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AN ENTERPRISE POLICY FOR THE COMMUNITY

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AN ENTERPRISE POLICY FOR THE COMMUNITY

|   | <u>Pages</u> |
|---|--------------|
| <u>PREPARING THE PATH FOR BUSINESS IN THE SINGLE EUROPEAN MARKET</u>                        | i            |
| <u>INTRODUCTION</u>   | 1            |
| <u>CHAPTER 1 - WHY THE COMMUNITY NEEDS AN ENTERPRISE POLICY</u>                             | 4            |
| 1.1. The economic case  | 4            |
| 1.2. Enterprise policy in the context of the internal market<br>and other Community reforms | 7            |
| 1.3. Removal of physical, technical and fiscal barriers                                     | 8            |
| 1.4. Creating suitable conditions for industrial cooperation                                | 11           |
| 1.5. The monetary and financial dimension   | 12           |
| <u>CHAPTER 2 - THE ESTABLISHMENT OF A COMMUNITY ENTERPRISE POLICY</u>                       | 14           |
| 2.1. The background   | 14           |
| 2.2. Future policy towards enterprises : objectives and basic principles                    | 15           |
| 2.3. Size of enterprises  | 17           |
| <u>CHAPTER 3 - IMPROVING THE BUSINESS ENVIRONMENT</u>                                       | 20           |
| 3.1. Controlling legal and administrative constraints on business                           | 20           |
| 3.2. Simplification of company law and fiscal provisions                                    | 23           |
| 3.3. Improving the financial environment  | 25           |
| 3.4. Better opportunities for external trade  | 28           |
| 3.5. Developing an enterprise culture   | 30           |
| <u>CHAPTER 4 - THE CHALLENGE OF THE INTERNAL MARKET</u>                                     | 32           |
| 4.1. Information : a key to business development in the Community                           | 33           |
| 4.2. Promoting cooperation and partnership in business                                      | 36           |
| 4.3. Marketing strategies in the internal market  | 39           |
| 4.4. Management and vocational training in SMEs   | 40           |
| <u>CHAPTER 5 - ENTERPRISE POLICY IN SCIENTIFIC AND TECHNOLOGICAL DEVELOPMENT</u>            | 42           |
| 5.1. The innovation process   | 43           |
| 5.2. The role of smaller businesses   | 43           |
| <u>CHAPTER 6 - ENTERPRISE POLICY IN RELATION TO ECONOMIC AND SOCIAL<br/>COHESION</u>        | 46           |
| 6.1. Current provisions for SMEs under structural policy                                    | 46           |
| 6.2. Reform of structural policy  | 47           |
| 6.3. Business and Innovation Centres  | 48           |
| <u>CHAPTER 7 - CONCLUSION</u>   | 49           |

PREPARING THE PATH FOR BUSINESS IN THE SINGLE EUROPEAN MARKET

Since the signature of the Single European Act in February 1986, the Community has set out on a path of wide-ranging reforms with fundamental impact on the business sector.

A primary objective of the Act is to create a single European market by the end of 1992, so as to improve the competitiveness of European enterprises within and outside the Community.

It will offer them an enlarged home base, allowing them to benefit from economies of scale and to specialise in areas where they enjoy a comparative advantage.

Greater efficiency results in a better allocation of resources, leading to increased growth and employment in the Community. This has been demonstrated by the studies conducted for the Commission during the last two years on the potential economic gains from the removal of EC internal barriers.

The programme for establishing this single market is set out in the White Paper on the completion of the internal market. It is a far-reaching and integral programme which cannot be implemented partially : the removal of physical, technical and fiscal barriers must be achieved in parallel.

Less than three years after the adoption of the White Paper Programme, the date of 1992, when the existing barriers will be finally dismantled, is already becoming an established part of the expectations of individuals, enterprises and the Governments of the Member States.

Each of the individual measures which make up this programme will have a direct impact on business. This impact will cover all the activities of a firm, from the raw materials it purchases, the services it uses, the technical characteristics of the goods or services it produces, to its marketing channels, the practices of its clients, in the public or private sector, and the fiscal environment in which it operates.

These changes will offer great opportunity to each firm. However, the opportunity cannot be taken unless firms understand what is at stake for their own activities and decide to act accordingly. The sooner they see the opportunity and adjust their business strategies, the more likely they are to succeed in the Single European market.

All firms, large and small, are involved in this process of adaptation and the Commission, together with the Member States, is willing to help that process. Despite efforts already made by the Commission and Member States, business surveys show differing levels of awareness and preparation for the necessary changes.

Because of their commitments towards the process of economic integration, it is the duty of the Member States and the Community institutions to help business to operate in the large market.



An analysis of the day-to-day business environment showed many imperfections which call for corrective action. In considering such action, special attention should be paid to the situation of the small and medium-sized enterprises.

The Commission is developing a number of actions to help improve the business environment and increase the opportunities offered by the emerging single market, in the following areas :

- provision of relevant information about Community and national policies and regulations, markets within and outside the Community, opportunities for potential cooperation in various fields
- simplification of the legal and administrative environment in which business operates
- strengthening the commercial and financial framework for business
- facilitating and funding cooperative projects, in the field of research and development and other areas
- improving training facilities and management development
- the promotion of economic and social cohesion

This document defines the framework and objectives of these actions.

However, the Member States have a major responsibility in improving the business environment and particularly the awareness amongst enterprises of the European dimension. Some Member States are already active in this respect.

The Member States are thus invited to share their experience with each other, in order to identify the most successful forms of action.

The Commission is ready to play an active role in this process.

AN ENTERPRISE POLICY FOR THE COMMUNITY

Creating a favourable environment for enterprise and promoting  
business development in the evolving European market

INTRODUCTION

1) The European Community has taken decisive steps to develop the process of European integration into the nineteen-nineties and beyond. Progress on the completion of the internal market is more rapid than many believe; the essential political decisions on the Community budget, the growth of the structural funds and the reform of agriculture have been taken. These developments are leading to a new and dynamic business environment in Europe.

2) If Europe is going to capitalise on these developments, leading to more rapid economic growth and more employment, it is necessary to create conditions in which enterprise can flourish. It is only if the citizens of Europe are encouraged to develop their initiative and make full use of their talents and skills that the Community can maximize the benefits from the completion of the internal market. This means following a series of policies which operates on the enterprise to enable it to perform more efficiently. It also signifies that enterprises become the means of action in many policy areas.

3) The seeds of this policy have already been sown. During the nineteen-eighties, increasing attention has been paid towards the conditions under which enterprises operate and to the importance of smaller businesses for the European economy. In November 1986, the Community adopted a resolution on the Action Programme for small and medium-sized enterprises, thus marking the beginning of a period of rapid development in Community business policy.

4) The clear objective of the Action Programme was to stimulate enterprise in the Community, in all parts of society and in all regions. The Programme provided the framework within which policy has developed. The action which has already been taken within this framework has been selective and not exhaustive; priorities have been established and resources directed towards those priorities, some other parts of the Action Programme remaining to be developed.

5) Out of this first experience with the SME Action Programme has come a clear policy direction for the coming years, based on principles which have been established by the Commission and are supported by the Member States. This enterprise policy is the subject of this Communication.

6) Such a policy has three broad objectives. Firstly, it should help to create conditions in which the legal and administrative business environment meets the needs of a modern and rapidly changing economy and is as simple as possible. Regulation is necessary but must not be allowed to reduce the medium-term growth outlook through the imposition of unnecessary costs on business and a reduction in its flexibility. Secondly, it should encourage the creation of new firms and the development of small businesses which are often hampered by the fact that some markets do not function efficiently. It is important that in such cases market corrections are undertaken which lead to solutions which are nearer to a welfare optimum. In small business and enterprise development, the limitations of size and imperfect information give rise to situations in which such corrections, aiming to improve the workings of the market, are justified. Thirdly, it should set a coherent framework for the ways in which other Community policies are implemented through the enterprise sector. In areas such as support for scientific and technological development and the pursuit of economic and social cohesion, enterprises themselves are instrumental in helping to operate policy.

7) Enterprise policy is not of course pursued in isolation, but constitutes part of the broad package of economic policies. Macro-economic policy is also a major determinant of the business environment, and can contribute to its improvement by setting conducive and stable fiscal and monetary conditions.

Enterprise policy must also be compatible with other public policy objectives, such as the reduction of social and regional disparities, the protection of the fundamental rights of workers and the protection of the environment. It is important however that enterprise policy should become a dimension of these other policies, because the availability of resources to develop them depends on the existence of a healthy enterprise sector.

CHAPTER 1 - WHY THE COMMUNITY NEEDS AN ENTERPRISE POLICY

1.1. The economic case

8) The post-war period up to the early nineteen-seventies saw the establishment and growth of large-scale enterprises in Europe. The large multi-national firms amongst them often set up highly centralised management structures which undertook the planning of their whole European operations from one centralised unit. At the same time evidence suggests that small businesses were declining in number, as integration of the whole production process, including sales and other services, in the large firm took place. At the same time economic theories of the advantages of large production units exploiting scale economies were refined. The whole economic argument pointed the way towards larger firms and plants.

9) The problems attached to size became apparent in the nineteen-seventies, when both the organisational structure of enterprises and the economic theory of the firm changed considerably. The importance of stimulating enterprise and therefore firm creation to promote innovation in the economy was rediscovered. At the same time the very significant role played by small and medium-sized enterprises was appreciated and the advantages of size were reconsidered. Comparisons with Europe's main competitors Japan and the USA also demonstrated the key role played by small companies in those economies.

10) Whilst it is clear that scale economies do exist and indeed dominate in certain types of production such as standard product assembly lines, it is equally clear that 'costs of production' is a very complex concept which includes management and organisation costs, the costs of labour relations, uncertainty and risk.

11) A reconsideration of long run average costs with respect to output suggests that in some businesses they may begin to rise at a much lower output level than sometimes expected. Small business has shorter



management chains than big firms and, at equal quality of management, this is an important advantage. The inefficiencies of long and complex management structures have been appreciated throughout business, so that even the largest firms often operate today with decentralised management structures. Labour relations have also been shown to be better in smaller firms than in larger ones, a fact which can have an important impact on costs.

12) Perhaps the most important development in thinking about the role of smaller firms has come in the area of flexibility in the context of a shortening of product cycles. Smaller firms are normally more flexible than larger units, because of their simple management structures. Their installed capital equipment per unit of output is also often less than that in larger plants and can often be put to multiple uses. With rapid developments in information technology, small firms can also install modern control systems which are extremely powerful tools. Being very close to the market place, this flexibility is of considerable advantage today where the product cycle has often become very short indeed. New products or processes often have marketable lives of only a few years or even months. With such a rapid turnover of products, smaller businesses have an advantage.

13) This flexibility has always been regarded as a considerable advantage in the Japanese economy, which relies on small business to a far greater extent than Europe. But in Europe too, companies have been hiving off parts of their businesses into independent units to improve overall efficiency, as well as relying far more heavily on accredited networks of small sub-contractors.

14) These attributes of greater flexibility and certain cost advantages in small firms have been recognised in manufacturing industry, but of course in many of the service industries, they dominate totally. The great growth of output and employment in the service sector that many countries have experienced has taken place predominantly in small enterprises.

15) It is perhaps however in their role as innovators that small businesses are most important to the economy. The importance of the entrepreneur and innovator tended to be underestimated in the post-war growth phase in Europe. That period lived from the exploitation of innovations made just before and during the war. What is most clear today is that the stimulation of enterprise, the support of those willing to take the risks of setting up in business, is a key to economic growth and employment creation. Although almost as many firms fail as are created, this turnover is a very significant source of renewal in the economy. A considerable proportion of innovations in the computer industry which have taken place in the nineteen-eighties have been made by new start-ups or in small firms, even though the death rate among such firms has been quite high. The problems of managing enterprise and innovation within large businesses has often been recognised by these businesses themselves, leading to the promotion of spin-outs and the development of various corporate venturing and partnership arrangements.

16) These arguments suggest that government can promote economic efficiency by stimulating enterprise and small business development, both of which appear to be important contributors to economic growth. This does not however imply that government should intervene massively to promote enterprise and small business which might lead to wasteful resource allocation. The objective of policy as mentioned above should be to provide a business environment in which the maximum degree of flexibility is left to enterprises and in which risk-taking is not stifled by regulation. This essentially indicates that markets should be left to operate as freely as possible. However, government intervention, usually complementary to private sector activity can contribute to achieving policy objectives, where markets do not function efficiently. These are usually areas in which the private costs and benefits from providing services diverge significantly from the costs and benefits to a society as a whole. Frequently a very small level of public intervention is sufficient to mobilise private sector resources and thus set in motion the market mechanism.

1.2. Enterprise policy in the context of the internal market and other  
Community reforms

17) Apart from the general economic arguments, the Community has more domestic, internal reasons to have an active business policy. Since the adoption of the Single European Act in February 1986, the Community has set out on a path of ambitious reform which is likely to have a significant impact on the enterprise sector. The enterprise sector itself, however, also has a key role in helping to achieve the different objectives. The objectives, as set out in "The Single Act : A new frontier for Europe"<sup>1</sup>, include the establishment of a large market without internal frontiers, the strengthening of economic and social cohesion, the development of a common policy for scientific and technological development, the strengthening of the European Monetary System, the emergence of a European social dimension and coordinated action relating to the environment.

18) Community enterprise policy is currently most closely linked to the completion of the internal market, which will radically alter the business environment. As the single internal market becomes a reality, business in the Community is facing both the greatest opportunity and the greatest challenge for many years. Firms which in the past have operated on a strictly national, and even regional or local level may need to review their strategies. Systems of national protection are being dismantled, providing simultaneously new opportunities and new competitors. Globally, there are gains to economic welfare as more efficient producers replace less efficient producers. As the completion of the internal market accelerates, so does this economic process. Businesses that adopt a cautious attitude are likely to be ousted by those that grasp the competitive challenge of the large and changing market.

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<sup>1</sup>COM (87) 100

19) Many of the measures being taken to achieve the internal market, such as the harmonisation of company law, the simplification of border formalities or the harmonisation of technical standards, will affect the day-to-day operations of the Community's enterprises. Particularly bearing in mind the relative speed with which these changes are occurring, the Community authorities are aware that these measures must be carried out in a manner which does not impose unnecessary burdens on business. This implies the need for suitable consultation of business interests and adequate channels of information.

20) This paper is primarily concerned with examining Community action affecting enterprises, particularly in the light of the internal market process and the associated reforms. It is also essential, however, that the national, regional and local authorities in the Member States keep their policies towards enterprises under review, since these are also major determinants of the environment and conditions under which business operates.

### 1.3. Removal of physical, technical and fiscal barriers

21) The Commission's White Paper on completing the internal market<sup>2</sup> identifies the physical, technical and fiscal barriers which must be eliminated by 1992 in order to create an area without internal frontiers in which the free movement of goods, persons, services and capital is assured. The progressive elimination of customs formalities and reduction of frontier controls within the Community is clearly beneficial to a very large number of businesses, and particularly to SMEs for whom such controls can represent an onerous cost. The introduction of the single administrative document is a typical example of progress already being made in this field.

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<sup>2</sup>COM (85) 310.

22) In some respects, the completion of the internal market requires the establishment of Community regulations, for instance, in order to approximate national technical regulations in many industrial sectors. The Commission is concerned that regulation should, however, proceed with as much flexibility and transparency as possible, which is of particular importance to SMEs. The "New Approach" to technical harmonisation, limiting binding Community legislation to what is required for essential public interest requirements, such as health and safety and environmental protection, and referring to standards (if possible European) for the manufacturing specifications, exemplifies this concern. In areas where harmonisation of standards is not considered essential, mutual recognition of national standards should apply, so that a wholesaler, retailer or final consumer may choose his supplier from any part of the Community without restriction, other than those imposed by the essential requirements.

23) In order to ensure the free movement of goods, however, it is not sufficient for national standards to be mutually recognised; this principle must also be applied to the testing and certification procedures. Duplication of such procedures represents a waste of resources and is particularly costly for SMEs. The Commission is working together with CEN and CENELEC, the European standards bodies, to achieve common conditions and codes of practice to be applied by testing laboratories and certification and inspection bodies.

24) Another important aspect of creating the internal market, and frequently linked to disparities in technical regulations and standards, as far as its direct impact on business is concerned, is the opening up of public procurement. It has been estimated that the total value of government procurement in the Community is as much as 400 billion ECU per year, of which only 2 % is awarded to firms from other Member States. The amendments to the "supplies" (now approved) and "works" (proposed) directives should lead to a genuine opening-up of public procurement and provide real opportunities for the first time for SMEs. The Commission will shortly submit proposals to cover public procurement in the four

major sectors presently excluded from the scope of existing Community directives, namely telecommunications, energy, transport, and water supply.

25) The Commission is taking other measures to ensure that small as well as large enterprises benefit from the new opportunities in this domain. A vademecum on public procurement was approved by the Commission in November 1987. This makes accessible for businessmen the terms and conditions for their participation in public works and supplies contracts, the Community rules in this area and the means of redress. A Consultative Committee for the opening up of public procurement, which is being set up, will be responsible for monitoring the opening up of public procurement for SMEs and making recommendations for improvements. The Commission is also examining other methods of improving the access of SMEs to public contracts, such as provisions for the splitting of large contracts.

26) The removal of the obstacles to free movement for the self-employed and employees is also of direct interest to the enterprise sector. Considerable freedom exists in principle for employees to work anywhere in the Community, although there are limiting factors such as the slow progress in achieving mutual recognition of higher education diplomas. A draft directive on this subject is still awaiting approval.

27) In the field of services, major changes will result from the implementation of the White Paper programme, affecting all businesses. For instance, financial services (banking and insurance) should be free to be provided by any firm established in the Community; transport services should be opened up through the elimination of quotas (for road transport) and of competitive restrictions (for air transport); telecommunication services should be provided on the best available terms and without national restrictions.

28) As long as serious fiscal differences between the Member States remain, a truly integrated market cannot be achieved. This is an area where progress is difficult. The changes which are being considered, particularly with regard to turnover and profits taxation, could have a direct impact on enterprises.

29) The preparation and implementation of the necessary fiscal provisions also require careful attention with respect to the position of SMEs. The administrative costs to businesses of complying with tax requirements are such that the possibility of introducing special provisions, such as simplified and progressive regimes, has to be considered for smaller companies, in order to ensure that the tax system is broadly neutral across all sizes of enterprises. This issue is considered in greater detail in the chapter dealing with action to improve the business environment.

#### 1.4. Creating suitable conditions for industrial cooperation

30) The White Paper on completing the internal market made it clear that removing internal frontiers and establishing freedom of movement of goods, labour and capital would not be sufficient to ensure full exploitation of the opportunities offered by the internal market. Community action is also desirable to create an environment likely to favour cooperation between enterprises, which would strengthen the industrial and commercial fabric of the internal market. Such action is particularly important to facilitate cooperation between SMEs in order to help them operate in the large market and to promote scientific and technological development which often cannot be satisfactorily achieved at national level.

31) Specific Community projects to promote cooperation between businesses, particularly SMEs, and action to support the contribution of the enterprise sector to technical progress are considered in chapters 4 and 5 respectively. A further step already taken to improve the environment for cooperation between businesses in different Member States

is the establishment of a legal framework for cooperative projects. Forming such an arrangement, known as a European Economic Interest Grouping (EEIG), which will be possible from 1 July 1989, will allow the partners from different Member States to be placed on an equal legal footing.

32) The Community authorities will take care to ensure that competition policy operates in such a way as not to discourage cooperation between SMEs or to impose excessive administrative burdens on them. The derogations granted for agreements of minor importance and the favourable scheme for aids of minor importance reflect this concern. The Commission is also proposing regulations to exempt know-how licensing agreements and franchising agreements from competition rules. Such agreements are of considerable importance to SMEs, since they enable small companies and individual entrepreneurs to benefit from the technical or commercial know-how of licensors and franchisors, and thus contribute to improving the competitive position of SMEs and the creation of new firms. Competition policy is also essential to maintaining a favourable business environment for SMEs, through its provisions to prohibit the abuse of a dominant position.

#### 1.5. The monetary and financial dimension

33) The adoption of the Single Act has added weight to the urgency of achieving monetary and financial integration in the Community, without which a true internal market cannot be created. The financial dimension is of direct relevance, not only to businesses operating across the internal frontiers, but also to those which are not, since it will open up a wider market for risk capital and financial services such as insurance, business and consumer credit and home-ownership savings contracts to the whole business sector. Completing the process of liberalisation of capital movements will make it easier for businesses and, perhaps more importantly, their customers to effect financial settlements and to obtain access to a wider capital market, including new forms of capital. In parallel, the European Monetary System needs to be



strengthened, leading to greater exchange-rate stability in intra-Community trade and contributing to a growth-oriented business environment.

CHAPTER 2 - THE ESTABLISHMENT OF A COMMUNITY ENTERPRISE POLICY

2.1. The background

34) Chapter 1 discussed the increasing impact of the internal market reforms and associated Community policies both on the business environment in general and the day-to-day operations of firms, both large and small. In the 1980's, particularly in view of the lack of progress on the unemployment front, attention both in the Member States and at Community level was increasingly turned towards operating conditions for business. This was recognised in the Community's economic strategy and the action programme for employment growth. These broad economic policy considerations were fully consistent with the shift in emphasis of Community policy towards the completion of the internal market within which labour, capital and goods could circulate without restriction. Within this context, it was recognised that the Community should develop a coherent approach in its action affecting business and that such action should take account of the particular requirements for SMEs in adapting their business strategies to the emerging European market. Meetings of the European Council, from March 1985 onwards, outlined the priority areas for action.

35) The Action Programme for Small and Medium-Sized Enterprises<sup>3</sup>, adopted in November 1986, was an important step in the development of a Community enterprise policy. For the first time a coherent framework was defined, in which Community policies in relation to enterprises could be situated. A broad distinction was drawn between Community action to improve the business environment in general and specific measures or services to help the creation and development of SMEs. The Commission reports regularly to the other Community institutions on the implementation of the Action Programme<sup>4</sup>.

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<sup>3</sup>COM (86) 445

<sup>4</sup>COM (87) 238 and COM(88) 64.

36) In its report on the SME Action Programme presented in May 1987, the European Parliament largely welcomed its proposals but indicated that the rate of progress had been too slow. It also made suggestions for action in specific areas, such as changes in the systems of company law and direct taxation in order to encourage the creation and development of SMEs, measures to help them obtain access to public procurement contracts, and improved conditions to obtain finance through Community schemes. It also called for a Council of Ministers with responsibility for them to meet at least once a year to discuss Community SME policy. The first Council of Ministers to deal specifically with SME policy is to be held in May 1988.

37) The opinion of the Economic and Social Committee, delivered in July 1987, also welcomed the Action Programme and argued for a greater commitment of Community resources, both in financial terms and in human resources through the Commission. It urged the Commission to set deadlines for each section of the Action Programme and expressed the hope that the necessary political will would be present on the part of the Council to adopt binding provisions for the implementation of the programme.

## 2.2. Future policy towards enterprises : objectives and basic principles

38) Enterprise policy can be considered to have three broad objectives :

- to safeguard and improve the environment for business during the completion of the internal market and beyond
- to develop policies designed to help new and growing enterprises benefit from the opportunities offered by the internal market

- to ensure that there is a consistent framework of principles and methods for implementing major Community policies by using the enterprise sector to an important degree as an intermediary. The areas in question include the policy for scientific and technological development and the pursuit of economic and social cohesion.

39) Before considering the range of action comprising this enterprise policy, it is important to make clear the set of basic principles or guidelines which provide a coherent framework for the policy as a whole. Such a framework facilitates the evaluation and development of existing measures and also provides a basis for preparing new initiatives. The eight guiding principles, which are derived from the basic considerations relating to public intervention in the market economy and the broad framework of Community reform, are as follows :

- action should be designed to stimulate enterprise by reinforcing the functioning of market forces; direct operating subsidies, which hinder market efficiency, are thus excluded from the policy
- financial support can only be justified to correct market deficiencies, for instance, in order to improve the flow of information to businesses about the internal market, to maintain the momentum of technical progress or to compensate for regional or social disadvantages
- action at Community level needs to have a Community dimension and should not duplicate national or regional measures; Community regulations should provide clear guidelines within which there may be freedom as to local application
- wherever possible, partnership should be encouraged between different sets of economic agents (private sector, public authorities, universities, etc.) and between different regions of the Community, in order to reinforce the process of integration

- wherever possible, existing structures should be used to implement Community policies and the creation of new bodies should be avoided
- action should recognise the wide range of institutional and cultural structures in the Community, which represents one of the strengths of the European economy but also gives rise to differing needs
- action should impose on business a minimum of constraints consistent with the achievement of the objectives of the measure in question
- in some policy areas, because of the proportionately greater cost to SMEs of complying with legal or administrative requirements, or because of size-related difficulties in participating in Community programmes, it is appropriate to provide specific exemptions or special conditions for such enterprises.

### 2.3. Size of enterprises

40) With regard to the size of enterprises on which the Community should focus its action, it is impossible to provide a single definition for all policy areas. For instance, action to remove physical and technical barriers in the process of establishing the internal market can benefit companies of all sizes. Where size of enterprise is a criterion for Community action, such as possible simplified procedures for SMEs in Community regulations or the businesses to be targeted in the specific services being developed, the appropriate conditions to be applied will vary according to the particular measure.

41) As mentioned in the SME Action Programme the Community uses a general definition for small and medium-sized enterprises : any firm with a workforce not exceeding 500, with net fixed assets of less than 75 million ECU and with not more than one third of its capital held by a larger firm. This definition represents a maximum size beyond which it is difficult to envisage that an enterprise warrants particular attention because of its size. For many issues relating to questions of scale this

definition is too wide. It also suffers from the weakness that, subject to the criteria regarding capital held by a larger firm, no account is taken of relationships between firms. In many cases where the size of an enterprise plays an important role it would seem that enterprises which fall under a common legal power of control should be treated together. This is already the case in relation to Community requirements to produce consolidated accounts under the 7th directive on company law.

42) The view has frequently been expressed that a special category of very small firms should be recognised, to which special conditions should be granted in some policy areas. In the company law field for instance it has been suggested that companies with less than 10 employees should benefit from special provisions with regard to company account requirements.

43) Where criteria of size are used for the application of regulations or for qualification under particular schemes, attention must be paid that the thresholds do not perversely become barriers to the growth of enterprises. The danger is that it may then be in the interest of businesses to stay below a certain size in order to obtain advantages in the form of simpler legal treatment (such as tax exemptions) or of size-related assistance. From this viewpoint it would be logical to apply a gradual reduction of preferences according to the size of business, although this in turn might require unduly complicated regulations. In practice, there must be a trade-off between the graduation of size-related preferences and transparency of the legal or administrative provisions.

44) In order to obtain a better understanding of the size structure of European industry, which will also help in the design of Community action relating to SMEs, the Commission is undertaking, in collaboration with the statistical offices of the Member States, a statistical analysis of the size distribution of enterprises by industrial sector. In addition,

through EUROSTAT (the Statistical Office of the European Communities) it is continuing to develop its programme of harmonised enterprise statistics.

### CHAPTER 3 - IMPROVING THE BUSINESS ENVIRONMENT

45) One of the principal objectives of Community enterprise policy must be to strengthen the market structure of the European economy by improving the responsiveness of supply to changing conditions of demand and to technical progress. The determinants of this general capacity of the "supply side" to adapt to changing circumstances are many and varied, such as legal and fiscal provisions, availability of finance and cultural attitudes. As a whole, these characteristics determine the "business environment" of a given area. Action to improve the business environment must accordingly cover a wide area of policy but such action should be based on the common principles of minimising constraints on individual businesses and stimulating enterprise in general. This can be done by strengthening the openness of markets and, where regulatory provisions are necessary, by ensuring that they can be implemented without excessive burdens on business.

#### 3.1. Controlling legal and administrative constraints on business

46) Over the last two years, the Commission has been developing procedures to examine the likely impact of proposed legislation on competitiveness and employment and to assess the burdens on enterprises resulting from existing Community legislation over the whole range of policies. A separate communication<sup>5</sup> on this subject has been presented recently.

47) With regard to the constraints imposed on business by existing Community legislation, the Commission organised a study to assess the costs and benefits of such legislation on SMEs. The most important conclusions of this study were :

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<sup>5</sup>COM (88) ...



- that the knowledge of EC legislation among SMEs was limited; they were usually unaware whether the constraints they were facing were a result of EC legislation, implementing national legislation or ordinary national legislation; the lack of codification of EC directives added to the confusion
  
- that the complexity of some EC legislation resulted from compromises designed to overcome difficulties within different Member States; there was considerable variation in the take-up of options and derogations
  
- that in some areas harmonisation had been excessively detailed and had conferred unnecessary costs on business; particularly in the light of the completion of the internal market, care should be taken to carry out only the necessary degree of harmonisation.

48) The Commission is now preparing its follow-up to this report. Apart from specific points already meriting attention at this stage, it is studying the possibility of establishing a business advisory committee to examine Community legislation. The Commission is also considering ways of improving its procedures for consulting representatives of business, in the context of the continuing process of social dialogue with both sides of industry at Community level.

49) As far as new proposals are concerned, the Commission decided early in 1986 to introduce a system to evaluate the impact of its own proposals on business. Each proposal for legislation requires an accompanying statement describing its likely effects on competitiveness and employment. The impact assessment statement is sent to the Council and Parliament with each legislative proposal. While not necessarily calling into question the direct objectives of a particular proposal, the legislating authorities are thus fully aware of any implications for the business environment.

50) The Commission considers that, in the preparation of new measures, consultation of interested business organisations is an essential element. Accordingly, the impact assessment statement also contains information on the consultations that have taken place.

51) While the Commission feels that the impact assessment system is working satisfactorily, it continues to press for improvement. Thus, examination of the Commission's work programme and experience of the systems operation to date will allow proposals with the greatest impact on business to be identified well in advance so that detailed assessment and consultation with business can take place at an early stage.

52) The system is also being modified to ensure that legislation which can be adopted by delegated powers is covered as well as amendments arising from Economic and Social Committee or Parliament's opinions. The latter obviously becomes even more important because of the cooperation provisions of the Single European Act.

53) The observations and conclusions of the above mentioned study of existing legislative obligations for SMEs and experience to date in operating the impact assessment system have already suggested certain possibilities on general legislative improvements. Guidelines on ensuring that the impact on business of proposals is considered under specific headings at the conceptual stage are now being prepared for all Commission staff. These will cover the use of cost-benefit analyses and "necessity tests" as appropriate. Ways of improving the procedures for direct consultation with business on proposed legislation are also being considered.

54) In order to permit a regular exchange of information between the Commission and the Member States on action to reduce legal and administrative constraints on business, a sub-committee of the national directors-general for industry was established in 1987 to deal specifically with this subject. This sub-committee is undertaking a

survey of procedures in the Member States to simplify the business environment; a full report on this survey will be presented to the directors-general later this year.

55) It should of course be borne in mind that the legislative and administrative environment is a function of both national and Community legislation. National authorities must therefore maintain their efforts to simplify their own legislation.

56) The Commission is continuing its efforts in the interest of transparency to consolidate legislation which has been frequently amended.

### 3.2. Simplification of company law and fiscal provisions

57) The harmonisation of the legal and fiscal framework for enterprises in the Community is an important condition for the completion of the internal market and for equalising conditions of competition. This process, together with related provisions such as that making it possible to form European Economic Interest Groupings and the proposal for a European Company Statute, is making an important contribution to the legal environment for business. Nevertheless, additional efforts may be necessary to simplify and standardise legal and fiscal provisions applicable to smaller companies across the Community.

58) With regard to accounting requirements for companies, the Commission is currently finalising its proposals for further harmonisation of and increases in the accounting exemptions for SMEs under the 4th and 7th directives on the annual accounts of limited liability companies.

59) In order to improve the legal framework for very small enterprises, the Commission has recently presented to the Council a proposed directive<sup>6</sup> to establish provisions throughout the Community for the

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<sup>6</sup>COM (88) 101.

creation of single person companies. This measure is intended to help people to set up their own businesses and thus encourage self-employment. It provides for the distinction between professional and personal property, the clear indication to third parties of the potential liability of the business and would facilitate transfer of the business on the death of the owner, or for other reasons. On the other hand, it would also avoid the need to observe all the burdensome formalities associated with incorporation and management of a company which are considerable in some Member States. The single person company can thus represent a significant step in the gradual development of a business. It allows a business to progress from the status of an individual trader to that of a company without immediately imposing on it all the formalities of multi-person incorporation.

60) The Commission is also considering other possible initiatives to help small businesses participate in and contribute to the process of integration. For example; the ways of simplifying the legal and administrative requirements for businesses operating in the border regions, and particularly for the managers or staff of SMEs who have to cross a border regularly, are being examined. One possibility is the issue of a special card or document to such SMEs, which would allow them to avoid certain border formalities. This would help to raise the level of business efficiency and improve cross-border mobility.

61) It is also important to improve the fiscal environment for business and the Commission is preparing proposals to achieve greater alignment of national systems of enterprise taxation, with the aim of encouraging economic efficiency and facilitating investment and innovation. It is considering whether the existing system of enterprise taxation in the Member States could be simplified, bearing in mind the particular problems of SMEs, for which the administrative costs of complying with tax provisions are relatively much more important than for larger enterprises.

62) Further progress is also needed in the easing of the administrative burdens imposed by systems of indirect taxation. In October 1987 the Commission modified its proposed directive of September 1986 (amending Directive 77/388/EEC) for a Community-wide scheme for exemption from VAT for very small businesses, together with a simplified scheme for other SMEs. The present proposal is for a minimum exemption scheme fixed at 10.000 ECU of annual turnover and an optional higher exemption limit of 35.000 ECU. The proposed upper limit on the annual turnover of businesses eligible for the simplified scheme is 200.000 ECU, which would allow a large number of small and medium-sized businesses to benefit from the simplified treatment. The simplified scheme which was previously at the option of Member States would thus also be Community-wide. The proposal would also allow SMEs the possibility to choose a return-period of less than one year if that suits better the circumstances of their particular business. It would also enable businesses eligible for the simplified scheme to opt for the normal VAT scheme if they wish.

### 3.3. Improving the financial environment

63) The financial framework in which enterprises operate is also a vital element of the business environment. As indicated earlier, the integration of the financial markets in the Community is an essential part of the internal market programme and one which by itself will improve the conditions under which enterprises obtain access to capital. Nevertheless, in some respects, more specific measures are needed to compensate for deficiencies in financial markets. For this reason the Commission has been developing a policy of financial engineering which aims "to satisfy funding needs that are not satisfactorily met by the market"<sup>7</sup>.

64) The Commission is examining the particular issues related to financing provisions for SMEs and preparing the development of appropriate policy in this area. Typical problems facing small businesses

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<sup>7</sup>See COM (86) 723.

include difficulties in finding start-up capital, over-reliance on loan (and particularly short-term) finance compared to equity capital, and higher interest rate costs than for larger companies. In line with the guidelines of enterprise policy set out in Chapter 2, action to help provide financing for SMEs should aim to compensate for market deficiencies and not constitute operating subsidies. The initiatives being developed may also take account of other policy objectives, such as the pursuit of economic and social cohesion or the promotion of scientific and technological development.

65) In view of these factors, Community action may be warranted

- for demonstration projects and incentive schemes to provoke changes in the behaviour of financial operators serving SMEs - and mainly of those in the private sector - such that SMEs are able to raise the type of finance most suited to their needs;
- to organise the transfer of financial engineering know-how that is used elsewhere with good results to those regions where the financial services industry is less developed;
- to support the market mechanisms which channel funds to SMEs in order to compensate for size-related handicaps or to reduce regional disparities concerning the access to finance.

66) The Community's existing activities in the area of financing already benefit SMEs in several ways and provide the basis for further development. For instance, global loans through both the New Community Instrument (NCI) and the European Investment Bank and in the form of ECSC loans are an important source of finance to SMEs. The fourth tranche of the NCI adopted in March 1987, amounting to 750 MECU (to which the EIB added a further 750 MECU from its own resources), is exclusively destined to SMEs and the conditions were adapted to suit their particular needs. For instance, a new provision allows financial intermediaries to transform the proceed of global loans into equity investments. Within

the framework of Integrated Development operations and the Integrated Mediterranean Programmes (IMPs), experimental actions, such as the establishment of regional venture capital operations and mutual guarantee funds, are being undertaken to help SMEs obtain access to finance. The possible provision of venture capital through the ERDF to assist SMEs in the context of the development of endogenous potential is also being actively pursued.

67) Another direction in which this policy is being developed relates to the financing of transnational technological cooperation between enterprises, which was examined in a separate Communication<sup>8</sup>. The financing difficulties of small businesses involved in such cooperation are compounded by the restrictive national dimension of the markets for risk capital, by differing fiscal systems across countries and by the absence of a legal framework for cooperation agreements. In its Communication on this subject, the Commission set out an action programme to establish a more suitable framework for technological cooperation. The measures envisaged include the improvement and simplification of the fiscal environment (for instance, by eliminating double taxation of associated companies) for cooperation, steps to make cross-border mergers easier, promoting the use of the ECU as a unit for equity issues, and encouraging the development of secondary markets.

68) The Commission intends to propose the extension of the Venture Consort Scheme of which the prime objective is to promote the transnational syndication of venture capital for innovative projects. Over and above the direct benefits it conveys, the scheme also has an important demonstrative impact and encourages cross-border cooperation between venture capitalists.

69) The Commission is also studying other measures to help improve the availability of risk capital for SMEs. For instance, a pilot scheme is being considered to help meet the shortage of seed capital in the

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<sup>8</sup>See COM (88) 114

Community. The risks attached to seed capital investments are necessarily high, and the administrative costs to the financial intermediary of evaluating proposals are in many cases prohibitive. Such a scheme would encourage banks or venture capitalists to set up new seed capital funds. Other possible initiatives under consideration include the promotion of secondary stock markets and means of improving the access of cooperatives to the capital markets. The basic approach behind new proposals will be that Community support mechanisms should operate as closely as possible to market forces so that they in fact perform a function of catalyst in the market process.

70) Another area which the Commission is studying is the problem of late payment, which can be a source of financing difficulties particularly for SMEs. Even where there is a contractual obligation to pay a bill within a certain period, the legal costs of enforcing payment often deter SMEs from such action. Particular attention is being paid to the different patterns of bilateral relations between SMEs, on the one hand, and public authorities, large businesses or other SMEs respectively. The Commission hopes later to propose action to accelerate the timing of payments.

#### 3.4. Better opportunities for external trade

71) As recognised in the Single European Act, the integration process within the Community must be accompanied by a common and strong external economic policy in order to safeguard and improve commercial relations for European industry. The external aspect also contributes significantly to the business environment within the Community. The greater the degree of integration within the Community, the stronger the voice of the Community will become in setting the framework for world trade and the better the chances of European firms to compete successfully on world markets. The Community must therefore work together with the other leading players on the world stage, for example, in the framework of the Uruguay Round, to create open and stable trading conditions and resist any trend towards protectionism.



72) In some circumstances, the Community can also take more specific measures to help open up commercial markets. Because of lack of information about market opportunities and the need to overcome certain administrative obstacles, small businesses are at a relative disadvantage with regard to exporting. The Commission is already providing some support, for example, for specific seminars, to help SMEs become aware of export opportunities outside the Community. It is investigating possible new initiatives in this area including practical pilot projects and support for training SMEs in marketing. It is also the Commission's policy to help Community businesses overcome administrative or similar constraints in third markets which pose particular problems. In this context, the Commission is undertaking a series of measures to help firms, including SMEs, to penetrate the Japanese market, such as the Commission's Executive Training Programme, and support for European companies to participate in Japanese trade fairs and exhibitions. In addition, the Community's policies on industrial and financial cooperation with developing countries have been designed to encourage SMEs to establish and develop new relationships with firms in those countries. Examples of facilities available under these policies include Community assistance in the search for partners, the undertaking of feasibility studies, the establishment of joint ventures and associated training of local personnel.

73) Other areas of trade policy can also have an important bearing on the commercial environment for businesses which do not themselves trade outside the Community. Anti-dumping measures provide such an example. It is essential that policy to safeguard against unfair competition on Community markets should continue to take account of the situation of companies of all sizes and that adequate resources are available to deal rapidly with dumping procedures particularly affecting SMEs.

### 3.5. Developing an enterprise culture

74) Everyone agrees that certain societies are more enterprising than others; the reasons for such differences are more difficult to ascertain. The design of measures to increase the degree of enterprise is therefore not easy.

75) What is clear is that enterprise is not a mystical characteristic which differentiates people at birth; it is learnt. It is a characteristic which is developed by the prevailing attitudes in society and through teaching in schools and universities and more directly in specialised institutions such as business schools and management institutions. It is also clear that it is something which can be encouraged or snuffed out by public policies.

76) Enterprise is about being prepared to take risk. A society which has security uppermost in its mind is unlikely to be enterprising. The willingness to take risk however depends partly on the business environment being supportive. This is especially true of the financial area, where the banks and other financial institutions, and especially seed and venture capitalists, must be prepared to finance risk bearing enterprise. Government can also help to provide or guarantee finance for start-ups; most Member States have policies in this area.

77) The legal and administrative framework for small businesses is also a major factor in determining people's willingness to become entrepreneurs. Possible changes in company law and the simplification of fiscal provisions for small businesses and the general availability of different forms of businesses, including single-person companies, partnerships and cooperatives, could help to improve the environment for risk-taking.

78) In education, it is necessary to make a serious effort to train students at all levels to look on self-employment as an attractive alternative to employment in "big business" or in the public sector. This

inevitably includes the design of courses which teach the skills needed to run a business. It also underlines the importance of business schools offering high quality specialised courses in management development for the future of business in the Community. In the context of the development of the internal market, such courses need a substantial transnational element.

79) Some Community programmes, such as COMETT (Programme of the Community in Education and Training for Technology), already help to promote entrepreneurship in education in the Community. The Commission is undertaking a study of the different campaigns and schemes which exist in the Community to promote an enterprise culture in the education system.

CHAPTER 4 - THE CHALLENGE OF THE INTERNAL MARKET

80) The completion of the internal market is undoubtedly one of the most important changes in the business environment which will occur in the Community in the coming years. The changes which have been outlined above will create a series of new opportunities to small and medium-sized businesses if they are adequately prepared for them. They will need to adopt new strategies to management and marketing if they are going to exploit these new opportunities fully. Without adjusting their strategies many small and medium-sized companies will feel the full force of new and powerful competition once their previously protected markets are opened.

81) The Commission considers that it has a role to play in helping these firms to adapt to these new conditions. Following on from the initial ideas outlined in the SME Action Programme, it has concentrated its attention on the need for improved information and the design of strategies particularly appropriate in SMEs. The proposed action of the Commission in these areas is complementary to the services offered by the private and public sectors in the Member States; indeed this action will be taken together with these interests.

82) Above all there is a need to improve the quality and flow of information to businesses, particularly small and medium-sized firms, about the internal market and other areas of Community policy. A variety of surveys in Member States have shown that the amount of information getting through to firms is very limited.

83) Amongst the strategies which small firms can use, cooperation with other firms in other Member States will become considerably more important. Others may choose to develop their European marketing skills, so that they can exploit the whole Community market rather than simply the limited markets they have now. Finally SMEs must also have adequate access to training in management and technical skills in order to be successful in the new conditions which will prevail in the 1990s.

4.1. Information : a key to business development in the Community

84) An active information policy is an indispensable part of the parcel of policies needed to establish the integrated internal market. Freedom of movement of persons and goods only has a sense if the individuals and enterprises are aware of the opportunities. Similarly, the economic actors need to be aware of the specific programmes and policies intended to underpin the process of reform, such as the policies for scientific and technological development and for economic and social cohesion. Clearly, the major impact of the internal market programme and the associated Community reforms is on business; indeed, the objectives will not be realised unless businesses take account of the changing situation in their decisions and actions.

85) Businesses need up-to-date information enabling them to adapt quickly to the continuing changes in their technical, economic and social environment. This information must cover Community policy, regulations and action programmes. Special account must be taken of the need to inform SMEs, who are at a relative disadvantage in obtaining information on Community matters. The Commission is therefore developing a wide-ranging service of information to enterprises, covering all Community issues which concern or are likely to concern them.

86) In most specific policy areas, provisions now exist to provide business with appropriate information. For instance, with regard to the internal market, the Member States are beginning to mount significant information campaigns, an essential development if the policy is to succeed. The Commission organises and participates in conferences and seminars with chambers of commerce, professional organisations and other representatives of business, including SMEs, in order to explain new developments. It also produces appropriate documentation about the Community of interest to business, such as regular newsletters and a practical handbook setting out details of how SMEs can participate in

Community programmes. In other areas, less traditional methods are also being used, such as the "Energy Bus" programme, which aims essentially to help SMEs economise on energy.

87) But as well as general information, very detailed information is required by business. This information needs to be decentralised and it needs to be available in the regions close to business. The Commission has its established network of Information Offices, documentation centres and libraries, and the sales offices of the Office for Official Publications of the European Communities, together with organisations with rather more specific objectives, such as the Business and Innovation Centres. But particularly in view of the internal market programme and the associated reforms, it became clear that the existing structure needed to be complemented by an information service directed towards business and especially SMEs. For this reason, the Commission decided last year to launch the EURO INFO CENTRE project, which is complementary to the existing structures.

88) The EURO INFO CENTRE project consists at present of a network of thirty-nine centres set up across the Community, based in host organisations which have close connections with the business community and which have experience in providing information and advice to firms. When it is fully operational, the project should cover the whole Community, so that any enterprise can avail itself of the EURO INFO CENTRE service and thus obtain locally direct access to information which it needs on Community issues. This project thus represents a notable step forward in the Commission's general search for greater decentralisation of its overall information effort and the identification of new multiplier partners. The centres work closely with the Commission's mainstream formal Information Office network.

89) The EURO INFO CENTRES have three major objectives. Firstly, they provide information about all Community issues of interest to enterprises. To assist in this task, the Commission has prepared an information and training package, giving the personnel of these Centres

structured access to information on Community R & D and other programmes, internal market developments, sectoral policies, sources of Community finance and all other relevant areas. The second objective is to assist and advise businesses on participation in Community activities. For instance, firms can be helped with their applications for specific programmes or advised on any difficulties encountered with Community measures. The Centres also act as a channel for business to communicate with the Commission and can serve as an early warning system for problems arising from Community regulations. The third objective is to create a network of partners who can provide each other with information about national and regional regulations and procedures of direct interest to enterprises. Such a service contributes to the opening up of the internal market.

90) The project so far has demonstrated that this method of delivering information to the business Community is successful. The Centres in the project have generally been very active in raising awareness of Community policy locally amongst firms. The result has been that firms have been coming back with large numbers of detailed questions and demands for further information. The staff employed by the organisations and working in the Centres, apart from receiving a continuous flow of information, also undergo regular training courses in Brussels to enable them to deal with queries as far as possible themselves. They also have access to Community data bases. They are in contact with the Commission in Brussels as well as with each other in order to obtain answers to more difficult questions. The analysis made by the Commission (in its recent Communication <sup>9</sup>) leads it to propose an extension of this project, to obtain general coverage of business throughout the Community and to regard this decentralised information product to be a major instrument for future development.

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<sup>9</sup>COM (88) 161

#### 4.2. Promoting cooperation and partnership in business

91) The acceleration of the process of economic integration in the Community brings with it faster structural change and greater competitive pressures on enterprises. In many situations, cooperation or partnership between businesses in different regions or countries of the Community can help them to meet the challenge of the wider market. Above all, cooperation between smaller enterprises can help them to compete with larger ones, especially if the arrangements are based on complementarity resulting in mutual benefits. It can help to improve efficiency by generating economies of scale in marketing and production, by allowing access to new technologies and by avoiding the legal and administrative costs of setting up in another country. It also allows businesses to work together without losing their identity and individuality.

92) In Community policy the value of cooperation has long been recognised - the Commission's Business Cooperation Centre (BCC) was set up already in 1973 - but its importance is growing in the light of the completion of the internal market and the strengthening of policies relating to research and development, innovation and technology transfer. In the specific programmes to implement these policies, such as ESPRIT, BRITE and SPRINT, transnational cooperation between enterprises is a key factor (see also chapter 5).

93) In the framework of the Community's competition policy, the Commission also recognises the importance of cooperation and the way in which agreements between small businesses can actually lead to increased competition, if they are thus able to operate on a wider market. Certain exemptions also exist with regard to technology transfer and research and development agreements.

94) Cooperation can exist in many forms. It may result, for example, in the creation of joint ventures or consortia, agreements involving non-financial links (assigning/acquiring licences, transferring know-how, marketing, etc) or equity participation. In practice, the various forms



of cooperation are often combined. Cooperation is not always based on a contractual agreement. It may be formal (for instance, through a European Economic Interest Grouping) or informal and agreements may vary depending on whether they relate to cooperation between two partners or between several partners, including the possible setting up of whole networks of enterprises.

95) In order to help small businesses overcome the problems involved in interregional or transfrontier operations, the Commission has developed a number of instruments to encourage cooperation. In a major initiative to help bring partners together for transnational cooperation, the BCC has developed a new instrument, the Business Cooperation Network (BC-Net), which is a network of business advisers throughout the Community linked up by a computerized system. This network permits the rapid identification of potential partner firms in other Member States or regions in response to a specific offer of cooperation. The BC-Net also makes it easier to promote SME participation in the Community R & D programmes, to obtain a better understanding of how to overcome the obstacles to cooperation between firms in different Member States, and to extend its promotion of cooperation to third countries. The members of the BC-Net network will be also linked by electronic mail and are brought together in meetings and seminars to reinforce the contact between them. At the end of the pilot phase (end 1989), the Commission will assess its success and examine prospects for developing the project.

96) The BCC is also undertaking other pilot projects of business cooperation, in order to identify suitable models which can later be used on a larger scale. For instance, in a new initiative "Europartnership 1988", of which the first operation will take place in Ireland later this year, meetings of businessmen will be organised with potential partners from other Member States. This form of promoting cooperation is also designed to help develop the endogenous potential of regions with development problems.

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97) The Commission plans to take further steps to encourage cross-border sub-contracting, which can make an important contribution to the process of integration of the internal market. The Commission's activities in this area consist of raising the awareness and understanding of this form of relationship, improving communications and relations between the two sets of partners, and supporting SMEs engaging in sub-contracting in their efforts to adapt to technological developments. The Commission is studying the possibility of creating a European sub-contracting centre in late 1988 or early 1989. This would provide a documentation centre for information (legislative, economic and technical) relating to sub-contracting, encourage research on the subject and actively promote the development of transnational sub-contracting relations. A databank with information on potential candidates for transnational sub-contracting is being considered, and the BC-Net will also be used to match prospective partners.

98) In the field of cooperation, and particularly in sub-contracting, businesses are confronted with problems arising from the great variety in systems of certification. Safety standards must be fixed and quality control methods applied. Nevertheless, the procedures involved often result in restrictions on the free circulation of goods and the imposition of considerable costs on enterprises who may even be required to obtain a separate certificate for each potential customer. This problem is particularly critical for sub-contractors because of their dependence on their main contractors. The Commission is continuing to pursue the objective of mutual recognition of certification procedures and test results.

99) The Commission is also studying other forms of partnership between enterprises in order to broaden the knowledge and understanding of existing arrangements and to examine the scope for possible development at Community level. For instance, it is investigating the different forms of "strategic partnering" between large and small firms and the structure and operating practices of other types of organisations such as cooperatives.

100) The Commission is also intent on improving cooperation and partnership between business and the various levels of public authorities (local, national and supranational) and with universities and other educational institutions. For instance, through the Community's Local Employment Development Action Programme it is investigating ways in which such partnerships help in formulating and executing local economic and employment development strategies. The Commission is also undertaking research into the different forms of local employment initiatives, as a basis for possible future action. It is already active in this area, through its support for the ELISE (Information Network on Local Employment Initiatives) network.

#### 4.3. Marketing strategies in the internal market

101) Whereas the larger firms in Europe are already experienced in marketing throughout the Community, many SMEs have only local marketing experience. This is particularly true for businesses in the peripheral areas and in the newer Member States, but it applies quite generally to business throughout the Community. Yet with the completion of the internal market, developing markets in other Member States will be a strategy which will be open to SMEs.

102) The internal market will certainly lead to increased specialisation. Firms which have produced a range of products or services in a local market, may be forced to reduce their product range under increased competition from other producers. With a restricted but more competitive product range, however, SMEs will be able to penetrate other European markets. But the European internal market, even when complete, will not be as simple to operate in as that of USA or Japan. Variations in language and culture, and different demand structures, will remain. To sell in this common but heterogenous market will require skills which the majority of small businesses do not possess but can obtain.

103) Working together with those institutions or companies already involved in this area, the Commission is exploring ways in which it can rapidly help the development of programmes to teach European marketing skills. Programmes exist in many Member States for their own businesses, but these schemes rarely contain significant practical periods abroad, which seems essential to the development of these skills.

104) Together with the development of marketing skills, it is important that information on European markets becomes more available to small business. In order to promote this information, networks of intermediaries such as BC-Net can be developed to serve commercial purposes. The Commission will undertake feasibility studies to establish to what degree existing networks can serve this objective.

#### 4.4. Management and vocational training in SMEs

105) In order to respond most effectively to the challenge of the internal market, European businesses will need to exploit all their skills and resources. One of the strengths of smaller enterprises is the capacity to exploit their human resources to react to changing conditions in a flexible and dynamic way. This ability can, however, be strengthened further through the education and vocational training systems.

106) The level of vocational training, including management training, has frequently been raised as a major weakness in small and medium-sized enterprises. Part of this problem is certainly explained by the size constraint which makes it difficult for staff to be released for training without upsetting the operation of the company. There is also a problem of the availability of training programmes particularly adjusted to the needs of SMEs; this is true both for the content of courses and their administration which needs to be particularly flexible. There is finally the problem of the lack of awareness to the importance of training amongst small business management.

107) These problems have been recognised by the Commission and the importance of treating training development in SMEs as a priority was underlined by the Consultative Committee on Vocational Training in its opinion on adult training in enterprises and the development of permanent training in SMEs. The Committee invited the Commission to present its proposals on specific measures to respond to the needs of SMEs, which are considered a priority in the overall programme. The Commission is preparing a series of strategic proposals on continuing education and in-service training. In the context of the completion of the internal market, a working group within the Commission consisting of experts in training, the internal market and small business policy is studying the problems involved and will produce concrete proposals in this area.

108) The main Community instrument for training is the European Social Fund, within which SMEs gain support for training or retraining to introduce technology or to improve management techniques or if linked with the Community R & D programmes. At present the whole framework of the structural funds is being radically altered in order to increase their scope and effectiveness. This reform will enable the European Social Fund to respond more immediately and imaginatively to the needs of SMEs. SME training is also supported through the COMETT programme, which aims to stimulate transnational cooperation in training for technology, and the EUROTECNET demonstration projects.

CHAPTER 5 - ENTERPRISE POLICY IN SCIENTIFIC AND TECHNOLOGICAL DEVELOPMENT

109) The implementation of a common policy for scientific and technological development is one of the priority areas identified in the Single European Act. The long-term strategy behind this policy is based on three broad objectives : to make good the technological gap between Europe and the USA and Japan, to improve the efficiency and competitiveness of European industry, and to increase cooperation between European research institutions and businesses. The role of public policy here must be to help achieve these goals by acting in areas where the market mechanism is weak. Market weakness exists because investment in R & D and innovation is often associated with very long-term returns and a high degree of risk. In particular, in the early "pre-competitive" stage of the process, it is impossible to rely on the market mechanism to provide an adequate level of research, development and innovation. The objective of public intervention is to ensure that sufficient resources, public together with private, are allocated to these activities. The principle of cooperation and partnership between public and private sectors is thus particularly important in this policy area.

110) Action by the community authorities is therefore necessary :

- to help provide funding for vital R & D that would not otherwise be undertaken
- to promote cooperation with and between the various businesses and organisations carrying out R & D so as to avoid duplication of research and wastage of resources
- to accelerate the process of transfer of technology from the organisations carrying out the R & D to the productive sector
- and to mobilise private financial resources and thus increase the supply of risk capital for business investment in new technologies.

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### 5.1. The innovation process

111) The process of innovation stretches from the conception of an idea to its successful commercialisation in the market-place. Between these two points, the process consists of basic research to test the idea, the development of prototypes or of appropriate technological processes to apply those ideas for which the testing is successful, the transfer, and spreading of awareness, of the technology and the launching of new products incorporating the technology. This process can sometimes be completed quickly, or it may take many years, with no guarantee of success at the end.

112) Enterprises may be involved at all stages of the innovative process, but their willingness to make a financial commitment naturally tends to increase as commercialisation approaches. Community policy for scientific and technological development reflects this situation. Towards the pure end of research, the Community runs its own research centres. As the research approaches the market place, although still pre-competitive in nature, the Community programmes such as BRITE, ESPRIT or RACE invite considerable business involvement, by means of partial funding. With regard to technology transfer (as reflected in the SPRINT programme), in the late stage of the process, the involvement of the enterprise sector is substantial, but the form of intervention changes, with Community assistance being directed to the advisory and information services to business through supporting organisations and to the mobilisation of private resources rather than to direct financial support.

### 5.2. The role of smaller businesses

113) By their nature it is generally more difficult for smaller enterprises to participate in research and development programmes. Firstly, the administrative costs of applying to participate and organising the required cooperation are relatively high for SMEs and, secondly, they do not have the same facility of access to long-term finance as in the case of larger companies. On the other hand, small

businesses often have greater flexibility, creativity and dynamism, characteristics which qualify them well to contribute to the innovative process. This contribution has been recognised to a much greater extent in the USA than in Europe.

114) The Commission is making considerable efforts to promote SME participation in the Community programmes designed to strengthen the scientific and technological base, and thereby the competitiveness, of European industry, such as BRITE, ESPRIT, RACE and Biotechnology, or the programmes to promote the use of new energy technologies. In particular, BRITE and ESPRIT are programmes of considerable dimension to which SMEs have access : BRITE (Basic Research in Industrial Technologies for Europe) has been devised in such a way as to encourage manufacturing industries in Europe to adopt the new technologies needed to boost their competitiveness; ESPRIT (European Strategic Programme for Research and Development in Information Technology) promotes cooperation between European firms, and with universities and research institutes, in the development of advanced information technologies.

115) The rates of SME direct participation in BRITE and ESPRIT have been rising (around 20% in terms of full participants) although most SMEs take part indirectly through a larger firm. In many cases the larger companies sub-contract to the SME the more routine and less innovative part of the research or development. The potential contribution of the SME sector to the R & D process is thus not fully realised, a situation which has been recognised by the Commission's Industrial Research and Development Advisory Committee (IRDAC), which set up a working party to examine this subject. The working party concluded that the Community and national authorities should take greater account of the problems faced by technology intensive SMEs which keeps them from achieving their potential and should understand that the competitiveness of many 'normal' SMEs in Europe depends upon the application of the appropriate technology in their production processes.



116) The SPRINT programme, which promotes transnational technology transfer, grants Community support to organisations acting as intermediaries in the enterprise sector and participating in transnational cooperative groupings. Forty-five such transnational groupings involving in total 180 advisory services, from both the public and the private sectors, are currently being supported as part of the SPRINT network for innovation. During the last two years this network has led to the signing of more than 120 transnational technological cooperation agreements between companies, mostly of small and medium size and located in different Member States. Other actions associated with these agreements include support for visits of groups of industrialists to technological fairs in other Community regions, exchanges of personnel and the setting up of the Comparative Index of National Standards in Europe (ICONE), which renders more transparent the national systems of technical standards and regulation. These actions to promote transnational cooperation between SMEs are complemented within SPRINT by others aimed at the diffusion of new technology. Examples are the support given to technology transfer conferences, the linking of networks involving technical industrial centres to promote Europe-wide dissemination of information on available technology, and numerous actions aimed either at the widespread diffusion of information about design and quality or at improving the links between the research institutes, universities and industry.

117) In designing the future course of policy towards scientific and technological development, consideration should be given to improving funding conditions for SMEs involved in this process. In particular, some support might be made available for the presentation phase of research ideas and higher levels of funding might be considered for the development of particularly promising ideas (resulting from the first phase) up to the commercialisation phase. There is also scope for greater Community involvement in the late development phase, in order to guarantee that R & D results reach the market, while stronger action could be taken to promote the supply of venture capital for high-tech projects, through schemes such as Venture Consort.

CHAPTER 6 - ENTERPRISE POLICY IN RELATION TO ECONOMIC AND SOCIAL COHESION

118) Enterprise policy has a key part to play in the strengthening of economic and social cohesion because, in a similar fashion to the promotion of scientific and technological development, a major objective of public intervention is to reinforce or catalyse the market forces operating through the enterprise sector. In this respect, the small business sector is particularly significant since it is often well suited to harness local resources and thus provide the momentum for the endogenous development of regions in difficulty. The means of pursuing this objective are consistent with the Community enterprise policy as a whole, with particular emphasis on improving the access of business to information, specialised support services and the capital market.

6.1. Current provisions for SMEs under structural policy

119) The present regulations of the structural instruments already allow for support of the small business sector in a variety of ways. Article 15 of the regulation defining the operations of the European Regional Development Fund, for instance, provides for a series of measures to exploit local potential by focussing on support for SMEs in industry, craft industries and tourism. The support available includes assistance for technology transfer, for sectoral studies limited to market expansion, for management and organisational advice aimed at increasing business efficiency, for common services, for the improved exploitation of regional tourism and for the improvement of access for SMEs to the capital market. In short, Article 15 allows for a broad range of infrastructural support and for imaginative and innovative regional action.

120) The significance of the SME sector is also recognised in the move towards greater emphasis on integrated programmes of development and less reliance on particular projects. Thus, operations such as the Integrated Development Operations, Integrated Mediterranean programmes and the programme of industrial development in Portugal (PEDIP) generally contain

sizeable packages of measures and experimental actions to strengthen the small business sector by drawing on the resources of the structural funds within a coherent framework for development. The implementation of the emerging Community programmes RESIDER (steel), and RENAVAL (shipbuilding) will also depend considerably on the creation and development of SMEs in the regions concerned.

## 6.2. Reform of structural policy

121) The principles set out in the Commission's framework proposal for the reform of the structural funds recognise the contribution that the SME sector should make to the strengthening of economic and social cohesion. Three of the five priority objectives for structural action would be of considerable benefit to existing and potential SMEs in the regions covered : promoting the development and structural adjustment of the less developed regions, assisting conversion in declining industrial regions and assisting the adjustment of agricultural structures and the development of rural areas. One of the primary tasks in the context of these objectives is the exploitation of the internally generated development of the regions, employment areas and urban communities concerned. In this respect, the creation and modernisation of the SME sector is recognised to an even greater degree than in the past to be a key aspect of regional endogenous potential development. The application of financial engineering techniques to the resources of the community's structural funds and lending instruments will allow them to be used more effectively in financing the small business sector.

122) The remaining two priority objectives set out in the framework proposal, combating long-term unemployment and the integration of young people, improve the economic and social climate within the Community. These objectives, therefore, which apply to all the Member States, will also bring benefits to existing and potential SMEs. Common to all the priority objectives, the proposed new method of intervention through Community support frameworks in response to member States' plans will ensure a better complementarity between national and Community action. It

will also permit a greater degree of partnership between authorities at the different levels in drawing up plans, thus better reflecting local needs. Furthermore, the simplification of the operating rules of the funds will make it easier for SMEs to obtain support.

### 6.3. Business and Innovation Centres

123) Another important instrument in this respect is the Community support available for establishing Business and Innovation Centres (BICs). BICs promote business creation and expansion by providing a comprehensive programme of services (training, finance, marketing, technology transfer, etc) to individual entrepreneurs and existing small and medium-sized business who are developing innovative technology based projects. Community support for setting up BICs, which represent partnerships between the public and private sector together with universities and research centres, is available in areas covered by the ERDF and IMPs and the ECSC employment areas. The BICs role is not to subsidise the operations of the enterprises in question, but to act as a catalyst in mobilising local entrepreneurial, technical and financial resources. The Community action in supporting BICs thus embraces several of the principles of enterprise policy set out in Chapter 2. A proposal for a four-year programme for the creation and development of BICs is currently before the Council.

CHAPTER 7 - CONCLUSION

124) The main purpose of this communication is to describe the scope of a Community approach to the enterprise sector. In doing so, it shows the major impact on business of the completion of the internal market and the other major reforms envisaged in the Single European Act and the ways in which business itself is affected by and contributes to the achievement of those goals; it considers measures which have been taken deliberately in order to improve the business environment and to help business adjust and adapt to the changing conditions of the European and world economy; and it sets out guidelines on which future initiatives involving the enterprise sector could be based.

125) This communication does not contain detailed proposals for new measures. It does, however, establish broad objectives for the direction of future Community policy over a wide range of areas relating to business and the business environment. Once the broad lines of the enterprise policy framework have been set out, detailed measures on specific subjects could be more readily prepared and assessed. The main areas requiring examination are thus as follows :

- closer control of the legal and administrative constraints on business resulting from Community policies and of national implementing measures
- possible changes in company law and fiscal provisions ( particularly for smaller businesses)
- strengthening the financial framework for business, particularly by encouraging the supply of risk capital
- improving the commercial, social and cultural environment within which business operates

- improving the flow of information on Community matters to business
- promoting cooperation and partnership between businesses, in particular, from different regions of the Community
- supporting the development of European marketing
- improving training facilities and management development
- reinforcing the contribution of the enterprise sector, and smaller business in particular, to scientific and technological development and the strengthening of economic and social cohesion.

126) The fundamental principle on which this approach is based is to reinforce the market structure of the European economy by improving the responsiveness of business to changes in demand and other external conditions. Measures should thus be designed either to remove market imperfections (barriers to the efficient functioning of markets) or, where this is impossible, to compensate for such deficiencies. In the pursuit of other policy objectives, such as economic and social cohesion, Community action should work with, rather than against, market forces. Given greater freedom, the abundant entrepreneurial talent in Europe will be better placed to harness the wealth of technical, commercial and financial resources which also undoubtedly exist. In this way, the process of integration will be reinforced, employment strengthened and living standards raised.