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Review Paper

EUROPEAN BUSINESS, STRUCTURE AND PERFORMANCE

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Abstract:
Small and medium-sized enterprises (SMEs) are key to the economy, creating more than 85% of new jobs in Europe. To ensure sustainable development, SMEs should be a priority in national and international strategy, supported through laws, by-laws and development mechanisms. According to the European Union, nine out of ten enterprises are SMEs, generating two out of every three jobs and contributing significantly to global market sustainability.
Keywords: Europe, business, small and medium-sized enterprises, strategy, performance, economy, politics

Introduction

Business is an integral part of society, satisfying individual needs by providing goods and services. It is an organized for-profit activity that creates jobs and improves living standards. The presence of business is key to economic progress and poverty reduction. Businesses enhance their national reputation through quality products and services, as well as through participation in international events. Before starting operations, businesses must create a business plan and provide themselves with proper permits. Some businesses, such as nonprofits, operate for social causes. The effective operation of a business involves the sale, purchase, and recording of financial transactions.

Forms of business organizations

1.1 Sole proprietorship

A sole proprietorship is probably the simplest form of business, where one person is the owner and personally responsible for the debts. Benefits included are an easy start-up, independence, and tax advantages. However, such a business has limited resources, difficulties in management, and unlimited liability, which means that personal property can be used to cover business losses. The lifespan of a business is usually short.

1.2 Partnership

A partnership is an agreement between two or more persons who invest in a joint business and its profits are divided according to the agreement, but each partner pays taxes individually. Benefits include a simple formation, shared financial commitment, pooling of resources, and additional skills from each partner. However, there are also limitations such as joint liability for debts and decisions, disagreements between partners, and the possibility of discord in profit-sharing.

1.3 Limited liability company

According to Aremu (2012), it is highly recommended for sole proprietors and businessmen to form partnerships or limited liability companies due to the high failure rate. A limited liability company is a legal entity that exists under the law and is formed by fulfilling legal requirements. The memorandum of association includes important details such as the company name, capital, registered office, and limited liability of shareholders. The statute governs the internal organization of the society. The nature of a business depends on the business environment, which includes competition, regulators, technology, and societal factors.

European Union

The European Union (EU) is a political and economic union of 27 countries, promoting democratic values and being one of the most powerful trading blocs. Nineteen countries use the euro as their currency. The EU originated in the European Coal and Steel Community, founded in 1950, and has expanded to its present form. With the common market and the

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euro, the EU promotes the free movement of goods, services, people, and capital, and the Maastricht Treaty created the EU in 1993.

European Business

European business consists of large companies and 23 million small and medium-sized enterprises (SMEs), which account for 99% of all companies in the EU. SMEs are crucial to the economy, employing two-thirds of the EU's workforce. SMEs play an important role in innovation and competition, but they are also exposed to greater risks. The definition of SMEs in Europe includes companies with fewer than 250 employees and an annual turnover of no more than €50 million. The COVID-19 pandemic has had a greater impact on SMEs than on large businesses, but they have shown greater flexibility in adapting to new conditions.
SMEs (small and medium-sized enterprises) are key to economies, especially in the supplier networks of large companies. Although, historically considered as an obstacle to economic development, since the mid-20th century it has been recognized as a solution to economic problems such as unemployment. Nowadays, only 20% of European SMEs are digitized, compared to 50% of large businesses. SMEs make up 56.2% of the non-financial sector, but are facing challenges when investing in digital technologies, especially after the COVID-19 pandemic, where many of them are on the verge of bankruptcy due to a lack of financial reserves and credit constraints.

1. Poland

The SME sector in Poland generates almost 50% of GDP, with micro companies being the largest source, at 29.6%. In 2011, 1,781,414 out of a total of 1,784,603 companies were SMEs, employing 6.3 million people. Although small businesses make up a large share of GDP, they are less likely to invest in climate strategies or energy efficiency. In 2021, the Environmental Bank received a loan from the EIB to finance green initiatives, with a focus on climate change and renewable energy.

2. United Kingdom

In the United Kingdom, SMEs are defined as ones if they meet two of three criteria: a turnover of less than £25 million, fewer than 250 employees, or gross assets of less than £12. Micro-enterprises have simpler requirements, meeting two of the following criteria: balance sheet up to £316,000, turnover up to £632,000, or up to 10 employees. 99.3% of businesses in the private sector are SMEs, which generate 47% of turnover. The government set a target of 25% of public expenditure going to SMEs by 2015, which was achieved by 2013.

3. Norway

In Norway, small and medium-sized businesses are those with fewer than 100 employees: small (1–20 employees) and medium-sized (21–100 employees). Businesses with more than 100 employees are considered large. SMEs account for more than 99% of all businesses and employ 47% of the private sector, generating 44% of economic value added, which is about NOK 700 billion.

4. Switzerland

In Switzerland, SMEs are defined as companies with fewer than 250 employees, with micro-enterprises (1-9 employees), small enterprises (10-49 employees), and medium-sized enterprises (50-249 employees).

The importance of small and medium-sized enterprises

1. Flexibility and innovation: SMEs are key to innovation, creating new products and services and adapting more quickly to changing market demands, making them flexible and strategically important to the economy.

2. Competitiveness and economy: SMEs stimulate competition and prevent monopolization, creating a competitive and healthy economy.

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3. Aid to large companies: SMEs help large companies in areas such as raw material sourcing and distribution, and governments support them with incentives such as easier access to loans and better tax treatment.
4. SMEs in the USA and Canada: In the United States, the definition of SMEs varies by industry, whereas in Canada, SMEs are defined as companies with fewer than 500 employees, with additional criteria for companies that provide goods or services.

European Cooperative Society (SCE)

The European Cooperative Society (SCE) is a legal entity, based on Regulation 1435/2003, which allows members to carry out joint activities, meeting their needs. The main features of an SCE are the formation of at least 5 individuals or 2 legal entities, the merger of cooperatives, or the conversion of an existing cooperative, with a minimum capital of €30,000. Members are entitled to profits in proportion to their contribution. The SCE is registered in an EU country, and voting is based on the principle of "one member, one vote" with the possibility of weighted voting. The General Assembly must be convened at least once a year, and decisions are made by a simple majority, except for amendments to the statute requiring a two-thirds majority. Membership may be terminated due to resignation, expulsion, transfer of shares, death, or insolvency.

Structure of European Business

The structure of European business refers to statistics that aid in the decision-making process and monitor the impact of business policies in the EU. These data are used to analyse economic activity, wealth creation, investment and labour, and illustrate the role of large and small enterprises (SMEs). Structural business statistics also provide information that aids in the interpretation of short-term statistics and the business cycle.

European Public Limited Company (Societas Europaea, SE)

A European Limited Liability Company (SE) is a business structure for companies with international activities, which is available in all EU countries. It is formed by legal entities and allows an easier merger of companies from different countries as well as the formation of holding companies or subsidiaries. The SE is not affiliated with any state members, and the official address can be moved without being dissolved or re-established. The initial budget for the establishment is €120,000, and the rules of the country where it is established apply. An SE can have a two-tier or one-tier board of directors. A minimum of two companies from different EU member states, or a company that has been operating a subsidiary in another country for at least two years, is required to establish an SE. An SE can be established through a merger, holding company, or conversion of a public limited company. SE pays taxes in the countries where it is established and has obligations to publish in the official journals of the EU and the Netherlands.

Performance of European business

The COVID-19 pandemic has disrupted the global economy, and open innovation has become key to the recovery of businesses. Innovation, as the process of creating new value through internal and external resources, plays a critical role in the growth of organizations. Innovation strategies include various concepts such as top-down, bottom-up, and out-of-the-box innovations, which support optimal performance. SMEs, especially in countries like Indonesia, need innovation strategies to overcome challenges and compete in global markets.
SMEs play a key role in the economy, especially in times of crisis. Open innovation allows them to collaborate with external partners, which helps them improve their capacity and competitiveness. Through collaboration and digitalization, SMEs can gain access to new ideas and resources. Human resources and organizational culture play an important role in the success of innovation, making open innovation an important instrument for the growth and development of SMEs.

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The COVID-19 pandemic has disrupted small and medium-sized enterprises (SMEs), but at the same time increased the need for innovation. Employees' ability to adapt and use new technologies has become key to success. Open innovation, which involves knowledge sharing and collaboration, helps companies improve their performance and competitiveness. Innovation affects financial and operational outcomes, such as productivity and profitability, which are important for company growth.

Conclusion

Small and medium-sized enterprises (SMEs) play an important role in the economy because they are closer to customers, allowing them to meet specific needs and offer personalized services. Due to their flexibility and smaller structure, they quickly adapt to market changes. SMEs, however, do not have the financial power of large companies, which makes them dependent on external financing and limits them in economic crises. Therefore, they often face problems of survival in times of economic downturns.

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