IT'S A FAMILY AFFAIR

Small and medium sized enterprises (SMEs), companies that employ between 10 and 249 employees, represented 12.5% of the total number of non-financial businesses in the Grand Duchy in 2011, according to Eurostat, the EU's statistics bureau. (Those with fewer than 10 staff are labeled "micro enterprises" and constitute 87% of the total.) Across the EU only Germany (17.7%) and Romania (12.6%) had a bigger proportion of SMEs.
And these firms punch above their weight. In Luxembourg they employ 48.9% of non-financial private sector staff. Only SMEs in the three Baltic states--Latvia, Lithuania and Estonia--employed a higher proportion and the EU average was only 37.6%. In the Grand Duchy they also represented 59.6% of total company turnover--the highest figure in the EU, where the average was 38.3%.

So it is no wonder that Luxembourg's economy ministry wants to boost these outfits further. That is one reason why it launched "an online self-assessment tool" (in English, French and German) for SMEs over the summer called "Business Check", which aims to provide entrepreneurs with a realistic reflection of their management capabilities and firm's outlook.

"We are now able to offer existing SMEs free access to a self-assessment tool designed to measure their commercial maturity, with a view to adapting, where necessary, the way in which they are organised or their business plan," Francine Closener, the secretary of state for the economy, said at its launch in July. "Depending on the circumstances, the instrument can also help to identify the first signs of possible insolvency or bankruptcy."

The site generates an evaluation of the company's "strategy, organisation, customer management and financial performance", according to the ministry's announcement, and in some cases suggests "ways of improving its performance".

If a business chief then "decides to seek advice from specialist external consultants with a view to improving the way it functions, it may apply for state aid aimed at encouraging investment designed to enhance quality," the ministry explained. "The aid is granted in the form of capital grants or interest rate subsidies, and amounts to up to 50% of the eligible investment made by an SME in seeking advice from external consultants" up to €100,000 are potentially available (that is to say, firms can apply for a 50% subsidy up to a total outlay of €200,000 and then they are on their own).

Yves Even, a partner at one of those external consultancies, EY in Luxembourg, said the "Business Check" consisted of 50 questions and should take around two hours to complete. He also said there is no "digital record" kept by the economy ministry or anyone else, except that the entrepreneur can download a PDF of the results directly to their own computer.

But do SMEs really need advice? European Family Businesses, a trade group, estimates that 70% of all Luxembourg firms are family affairs. Such companies face different challenges and are run differently than others.

In a study of listed but family controlled firms published earlier this year, the investment banking research arm of Credit Suisse found they "consistently delivered greater economic profit, measured as a percentage of enterprise value, over the past 20 years." While they invested notably less in research and development, family run firms in Europe and the US took on less debt and managed mergers and acquisitions better than their fully public peers. >

LUCIEN BECHTOLD
Banks face stricter regulations and want more developed plans before lending

Mike Zenari (archives)

CHECK YOURSELF: WWW.BUSINESS-CHECK.LU

FRANCINE CLOSENER
Wants to boost small and mid sized business

One big risk is when the next generation takes over, potentially resulting in "the employment of overpaid, under-qualified family members" in key positions, the Credit Suisse analysts wrote. Nevertheless "we witness an increasing level of professional education and qualifications amongst later generations taking over from the founding entrepreneur."

SUCCESSION QUESTION

Indeed Pierre Mangers, also a partner at EY in Luxembourg, said that he expected 1,800 successions within family owned businesses in Luxembourg over the next five years.

"One big challenge is that 20 years ago an SME might have one business model for the total life of the entrepreneur," says Even. "More and more when you inherit a business [from your family] you cannot continue [running the business] with this business model. The business model needs to change at least once or twice" in order for the firm to remain afloat or at least competitive.

Even also sees entrepreneurs increasingly acknowledge their own limitations. Younger bosses realise they need "to find a finance director, a marketing director, etc." and lack the skillset to recruit and manage this type of staff. In addition they face ever more complex challenges in capital raising, external partnerships, succession planning and tax, for example.

(Even relishes being asked if a Big Four like EY can truly help SMEs. He points out the firm has a long history of working with Mittelstand firms in Germany and the US, and recently the firm "redesigned our approach" in

"THE INSTRUMENT CAN ALSO HELP TO IDENTIFY THE FIRST SIGNS OF POSSIBLE INSOLVENCY OR BANKRUPTCY."

serving Luxembourg SMEs to be more cost efficient. Around 150 of its 450 auditors, for example, work in the non-financial SME sector. Plus "our SME group doesn't speak bank; they speak SME", argues Mangers.)

TAX TROUBLES

The Credit Suisse report additionally concluded: "Survivorship and generational transition is of course not simply a function of successful family ownership and management. We see the role of the state as key in many areas... For example, Japan, France, Germany, Turkey and Switzerland have enabled family businesses to thrive despite the heavy presence of the state in the economy." The bank analysts particularly praised the German fiscal regime.

Here, Luxembourg posts plusses and minuses. In many cases children need not pay any estate tax when they inherit a family business, says EFB. And, according to the OECD, a think tank for wealthier countries, social insurance contributions here are comparatively low for western Europe.

On the other hand, SMEs in Luxembourg have one of the highest rates of "double taxation" (that is, owners who are subject to both corporate and personal tax on the same revenue) within the OECD, and high income earners can hit top income tax rates relatively quickly.

ACCESS TO FINANCE

Traditionally another big challenge for family run business is help in tapping capital for investment or money management. A report, *Survey on the access to finance of enterprises*, published by the European Commission and European Central Bank, found 82% of Luxembourg SMEs use debt finance (compared to the European average of 86%, including several non-EU member states) and 32% use equity finance (the European average is 16%). The questions were fielded between April and September 2014, and 16% of Luxembourg SMEs reported an "increased" need for bank loans over previous six months (although 19% said it "decreased").

Perhaps fueled by the lowest reported interest rate (2%) in the EU last year, "SMEs obtained the largest amounts of external financing in Luxembourg". Thirty percent requested loans of more than €1m, and none of the 102 SMEs interviewed for the commission-ECB study said they were rejected by their bank.

BANK LOANS EASIER TO COME BY

Indeed, it has been easier for businesses and households to borrow money from Luxembourg banks over the past 12-18 months, for business investment, and more generally. Regular surveys by the Luxembourg Central Bank point to criteria being relaxed, and this more strongly so than in the rest of the eurozone.

Figures in the central bank's annual *Financial Stability Review* chart the rise and fall of criteria used to grant loans since the 2007-2008 financial crisis. These relate to the banks' assessments of how likely potential clients would be able to repay loans on time.

As regards loans to businesses (which, again, are mainly SMEs in this country), they point to criteria becoming looser every quarter since the start of 2014, with this continuing into the middle of this year. This they put down to increased competition and the banks being in a more secure financial position themselves. Nevertheless, loan conditions are still tougher now than they were pre-crisis, after criteria were tightened consistently from mid-2007 until the end of 2009, and intermittently between 2011-2013. The figures show that lending to business has become easier more quickly than for mortgages.

In both cases, if businesses and prospective home owners are able to satisfy banks of their ability to repay, then good deals are on offer with interest rates at historic, long term lows. "Some businesses can be frustrated at their inability to receive bank financing for their projects, noted Lucien Bechtold, advisor in the SME services department at the Luxembourg Chamber of Commerce. "However, the banks reply that they have tougher regulations to deal with since the crisis. They also suggest that there is a lack of demand, that the funds are available at the banks but that businesses are not coming forward with strong projects," he added.

POSITIVE SHIFT?

However, change may be afoot as the local and EU economies return to growth. "Business lending is clearly improving after two years of moderate or negative growth and we expect this to continue, especially for small >

YVES EVEN AND PIERRE MANGERS
Successors are facing up to complexity and more open to advice

and medium sized businesses," said Claude Hirtzig, head of personal and professional banking at Banque et Caisse d'Épargne de l'État, a savings bank backed by the Luxembourg state. "The growing local economy and the stabilisation of the international situation seems to have improved business fixed investment," he added. "Business lending is clearly increasing after two years of moderate or negative growth and we expect this to continue, especially for SMEs."

Demand for business loans began to increase the fourth quarter of 2014 after five years in the doldrums, an executive with BGL BNP Paribas told *Delano*. "However, we believe it is too early to speak about a real economic recovery yet. In fact, we observe that companies facing investment considerations remain extremely prudent, both in the case of replacement or new project financing," he said.

There are different trends in different sectors. "Up to June 2015, confidence indicators in the manufacturing and construction sectors were generally favourable," noted Erwin Liebig, a business development manager within Banque Internationale à Luxembourg's corporate and institutional banking department. "In construction, in particular, confidence levels are at their highest since 2000," he added. While in the manufacturing sector "momentum is not so strong," he pointed to "confidence among manufacturers and output in this sector stabilising somewhat over the course of the first half of 2015." Falling energy prices and a lower euro have helped, but "the pace of growth itself has not been breathtaking," Liebig explained, with increased competition putting further pressure on banks' margins.

Other than financing investment, the BGL BNP Paribas executive sees a trend towards "demand linked to company buyout financing, which we expect to grow even more in the future." <