

Additional opinion of the Economic and Social Committee on the proposal for a Council Decision relating to the improvement of the business environment and the promotion of the development of enterprises in particular of small and medium-sized enterprises, in the Community⁽¹⁾

(90/C 56/17)

On 25 April 1989 the Bureau of the Economic and Social Committee, acting under the third paragraph of Article 20 of the Committee's Rules of Procedure, decided that the Committee should draw up an additional opinion on the abovementioned proposal.

The Section for Industry, Commerce, Crafts and Services, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 4 October 1989. The rapporteur was Mr Lustenhouwer.

At its 271st plenary session (meeting of 16 November 1989) the Economic and Social Committee adopted the following opinion unanimously.

1. Small and medium-sized enterprises in the Community

1.1. SMEs and craft businesses play an important role in practically all sectors of the Community's economy. The millions of SMEs in the European Community are therefore vital for growth and employment, and for a number of years now the Community has quite rightly been working on a policy especially for such enterprises. The Committee has also referred to this in various reports — and in particular in its opinion on the action programme for SME (Rapporteur: Mr Calvet Chambon)⁽²⁾.

Only recently the Committee endorsed the Commission's plans for the coming years and the requisite budget. This follow-up opinion will look more closely at a number of features of SMEs in an attempt to help the Community solve the problems inherent therein.

As European integration progresses, the need for a Community SME policy will increase. It is already clear — and will soon be even clearer — that more and more national powers are being transferred to the Community. This also means that the Community must pay attention to issues of concern to SMEs which can no longer be dealt with solely at national level and therefore must not be neglected by the Community.

The Committee notes with satisfaction the recent resolution adopted by the Council on 26 September 1989 on the development of subcontracting in the European Community. The Committee supports all action to promote a greater participation of SMEs in the area of subcontracting.

The Committee also notes that the same day the Council invited the Commission to proceed with its work on the role of craft industries and very small firms in the Community. The Committee expresses its willingness to give an opinion on the subject whenever appropriate.

1.2. It is necessary at this point to refer to an extremely thorny problem which often makes Community SME policymaking particularly difficult. This problem concerns the statistical data which are frequently vital for policymaking. For a good many years now there have been calls from many quarters for better coordination of statistics about SMEs. Sad to say, the Committee has been forced to conclude during its preparation of this opinion that this situation has not improved. There are still no Community-wide statistics on SMEs, as a result of which it is possible to gain only a rough idea of developments. The Committee calls for better coordination of the different national statistics (to be achieved, *inter alia*, by harmonizing the classification criteria applied by Member States) so that policy-makers can better understand and gear their policies to these statistics, without this involving too much red tape for the entrepreneurs who have to supply the data.

2. Typical features of SMEs

2.1. The SME policy to be pursued by the Community in conjunction with all the relevant sectors of society must be aimed primarily at helping to solve the problems facing such firms. It is therefore necessary to analyze the typical features of SMEs so that policy can be tailored accordingly.

Despite SMEs varying considerably from one Member State to another and one sector to another, they generally have specific size-related features. It should be

⁽¹⁾ OJ No C 79, 30. 3. 1989, p. 5.

⁽²⁾ OJ No C 232, 31. 8. 1987.

noted that, in the case of cooperatives in particular, characteristics other than those listed below are sometimes relevant and that these features together do not, of course, provide a full definition of SMEs.

The characteristic features are:

- the central role of the owner/entrepreneur in the running of the enterprise,
- a high degree of flexibility associated therewith, as borne out by a high level of adaptability to changing circumstances,
- a frequent lack of specialized staff functions,
- relatively labour-intensive,
- highly-skilled staff in many cases, especially in craft industries,
- difficulty of access to the capital market,
- generally active at only local or regional level,
- no market dominance,
- little R&D capacity, but more applications-oriented, which, with technology advancing so rapidly, can cause problems in particular for sub-contractors,
- no or little use of market research,
- poorly developed costing arrangements,
- little planning and few medium-term financial projections,
- the frequent lack of resources and know-how for the optimum performance of a number of key entrepreneurial activities.

2.2. It is true to say in the case of many of these features and the problems resulting therefrom that practical advice for entrepreneurs and training for entrepreneurs and workers can produce very good results. The machinery required for this will have to be created in the Member States. The Committee notes that the Commission rightly attaches a lot of importance to the supply of information to SMEs. However, it is necessary not to overlook the fact that information goes hand-in-hand with advice. It is important that SMEs learn how to use the information they receive. In a number of Member States special advisory services have been set up by or for small business organizations. It would be useful to bring these services, and business consultants from the Member States, into contact with each other at Community level and to consider how they can learn from each other's experiences.

3. Place and position of SMEs and craft businesses in the Community

3.1. As stated above, Community statistics about SMEs are still practically non-existent. However, it is generally possible to say that SMEs are a very large employer in the Member States, and they have certainly been responsible for the growth in jobs to a significant extent. In addition, they have proved in a number of cases to be a stable source of employment in periods of economic recession, although many have been ruined by large firms going out of business.

The importance of SMEs for the Community's economic development therefore makes it necessary, for a number of reasons, to take a look at these firms.

3.2. *Reasons why the Community should pursue a specific SME policy*

- on economic grounds: SMEs have a huge economic potential and more than 90% of all businesses in the EC belong to the SME sector,
- on competition grounds: it is absolutely vital to promote competition in the internal market. It is already clear that in anticipation of this market's completion a wave of mergers, takeovers and cooperation ventures is already under way in Europe. Even a good many large firms consider themselves to be too small to operate efficiently on the large market by themselves. An active Community competition policy and the encouragement of SMEs may prevent such concentrations from overwhelming the market and restricting healthy competition,
- because of SMEs' intrinsic nature: they have a number of size-related problems, for example poor access to sources of finance, staff shortages, lack of training, limited export opportunities, lack of internal expertise, etc. Community policy should help to offset these disadvantages,
- because of regional policy considerations: especially in the less-developed and — in many cases — peripheral regions of the Community the SME fulfills an important role. The maintenance of distributive trades (e.g. shops) is of major importance, and the SME also plays a major part in the promotion of tourism. In this connection it is important to further promote the hotel and catering trade in order to prevent spending in this sector from going outside the Community. Above all, steps will have to be

taken, in connection with the harmonization of VAT, to prevent hotel prices, ect., from rising and making it more difficult for the Community to compete in this sector. The Community will have to provide extra funds to encourage tourism and the hotel and catering trade on regional policy grounds, too. In particular the Structural Funds and the NCI will have to be made more accessible. Certain areas, such as declining agricultural areas, should not be allowed to draw on Community funds as long as new jobs can still be created there, especially in tourism. Cooperatives are also frequently active here,

- on social policy grounds: close, direct contacts between the employer/entrepreneur and the employees are a feature of SMEs. Structures are mostly not as formal as they are in large enterprises and therefore have their own characteristics with their own specific problems because contact is so direct. Priority should be given to the training and instruction of employees and young people in SMEs by improving existing machinery in the Member States and drawing on the experiences of Member States which are well versed in this matter. The further training made necessary all the time by technological change may not be possible in SMEs or possible only to a limited extent since when the workforce is so small it is difficult, if not impossible, to release employees for such training. Therefore special facilities must be created for the further training of SME employees. The Committee would refer here to the addition of Article 118a to the Treaty in accordance with the Single European Act. This addition expressly states that Directives aimed at encouraging improvement in the working environment should avoid imposing administrative, financial and legal constraints in a way which would hold back the creation and development of SMEs; the Committee notes, however, that this must not mean less protection — either *de jure* or *de facto* — for SME employees,

- on consumer policy grounds: since the SME has to deal with consumers in many sectors, provisions protecting the consumer must make allowance for the place and role of the SME in the distributive network, without this undermining consumer pro-

tection to any appreciable extent. Firstly, SMEs have every interest in higher living standards for consumers, and secondly the consumer too benefits from a well-functioning SME sector which is able to maintain an extensive distributive network. The need for this is certainly heightened by the fact that the Community's population is ageing.

3.3. The above reasons — to which many more could be added including the need to consider transport policy, which can also help to make SMEs more accessible in remote areas — show clearly that the Community should devote attention to SMEs.

The need for this is ever increasing now that completion of the internal market has speeded up the transfer of powers to the Community following the Single Act's entry-into-force, thereby restricting national policies' room for, say, providing SMEs with tax incentives. In order to prevent a vacuum from arising, the Community will have to act.

This is particularly evident in a field such as competition policy, but new policy areas such as SME financing are also affected.

The Community must realize that its SME policy must be geared, as far as possible, to national policies. Hence the need to strictly apply the principle of subsidiarity. This will require close contacts with Member States' policymakers and SME organizations.

4. The tasks which the Community will have to perform falls into two main parts:

- A. SME integration policy;
- B. specific SME policy in which greater allowance is made for SME sectors and structures.

4.1. *With regard to A*

The Community's SME integration policy must be a practical expression of the idea that all Community policies must make allowance for their effects on SMEs. These effects must therefore be constantly monitored. The impact assessment statements introduced some time ago are a good example provided that they are used seriously and accurately. However, of more importance is the political component of integration

policy — i.e. the fact that the whole of the Commission is aware of its task with regard to the integration of SMEs and accepts that one of its members keeps a watch on the implementation of this integration idea as part of overall policy.

This will require some reorganization of the Commission's highly vertical structure.

4.2. *With regard to B*

The specific policy for SMEs also falls into two parts, namely:

1. sectoral policy, and
2. policy directed more at the features of SMEs.

4.2.1. Sectoral policy covers measures which are aimed at small firms in a specific sector.

Distribution is an example of one such sector. In both the wholesale and retail trades the SME has to contend with mergers and larger structures. These special problems need to be addressed by Community sectoral policy as a matter of urgency.

4.2.2. Matters such as SME financing, the promotion of exports, the provision of information, proper advice and innovation within SMEs come under the policy which is focused more on the features of SMEs.

This area of Community SME policy should also pay attention to the structural processes which influence the operation of SMEs and which alter the requirements demanded of entrepreneurs, such as training and re-training. Activities in this area will also have to extend to SME employees on the basis that training and re-training must be regarded as an investment for the future. In addition, entrepreneurs' wives who work in the business should be able to take part in vocational training.

5. The future for SMEs

5.1. The structure of Community business is changing rapidly.

Increases in scale and mergers are a good example of this.

Networking, the supply and contracting out of work, back-to-core business, make-or-buy decisions, elec-

tronic data interchange — all of these developments have an effect on SMEs. Even the definition of the small businessman is evolving. More and more small firms which previously operated independently are embarking on business cooperation ventures in distribution, industry and the services sector. Franchising is the best example to have emerged in recent years, although apart from its positive aspects this phenomenon also poses problems from the point of view of entrepreneurial freedom and independence.

The SME must adapt to or, better still, anticipate these developments. Encouragement should be provided here, *inter alia*, by the Community authorities pursuing an active policy to this end. This is only possible in the right climate. Laws and regulations must be tailored accordingly and not be too restrictive. Relevant information must be easily accessible, e.g. through one-stop shops which are easy to set up. The use of this information must be encouraged and good counselling is necessary.

5.2. There are new structures with which the SME has to contend, and also new issues affecting life in society. The most important example is the environment. How can SMEs make a contribution and under what conditions?

In a society in which new issues are coming more rapidly to the fore, the SME will have to play its part if it is not to lose its place on the market. The Community must also be adequately equipped. The creation of DG XXIII at the Commission is a good start provided that the needs of SMEs can be fully satisfied unbureaucratically in the interests of the whole of society.

6. The future for Community SME policy

6.1. A large number of initiatives have been taken by the Commission in recent years to help SMEs. The Committee has already examined these in its relevant opinion. Take, for example, the new European Economic Interest Grouping (EEIG) instrument, SME access to New Community Instrument (NCI) loans, the Commission proposals on single-member companies and annual accounts (although the Committee was unable to endorse the latter proposal), the two exemption Regulations on categories of know-how licensing and franchising agreements, the creation of Euro Info Centres, the Business Cooperation Network (BC-NET) and the Europartnership.

A thorough analysis of the problems facing SMEs should, however, point the way to new measures. A good example here is the Commission communication on public procurement — regional and social aspects (COM(89) 400 final). The Committee is interested to note therein that SMEs' participation in public contracts is on the increase.

The Committee notes that it is emphasized time and again in discussions that the management qualities needed for SMEs are still underdeveloped.

The Community has an important task to perform here, namely the development, in conjunction with the relevant socioeconomic organization of training modules for improving the management qualities of small businessmen. The courses must be practical and tailor-made.

Strategic management calls for skills which are not adequately developed in SMEs at the moment but which will be especially valuable when competition becomes keener. SME managers who have benefited from basic and further training will be in a better position to make use of the facilities offered by the Community. This does not mean that the (further) training of other SME employees should not be given equal attention.

The Committee takes a very positive view of the activities which the Community is developing in the form of experimental training schemes to prepare small businessmen for the changes wrought by the advent of the internal market. These activities are bound to contribute in due course to the establishment or improvement of the requisite training structures at national level.

6.2. The Community itself will have to offer a helping hand by taking further serious steps to combat unnecessary bureaucracy. The Community impact assessment statements are a good start in the right direction. However, the procedure will have to be improved. One possibility may be to publish the assessments in the *Official Journal of the European Communities* at the same time as the text of the proposal. An annual evaluation of the system's operation may also be useful.

The policy for improving the position of small businesses should also be assessed periodically in consultation with SME representatives. The Committee can easily imagine that well-intentioned measures may miss their target because they are launched without the involvement of SME organizations and are therefore too narrowly based.

By carrying out a periodic policy evaluation it will also be possible to prevent independent courses of action within the Commission which detract from the transparency of the overall plan.

The impact of Community policy on deregulation also needs to be assessed.

6.3. The encouragement of small business is an area in which countries outside the Community also have experience. In the United States of America, for example, special legislation for the protection of small business — the Small Business Act (SBA) — has been in force for many years. The Committee calls on the Commission to analyse the effects of SBA-based policies and also policy in other countries such as Korea and Japan.

Done at Brussels, 16 November 1989.

The Chairman
of the Economic and Social Committee
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