



# A SMALL BUSINESS PLAN FOR EUROPE:

HOW EUROPE CAN TAKE THE LEAD



## #FSB2019

# ABOUT FSB

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The Federation of Small Businesses (FSB) is the UK's leading business organisation representing small businesses. Established over 40 years ago to help our members succeed in business, we are a non-profit making and non-party political organisation that is led by our members, for our members. Our mission is to help smaller businesses achieve their ambitions. As experts in business, we offer our members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in Government. FSB is also the UK's leading business campaigner, focused on delivering change that supports smaller businesses to grow and succeed.

# A SMALL BUSINESS PLAN FOR EUROPE

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This document is FSB's Small Business Plan for Europe. It should inform EU policy-makers, major parties and candidates standing in the EU's 2019 May European Parliamentary elections, as well as the incoming European Commission. It sets out a cohesive set of measures the European Union could implement to deliver economic growth and support small businesses and the self-employed in or that trade to the rest of Europe:

- Enhancing productivity
- Boosting growth through international trade and access to finance
- Increasing resilience against security threats and crime
- Promoting diversity, inclusion and prosperity for all

This Small Business Plan, if implemented, could not only help spark sustainable economic growth and job creation, but also ensure that more entrepreneurs start, scale and succeed in business. It is crucial that the next European Parliament, regardless of its political make-up, and the incoming European Commission nurtures and supports all small businesses.

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# A SMALL BUSINESS PLAN FOR EUROPE: HOW EUROPE CAN TAKE THE LEAD

## Promoting Free and Fair Trade



**21%**

of smaller businesses in the UK export directly

**16%**

of small business export indirectly as part of global supply chains

## Creating a Culture of Prompt Payment



**60%**

of all EU businesses are regularly paid late

**1 in 4**

small businesses report payment terms of over 60 days

**1 in 3**

small businesses say that their payment terms increased over the last 2 years

## Tackling the Growing Threat of Cyber-Crime



**£3,000**

the average cost of cyber-crime against small businesses

**£5.26bn**

total annual cost to small business

## Creating Small Business Productivity through Innovation & Skills



**76%** of smaller businesses have introduced a **new innovation** in the past three years, and **11%** of smaller businesses are **considering innovating**

## PROMOTING WOMEN IN ENTERPRISE



**40%**

experience in the sector



**37%**

confidence in their skills in their chosen sector



**29%**

believe the work is interesting



**26%**

a gap in the market

Reasons women decide to start their own business

# FOREWORD

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The time following the result of the 2016 referendum on the UK's membership of the EU has seen unparalleled levels of debate regarding the UK's relationship with the rest of Europe. With Brexit uncertainty continuing, this debate now looks set to extend further with the UK's participation in the 2019 European Parliament elections.

At FSB, our mission is to help the 5.6 million vibrant small businesses and self-employed in the UK achieve their ambitions. These entrepreneurs are the heart of our economy, and they set the foundation for our Small Business Plan for Europe.

Our Small Business Plan is based upon our in-depth policy research, survey data, and analysis informed by the expertise and experience of our membership. It informs candidates of all the major parties across Europe, as well as the incoming European Commission, of the issues of importance for the small business community.

While our relationship with Europe is at a crossroads, and still very much undecided, the EU as a whole finds itself at a unique point in its history. The challenges of increased global competition, profound technological change including greater digitalisation, and building the workforce of tomorrow in the midst of major demographic shifts are issues businesses across Europe, and not just here in the UK, grapple with on a daily basis.

Whether a small business is based in the UK or another European country, the questions entrepreneurs will ask candidates remain the same: 'How can you ensure that I am paid on time?', 'Will I be able to access the talent I need?', and 'What are your plans to help reduce the burden and costs on my business operations?' These are questions that small businesses will expect politicians and policymakers to answer, especially as they come under increasing pressure from competitors located in other large trading blocs.

Our Small Business Plan for Europe offers a way to deliver for this community as well as small businesses across the continent. It is a guide for all European parties and candidates to help to:

- Enhance productivity
- Boost growth through international trade and access to finance
- Increase resilience against security threats and crime
- Promote diversity, inclusion and prosperity for all

If policymakers adopt our calls for action in this Small Business Plan, we can help the 5.6 million small businesses in the UK and the 23.8 million total small businesses across the EU to grow and flourish.



**Martin McTague**  
FSB Policy and  
Advocacy Chairman



# INTRODUCTION

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Small businesses are central to the current and future prosperity of the European and global economy. They not only create the majority of new jobs, are a vital source of competition in markets, but also help spread productivity-enhancing innovations throughout the economy. The UK alone has 5.6 million small businesses and self-employed, providing 60 per cent of private sector jobs and 47 per cent of turnover<sup>1</sup>. Whereas the European Union (EU) collectively has 23.8 million small businesses that create 67% of jobs, contributing nearly 60% of added value<sup>2</sup>. The owners of these businesses have taken a risk, worked hard, and have made something out of nothing. This benefits all of us. When small businesses succeed, so does the wider economy.

However, smaller businesses do not always get the support they need. It is important to remember that smaller businesses operate under significant constraints that do not affect larger businesses in the same way: lack of time, lack of capital, and lack of technical and human resources. Too often, policy designed by the EU and individual Member States does not factor in the specific needs of the smallest businesses in our economies.

Policymakers often design legislation with the largest, market-dominating companies in mind, but overlook the collateral impact on smaller businesses to our collective detriment. Likewise, regulators across Europe often enforce existing laws unevenly, something that punishes compliant companies. As a result, this produces sub-optimal consequences for both business and the economy, as well as hinders the enterprising spirit of small businesses.

To meet the modern challenges that confront the UK and Europe as a whole, the EU will need to develop a long-term strategy for the small business community, design regulation with small businesses in mind, and provide the support they need to ensure they can compete on a level playing field in an increasingly competitive global economy. Small business can boost the economy, but they need the freedom and backing to be able to do it.

This document sets out FSB's Small Business Plan for Europe. Building upon the 'Think Small First Principle' enshrined in the Small Business Act<sup>3</sup>, and drawing upon the experiences of our members and our domestic policy work, this plan outlines a list of recommendations that Europe could look to implement to deliver economic growth and support small businesses and the self-employed in, or that trade to, Europe.

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1 Department for Business, Energy, and Industrial Strategy (BEIS), Business Population Estimates for the UK and the Regions 2018, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/746599/OFFICIAL\\_SENSITIVE\\_-\\_BPE\\_2018\\_-\\_statistical\\_release\\_FINAL\\_FINAL.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/746599/OFFICIAL_SENSITIVE_-_BPE_2018_-_statistical_release_FINAL_FINAL.pdf)

2 Eurostat, [https://ec.europa.eu/eurostat/statistics-explained/index.php/Statistics\\_on\\_small\\_and\\_medium-sized\\_enterprises](https://ec.europa.eu/eurostat/statistics-explained/index.php/Statistics_on_small_and_medium-sized_enterprises)

3 European Commission, 'Think Small First – A Small Business Act for Europe', 2008, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52008DC0394>

# ENHANCING PRODUCTIVITY

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Boosting small business productivity is a puzzle that has many elements. The first place to look when aiming to boost business productivity is the regulatory environment in which small businesses exist. Small businesses, which have limited capital, human resources and time compared to larger firms, feel the effects of poorly designed regulation and accumulative burden more than most.

Across Europe, nagging skills shortages are making recruitment a nightmare for small firms and affecting their productivity. In addition, the challenges of rapid technological change and digitalisation are leaving many small businesses behind. Policymakers need to help small businesses embrace digital technology by imbuing both them and the working population with the skills they need to thrive.

A culture of poor payment practices holds small businesses back. Every year 50,000 small firms go out of business due to late payments. If policymakers ended this situation, the UK economy could grow by £2.5 billion. Small businesses have to run a tight ship with their cash flow, as they struggle with increasing business costs on the one hand and an uncertain domestic economy on the other. Freeing small businesses from the stress, time, and money required to chase overdue payments from corporate giants would give as much of a boost to UK productivity as anything else.

Moreover, policymakers can help boost productivity through more than just the obvious policy areas of skills, training, and regulation. Supporting smaller businesses to improve wellbeing at work can increase productivity by improving staff performance, reducing absenteeism, and improving employee engagement.

## Creating a Culture of Prompt Payment

Small businesses have grown increasingly frustrated at the slow progress that has been made in addressing the scourge of poor payment practices. This is not just a commercial problem – it is also ethically wrong. When large businesses pay late, it can put small firms out of business. It is as simple as that. It also creates a negative payment culture, one that runs through supply chains and throughout suppliers.

Under the terms of the 2011 Late Payment Directive, the period for payment in a business-to-business (B2B) contract should never exceed 60 calendar days, unless expressly agreed by both parties and provided that it is not grossly unfair to the creditor. In spite of this, poor payment practice now affects many of the 5.6 million small businesses that exist in the UK, leading to 50,000 British businesses closing their doors every year.<sup>4</sup>

The payment terms of some large businesses have grown from 30 days to well over 100 days in some cases, with instances of supply chain bullying rife. This reflects a wider cultural trend, where large businesses use payment terms to improve their margins and cash flow, at the expense of small suppliers. This harms small firms' liquidity, seriously hampering their ability to invest, grow, and, in some cases, threatening their existence.

At present, 60% of all EU businesses are regularly paid late, with half of those businesses suffering payment delays of more than 90 days. For smaller companies, in particular, the probability of going bankrupt increases after six days of non-payment, which is why late payments still account for 25% of insolvencies in the EU.<sup>5</sup> The issue of late payments also varies considerably between Member States. For example, while the average EU business-to-business payment term fell from 56 days in 2011 to 34 days in 2018, the situation deteriorated in some Member States, with one third of businesses saying the problem had got worse.<sup>6</sup> Thus, it is time to take action and end the negative payment culture found across Europe.

4 FSB report, 'Time to Act', 2016, [https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-report---late-payments-2016-\(final\).pdf](https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-report---late-payments-2016-(final).pdf)

5 Comi report on implementation of Directive 2011/7/EU on combating late payment in commercial transactions, 11 December 2018, [http://www.europarl.europa.eu/doceo/document/A-8-2018-0456\\_EN.pdf](http://www.europarl.europa.eu/doceo/document/A-8-2018-0456_EN.pdf)

6 Ibid.

### FSB suggests:

- Prohibiting persistent late payers from all future public procurement contracts via a targeted revision of the EU's Public Procurement Directive by adding poor payment practice as a mandatory ground for exclusion.
- Putting into practice the Comi Report's recommendations on late payments.<sup>7</sup>
- Drawing-up an EU-Wide Action Plan on Late Payments: from the implementation of the duty to report to the commitment towards moving to 30-day payment terms.
- Using Project Bank Accounts as a default option for all appropriate EU public procurement contracts.
- Setting-up an EU Forum on Prompt Payment. This multi-stakeholder platform should explore best practices on tackling late payments in the different Member States, drive companies to commit towards 30-day payment terms as standard, and create an EU-wide database of companies that are signatories to prompt payment codes or display good payment practice.

## Unlocking Small Business Productivity Through Innovation & Skills

A well-designed innovation policy should help the EU economy to grow. With the right conditions, smaller businesses have the potential to become more productive, more competitive, and to export more. It is well established that innovative firms grow faster, have higher productivity, and are more resilient during difficult economic periods.

However, policymakers should not only focus on market changing innovations, important as they are. Of equal significance are the various business improvements that smaller businesses and sole traders can make to their goods, services, processes, organisational structure and marketing. These are most often 'new to firm' innovations. Research shows that the majority (76%) of smaller businesses have innovated in the last three years. Of those who have innovated, 25 per cent engaged in 'new to market' product innovation and 95 per cent have adopted a 'new to firm' innovation.<sup>8</sup> This shows that the ambition and will is present in smaller firms.

There is clearly scope for improvement in the adoption of digital technologies. Fewer than half of smaller businesses in the UK have used cloud services (40%), online data storage or back up (37%) or file transfer technology (33%).<sup>9</sup> Combined with the scope for improvement in leadership and management practices, there is extraordinary latent potential to boost small business productivity.

Having skilled and experienced staff – and being skilled and experienced oneself – is crucial to running a successful, resilient and agile small business. Aside from the more tangible benefits of learning new skills, such as the creation of a new product or company website, training improves business competitiveness, efficiency, and longer-term effectiveness.

However, small businesses are already grappling with skills-related issues. Smaller businesses in the UK, as is the case across the EU, are struggling to fill skilled vacancies and contend with labour shortages, especially in the skilled trades.<sup>10</sup> Smaller businesses also face skill gaps amongst their existing employees, caused by a lack of fully proficient staff.

7 Ibid.

8 FSB report, 'Spotlight on Innovation', 2018, <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/innovation-report-final.pdf?sfvrsn=0>

9 Ibid.

10 FSB report, 'Learning the Ropes', 2017, <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/skills-and-training-report.pdf?sfvrsn=0>



With the advent of the Fourth Industrial Revolution, the way that business owners, consumers and individuals interact with digital – and particularly with artificial intelligence (AI) – is changing. 32 per cent of small businesses think that AI would provide value to their business, and as business size grows, more small businesses think that AI would add value. With new devices and platforms emerging at a rapid pace, firms need the skills to take advantage of technology in order to remain responsive and competitive, or risk being left behind.

#### **FSB suggests:**

- Making existing skills initiatives and policies more inclusive of smaller businesses and sole traders, helping them to upskill and satisfy their skills demands.
- Strengthening and implementing the action plan of the EU's Digital Skills & Jobs Coalition.
- Examining how both direct (match-funded grants and vouchers) and indirect funding (tax relief) can be used to support new to firm innovation.
- Making existing innovation schemes such as R&D tax credits and Patent Box Tax Relief more effective and small business friendly.

### **Making Business A Place of Well-Being**

The world of work has changed significantly in recent years, and is set to continue to change rapidly in the coming years. There are now more people than ever going it alone and setting up their own business and entering self-employment.<sup>11</sup>

Owning and running a business can be hugely rewarding, however running a business can also be hard. The demands, responsibilities, and risks faced by small business owners and the self-employed are essential for economic success, but also bring personal pressure. There are some pressures that are an inevitable consequence of running a business, but there are steps that all of us – society, businesses and employers, governments and individuals – can take to improve the health and wellbeing of those around us and ourselves.

Wellbeing at work can increase productivity through, for example, improving staff performance, reducing absenteeism, and improving employee engagement. Moreover, while businesses feel the benefits on the bottom line, the wider economy, government, and society as a whole feel the benefits as well. Small business owners can, and do, play a powerful role in improving the lives of their employees through a variety of actions - from innovative and new ideas to simple steps such as encouraging more physical activity and regular breaks.

Much of the toolkits and guidance produced on this topic are not tailored for smaller businesses. This is, in part, because running a small business or being self-employed is a markedly different experience to being involved in a larger company or the delivery of large scale public services – most small businesses will not have a HR department, for instance. The EU should work to remedy this lack of support.

#### **FSB suggests:**

- Publishing a Joint Action Plan with Member States on mental health & well-being in small businesses.
- Producing EU-wide guidance on workplace wellbeing, with a range of practical ideas and best practice tailored to the self-employed and small businesses across Europe.

<sup>11</sup> Eurostat, 'Business demography statistics', [https://ec.europa.eu/eurostat/statistics-explained/index.php/Business\\_demography\\_statistics](https://ec.europa.eu/eurostat/statistics-explained/index.php/Business_demography_statistics)

## Setting a Global Standard on Better Law-Making

Small businesses play a central role in the economy. The start-up, entry into a market and growth of smaller businesses improves the efficiency of the economy. Smaller businesses place competitive pressure on incumbent or dominant businesses across different sectors. This drives the more efficient deployment of resources, both within businesses and across industries. It incentivises investment in the development and deployment of new products and services, as well as business processes and practices.

However, there are growing constraints on smaller firms from public policy decisions and regulation, many of which may seem justified on their own but cumulatively bear down on the small business community's capacity to innovate, raise productivity and grow.

Small businesses recognise areas where some regulation has had a positive impact, such as workplace health and safety, certified standards, and company law, however nine out of 10 FSB members (88%) identified some aspect of regulation that was a barrier.<sup>12</sup> Of those businesses that did, almost half (43%) highlighted the overall quantity.<sup>13</sup> Over a quarter (28%) cited poor design, while just under a quarter (23%) cited overly complex or inconsistent language. Small firms often find the implementation and enforcement of regulation a particular challenge.<sup>14</sup>

Smaller firms are less resilient to regulatory changes, have fewer resources to adapt, are less able to absorb the costs of new administrative and regulatory requirements, and cannot spread the costs of obtaining information and acquiring knowledge about compliance across a larger cost base.<sup>15</sup> Thus, it is important for EU policymakers to remember the main factors behind the greater impact of regulation on smaller businesses, as opposed to their larger counterparts.

Therefore, a narrower focus is needed on the impact of existing regulations on the small business community and the subsequent consequences for the competitiveness of industry and efficiency of markets. Small businesses need ambition: the cumulative burden of regulation is the aspect of regulation that is the biggest barrier to small business success.

### FSB suggests:

- Adopting strict rules on regulatory changes across the EU institutions that can help limit the cumulative burden. For example, the adoption of 'regulatory budgets' or 'one-in, three-out' rules that limit the scope for the REFIT programme and the scope of the legislative branches of the EU to add new rules.
- Simplifying and improving the better regulation approach, the EU should ensure the timely development of proposals by applying the better regulation principles across all policy areas, as well as across all institutions. In addition, policy must be based upon robust data (which can be interrogated), and without a predetermined policy option in mind.
- Improving the REFIT programme by asking deeper and more searching questions about the stock of existing regulations e.g. the rationale behind them, their necessity, if regulations are focused on the right targets, and if they are the best way to solve a problem.
- Examining best practices in other jurisdictions, such as Canada and the United States.

<sup>12</sup> FSB report, 'Regulation Returned', 2017, <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-regulation-returned-report.pdf?sfvrsn=0>

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

# BOOSTING GROWTH THROUGH INTERNATIONAL TRADE AND ACCESS TO FINANCE

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FSB believes that exporting is good for small businesses to survive, grow and innovate. Policymakers should never underestimate the importance of supporting more small firms to export, especially as they make up over 99 per cent of the EU business population.

Small businesses that export are likely to grow faster, see higher revenues, and even innovate more. The benefits of policies that enable more small businesses to take the step towards exporting for the economy as a whole is clear. Likewise, the focus should not just be on making international trade easier for large firms. Simple policies that can increase the number of smaller businesses exporting slightly can create huge returns.

As well as supporting exporting, one of the central means to boost growth is by increasing the availability of finance. Despite being a decade on from the 2008 financial crash, small businesses still face a dangerous combination of weak appetite for, and low awareness of, alternative finance options, high borrowing costs, and inadequate support for small firms that are turned down by banks. Change is needed across Europe, and small businesses need this change now.

## Promoting Free & Fair Trade

In these turbulent times, now more than ever, Europe should take the lead and uphold its commitment to open and fair trade. This means leading by example and not giving in to calls for protectionism, from proposals for digital single market entrance fees to having to establish a physical presence in the EU to do business.

Many sectors of the European economy, from manufacturing to retail and wholesale, are dependent upon business partners outside the EU. Protectionism will only be met with more protectionism through retaliatory measures, resulting in the closing of export and import markets and limiting consumer choice.

With the current world trading system under threat, it is important to promote and recognise that open trade is an essential tool to create prosperity, employment and social development. Not only are millions of European jobs supported by exports outside the European Union, but also the economic and social gains from trade are spread across global supply chains, which include those businesses located in developing countries.<sup>16</sup>

It is equally important to remember that smaller businesses are involved in trade. Whether that be via direct exports (currently 21% of smaller businesses in the UK), or indirectly as part of a global value chain (16%), trade is a vitally important driver for smaller businesses, as it enables them to diversify their markets, reach new customers, grow, and become more competitive.<sup>17</sup>

Policymakers need to do more to help small businesses benefit from and contribute to world trade. The statistics from developed and developing countries alike show that large companies tend to export much more than small ones. From the costs and complexities of complying with rules of origin, lack of transparency in export markets, to issues accessing information, there are many obstacles and costs involved for small businesses looking to export.

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<sup>16</sup> European Commission, 'EU exports to the world: effects on employment', 2018, [http://trade.ec.europa.eu/doclib/docs/2018/november/tradoc\\_157516.pdf](http://trade.ec.europa.eu/doclib/docs/2018/november/tradoc_157516.pdf)  
<sup>17</sup> FSB report, 'Destination Export', 2016, <https://www.fsb.org.uk/docs/default-source/Publications/reports/fsb-destination-export-report-2016.pdf>

### **FSB suggests:**

- Ensuring all future and revised trade agreements contain a comprehensive small business chapter.
- Helping smaller businesses to internationalise through the sharing of best practices in export support, such as export vouchers and export tax credits.
- Pushing for comprehensive digital trade commitments in future bi-lateral and multilateral agreements, which support data flows, recognise international technology standards, and prevent restrictions for service providers.
- Supporting the work of the WTO Informal Working Group on Micro-, Small-, and Medium-Sized Enterprises (MSMEs) by sharing best practice amongst developed and developing countries.
- Working with other trading partners to bring about real and effective reform at the WTO.
- Conducting thorough impact assessments on the potential effects of EU internal market proposals on trading partners when a proposal has a trade element.

## **Helping Small Firms Flourish Through Access To Finance**

While, for a number of years, the UK has outpaced the rest of Europe in terms of its performance in private equity and venture capital investments, smaller businesses in the UK – as across the EU – still largely depend on bank lending for their financing needs.

The financial crisis of 2008 created a very different climate for smaller businesses seeking to borrow. Today, as bank lending continues to dominate, the process of searching for suitable finance has become more complex and varied. There is evidence that the poor conditions for lending at a macro-economic level are being exacerbated at the local level in some parts of the country by bank branch closures.

Many smaller businesses believe credit is relatively scarce. According to FSB's research, 42 per cent of small business owners say credit availability is very poor (19%) or quite poor (23%). Just 24 per cent feel credit is readily available. These numbers improved between 2012 and 2016, but have weakened in the past two years.<sup>18</sup>

Smaller businesses that do wish to access external finance face a number of challenges. Security requirements, based on the probability of default, can rule out many younger businesses from accessing traditional debt finance.

In the last ten years, the supply of external finance has improved, although many small business owners would argue that this does not reflect their personal experience. According to FSB's research, only 13 per cent of small businesses say they have applied for new credit in the past quarter. However, of those that did, 58 per cent have had their credit application approved, and a further 12 per cent say they are awaiting a decision.<sup>19</sup>

The EU has led the way in recent years via the development of its Capital Markets Union, however policymakers need to do more if small businesses are to benefit from the levels of access to finance seen in the likes of the United States. This work needs to not only focus on supporting the financing methods of the future, but also to improve small businesses' access to finance via traditional means.

<sup>18</sup> FSB report, 'Going for Growth', November 2018, <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/going-for-growth-final.pdf?sfvrsn=0>

<sup>19</sup> Ibid.

**FSB suggests:**

- Analysing best practices amongst the Member States with regards to open banking and referral systems for businesses that are refused a loan
- Supporting alternative forms of finance such as lending platforms and crowd investment
- Designing banking regulations that incentivise lending to small businesses

# INCREASING RESILIENCE AGAINST SECURITY THREATS AND CRIME

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The 21<sup>st</sup> century has brought incredible opportunities for small businesses, but also increased and more diverse risks. Ever increasing reliance on digital technologies has opened up new markets and provided new customers for small businesses across Europe, but also exposed them to a greater risk of cyber-crime.

Likewise, the tragic impact of modern terrorism is no longer restricted to damage to physical infrastructure. The shocking and unprecedented poisoning incident in Salisbury last year is testament to the fact that crises can happen anywhere, at any time, and can have a devastating impact on local business communities.

The resilience of small business owners is not to be underestimated. However, in challenging times, small businesses still need the right support at the right time. When tackling and preparing for the threats of tomorrow, policymakers across Europe should consider how to improve the resilience of small businesses – and the economies that they underpin – at the same time.

## **Tackling the Growing Threat of Cyber-Crime**

Over the last couple of decades, the economy has shifted towards one that relies on a complex digital communications infrastructure. This offers tremendous opportunities for smaller businesses. The digital economy information age began with personal computing, mobile telephony, the internet and email. It has now moved even further with cloud computing, smart devices – such as tablets and smart phones – and social media. These innovations have helped businesses to reduce costs, increase their efficiency and widen their market reach. The nascent internet of things is going to generate opportunities even further.

However, these benefits have brought with them a wide range of risks for both smaller businesses and the wider economy, from large companies to digital communications infrastructure. In a highly interconnected economy, a risk for one is a risk for all.

The biggest risk comes from the threat of cyber criminality, a rapidly evolving threat that is in danger of becoming ubiquitous in the digital world. In fact, the costs and risks of cyber criminality are already increasing. Our research suggests that smaller businesses were the victims of around seven million cyber-crimes per year (in 2014 and 2015), with the average cost of cyber-crime against small businesses amounting to £3,000. The total annual cost to small business was around £5.26 billion (over 2014 and 2015).

Smaller businesses often have limited financial, technical, and human resources at their disposal. As a result, most do not have access to the resources and knowledge to best develop their business's cyber resilience. These constraints, along with technological and organisational vulnerabilities, mean that small businesses often cannot easily reduce their own exposure to cyber risks. Nor are they best placed to contribute significantly to the high level of resilience among the commercial supply chains in which they participate and the digital communication networks on which they rely.

Whilst the EU has attempted to strengthen its cyber security framework, it needs to act further to improve the cyber resilience of smaller businesses and to tackle the growing threats of cyber-crime. This includes a greater sharing of the burden of cyber resilience across business (large – especially those providing the technological and economic infrastructure – and small), government, and individuals.



**FSB suggests:**

- Encouraging all the EU's current and future trading partners to sign-up to the Budapest Convention on Cyber-Crime, the UN Convention Against Transnational Organised Crime, as well as a myriad of Mutual Legal Assistance Treaties between countries and law enforcement agencies.
- That the EU's Cyber Security Agency (ENISA) surveys and records the scale of cyber-crime against the business community more routinely, including as part of its annual review.
- Requiring software providers, especially those operators providing cyber security software, to make automatic patching and updates the default option on all producers. Hardware suppliers should also have adequate security features bundled with their products and a high default protection setting.
- Improving the law enforcement response to cyber criminality in the longer term through effective coordination of Member States cyber security and crime agencies.

**Strengthening Resilience Against 21<sup>st</sup> Century Terrorism**

Small businesses are generally more vulnerable to significant commercial disruption from terrorist incidents than larger firms are. This is for the simple reason that larger businesses have more resources at their disposal to anticipate and plan for a wide range of potential risks and to absorb the impacts on revenues and business assets more easily.

Such disruption often has wider negative consequences for local economies as smaller businesses face a double whammy, suffering from both the initial disruption and by the time taken to recover. In some cases, the return to normal can be more disruptive and financially detrimental to local and regional economies than the actual attack itself.

Recent attacks across Europe have seen areas closed down for a considerable period, which has resulted in extended disruption to trading for many smaller firms. While the investigation into an attack is paramount, it is important that local communities are able to 'keep calm and carry on' as soon as possible. Where that is not possible, information for local businesses about when the disruption is likely to end needs to be disseminated effectively so they can plan accordingly.

In order to help reduce the short and longer-term negative impact of a terrorist incident on small businesses and local economies, small firms need to be able to plan ahead in order to be resilient in the face of any threat or attack that may come along. However, smaller firms generally struggle with resilience – be that a flood, fire, civil disturbance, failures in the supply of essential services, cyber-crime or a terrorist attack.

The nature of small businesses mean that they are not able to invest in contingency planning and afford associated measures as extensively as larger firms. We want small businesses to continue to play their part in defying the current and ongoing terrorist threat. They play a central role in helping affected communities return to normality – as has been witnessed on many occasions recently, with small, family run businesses providing shelter, sustenance or support to both emergency services and their local community.

However, for smaller businesses to be able to continue in this role they need some additional support to help them be more resilient in the face of terrorism.

**FSB suggests:**

- Identifying best practice for supporting businesses in the aftermath of an attack.
- Encouraging Member States to introduce a 'flexibility clause' requirement in supply contracts in regulated utilities such as financial services and energy, whereby it is possible for a business affected by a terrorism incident to delay a payment to help short-term cash flow.
- Conducting an analysis of best practice across the Member States regarding re-insurance.

# PROMOTING DIVERSITY, INCLUSION, AND PROSPERITY FOR ALL

Small businesses play a vital role in the health of our overall economy. However, that is not the only way they add value to our communities and lives.

Too often, we judge the value of businesses only in economic terms. While the huge financial contribution small businesses make to the economy is important, the value they bring to society and their local communities often extends far beyond pounds and pence or euros and cents.

Small firms already make a huge contribution to our economy and society, but across Europe more can be done. If we were to harness the under-exploited potential of all parts of society, including women entrepreneurship and services leavers, amongst others, it could lead to additional jobs, economic growth and a more diverse and representative small business community.

Europe should help drive a cultural change towards diversity in business, empowering more women starting and growing their own businesses, enabling people from different backgrounds to start and work for small firms, and recognising that small businesses often reflect their communities in a way that only they can.

## Recognising the Contribution of Small Business to Communities

Small businesses and the self-employed are the heart of our communities, through their volunteering activities, support for local schools and colleges, and their willingness and ability to employ those furthest from the labour market.

Despite being under significant resource constraints, small firms are remarkably generous in contributing their time towards improving their communities. Thus, it is important we provide them with the regulatory, economic, and physical space and support to thrive.

It should not be underestimated the important role smaller businesses play in their rural areas and local towns. Small businesses are agents of social change. They provide jobs, skills and training for those furthest from the labour market, including young people and older workers, those with disabilities and mental health conditions, and those with low levels of educational attainment. Therefore, it is vital that the invaluable role that smaller businesses play in supporting social mobility, wellbeing and fuller working lives is recognised, rewarded and capitalised on.

For some groups that traditionally struggle in the labour market, self-employment offers a chance to fulfil their potential, either as a self-employed individual or as a route into employment. We should not underestimate the power of inspiration and role models and we need a business support system that capitalises upon this.

Therefore, the EU and its Member States should look to understand the ways in which smaller businesses work to support these groups and design regulation in a way that encourages, and does not hinder, this behaviour.

It is not only the right thing to do, but it also makes economic sense. After all, boosting productivity is as much about diversity, flexible working, job design, employee engagement, and promoting wellbeing, as it is about infrastructure and digital technologies.

### FSB suggests:

- Deepening understanding of the social impact of smaller businesses in their communities.
- Examining policy interventions to support small businesses to make real inroads into reducing the disability employment gap.
- Encouraging Member States to provide support and incentives for small firms to recruit individuals from disadvantaged groups, such as ex-offenders and older workers.
- Supporting smaller firms to deliver work experience, apprenticeships and work placements, as they are key to promoting social mobility.

## Promoting Women in Enterprise

There are many reasons why women decide to start their own business. FSB's research shows that the most common reason was that they had experience of the sector (40%).<sup>20</sup> Whereas, other popular reasons include confidence in their skills in their chosen sector or industry (37%), believe the work is interesting (29%), and a gap in the market (26%).<sup>21</sup> The desire to achieve a good work-life balance was cited by a quarter (25%), with flexibility and the opportunity to be more involved in childcare and family life an attractive proposition to many women.<sup>22</sup>

However, women continue to encounter barriers that prevent them from moving into business ownership and impede their ability to grow their businesses. Many of the barriers they face are common challenges faced by all small business owners, but some are specific to women in enterprise.

Recent research has found that currently 2.7 million women in the UK want to start a business but have been put off by persistent barriers: lack of business support, issues relating to self-confidence and perception of own skills and capabilities, having the right skills and understanding the need to continue developing and updating expertise, and past experiences with discrimination.

One of the most common barriers cited by FSB women entrepreneurs is the ability to access finance, with a quarter of all women business owners highlighting the issue as a key challenge. While this affects business owners of all genders, women entrepreneurs experience particular challenges relating to a lack of confidence, fear of debt, and risk aversion. Indeed, women-led small businesses are less likely than their male-led counterparts to be using any form of external finance, including loans, overdrafts and credit cards.<sup>23</sup>

Research suggests that 900,000 more businesses would be created if the UK achieved the same level of female entrepreneurship as in the US, resulting in an additional £23 billion gross value added to the UK economy. The benefits of unlocking this potential are clear.

Across Europe more widely, small firms already make a huge contribution to the EU economy; if we were to harness the still largely untapped potential of women entrepreneurship, it could lead to additional jobs, economic growth and a more diverse and representative small business community across the EU.

### FSB suggests:

- Developing an EU level framework for women's enterprise – the EU could bring together all EU Member States, relevant industries, and agencies in an effort to grow and support women's enterprise.
- Improving access to finance - women need to be aware of the full range of finance options available to them, including alternative sources such as crowdfunding and angel investors. The EU could consider an awareness-raising campaign aimed at helping to inform women of their financing options.
- Improving diversity in procurement practices via better monitoring of the awarding of EU public contracts, analysing the gender diversity of the owners, leaders, and employees of firms in supply chains.

20 FSB report, 'Women in Enterprise: The Untapped Potential', 2016, <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-women-in-enterprise-the-untapped-potential/efbc2bbb4fa86562a286ff0000dc48fe.pdf?sfvrsn=0>

21 Ibid.

22 Ibid.

23 Ibid.

## Revitalising the High Street

The traditional high street is undergoing significant changes and it is impossible to ignore the impact on our communities. From well-known chains and department stores going into administration to shuttered stores cluttering the once vibrant high streets of cities and towns across Europe, none of us is immune or can ignore its effects.

Small shops are in the thick of this. In the UK, there are twice as many independent high street businesses as chain stores. They are vital to the health of our town centres. However, many are finding it difficult – some too difficult – to stay in business.

The problems are there to see. Shops lie empty, increasingly expensive parking in towns drive shoppers to choose retail parks, business rate bills weigh disproportionately heavily on high street retailers, while online-only operators have far lower costs – and pay far less in tax.

Whilst there is no quick fix for the high street, policymakers must act to lessen the pressure on small firms and to enable our towns to reimagine and repurpose themselves for a future that is less about shopping and is more and more about leisure, experiences, and community. Moreover, more can be done to help retailers and their staff develop and apply new skills for a digital future to ensure small businesses flourish.

These challenges will require the EU, Member States, local authorities, businesses, and consumers to work together to solve them. Even in these difficult times, the small business community is opening tens of thousands of shops every year, on high streets and online. If we can reduce the burdens on business and provide opportunities, by policymakers coming together, then small businesses can help to ensure that our high streets are not only able to survive but also thrive.

### **FSB suggests:**

- Conducting a thorough impact assessment of all future legislation to ensure that it does not discriminate against high street retailers versus their online competitors and ensures sales channel neutrality.
- Future proofing all digital payments regulation, to ensure that small businesses have easy and low-cost access to the latest developments in payment technology.
- Vigorously pursuing action at the OECD level regarding the creation of a level playing field between market-dominant online firms and small offline and online businesses in the field of taxation.

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# JOIN US

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FSB offers a range of joining options for smaller business owners, the self-employed, and for those planning to start up a business. As well as being part of the UK's biggest business group, those who join have access to essential advice, exclusive products and benefits to help them achieve their ambitions.

## **FSB Connect**

Joining FSB Connect is free and gives access to exclusive and expert business networking events across the whole of the UK. It's a great way to be part of the FSB community and to have your say in our Big Voice Panel.

## **FSB Business Creation**

This membership category, launched in 2017, has been developed to assist the entrepreneurial people of the UK who are planning to launch a new business. At a time when huge numbers of the UK's population say they plan to start their own business, benefits include dedicated advice and products tailored to get a new business off the ground in the most successful way.

There are many who have a hobby or passion who would love to turn that into a profitable and sustainable business. There are also those who want to make the biggest global impact from the onset and are dedicated to accelerated, international growth.

## **FSB Business Essentials**

In 2017 we enhanced our standard membership package with additional new benefits including cyber protection, enhanced legal insurance cover of up to £100,000 and PR crisis management support. These join a whole host of other, existing, exclusive benefits and discounted products, from expert legal and tax advice and business banking to auto enrolment of workplace pensions.

Information about FSB's work and FSB membership can be found at [fsb.org.uk](https://www.fsb.org.uk)

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