



# Entrepreneurship, small and medium size business markets and European economic integration

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## Abstract

This paper focuses on the distinguishing features and issues of European secondary stock markets (or parallel stock markets), trying to signify their role as alternative sources of financing entrepreneurship, given the importance of small–medium enterprises (SMEs) to the integrated European economy and the existed financing gap. Access to finance is indispensable for growth but many SMEs have difficulties, as the risk capital market is underdeveloped and banks increasingly avoid risky lending. Cointegration tests are applied to investigate the relationship between the small–medium business (SMBs) markets (United Kingdom, France, Germany, Italy and Greece) into a European integrated economic and financial environment. The findings of the research show absence of integration among the SMBs markets, signaling their diversified role in financing SMEs. This enhances us to propose some interesting policy actions into the adoption of a common legal and trading framework in order to upgrade their common role as alternative sources of financing European entrepreneurship.

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## 1. Introduction

During the 1980s and 1990s, the concept and importance of the small and medium-sized enterprises (SMEs) started to become accepted world-wide. The importance of SMEs

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stems from a series of factors. Research suggests that SMEs are the major providers of new jobs and contribute positively to economic growth, although GDP growth is influenced by many more factors (Audretsch, Thurik, Verheul, & Wennekers, 2002). SMEs are crucial to competitiveness and productivity; they seem to be better fit for survival and may even thrive in a changing and integrated environment.

The term secondary markets or small–medium business markets (SMBs markets) refer to the financial markets of parallel negotiation. They function concurrently with the primary equity markets (main bourses) in the framework of an integrated financial center where the entry requirements are limited making the introduction of smaller enterprises less difficult.

For most of the small firms, the key question is how financing new entrepreneurial plans. Banks seek for a positive company track record and collateral, which generally new firms do not have, particularly those developing knowledge-based activities. New businesses (start-ups) also experience difficulties in covering their labor capital needs. The SMBs markets make stock markets accessible to small–medium enterprises by offering lower costs, availability of capital for investment plans and entrepreneurial development. This is achieved by loosening the entry requirements and by reducing the cost of their introduction.

There is ample evidence that convergence in European equity markets had been achieved by the mid to late 1990s. The integration of European equity markets is in large part explained by the drive towards European Monetary Union (EMU), and in particular the elimination of exchange rate volatility and uncertainty in the process of monetary unification (Frankel, 1994; Fratzscher, 2002). However, far less attention has so far been given to the question of whether this integration process has caused a substantial increase in financial integration among SMBs markets (parallel stock markets).

The purpose of our research is dual. First, to explore theoretically the role of SMBs markets as an alternative source of financing entrepreneurship, given the importance of SMEs to the integrated European economy and their existing gap financing. Second, to examine empirically whether the European economic and financial integration links the major European SMBs markets as in the case of the primary stock markets.

Specifically, we examined whether the hypothesis that explains the national stock market integration is also applied to the SMBs stock markets. This hypothesis supports that the stronger the economic ties are among countries of the same continent or within the same economic zone, the higher the degree of integration with each other.

The existence of a common feature among stock markets leads to cointegration (Engle & Susmel, 1993). Our findings do not support this hypothesis, despite the fact that regulation of SMBs markets within the integrated organized stock exchanges has shown accelerated economic and financial integration in Europe during the last decade. The absence of linkages between the European SMBs markets signals their diversified role as sources of financing SMEs in each country. This is due to the different legal and trading framework in which they operate.

Effects and changes in the organization of financial marketplaces are not visible between different small and medium size business markets. This leads us to suggest several interesting issues and policy actions regarding the autonomy of SMBs markets, the establishment of a

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