

The European Community and small- and medium-sized industry

European File

How many small- and medium-sized companies are there in the European Community? It's difficult to say, since national statistics generally do not cover companies employing fewer than 20 persons, and this category contains many firms which are relatively new and which have been created to exploit technological innovation.

The definition of small- to medium-sized enterprise (SME) varies considerably from country to country and covers a vast range of heterogeneous structures: capital intensive companies with a large turnover and only 25 employees; companies employing 900 persons occupied in craft activities; firms which are theoretically independent but linked in reality to large companies through more or less restrictive subcontracting agreements. They face a variety of problems: small dynamic companies, because of the limited scope of their local activity, encounter numerous difficulties in expanding and exporting outside their local areas; traditional industrial or commercial companies, which constitute the economic dynamo of many regions, have problems which are particularly sensitive to the local environment in which most of their business is located.

One thing is sure, however: by virtue of their number, and their diversity, by their penetration in all sectors of the production and marketing of goods and services, through their contribution to employment and to the prosperity of particular regions, these companies are an essential component of the industrial and commercial structure of our countries. In addition, they are also a source of dynamism and vitality for the whole of the economy: this mass of constantly emerging and developing companies form a sort of matrix for our economic system; the small- and medium-sized companies constitute, in particular, a

vehicle which is particularly well adapted to the development and diffusion of innovation throughout the whole industrial fabric.

The current economic crisis clearly demonstrates their value as a source of innovation and jobs, but also reveals their fragility when faced with short-term economic fluctuations. Nevertheless, these small companies still have a lot of opportunity for the future:

- a company's competitiveness, which is a necessary condition for growth, depends on its products but also on its production structure and the development of the human, social, regulatory and technical factors. The degree of flexibility of small companies, enables them to adapt more easily to the new conditions of a changing economic and social environment;
- in many regions, the concentration of these favourable factors combined with a pooling of the companies' technical, financial or management interests, can create conditions favourable to the development of these companies, particularly by stimulating reciprocal trade, cooperation (joint purchasing organizations, etc.) as well as the adaptation of their vocational training requirements or banking systems. The SMEs can thereby be assured of adequate competitiveness *vis-à-vis* larger competitors;
- finally, there seems to be a general tendency towards the deconcentration of industrial organizations. Technological progress often has the effect of expanding the number of small-sized and autonomous production units, creating many new SMEs which expand at the expense of the large production units.

What do Community countries do ?

People are becoming increasingly aware of the importance of the small- and medium-sized companies and of the growing role they have to play in a changing market to develop the economy and create jobs. Community countries all accord a significant role to SMEs in their economic policies. A large number of instruments, ranging from fiscal and financial measures to advisory activities, have been introduced and written into specific legislative and regulatory provisions. Their objectives are largely the same: to support the activities of the companies in the industrial modernization, technological and regional context, but — as is shown in the inventories drawn up by the European Commission — the means employed have varied considerably. They comprise, according to the country:

- tax exemption or relief;
- financial aid: premiums or subsidies, credit facilities, capital formation incentives, etc.;
- legislative or regulatory provisions adapted to the specific needs of small- and medium-sized companies;
- a number of services organized by the public authorities or by the private sector: information, advice and assistance in the fiscal, financial, economic and legal areas; the

creation of regional or sectoral technical centres; joint research assistance as well as pilot projects in areas of new technology, recycling of raw materials or energy;

- measures to improve professional skills and to improve the employment situation through the teaching of new methods and techniques, lowering of social security charges, etc.

In addition, special activities such as sub-contracting, cooperation between companies, public procurement, exports, etc., are subject to legal provisions which have been adapted to suit the needs of SMEs. Service activities are also developing, particularly to help small companies increase exports.

As developed as they are, policies on the small- and medium-sized companies do encounter a number of specific difficulties:

- the heterogeneous nature of the sector, the diversity of the problems they face, and the variety of interests which they represent. This explains the very diversified nature of policies introduced to help the SMEs.
- the distance between the small- and medium-sized companies and public authorities. This remoteness results from the size of the company and often of its market, but also is a result of the very source of its dynamism: the desire of the entrepreneur to be independent. If we do not want to kill the goose that lays the golden egg, respect for this autonomy is essential. The best form of support for the SMEs consists of helping them to help themselves. Sharing responsibilities between the entrepreneurs and the competent authorities also offers a guarantee of efficiency through public intervention.

What can the Community do to help the SME ?

Given the large diversity of SMEs, the differing definitions of them according to country, their distance from the European institutions, there is no question of the institutions developing a centralized policy in this area. In the majority of cases, efficiency requires that measures are introduced at the national, regional and local levels to meet their needs.

The Community can, however, usefully help in this area:

- firstly, by providing a framework for a comparative examination of the problems of SMEs and the means implemented to resolve them in members' countries. Discussions with national authorities and, above all, with company chiefs, should enable experiences to be compared and information disseminated. Public or private officials are thereby encouraged to adopt measures which have been tried and tested in other areas. They must be adapted to local situations, of course. The objective is not to harmonize the various existing policies, but to contribute to a strengthening of their effectiveness everywhere;

- secondly, by taking into consideration the interests of the SME in the formulation of various Community policies, be it competition, energy, industrial, regional or any other relevant policy. The European Commission has always promoted this concept and has taken a number of initiatives in the interests of the SME. The absence of a global approach to the SME phenomenon was rightly deplored in a resolution taken by the European Parliament in February 1978. The European Commission has also just published a report for the Parliament on 'Small- and medium-sized enterprises in the Community', from which much of the information in this article is derived;
- finally, by introducing measures at the Community level specifically directed towards the SMEs, but only in situations where they would be more effective than national provisions, and only on condition that the national and above all regional infrastructure exists which can relay Community action to the thousands of companies at the grassroots level.

How far have we got ?

Community action in favour of the small- and medium-sized companies is developing in many different sectors. In several cases, it is a question of bringing about a common market and expanding the potential for harmonizing national standards, improving access to public supply contracts and also to information, the promotion of cooperation between companies, the simplification of administrative and legal procedures. Moreover, various Community financial instruments can usefully help certain SMEs which face specific problems. The Community is concerned with maximizing the human, scientific and technological potential represented by small- and medium-sized companies, particularly the most dynamic of them.

- Technical barriers to trade: a European market of 270 million consumers offers new opportunities for the SME. This market must be really open to all, regardless of nationality. The European Commission is patiently proceeding with its work harmonizing various national technical standards which can create obstacles to trade.¹ It takes particular care not to impose measures which are either too rigid or which would put local industries in peril or unfairly affect industries which dominate certain industrial sectors.
- Public markets: the European Commission looks favourably on certain preferences accorded to the SME in the area of public procurement contracts, on condition that there is no discrimination according to nationality. Community provisions on public markets (and particularly the publication in the 'Official Journal' of tender notices relating to the largest markets) can help the efficient and specialized SMEs find new outlets. This is the case, for example, in the field of educational, medical or scientific equipment. The Commission wishes to further improve this information system.

¹ See *European file No 12/79: 'The removal of technical barriers to trade'*.

- Other measures aimed at improving information: the European Commission encourages Member States to improve access by all European companies to national manufacturing licences. It also encourages access to data banks (through the Euronet-Diane system which became operational in February 1980) as well as cooperation between the national information and advisory services created to assist firms working with new technologies.
- Competition policy: the European Treaties prohibit agreements between companies which aim to restrict competition in the common market.¹ The European Commission has taken into account the particular position of the SME in allowing certain approved forms of cooperation: minor agreements made between firms holding less than 5% of the market, exchanges of experience, joint study projects, joint use of installations, certain exclusive representation agreements, and finally since 1978, subcontracting agreements. New provisions are being drawn up covering patent licensing agreements and those on exclusive or selective distribution.
- The Business Cooperation Centre, set up in 1973 under the auspices of the European Commission, can be of particular assistance to small- and medium-sized companies in helping to set up transnational cooperation or integration agreements. The work of the bureau is currently expanding to include Greece, a member of the Community as of 1 January 1981, and the two potential members, Spain and Portugal.
- Simplification of procedures: the provisions introduced in the area of competition effectively mean that SMEs do not have to notify the European Commission of the numerous agreements they are planning to conclude with other firms. To alleviate the administrative costs to the SME, the Commission has considerably simplified the customs and statistical documentation required of them. Special derogations favouring SMEs have been permitted in the European directives on company law. In addition, in the legal field, the Brussels Convention (1968) strengthens the position of creditors by facilitating the recognition of the application of legal decisions both commercial and civil, throughout the Community.
- Regional policy: the European Regional Fund² can contribute up to 20% of the total amount of industrial, craft or service investments worth at least 50 000 EUA,³ aimed at creating or maintaining with State support at least ten jobs in regions with difficulties. Since 1979, smaller projects can be grouped together to benefit from Community aid. In addition, for the benefit of SMEs and craft industries the European Commission is going to launch a special programme to expand the advisory and information services on innovation, finance, communications (including data processing), market research, etc., in the areas affected by the regional consequences of Community policies, and particularly through the enlargement of the Community with the accession of Greece, Spain and Portugal.

¹ See *European file* No 14/79: 'European competition policy'.

² See *European file* No 10/79: 'Regional development and the European Community'.

³ 1 EUA (European Unit of Account) = about £0.54 or Ir.£0.69 (at exchange rates current on 6 November 1980).

- Other Community financial instruments: a global loan mechanism has been instituted within the framework of the European Coal and Steel Community to help those SMEs which create new opportunities for jobs in the crisis-hit steel-making regions. The European Investment Bank is also increasing its facilities to enable it to contribute up to 50% of the total amount of small- or medium-sized industrial investment grouped together by intermediary financial institutions (regional banks, etc.).
- Vocational training: the European Social Fund¹ finances pilot vocational training projects centred around the needs of the SME. Studies on the improvement of management and vocational training have also been undertaken by the Berlin-based European Centre for the Development of Vocational Training.
- Innovation support: the European Commission has launched several studies to provide a better analysis of the different aspects of industrial innovation, the obstacles to its development, the means available to promote it, particularly in the SME. These studies should open the way for information exchanges at the European level as well as measures facilitating access by innovatory SMEs to European Regional Development Fund assistance.
- Energy: the Community gives financial support to demonstration projects aimed at promoting energy savings and the new energy sources.² Numerous small company projects can benefit from this aid. The European Commission has, moreover, experimented with the use of an 'energy bus', a vehicle run by a specialist team and fitted with equipment to analyse energy consumption and possible savings in industrial plant and business premises. This service can be particularly useful for SMEs which do not have the financial means or the necessary qualified personnel to carry out such surveys themselves.
- Research and development: the consultative committee for industrial research and development created by the European Commission in 1978 has examined the opportunities for promoting research and development by innovatory SME. Moreover, a European research programme of interest to the leather and footwear sectors is currently in progress. The Commission is proposing to launch other research programmes, sharing costs with the professional organizations, for sectors composed mostly of SMEs: textiles and clothing, technology of mineral clay and ceramics.
- Commercial enterprises: the Commission is developing statistical documentation and information exchanges on trade and its problems in member countries. The SMEs are well represented within the trade and distribution consultative committee set up by the Commission in 1978. A seminar organized in February 1980 with the assistance of members from this sector set the ball rolling for the constitution of data banks enabling companies to modernize their methods of distribution and management.

¹ See *European file* No 19/79: 'The European Social Fund'.

² See *European file* No 15/80: 'European energy demonstration projects'.

For tomorrow...

In the near future, the European Commission will be putting the accent on:

- the financial problems of the SME and of industrial innovation: the SME will be able to fulfil their innovatory role much better if they are offered greater financial flexibility rather than credit restrictions and unfavourable financial conditions. To stimulate small investments which create jobs, the European Commission wishes to encourage the exchange of information between the SME and banking or cooperative credit organizations; it wants to encourage the latter to modify their risk criteria and take the real development prospects for the companies more into account. The Commission also intends to study the possibility of extending certain national experiments at the Community level, e.g. guarantee and finance cooperatives;
- access by SME to the new information technology¹: the marriage of data processing and telecommunications offers companies a greater amount of information which can be transmitted easily and rapidly. Real opportunities for the future are emerging for the SME: new technologies favouring the progressive decentralization of production. This will make small scale production more profitable, improve contact with market demand and reduce the weight of administrative expenditure. The European Commission wishes to help the SME draw maximum benefit from this change; it has come out in favour of Community support for SMEs while they are introducing the new technologies.

In addition, the coming accession of several Mediterranean countries will increase the role of the SME in the Community economy. The Community will have to make a special effort to stimulate the modernization of the small companies which dominate the Portuguese industrial scene. The European Commission also wishes to collaborate with the organizations representing SMEs to help the latter develop their relations with their supply sources and their markets outside the Community.



Community action in the industrial field is by its nature of a macro-economic type: it operates at the level of improving the general conditions in which companies have to operate. Extending the dialogue the European Commission conducts with the small- and medium-sized companies should enable it to take more account of their concerns and to tackle particular problems and find solutions to them. The Commission, therefore, wants the various organizations interested in the development of the SME to be able to synthesize the specific needs of this type of company, and present them at the European level ■

¹ See *European file* No 3/80: 'Europe and the new information technology'.



The contents of this publication do not necessarily reflect the official views of the Institutions of the Community.

Commission of the European Communities

Information offices (countries fully or partially English speaking*)

Ireland 39 Molesworth Street, Dublin 2 – Tel. 71 22 44

United Kingdom 20 Kensington Palace Gardens, London W8 4QQ – Tel. 727 80 90
– 4 Cathedral Road, Cardiff CF1 9SG – Tel. 37 16 31
– 7 Alva Street, Edinburgh EH2 4PH – Tel. 225 20 58
– Windsor House, 9/15 Bedford Street,
Belfast BT2 7 EG – Tel. 40 708

Canada Association House (suite 1110), 350 Sparks Street,
Ottawa Ont. K1R 7S8 – Tel. 238 64 64

USA 2100 M. Street, N.W. Suite 707,
Washington D.C 20037-USA – Tel. 202-862-9500
– 245 East 47th Street, 1 Dag Hammarskjöld Plaza,
New York, N.Y. 10017 - U.S.A. – Tel. 212-371-3804

* Offices also exist in other countries including all Member States.

