEs are larger than can be gauged by their “physical” boundaries, having access to a wide range of resources and competences through relationship networks

The unexpected crossing: size, productivity and unit labour cost

(size increasing from left to right; ULC= labour cost as a % of net value added; medians on rolling samples of 200 units)

Relationship between size and performance

Section 2

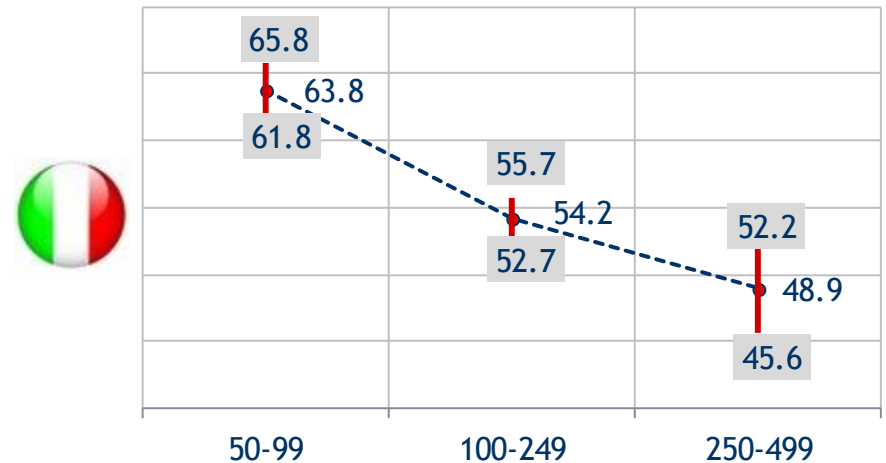
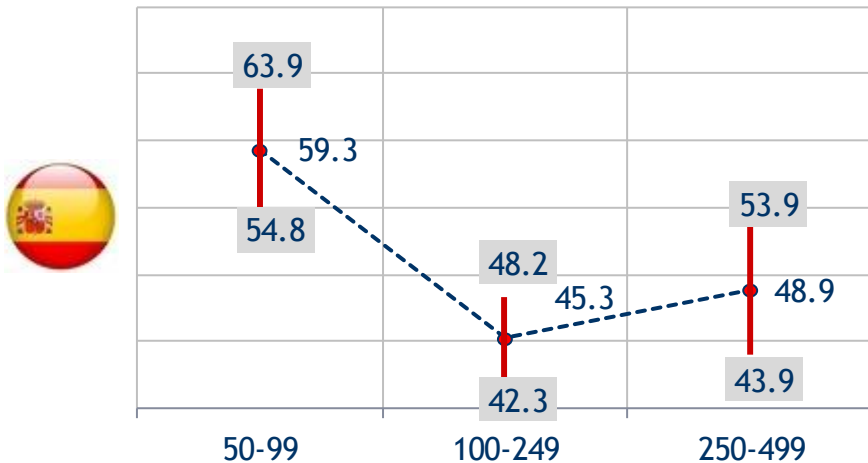
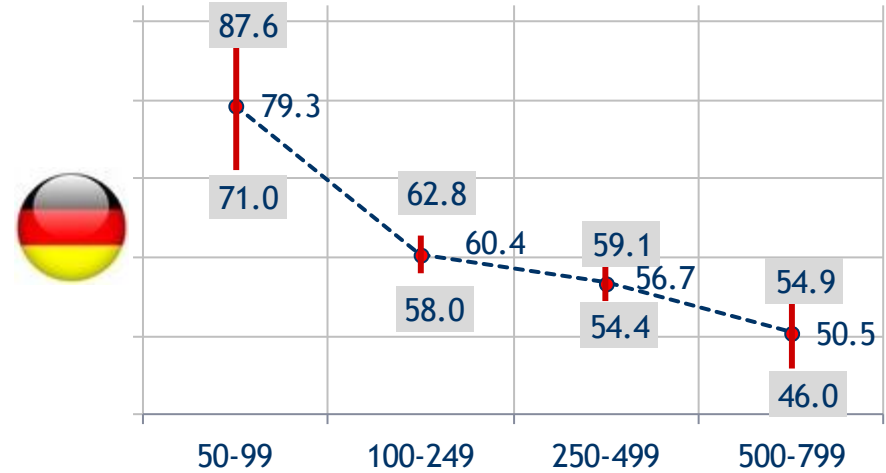
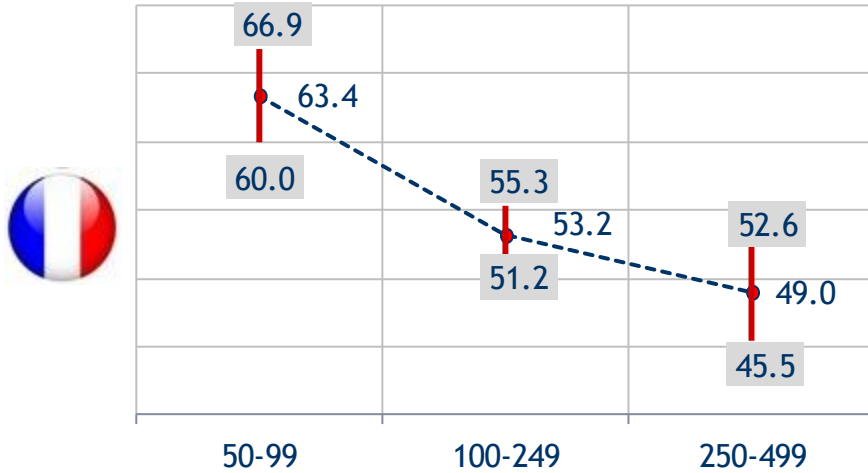


Source: compiled by R&S

We do not appear to be looking at “Trilussa’s average” (simple averages for labour productivity for size classes and 95% confidence levels)

Relationship between size and performance

Section 2



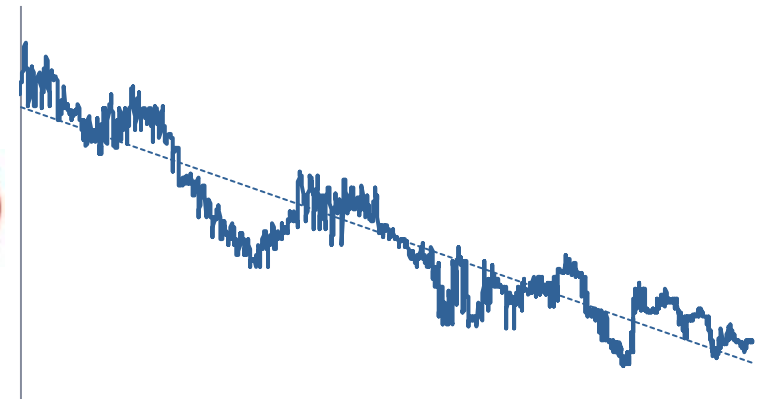
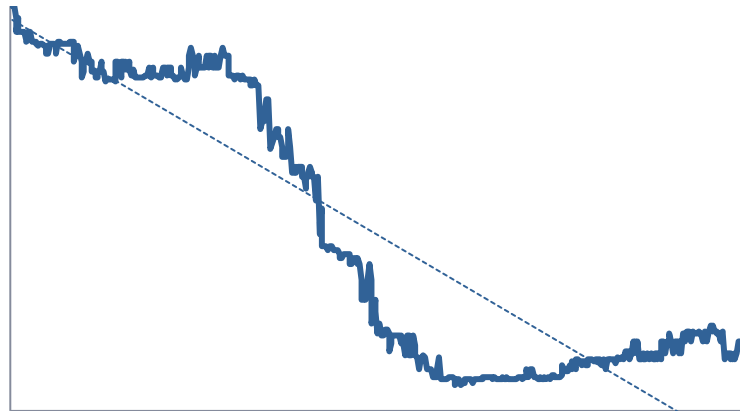
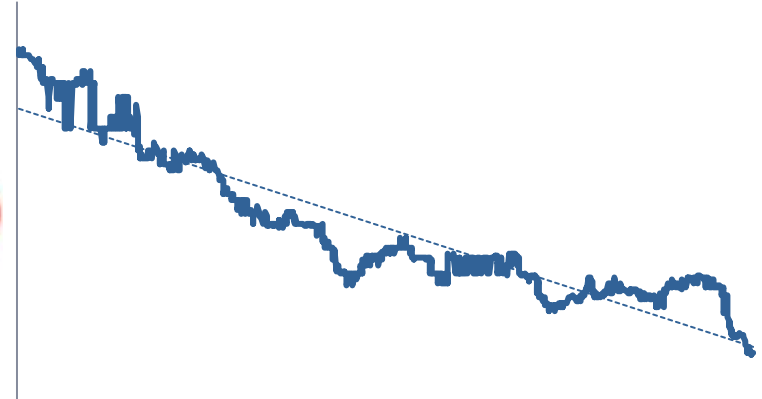
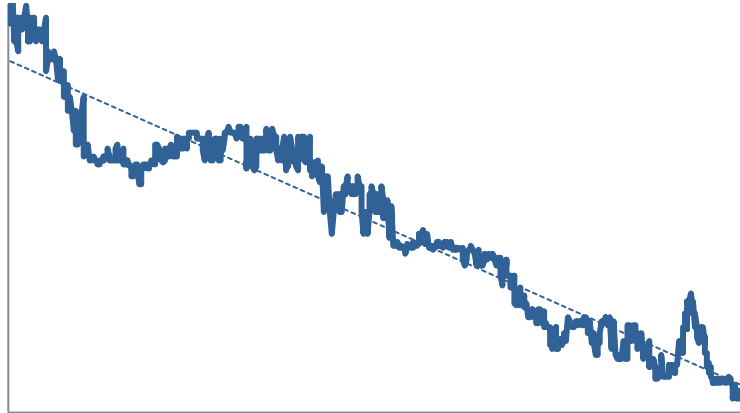
Source: compiled by R&S

A bit less unexpected now: industrial margins decreasing too

(size increasing from left to right; net operating margin as a % of value added; medians on rolling samples of 200 units)

Relationship between size and performance

Section 2



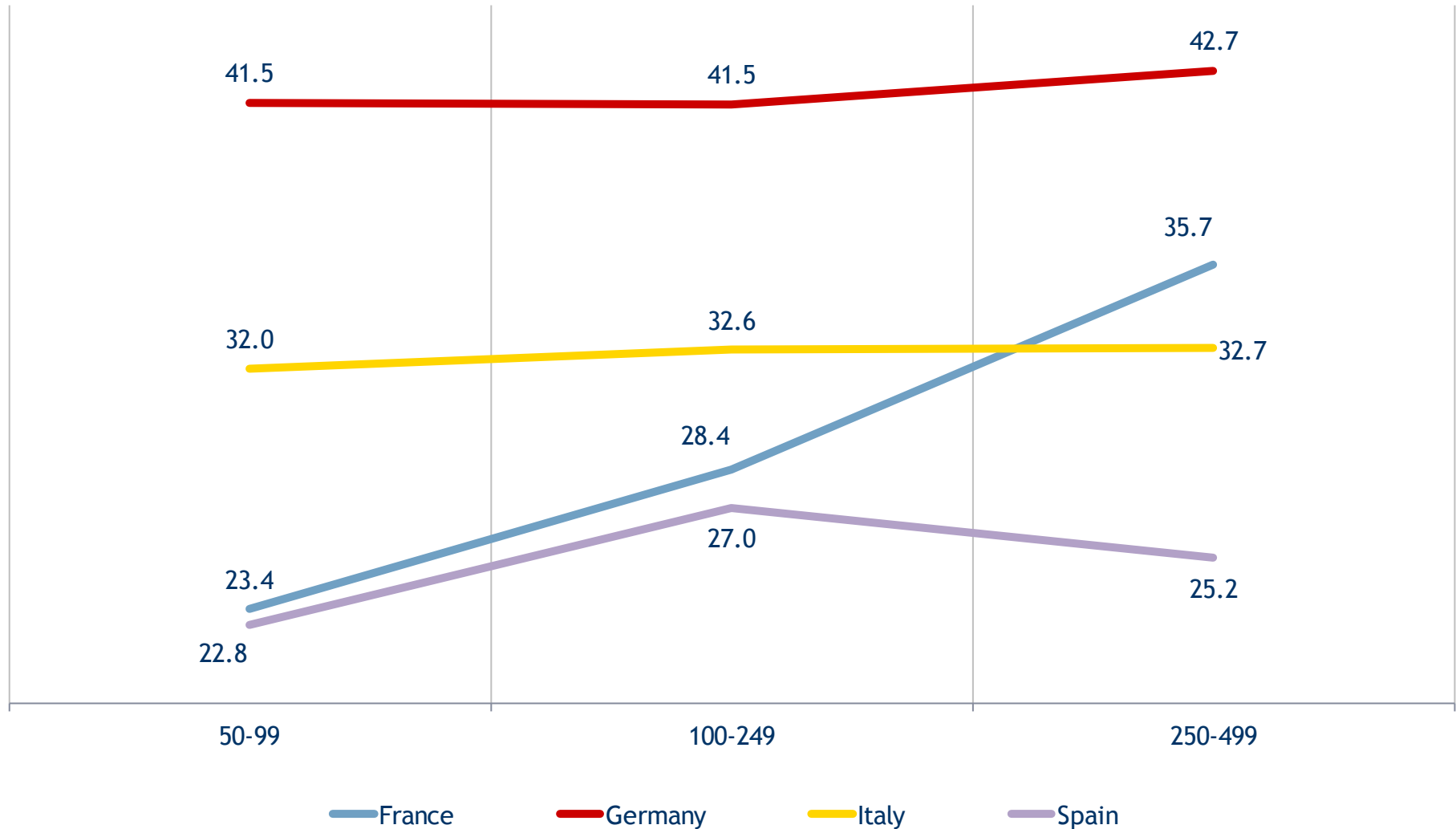
Source: compiled by R&S

High-tech and high-medium-tech MSEs by size classes

(% of total per size class)

Relationship between size and performance

Section 2



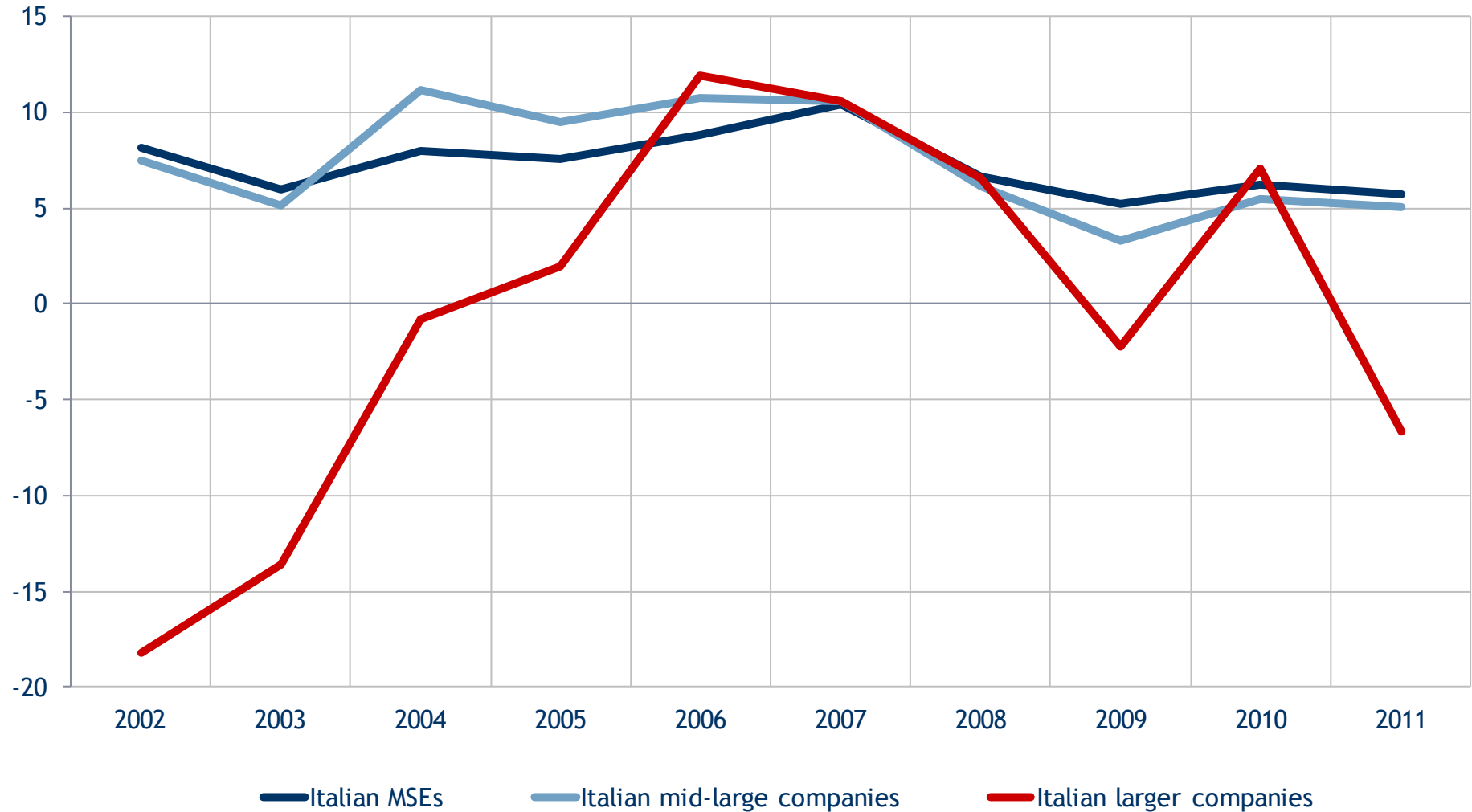
Source: compiled by R&S

Growth may be evil or a godsend, but it is not a “one-fits-all” rule

(Italian companies, ROE)

Relationship between size and performance

Section 2



Source: compiled by R&S based on own data

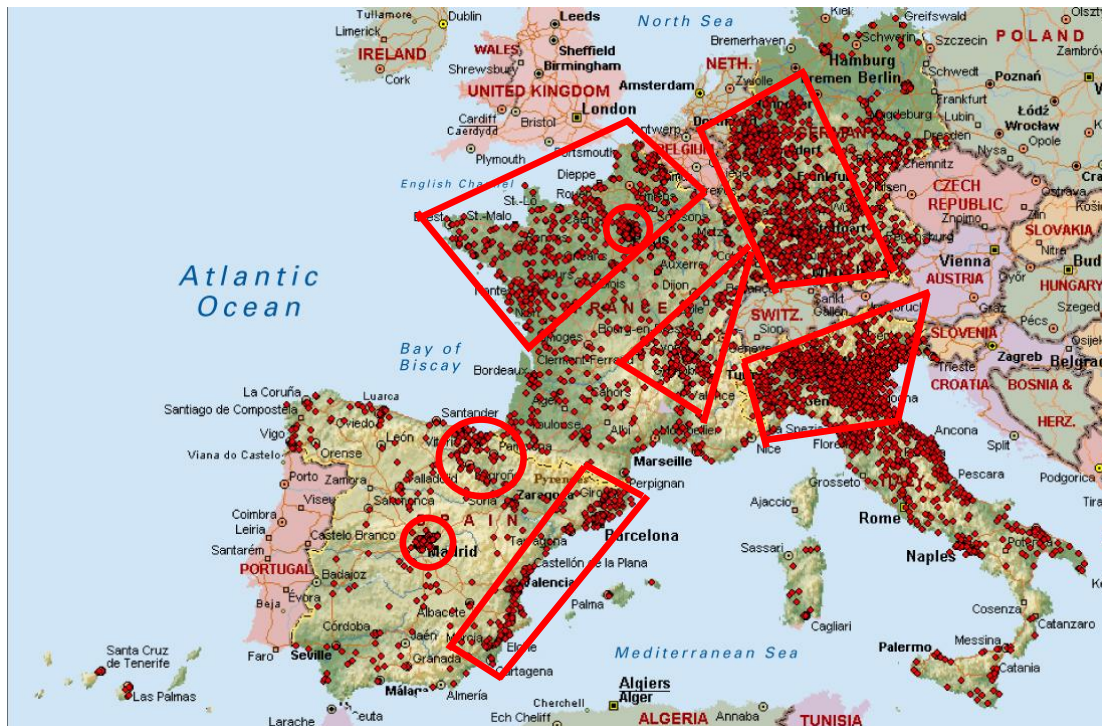
MSEs' geography

Section 3

MSEs in Europe: agglomeration and diffusion

MSEs' geography

Section 3



Regions	% of MSEs	% of VA	% of GDP
Île de France	14.4	18.7	29.8
Rhône-Alpes	13.1	12.6	9.6
P. de la Loire	9.6	8.1	4.9
Brittany	6.2	6.0	4.1
Leading 4 FR	43.3	45.4	48.4
Nordrhein-W.	25.5	25.6	21.8
Baden-Württemberg	20.0	21.6	14.2
Bavaria	17.2	17.3	17.7
Niedersachen & B.	9.5	9.4	9.7
Leading 4 DE	72.2	73.9	63.4
Lombardy	30.8	33.0	20.9
Veneto	18.3	17.5	9.4
Emilia-Romagna	14.2	14.8	8.8
Piedmont and A.V.	8.1	8.0	8.1
Leading 4 IT	71.4	73.3	47.2
Catalonia	23.9	26.5	18.4
Valencia	17.8	15.6	9.7
Madrid	10.3	11.1	18.2
Basque Country	9.8	10.5	6.0
Leading 4 ES	61.8	63.7	52.3

MSEs vs multinationals

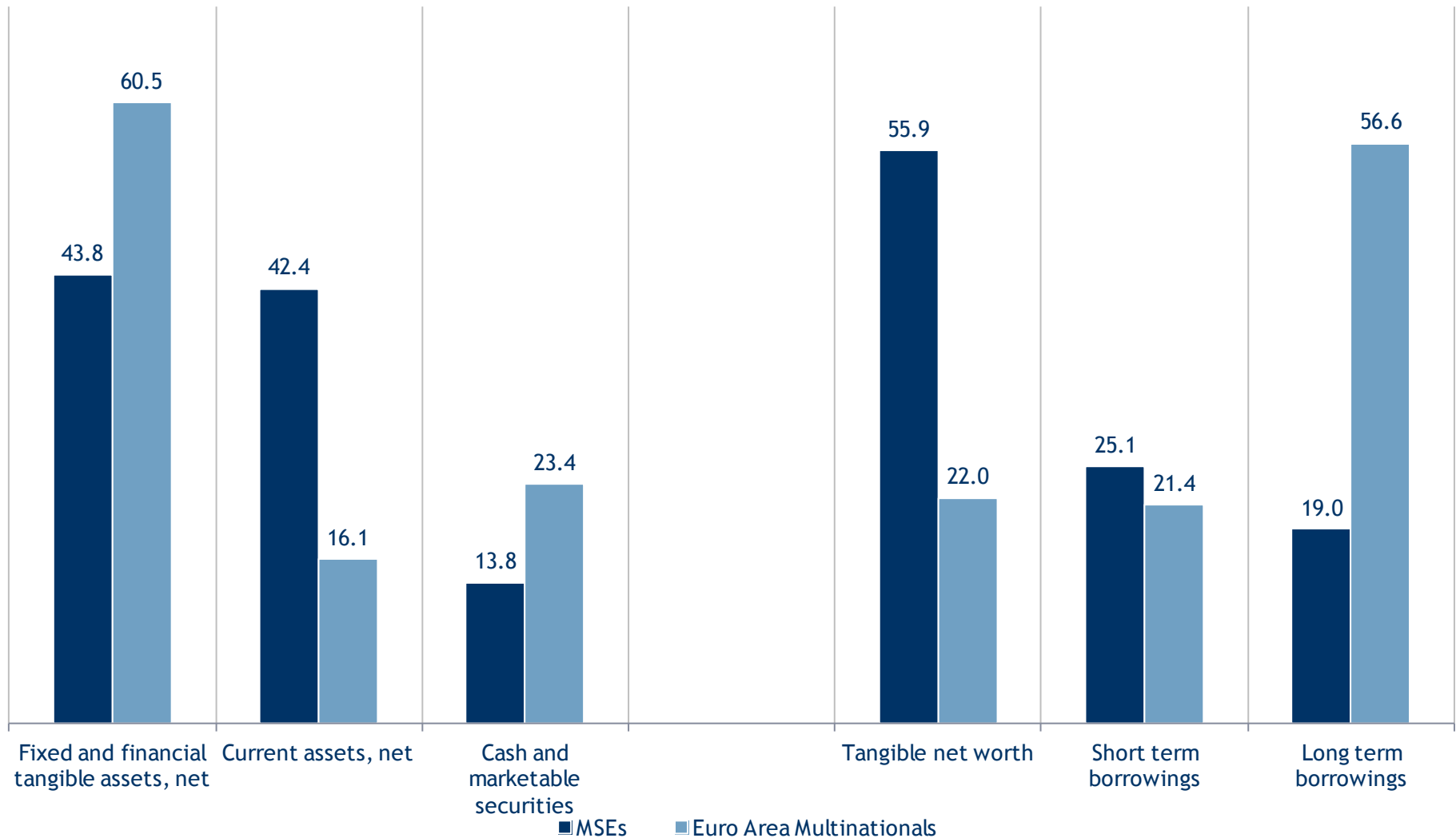
Section 4

MSEs: a financial structure reliant on *filière* relationships

(% of tangible capital invested, manufacturing only)

MSEs vs multinationals

Section 4



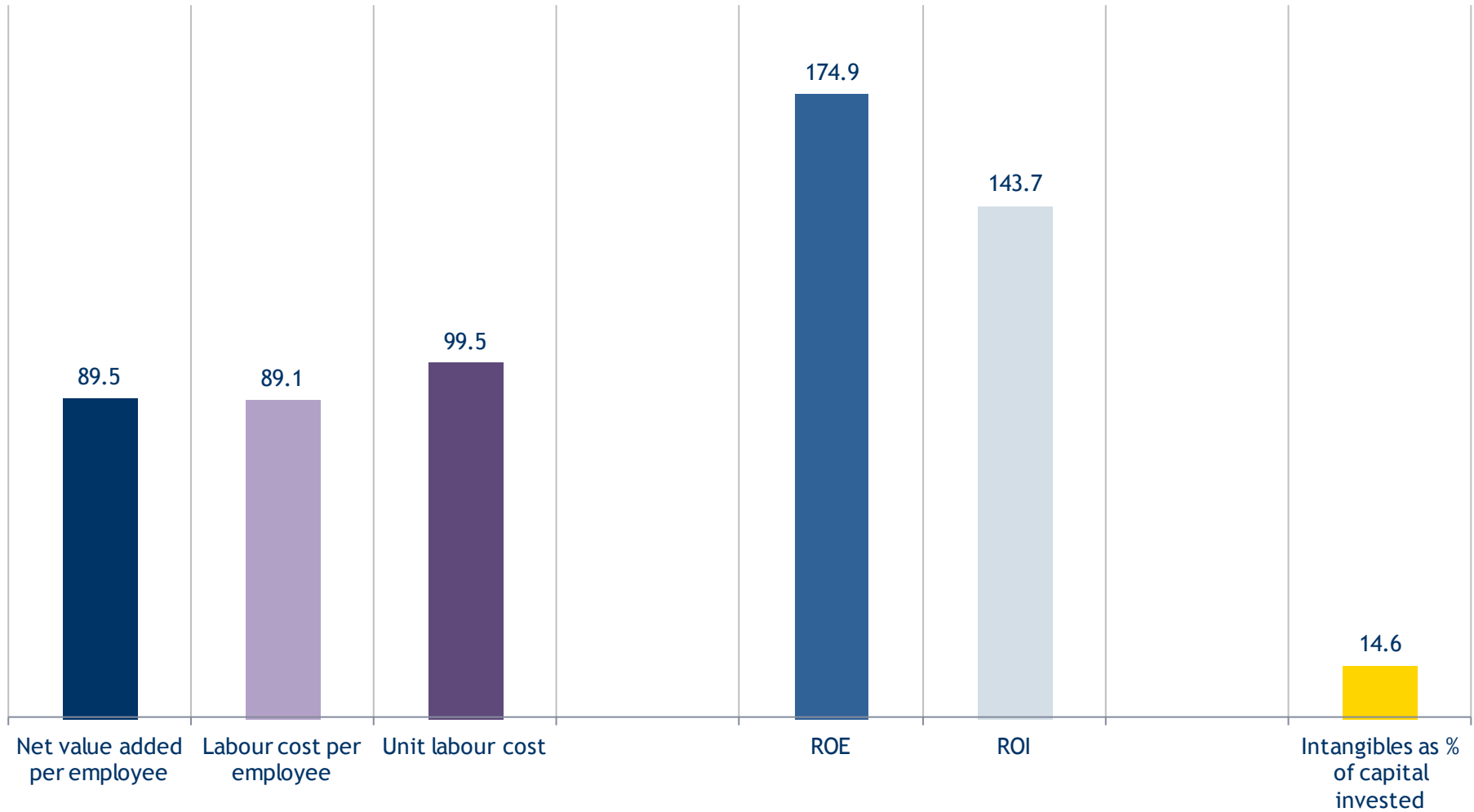
Source: compiled by R&S based on own data; 6,339 MSEs and 100 manufacturing Euro-area multinationals

Even compared with multinationals, MSEs still one step ahead

(index number for European MSEs and Eurozone multinationals; multinationals=100)

MSEs vs multinationals

Section 4



Source: compiled by R&S based on own data; 6,339 MSEs and 100 manufacturing Euro-area multinationals

The case of Italy: does doing business create or destroy value?

Section 5

Value creation: a sad picture, at a first glance ...

(index numbers; 2002=100 of ROI less WACC; ERP=3.5%; risk free rate=10y DE Bund; Italy)

The case of Italy: does doing business create or destroy value?

Section 5



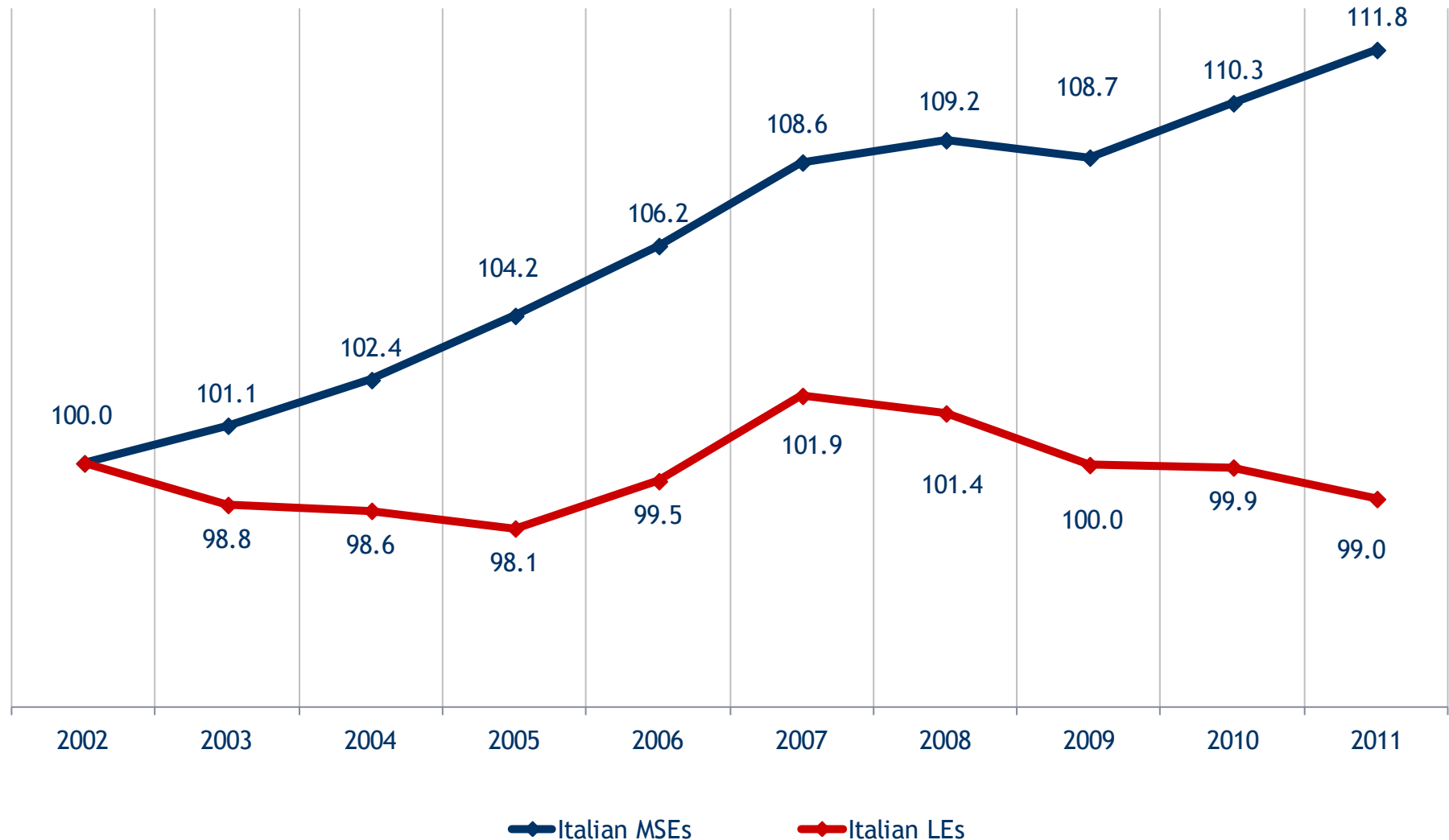
Source: compiled by R&S based on own data

... which would change profoundly without IRAP ...

(index numbers; 2002=100 of ROI less WACC; ERP=3.5%; risk free rate=10y DE Bund; no IRAP levied; Italy)

The case of Italy: does doing business create or destroy value?

Section 5



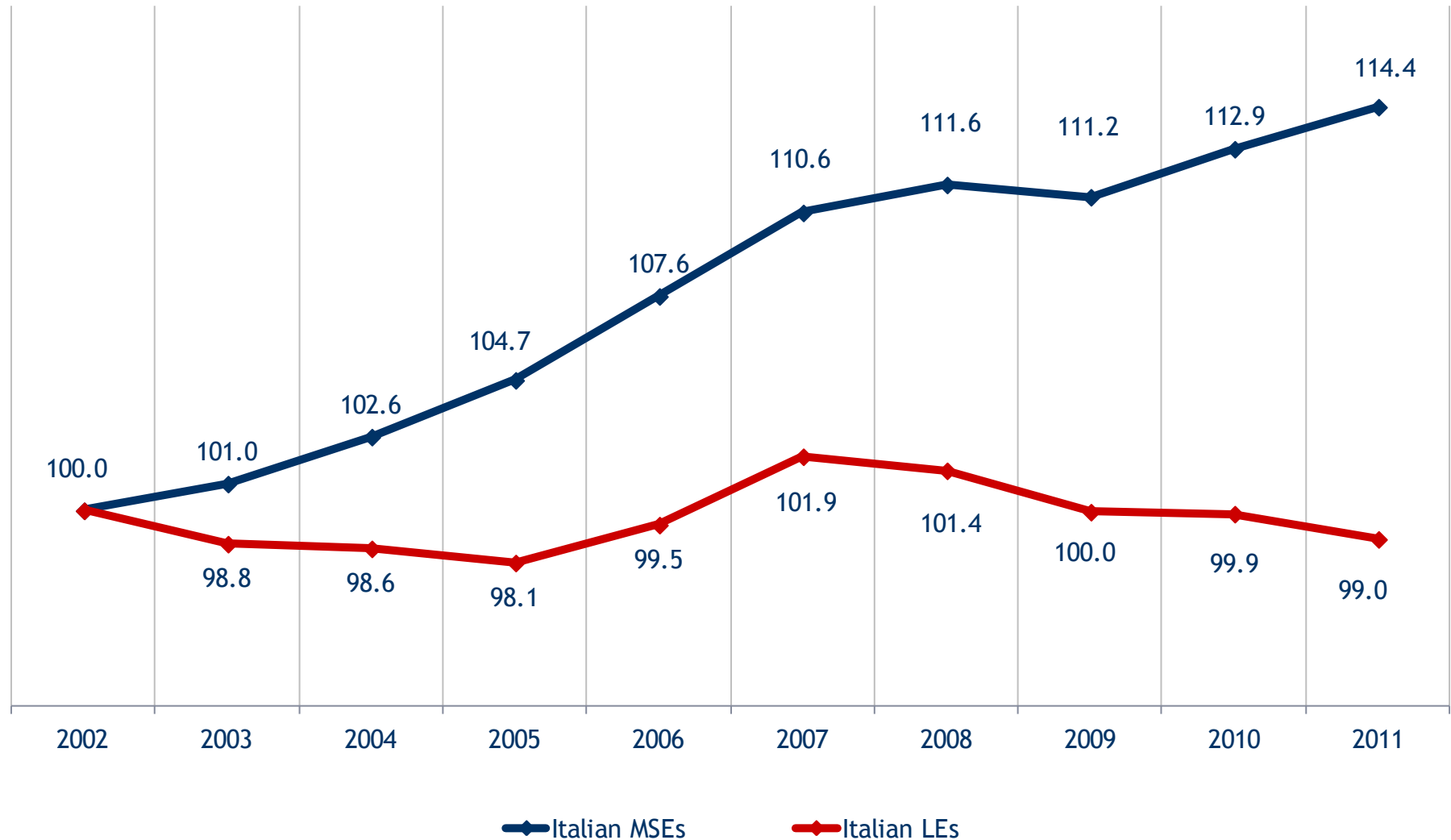
Source: compiled by R&S based on own data

... becoming even more favourable to MSEs were they taxed as LEs

(index numbers; 2002=100 of ROI less WACC; ERP=3.5%; risk free rate=10y DE Bund; SMEs taxed as LEs; no IRAP levied; Italy)

The case of Italy: does doing business create or destroy value?

Section 5



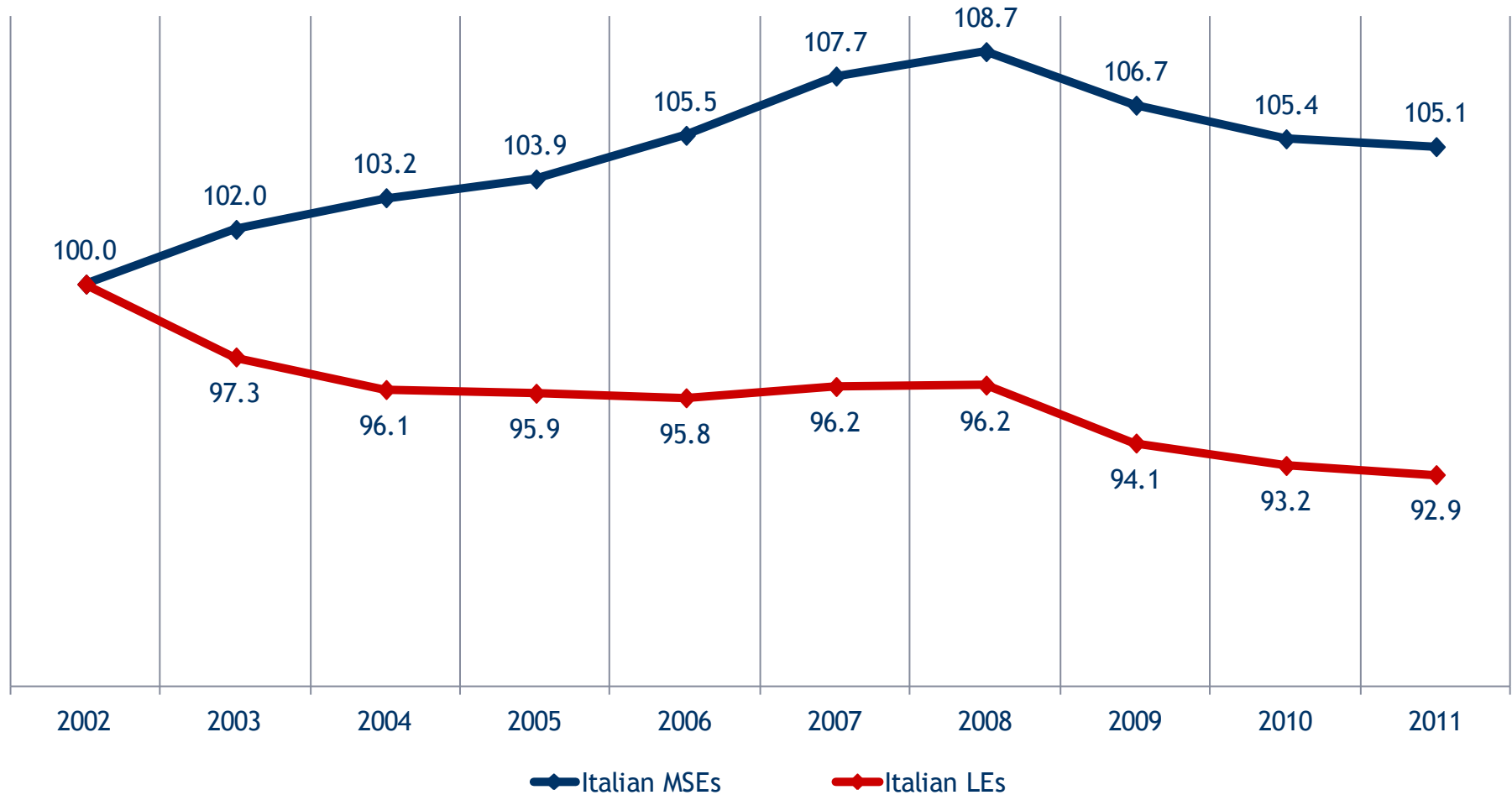
Source: compiled by R&S based on own data

And all happened with MSEs increasing their employment

(index numbers; 2002=100 of total staff)

The case of Italy: does doing business create or destroy value?

Section 5



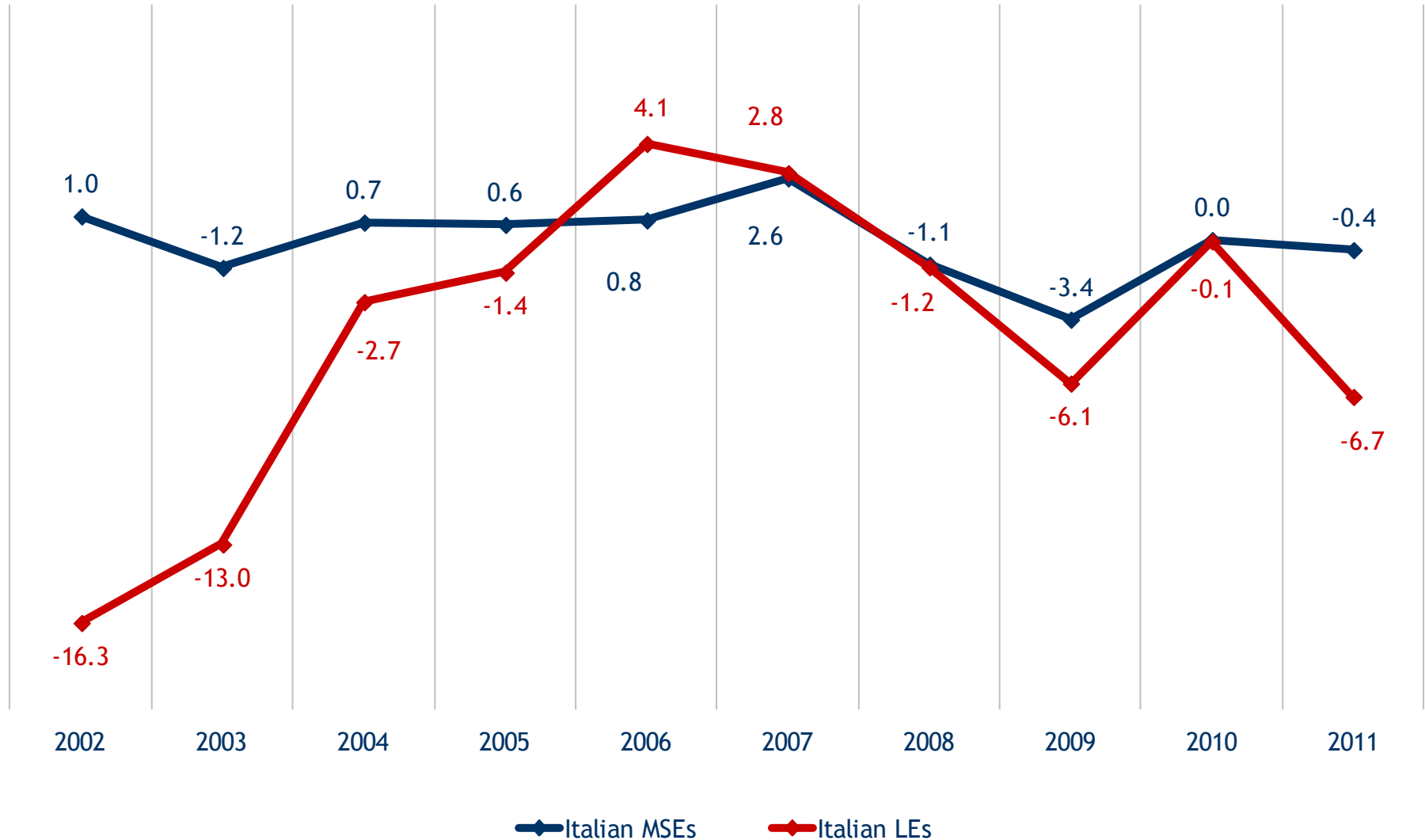
Source: compiled by R&S based on own data

The reason for running a LE is not to have a fair return on equity

(% differences between ROE and cost of equity)

The case of Italy: does doing business create or destroy value?

Section 5



Source: compiled by R&S based on own data

What the aggregate data hide: heterogeneity

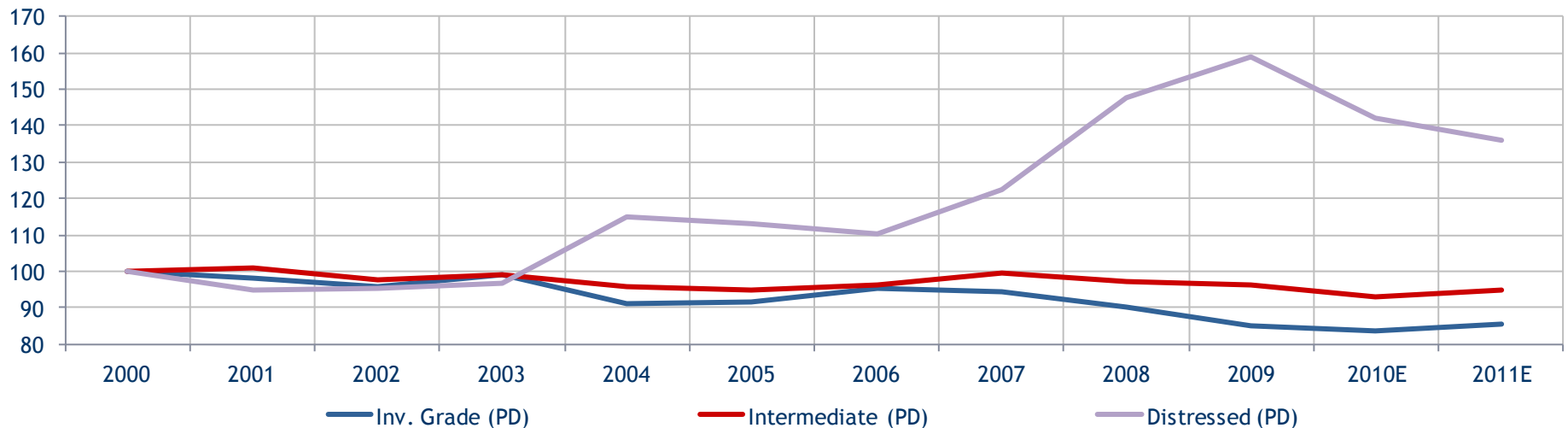
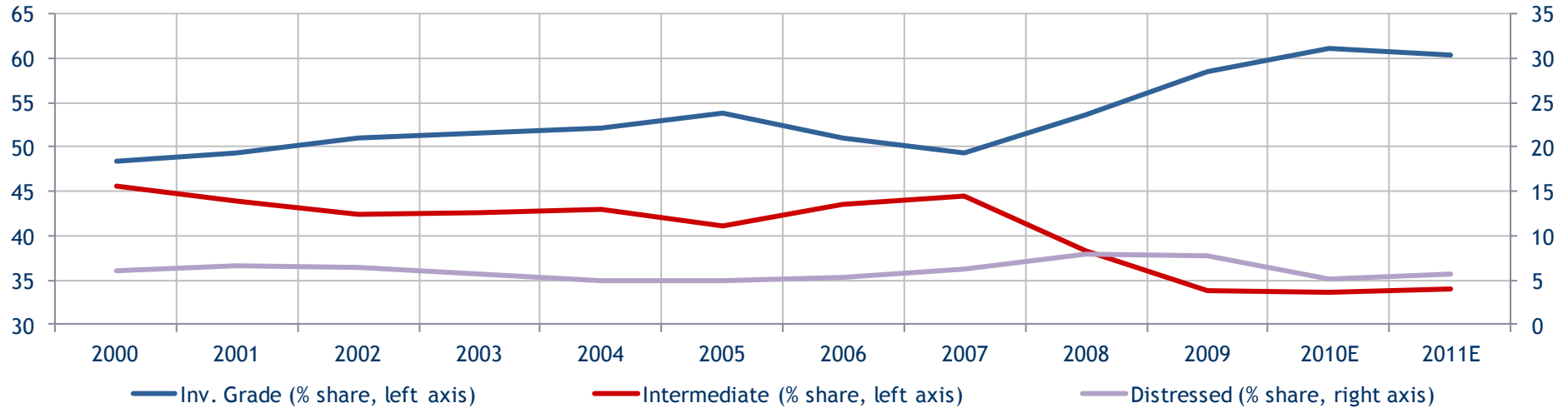
Section 6

Risky gets riskier, sound gets sounder, and both persistent

(Shares in % and index number of PD for three main scoring buckets, Italy)

What the aggregate data hide: heterogeneity

Section 6



Source: compiled by R&S based on R&S-Unioncamere scoring model

Tax burden and financial soundness

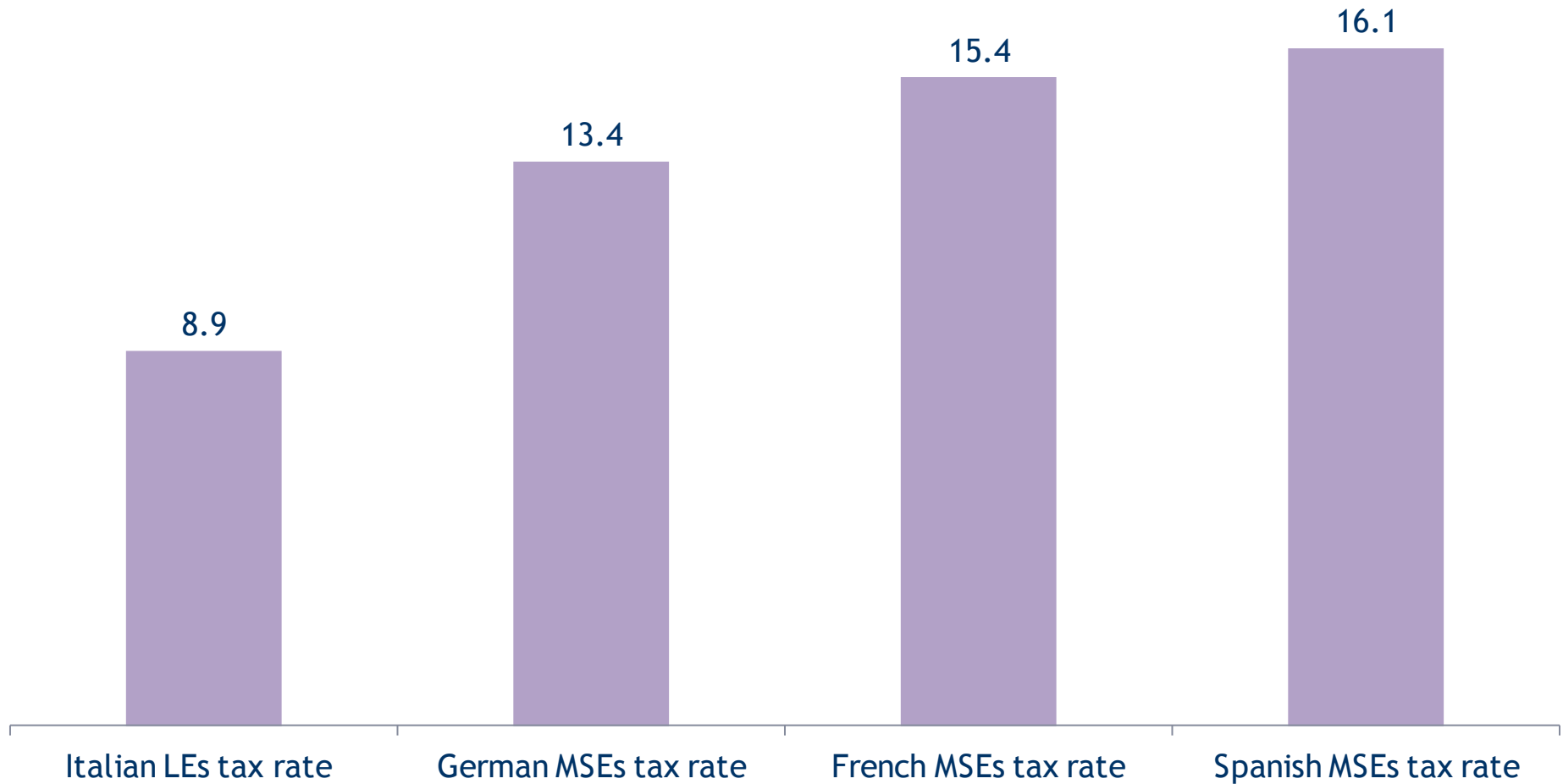
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Hypothetical tax burdens, following savings ...

(cumulated tax savings 2001-2009 under different tax burdens for italian MSEs; € bn)

Tax burden and financial soundness

Section 7



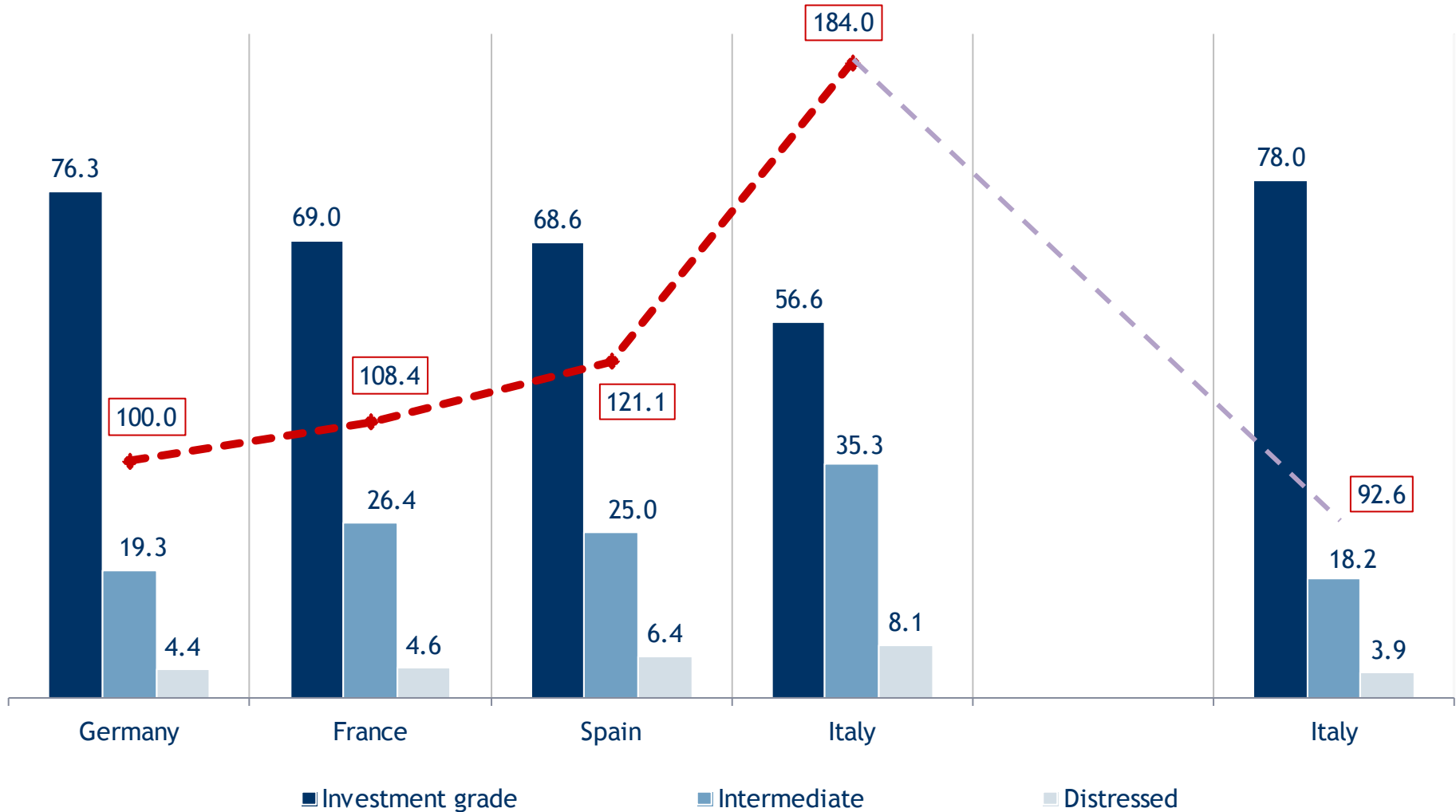
Source: compiled by R&S based on own data

... and their consequences on financial soundness

(% of companies in scoring buckets and average PD as a number index, Germany=100)

Tax burden and financial soundness

Section 7



Source: compiled by R&S based on R&S-Unioncamere scoring model

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