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MOUVEMENT DES ENTREPRISES DE TAILLE INTERMÉDIAIRE
LES ENTREPRISES DE LONG TERME

Bridging the mid-cap gap

A proposal to recognise, promote and support the growth of mid-cap companies in the European Union



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1. Executive summary

It is estimated that family businesses account for approximately 70 to 90 percent[1] of global GDP and make up more than 60 percent of all companies in Europe.[2] Furthermore, they play a significant role in the European Union (EU) economy as job creators, drivers of innovation and important caretakers of their communities and environment.[3]

Approximately, 70 percent of mid-caps are family-owned.[4] European family-owned businesses have grown into mid-cap companies through multiple generations of successful businesses in rural communities and regions — as well as major industrial areas — creating local jobs, utilising local supply chains and contributing to the wellbeing and sustainability of their communities.

If one considers that 99 percent of all businesses in the EU are small and mid-sized enterprises (SMEs), then we must also consider what happens to these companies once they have reached the capacity of the SME category.[5] 17 million businesses in the EU are family-owned and have been working towards or aiming for growth and expansion over the coming generations.

They are:

- Essential sources of employment.
- Major contributors to economic prosperity locally and regionally.
- Catalysts for widespread economic growth and social responsibility.
- Drivers of innovation.
- Potential stimulators for embedding an entrepreneurial culture throughout the EU.
- Helping to maintain local industry and reduce offshoring.

[1] Family Firm Facts - Family Owned Business Institute - Grand Valley State University (gvsu.edu)

[2] European Commission Website, "Internal Market, Industry, Entrepreneurship and SMEs https://ec.europa.eu/growth/smes/supporting-entrepreneurship/family-business_en

[3] Tharawat Magazine (Volume 22, p. 36)

[4] "Cartographie des ETI de France", METI, https://m-eti.fr/wp-content/uploads/2021/02/METI-Cartographie-nationale-des-ETI.pdf (janvier 2021).

[5] Entrepreneurship and small and medium-sized enterprises (SMEs) (europa.eu)

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Despite the impact they have on job creation, economic performance and social sustainability, a specific mid-cap business category does not exist at the European level or in the majority of individual member states to reflect the policy considerations and targeted support programs that are relevant to their size and needs.

These mid-cap companies are currently caught in a gap between the SMEs and large business categories, each of which has appropriate regulations and levels of support in place based on their size and impact. A specific category for mid-caps does not currently exist at the European level, however, resulting in the need for these companies to comply with regulations that are typically designed for very large, complex companies, while not always providing access to the appropriate levels of support that are available to smaller enterprises. For instance, most EU governments offered loans to small businesses in the EU in the early part of the pandemic, which often made the difference to the survival of many companies.

Many mid-cap businesses generate strong financial performance such as that seen in large companies, but they operate with the agility and resilience that is not typically found in large enterprises. These are crucial attributes that companies need in responding successfully to financial and social crises. We should expect that the world will continue to face various crises, and an economy that is supported by such companies will continue to be key for the future economic and social sustainability of the EU.

Currently, however, this vital group of companies is caught in the middle of what we are describing as the "mid-cap gap". They are too small to operate effectively under the conditions of a large enterprise and too large to access small-business initiatives and support.

Many of these companies are also family-owned, and they are in business for the long term. They seek to have their company transferred from one generation to the next. What better way to protect and nurture future generations of entrepreneurs who will continue to innovate, grow and contribute to the European economy and to enable them to have a framework for transitioning from an SME to a mid-cap to a large enterprise? One could argue that agreeing on a mid-cap definition would bring about resilience and development of the European economy.

This will raise awareness of the limitations that the 'mid-cap gap' is creating on the economic performance and sustainable growth of these companies — and ultimately, the performance of the EU. As such, European Family Businesses (EFB) and Mouvement des Entreprises de Taille Intermédiaire (METI) have come together on behalf of our approximately 10,000 company members to highlight the impact that mid-cap companies are currently having and their prospects for driving even greater economic and social performance with the right level of policies and support.

The European Parliament resolution of 8 September 2015 on family businesses in Europe (2014/2210(INI)) highlighted that companies that do not fall within either the SME or large company definition could prove to be "ineligible for specific funding opportunities and some administrative exemptions, inevitably leading to unnecessary red tape, which is a great burden, especially for these mid-cap family businesses."

We ask the European Commission to consider bridging this gap by creating a new mid-cap company category with targeted policies and programs to help ensure that these high-growth companies continue to help make an important contribution to the strong and sustained performance of the EU.

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2. Introduction

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Background on the issue

We value the European Commission's recognition that "SMEs are the backbone of Europe's economy, providing the majority of all new jobs" and that the aim is to promote entrepreneurship and improve the business environment for SMEs to allow them to realise their full potential.

We fully support this strategy in contributing to a prosperous future for all the member states. As such, we suggest that mid-cap companies represent an important progression for entrepreneurial companies that are moving from initial startups to young high-growth companies and, ultimately, to stable and sustainable mid-sized enterprises.

The success of these businesses can lead them to eventually outgrow their SME status. However, they are not necessarily ready to take on the regulatory requirements and operating complexity of a large enterprise. The transition between the two is what we are describing as the 'mid-cap category'. We believe that with the appropriate policies and support targeted specifically to this category of companies, it will enable them to grow and succeed at scale until they reach the ultimate large-enterprise status.

Despite the important contributions to economic sustainability and employment stability throughout the EU, we do not believe that the distinctive characteristics and requirements of mid-cap companies and their importance as a transitional period for SMEs with ongoing growth ambitions have been fully recognised. Hence, the next section will seek to provide a further understanding of why we may need to create a mid-cap category.

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Impact of the current mid-cap gap

Mid-cap companies are focused on carefully managing their growth and productivity, which often positions them in the middle of a growth curve as they emerge from the small business category and long before they reach large-enterprise status.

Mid-caps sitting in this gap no longer qualify for the regulatory policies and support programs that SMEs enjoy, but they are also very far away from having the capabilities and skill sets that are needed to address the more complex regulatory compliance requirements of a very large enterprise.

These are typically companies that have succeeded in growing to the outer edge of the SME definition. Notwithstanding the transitional business category between SMEs and large enterprises, many are often reluctant to "go for growth" because they are required to operate as if they were already very large enterprises that have sophisticated attributes that make them capable of managing complex regulatory and reporting requirements.

This opens a very wide gap in the evolution of growing businesses. Hence, some businesses become reluctant or unwilling to grow beyond the parameters of the SME definition because of the hurdles and complexities involved.

This is not a beneficial situation for companies that want to grow — or for the overall performance of the EU.

Therefore, on behalf of member companies, EFB and METI have come together to introduce the important distinctions between SMEs, mid-cap companies and large enterprises in Europe. Their current economic and social impact, and the future contributions they can continue to make with the appropriate policy support has driven us to write this report.

Our goal is to help policy makers understand the growth potential and impact of these companies and to clarify the benefits of creating a distinct category for mid-cap companies with the targeted policy support they need for the continuous growth and impact of their businesses.

> "From a financial point of view, we are like a very large company. Our turnover is more than 500 € million, but we don't feel like a large company. We operate like an agile and resilient mid-sized company. It is difficult for the government to understand that we don't operate like a large multinational, and we need a different system to manage the company. This is a problem. Addressing it is really important for the future success of all our businesses.
>
> Large companies can speak for themselves, and it is important for us to speak as one voice on behalf of mid-sized companies across Europe"
>
> — **Anonymous,**
> Executive Chairman
> Leading manufacturer,
> Italy

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The proposition for creating a new mid-cap business category

Creating a mid-cap category would build the bridge between the definition of SMEs and large enterprises, provide targeted policies that are appropriate for this stage of their business and enable to them to progress confidently through every stage of their growth.

We respectfully request that the European Commission consider, "developing a well-defined mid-cap business category in the EU — with targeted policies to support these businesses — in order to unlock the full economic and social impact of this powerful category of companies across all member states."

The creation of the mid-cap category at the European level would also have an impact on individual countries. In France, for example, there are several regulations that currently apply to companies that grow from a small company to a medium-sized SME. Once the business exceeds 250 employees, the company has to comply with the same regulations as a large company, often discouraging small companies from an impetus to continue to grow.

Furthermore, we have noted that, over the years, the term 'mid-cap' has been emerging in several Parliament and Commission papers. One such example can be found in the Corporate Sustainability Due Diligence Directive (CSDDD), where it was argued that, 'the "…personal scope" i.e., which business categories are covered, has been significantly reduced following reflections triggered by the Board's comments on the problem description, in particular with regard to SMEs, and on the proportionality of the preferred option. […] For mid-cap companies in high-impact sectors, the rules will start to apply after a transition period of two years to allow for a longer adaptation period. In addition, the due diligence obligations of these companies are limited only to severe impacts relevant for their sector.'[6] In the recent briefing providing a review of the amendment to the CSDDD it was noted that the term ' mid-cap' was used, which led one rapporteur to question, 'the proposal label[ing] large companies as mid-cap companies'.[7] We would like to suggest that perhaps the reason companies with 500 employees are considered as large companies is because the mid-cap definition has not been clearly defined.

While this is a national regulation, creating a European mid-cap category would encourage each country to address the regulations and policies that are appropriate for mid-sized businesses. This is not the case today, and it would encourage and enable these companies to continue to grow.

[6] COM_COM20220071_EN.pdf (europa.eu) Pg 21

[7] Dods Monitoring: Doc: (dodsinformation.com) And CSDDD proposal amendment mentioning Mid-caps COM_COM20220071_EN.pdf (europa.eu)

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3. Building the case for change



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The current economic and social impact of mid-caps in Europe

To support the EFB/METI proposition, we solicited data and practical examples from member companies. We believe they are important for understanding the factors that affect the financial health and longevity of mid-caps and to ensure that their economic, social and strategic importance are recognised and supported.

Recent performance data has been collected from a representative sample of our members in 11 countries. Following the analysis of the data, in-depth discussions were conducted with mid-cap business leaders regarding their current growth challenges and opportunities and their sustained long-term performance.

KPMG Private Enterprise collaborated with EFB and METI to collect and analyse survey data from 25,336 company members in Belgium, Bulgaria, Estonia, Finland, France, Germany, Italy, Romania, Spain, Netherlands and the UK.[8]

This representative sample reflects the characteristics of the mid-cap business category and their economic and social impact in the local communities and regions where they operate. Many are also active exporters, which has a spillover effect on economic growth, employment and competitiveness throughout the EU.

They are stable, longstanding businesses that have a long-term focus.

[6] Source: EFB and METI European Family Business Mid-Size Companies Survey October 1, 2021 to November 30, 2021.

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They are in business for the long term. Among the survey respondents:

- **31 percent**

  are second-generation businesses

A further

- **37.6 percent**

  have been in business for three generations or more

They prosper by continuously developing new and innovative ideas. Their products and services need to remain relevant to overcome major roadblocks brought about by developments and changes to the economic and social climate in which they operate.

Their agility and resilience have significant economic impact with 24 percent of those surveyed generating revenues ranging between 50 € million and 249 € million, having total annual turnover of 2.8 € trillion among all the firms, and an average annual turnover of 109 € million in each firm.

Mid-caps such as these are job creators and they sustain local employment, with 55.4 percent of those surveyed having as many as 249 employees (current SME category); 38.2 percent employing between 250 and 4,999 (the mid-cap gap); and another 6.5 percent having more than 5,000 employees (current large enterprise category) on their payroll.

We believe more SMEs would be encouraged to grow beyond their current size with the appropriate mid-cap policies and support systems in place. The "Industrial sovereignty these companies have by being owned by European owners, [brings] economic power because they bring the international know-how and technologies 'made in Europe'. They create social and territorial cohesion because of the economic chains they animate, boosting activity and employment at the local level. They are able to make ecological transitions because their long-term development makes them naturally committed to sustainable growth."[9]

In summary, these companies reflect the long-term durability, resilience and economic impact of mid-caps in Europe. Highlights from the survey data collection and findings are presented on the following pages, reinforcing the opportunity to unlock this economic powerhouse in Europe.

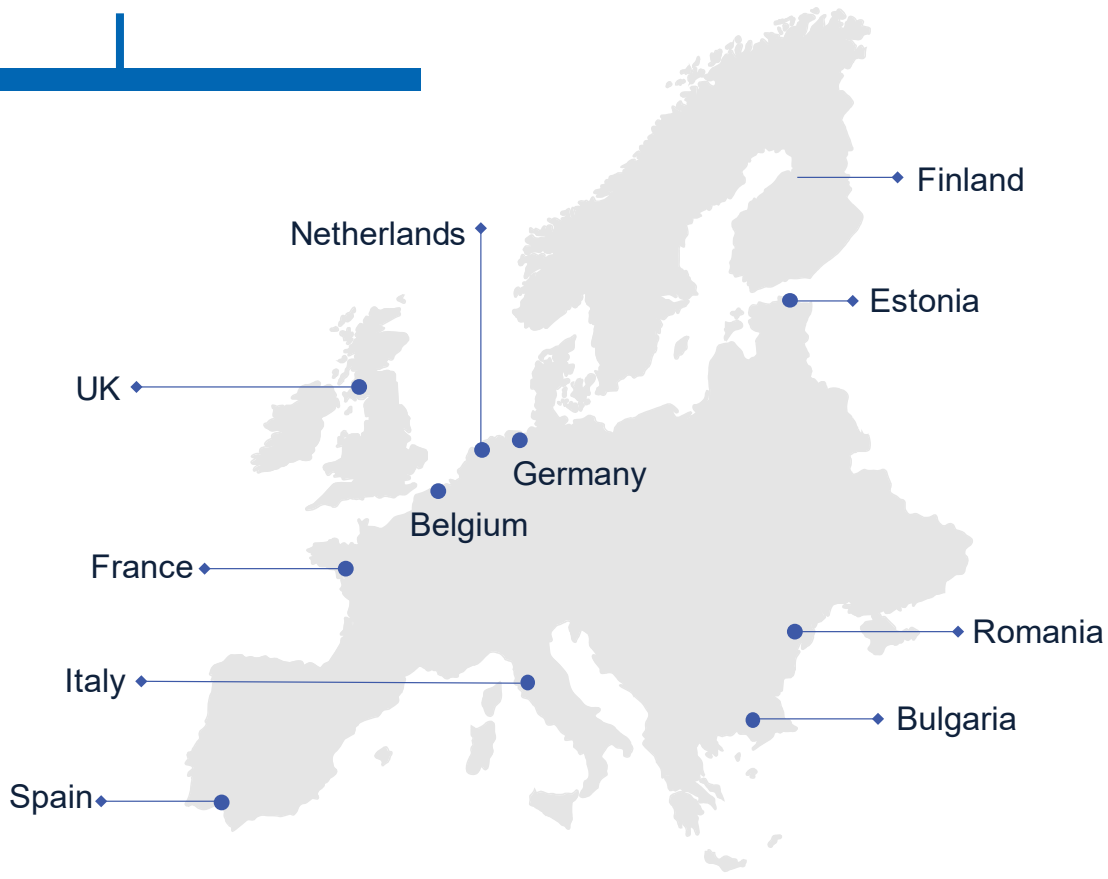
[9] Meti Mémo argumentaire : « Pour la création d'une catégorie ETI européenne» - Janvier 2022 -

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About the survey

25,336

EFB and METI member firms from October 1 to November 30, 2021.



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About the survey

FBN Belgium — Belgian Chapter
- Company size
  - 22% (Current SME definition)
  - 67% (Potential mid-cap definition)
  - 11% (Current large company definition)

FBN Bulgaria — Bulgarian Chapter
- Annual turnover €2 bn
- # of employees 25,900
- Company size
  - 80% (Current SME definition)
  - 19% (Potential mid-cap definition)
  - 1% (Current large company definition)

Estonian Family Entrepreneurs Association — Estonian Chapter
- Annual turnover €1.4 bn
- # of employees 9,300
- Company size
  - 66% (Current SME definition)
  - 34% (Potential mid-cap definition)

Perheyritysten liitto — Finish Chapter
- Annual turnover €37.3 bn
- # of employees 180,000
- Company size
  - 80% (Current SME definition)
  - 19% (Potential mid-cap definition)
  - 1% (Current large company definition

FBN France — French Chapter
- Annual turnover €1.13 trillion
- # of employees 3.5 million
- Company size
  - 25% (Current SME definition)
  - 75% (Potential mid-cap definition)

Die Familien Unternehmer — German Chapter
- Annual turnover €500 bn
- # of employees 2.3 million
- Company size
  - 86% (Current SME definition)
  - 14% (Potential mid-cap definition)

AIdAF — Italian Chapter
- Annual turnover €816 bn
- # of employees 2.6 million
- Company size
  - 76% (Current SME definition)
  - 23% (Potential mid-cap definition)
  - 1% (Large company definition)

FBNed — Dutch Chapter
- Annual turnover €59 bn
- # of employees 235,000
- Company size
  - 50% (Current SME definition)
  - 46% (Potential mid-cap definition)
  - 4% (Current large company definition)

FBN Romania — Romanian Chapter
- Annual turnover €3 bn
- # of employees 20,600
- Company size
  - 69% (Current SME definition)
  - 28% (Potential mid-cap definition)
  - 3% (Large company definition)

Instituto de la Empresa Familiar — Spanish Chapter
- Annual turnover €188 bn
- # of employees 1.2 million
- Company size
  - 4% (Current SME definition)
  - 54% (Potential mid-cap definition)
  - 42% (Large company definition)

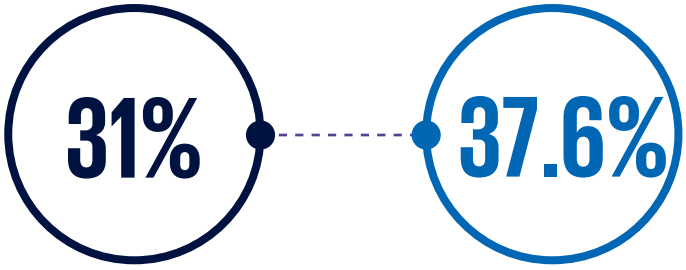
Institute for Family Businesses — UK Chapter
- Annual turnover €40.3 bn
- # of employees 510,000
- Company size
  - 42% (Current SME definition)
  - 50% (Potential mid-cap definition)
  - 8% (Current large company definition)

Source: European Family Business Mid-Size Companies Survey, conducted by EFB and METI between October 1, 2021 to November 30, 2021.

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Long-term durability and economic impact

Well-established firms, with a long-term focus



Total annual turnover of respondents

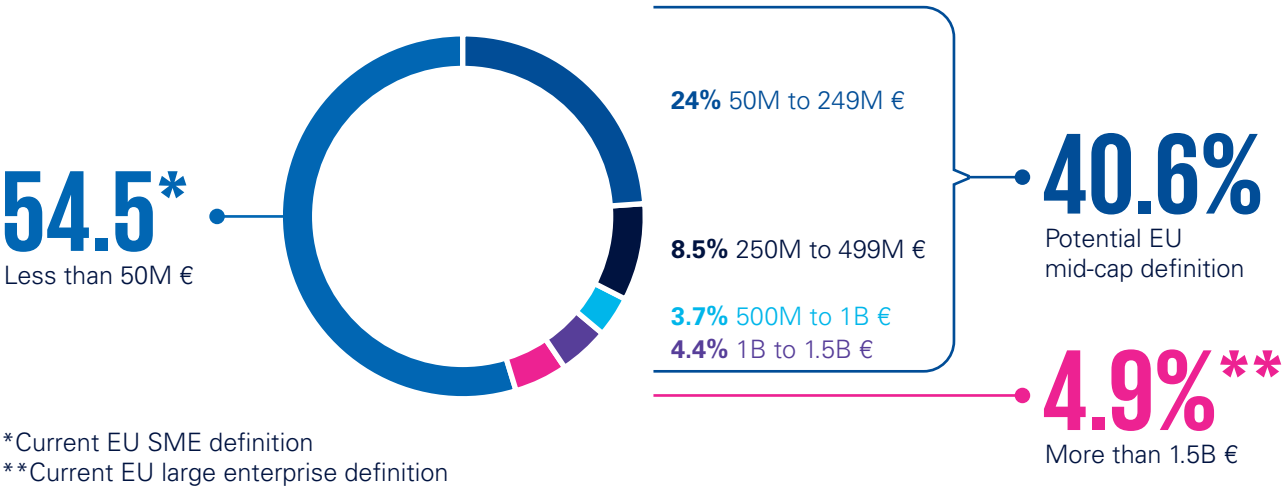
2.8 € trillion

Average annual turnover per firm

109 € million

Source: European Family Business Mid-Size Companies Survey, conducted by EFB and METI between October 1, 2021 to November 30, 2021.

Percentage of surveyed firms with revenues of:



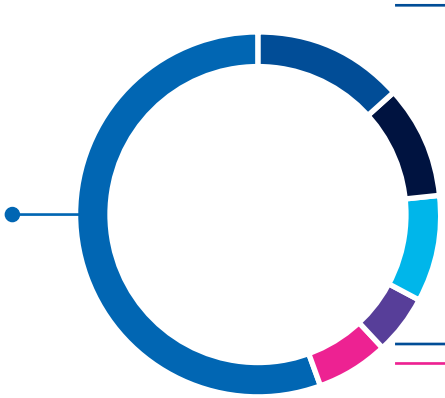
*Current EU SME definition
**Current EU large enterprise definition

Source: European Family Business Mid-Size Companies Survey, conducted by EFB and METI between October 1, 2021 to November 30, 2021.

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Job creation and sustained employment

Percentage of surveyed firms in each category:



55.4*
Up to 249 employees

13.4% 250–499

10% 500–999

9.5% 1,000–2,499

5.3% 2,500–4,999

38.2%
Potential EU mid-cap definition

6.4%**
More than 5,000

*Current EU SME definition
**Current EU large enterprise definition

Source: European Family Business Mid-Size Companies Survey, conducted by EFB and METI between October 1, 2021 to November 30, 2021.



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Family influence and impact

The majority of mid-cap businesses in Europe are family-owned and managed. They are regional and national champions, providing stable employment and significant new job creation in their communities and regions. They are vital to Europe's economic and social sustainability — not just in the hubs surrounding the capitals and main industrial areas, but throughout countless local and rural communities.

They have operated successfully for generations through their long-term commitment and resilience. During the COVID-19 pandemic, the importance of crisis-resilient companies was brought into focus. Policy makers throughout Europe became increasingly aware of the importance of such companies that can absorb shocks with sound capital structures based on prudence and a long-term view.

Mid-caps often finance their businesses through equity rather than debt. They are generally focused as much on human capital as they are on profits. In crisis situations like the pandemic, their focus has been on securing and creating jobs versus taking drastic actions such as employment reductions.

> "Patient capital is a familiar long-term investing approach. In family businesses, patient capital has a similar, but a more profound, meaning. Not only is it the basis for making important financial decisions, but it is also an extension of the business family's entrepreneurial mindset and a deeply rooted commitment to sustaining their legacy.
>
> In this context, they are not fixated on the company's quarterly or annual financial results. With their long-term orientation, the majority of mid-sized companies resisted taking drastic, short-term actions during the pandemic and focused instead on retaining their employees and finding opportunities to take their businesses in new directions. Patient capital has a powerful influence on their business decisions and long-term performance."
>
> — **Tom McGinness, Global Leader,** KPMG Private Enterprise Family Business Centre of Excellence

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The mid-cap gap and long-term performance

Conflicting definitions

Mid-cap companies represent a very specific type of business, yet there are several conflicting definitions. Thus far, there is no set European definition, something that many organisations and member states believe needs to be rectified.

The European Investment Bank is one of the only pan-European bodies that recognises mid-sized businesses as a distinct category, defining them as: *"businesses with between 250 and 3,000 employees."*[10]

Several member states, or bodies within them, have their own business category definitions. However, the French government is the only one having an official mid-cap business definition (entreprises de taille intermédiaire), describing them as: *'companies that do not belong to the SME category and which, on the one hand, employ less than 5,000 employees, on the other hand, have an annual turnover not exceeding 1.5 billion euros or a balance sheet total not exceeding 2 billion euros.'*[11]

In Germany, these businesses are commonly recognised as the 'Mittlestand', which also includes many SMEs. According to the Institut für Mittelstandsforschung (IfM): "The term 'Mittelstand' is a special feature of the German-speaking world and is defined by the unity of ownership and management. According to the definition, the size of a company is not the decisive factor in determining whether it belongs to the Mittelstand. It is rather defined by its qualitative characteristics."[12]

While all three definitions are useful, we believe that the difference between the definitions needs to be addressed for the sustainability of businesses operating across the EU and the prosperity of its citizens.

Along with these conflicting definitions, it is clear that a unified EU-level definition of mid-cap businesses would be a favourable and progressive step forward in supporting each of the business clusters and ecosystems across the member states.

[10] https://www.eib.org/en/about/priorities/sme/index.htm#:~:text=Support%20for%20SMEs%20is%20 an%20EIB%20Group%20 priority&text=small%20enterprises%20(10%2D49%20employees,250%2D3%20000%20employees*)

[11] https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000019961059

[12] https://www.ifm-bonn.org/en/definitions/definitions

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A case for creating a consistent mid-cap business definition in the EU

The business case

Sluggish productivity growth is one of the biggest threats to overall economic growth and competitiveness. It also has serious implications for the well-being of Europe's citizens, such as lower income growth and increased income inequalities.

The current need for a robust recovery has created a greater sense of urgency that is directly related to our proposal for creating a formal definition for mid-sized businesses because it would encourage more SMEs to "go for growth" by providing them with smoother transitions as they progress from 'small' to 'mid-sized' to 'large' enterprises with the appropriate tax and regulatory requirements that support them through each stage of their growth.

A distinct mid-cap business definition would help ensure that member states pay attention to this special category of businesses and ensure that there is a relevant level of investment to advance their growth.

The social case

In addition to the economic impact of mid-cap businesses, their ability to build a stable entrepreneurial environment makes a significant contribution to the social fabric of the communities in which they operate and the overall business landscape.

The values and priorities of family businesses are transferred across generations, serving to maintain their commitment to all the stakeholder communities they support. The impact of multiple generations of family members working in the business is also reflected in their long-term focus and their financial and employment stability.

As incubators of an entrepreneurial culture, family businesses are catalysts for both widespread financial and social growth.

> "To grow and become globally competitive, these companies must continuously invest their time and financial resources in research and development. In Europe, there are special tools to support SME investments in R&D. However, this support is not always available to mid-sized businesses in all member states.
>
> When businesses grow to mid-size, they arguably need to invest more in R&D. A medium-sized business definition would ensure that member states pay attention to this special category and ensure there is a relevant investment in them.
>
> Creating a European category for mid-caps would ensure that R&D funds are easily accessible since, as the Commission rightfully states, 'Investments in high-growth, research and innovation-driven SMEs and mid-caps are critical for the post-pandemic recovery'.[13]
>
> Other specific measures to support investment in R&D could include tax breaks similar to those given to SMEs on a national level."
>
> — **Jesús Casado Navarro-Rubio,** Secretary General, European Family Businesses (EFB)

[13] https://ec.europa.eu/info/sites/info/files/research_and_innovation/strategy_on_=research and_innovation/documents/ec_rtd_covid19-recovery-factsheet.pdf

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Recognising the value of mid-caps — a perspective from the French experience

The mid-cap business category was created in France in 2008 as a vehicle of modernisation for the economy. It helped to improve the knowledge of the public — as well as policy makers — on the profile of different categories of French companies and segmented them into four categories:

- Micro-enterprises;
- Small and medium-sized enterprises (SMEs);
- Mid-caps (ETIs); and
- Large enterprises.

Each category was defined on the basis of the number of employees and the companies' annual turnover and balance sheet. Until then, mid-caps had been absent from the radar of public authorities and not recognised as a real strategic asset in France.

The mid-cap category in France includes any company that has:

Between
- **250 and 4,999**
employees

Or turnover between
- **50 € million and 1.5 €billion**

With a balance sheet total of between
- **43 € million and 2 €billion**

The French National Institute for Statistics and Economic Research (INSEE) has now listed more than 5,800 companies in France that are represented in this category. According to calculations and analyses conducted by METI, these companies are even more highly represented in other parts of Europe, particularly in Germany (approximately 12,000), Italy (approximately 10,000) and the UK (approximately 8,000).

> "In France, the creation of the mid-cap business category (ETI) has led to a better understanding of the nature and characteristics of these companies. As primarily owner-managed family businesses, they develop and grow over the long term, daring to invest in their productive capacity over long-term profit cycles and resisting 'short-termism'.
>
> They have a strong foothold in their local economy and as exporters in international markets. They are the hidden champions of the local economy, leaders in their markets on a global scale, yet little known for their contributions by the general public and most public authorities."
>
> — **Alexandre Montay,** Secretary General, Mouvement des Entreprises de Taille Intermédiaire (METI)

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Mid-caps: A tangible strategic asset in France's industrial fabric

The ability to undertake a statistical analysis of the mid-cap business category has helped to make an objective measurement of their contribution to the French economy.

Mid-caps currently represent more than 3 million jobs — which is approximately 25 percent of total paid employment in France, as well as 30 percent of turnover and 34 percent of exports nationally.

They also represent 35 percent of added value and 38 percent of jobs in French industry, making it the category of reference for this segment of the economy. According to INSEE, between 2009 and 2015, mid-cap companies created more than 335,000 net jobs — far ahead of the SMEs (+96,400), large enterprises (-80,700) and micro-enterprises (-98,900).

The progressive inclusion of 'mid-caps' in the economic public debate in France has had three main outcomes:

- The specific characteristics and performance of French mid-caps have been widely revealed.
- The strategic role of mid-caps and their major contributions to employment and productive investment in the French economy is being measured objectively.
- The multiplication of mid-caps has created a new horizon in economic policy (PACTE [Action Plan for the Growth and Transformation of Companies] bill) and the Bpifrance program to accelerate mid-caps.

Now the mid-cap category has become an indicator of economic success and a frame of reference for the growth of SMEs that previously struggled to identify themselves with large enterprises whose structures were too far from their economic, industrial and structural models.

The creation of the mid-cap category has helped accelerate the development and promotion of an entrepreneurial culture in France — driving innovation, growth and employment. Over the past 14 years, mid-caps have gone from a statistic to a vital part of France's public policy.

70%

of French mid-cap companies operate outside the Paris region, which is very important to the economic and social fabric of all territories outside major cities in Europe.

"In France, we had heard that only the big companies were exporting, but when the mid-cap category was created, we discovered that this group of companies actually accounts for one-third of France's exports. They have strong export capabilities because they are already relatively large, well established, and specialise in products that can be exported easily.

Also, French ETIs (mid size companies) account for 25 percent of the country's employment. During the financial crisis in 2009 and the current pandemic, they were the only business category that reported a net increase in jobs in France. Because they are mostly families and have a long-term mindset, they don't overreact in times of crisis. They are committed to retaining their employees and protecting them. SMEs do the same in periods of growth but they are more fragile and do not create jobs in periods of crisis. And large public companies can have shareholder pressures that require measures to reduce costs and losses and on average do not create jobs in these periods."

— **Philippe D'Ornano,** CEO, Sisley Paris and Co-President of METI

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4. Policy considerations

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Similar to the mid-cap experience in France, the creation of a mid-cap category at the European level would lead to a better representation of the contribution of different sizes of business to the European economic fabric. Recognising this new category is a necessary first step toward adapting the regulatory framework to the opportunities and challenges of rapidly-growing SMEs and mid-caps across the member states.

At the European level, the Commission currently defines businesses (other than large enterprises) as follows:

	Number of employees	Turnover (€ million)	Balance sheet total (€ million)
Medium-sized	< 250	≤ 50	≤ 43
Small	< 50	≤ 10	≤ 10
Micro	< 50	≤ 2	≤ 2

Large companies are defined as those having more than 250 employees. This definition does not account for the significant range of differences between small/medium-sized companies that are on a growth trajectory and very large, well-established firms. That is why the creation of a business category for intermediate-size/mid-cap companies in the EU would be an important bridge between SMEs and large companies and help improve the efficiency and relevance of the public policies pursued by the Commission. We believe this would also be in keeping with the Commission's actions to inject dynamism into Europe's growth.

The European Commission has previously recognised the need to gain a better understanding of the reality of intermediate-sized enterprises in order to introduce more flexibility in adapting public policies, such as the Community Guidelines 2006/C 319/01 of 27 December 2006 that were designed to provide State aid in the agricultural and forestry sector between 2007 and 2013.

Also, the European Commission defined two types of intermediate-size enterprises in Article 2 of *Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and Amending Regulations (EU) No. 1291/2013 and (EU) No. 1316/2013 — the European Fund for Strategic Investments (EFSI):*

- Small mid-cap companies with up to 499 employees that are not SMEs
- Mid-cap companies with up to 3,000 employees that are not SMEs or small mid-caps.

These precedents may provide important guidelines for considering our recommendations for the reclassification of mid-cap businesses.

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5. EFB and METI recommendations



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- **To encourage the emergence of new European economic champions,** the European authorities could promote the growth of innovative, job-creating enterprises by creating a distinct mid-cap business category with the relevant policies, regulations and access that will help support and sustain their growth.
- **Enterprises in the mid-cap category should retain the administrative, legal and financial advantages granted to SMEs at various stages of their growth as they scale up** in order to help reduce administrative burdens and provide access to State aid and financial aid granted by the European Fund for Strategic Investments (EFSI), as proposed in the Juncker Plan.
- **Expanding access to R&D project support.** At present, R&D support is provided primarily to small companies in local markets or major projects led by large companies, and there is very little in between to allow mid-sized companies to participate.
- R&D is structured with a view to two very different types of companies. On the one hand, there are those aimed at small companies, where the cost/benefit ratio obtained makes them uninteresting for mid-caps. On the other hand, there are those aimed at very large companies, which are impossible to obtain and manage by a medium-sized company, so that mid-caps are de facto excluded. To qualify, the project itself has to be very large, encompassing companies in different markets and countries, and involving multiple universities and technology centres.
- It is vital to establish policies aimed at medium-sized companies and oriented to their level of spending and investment. They should have appropriate lines in the European Investment Bank (EIB) and the European Investment Fund (EIF).
- The creation of a mid-cap category on a European scale would potentially lead the Commission to **rethink the procedures for accessing public procurement contracts** to include mid-cap companies that make strong contributions to growth, innovation and employment across Europe.
- **In terms of the regulatory environment** — mid-caps in Europe are not against regulation or asking for special treatment. However, there is a desire for **existing regulations and business support to be well-adapted to the size of the business and targeted for each category of companies.** This has the potential to make all businesses more efficient and competitive at the European level, and in creating a strong European 'Mittelstand' that will contribute to more prosperity across the EU.
- **Seamless business transfer** — the majority of mid-sized family businesses have already passed to at least the second generation, and many more business successions are on the horizon for longstanding privately owned businesses. In France, for example, it is anticipated that 50 percent of mid-sized businesses will be transferred to the next generation over the next 10 years. There are similar situations in most European countries.

This is a potentially critical and important issue for the independence of the EU. If business transfers are too costly or complex due to prohibitive transfer taxes (which already exist in some countries, for example), many of the current owners could be forced to sell their companies to foreign investors as an alternative.

The seamless transfer of family businesses is a critical issue that needs to be addressed for the stability of the family, the sustainability of the business and the economic performance of the EU.

"The question is, how can we help mid-cap companies to grow? Most are family businesses, and they have to be quite stable. The creation of a mid-cap category is a very important way for family businesses and entrepreneurs to be seen, to be noticed, to have a voice and to help them grow into large companies.

Now is the time to recognise our mid-size business champions and support them in their work across Europe and its regions."

— **Anca Vlad,**
Owner Fildas-Catena Group, Romania

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Considerations

We respectfully request that the European Commission consider creating a new mid-cap business category, to be defined as those companies:

The business categories throughout the member states could then be defined consistently at both the EU and country level, with targeted policies and regulations that are appropriate for each category.

Employing between

• 250 and 4,999

employees

With annual turnover ranging between

• 50 € million and 1.5B €

Proposed refinements to the business categories

	Number of employees	Turnover (€ million)	Balance sheet total (€ million)
Mid-caps	250–4,999	50–1,500	43–2,000
Medium-sized	< 250	≤ 50	≤ 43
Small	< 50	≤ 10	≤ 10
Micro	< 50	≤ 2	≤ 2

Next steps

We include the importance of the following next steps as a means to further develop the mid-cap project definition.

Of crucial importance, is the recognition of the project. By revealing the economic contribution of mid-caps and their weight in the fabric of European companies, we bring to the forefront their importance in the very fabric of the EU. METI with the support of KPMG Private Enterprise, is carrying out a mapping of mid-caps and their contribution based on a sample of 25,000 enterprises. At the European level, the construction site statistics, particularly the identification of 'European groups', should allow further progress on the need for a new definition to help to categorise the companies that have between 250 and 4,999 employees.[14]

The second part of the overarching project is the adaptation and proportionality to calibrate the implementation of regulations and directives to the size of enterprises. This is a major challenge for mid-caps. A job exploratory with the perspective of the generalisation of a "Mid-Cap Test" could be conducted in conjunction with French mid-cap clubs. It would aim to ensure that the regulations and directives are adapted appropriately to our companies before being implemented.[15]

The third part of the project is the support for mid-caps which will enable an initiative to review the relevance of State aid schemes and of its derogating regimes. A first step could be taken through the adoption of a 'Buy European Act' that would integrate SMEs and mid-caps. It would also raise public procurement standards in the social, technological and environmental fields of the European Union in the face of competition from other global players.[16]

[14] Meti Mémo argumentaire : « Pour la création d'une catégorie ETI européenne » - Janvier 2022

[15] Meti Mémo argumentaire : « Pour la création d'une catégorie ETI européenne » - Janvier 2022

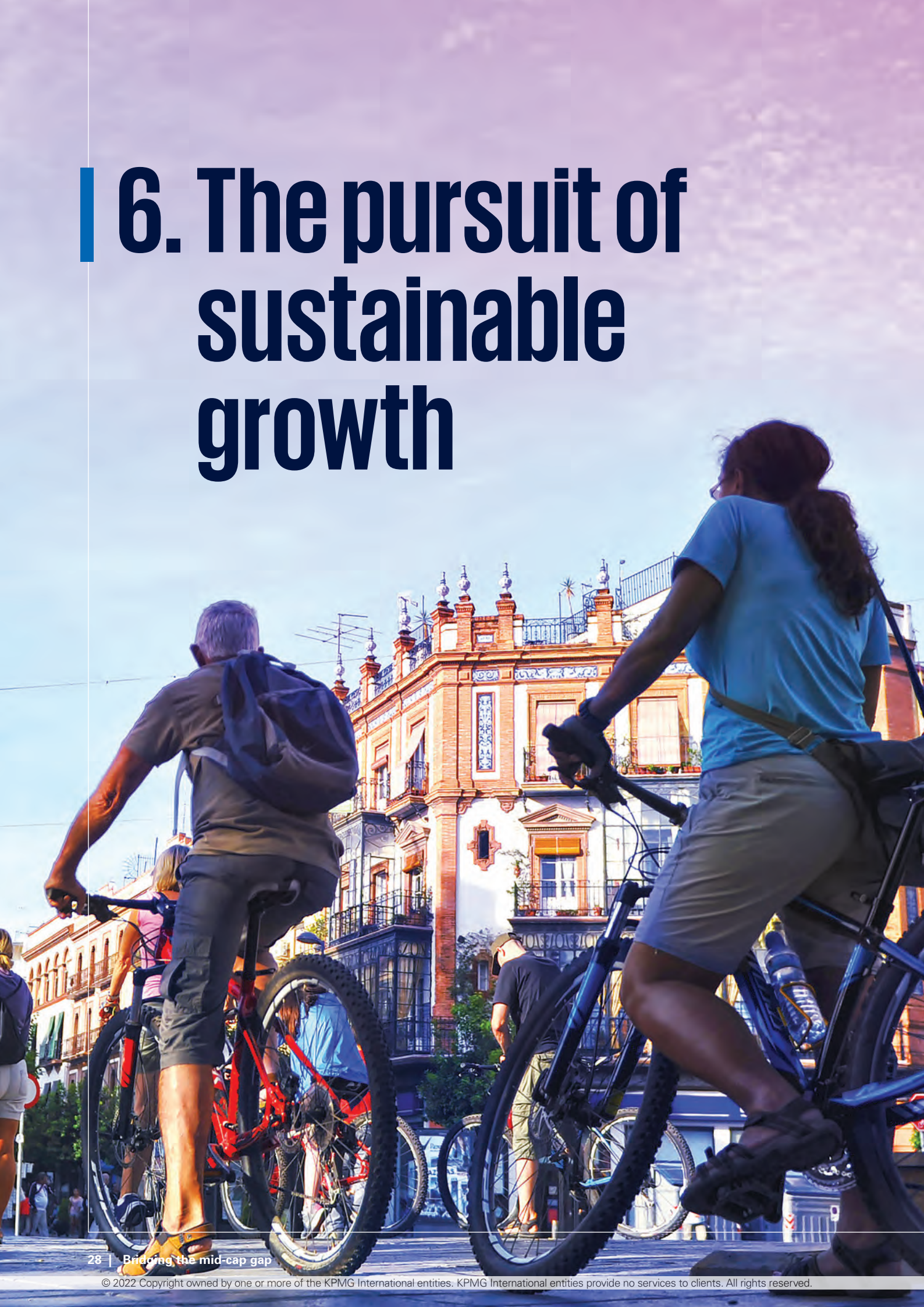
[16] Meti Mémo argumentaire : « Pour la création d'une catégorie ETI européenne » - Janvier 2022

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6. The pursuit of sustainable growth



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To further the evolution of a new breed of European economic champions, the European authorities could promote the growth of innovative, job-creating enterprises.

As such, we respectfully ask the European Commission to launch further research into what we are calling the 'mid-cap gap' as a means of identifying the extent to which there are companies in the EU that do not fall in the SME or large enterprise category and are therefore missing out on opportunities to grow.

We believe that the mid-cap definition will act as a transitional guide and soften the landing for companies as they progress from the SME definition and as they gear up to grow into large enterprises.

Enterprises in the mid-cap category should retain the administrative, legal and financial advantages that are granted to SMEs in their growth stage and support their abilities to scale up, particularly with regard to access to State aid, and to reduce the administrative burden of aid granted by the EFSI.

Lastly, the creation of a mid-cap category on a European scale would potentially lead the Commission to reconsider the procedures for accessing public procurement contracts and R&D incentives specifically designed for companies that contribute strongly to growth, innovation and employment in Europe.

In our view, creating a new mid-cap identity as a distinct business category will have many positive outcomes for companies of all sizes by:

1. Encouraging SMEs to pursue ambitious and sustainable growth with an appropriate and safer transition period between operating as a small enterprise and a large one and potentially operating on an international scale.

2. Improving the understanding of industrial and business ecosystems: The creation of a mid-cap business definition can lead to a better and more accurate representation of all companies in the European economic fabric, and these are important contributions that should be recognised and encouraged.

   For example, as EFB member Marjo Miettinen, Chairwoman of Finland's Ensto Group, remarks, "Mid-cap companies represent one percent of all companies in Finland, but account for 25 percent of the country's revenues and 20 percent of private sector jobs. We have established a Growth Group, and 300 companies with annual turnover between 10 € million and 1 € billion are participating in discussions about how to change the definition of mid-size companies.

   "We have taken the model from Germany and we're discussing how to create a Mittelstand in Finland in terms employment, taxes, long-term participation and how we are contributing to society. However, I prefer the idea of addressing this issue together across Europe."

3. Improving access to funding, support and finance: Recognising mid-cap businesses will help ensure that they are able to easily access appropriate and targeted measures for financing their businesses, including public and central funding.

4 Supporting research and development: Creating specific incentives and other measures to allow mid-cap companies to invest in research and development will help to accelerate innovation and enable these companies to sustain their competitiveness.

5 Furthermore, one can argue that the importance of having a mid-cap category officially recognised would lead to positive spillovers in other policy areas. The recognition of this category could ensure that the companies would clearly know which EU policies and directives accurately apply to them. This could help to smooth the application of these new directives and policies to attain faster implementation.

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“In Spain, the presence of mid-caps in the industrial sector is six times the average in the country. The GDP related to industry is 6 percent in Spain, whereas the GDP related to mid-caps is approximately 32 percent. This is important for the future because the impact of mid-caps on investment is very high.

And while many of us operate internationally, we also generate tremendous value with local suppliers and contribute directly to the local ecosystem. When we develop advances, such as intellectual property, we develop them locally with universities and technology hubs. We are global and local value creators.

So, at the very least, I would hope that the European Investment Bank and the European Investment Fund will make products available that are suitable to the mid-cap category. Currently the products are designed for either small or large companies, but not for mid-sized enterprises like ours.”

— **Javier Ormazabal,**
President, Velatia,
Spain

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Respectfully submitted for consideration by:

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- Alexandre Montay, Secretary General, Mouvement des Entreprises de Taille Intermédiaire (METI)
- With support provided by KPMG Private Enterprise

About European Family Businesses (EFB)

EFB is the EU federation of national associations representing long-term, family-owned enterprises, including small, medium-sized and larger companies. The organisation was created in 1997 and represents EUR1 trillion in aggregated turnover, which is 9 percent of European gross domestic product.

EFB's mission is to press for policies that recognise the fundamental contribution of family businesses in Europe's economy and create a level playing field when compared to other types of companies.

About Mouvement des Entreprises de Taille Intermédiaire (METI)

Founded in 1995, METI brings together and unites mid-size companies around three objectives:

- Raising awareness of mid-size companies and promote the ambition of a French Mittelstand
- Advocating for a more competitive environment, aligned with the European economic and fiscal environment
- Promoting long-term investing

About KPMG Private Enterprise

Passion drives entrepreneurs, and it is also what inspires KPMG Private Enterprise advisers to help maximise their success. KPMG Private Enterprise advisers around the world are dedicated to working with privately owned companies wherever they are in their growth journey — whether they're looking to reach new heights, embrace technology, plan for an exit, or manage the transition of wealth or their business to the next generation.

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