

ECONOMIC AND SOCIAL COMMITTEE
OF THE EUROPEAN COMMUNITY

**The Situation of small and
medium-sized undertakings
in the European Community**

Study

BRUSSELS

The Committee approved this Study at its Plenary Session of 26 and 27 June 1974, during the term of office of Mr LAPPAS, Committee Chairman for 1972 – 1974.

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1. INTRODUCTION

1.1. SETTING UP OF A STUDY GROUP

Following a suggestion by the former specialized Section for Self-employed Activities and Services, the Bureau of the Economic and Social Committee agreed on 23 November 1971 to the preparation of a Study on the 'Situation of Small and Medium-sized Undertakings in the Community'. An 18-member Study Group (Chairman: Mr Fassina, Rapporteur: Mr Kolbensschlag, Co-Rapporteur: Mr Bourel) was set up to prepare the Study. The Group submitted a draft version of the Study to the Section for Industry, Commerce, Crafts and Services, which had been entrusted with the preparation of the Study. At its meeting in Trieste on 5 and 6 March 1974, the Section for Industry, Commerce, Crafts and Services adopted the Study.

At its 121st Plenary Session, the Economic and Social Committee adopted this Study by a large majority with 5 votes against and 13 abstentions.

1.2. DEMARCATION OF THE SCOPE OF THE STUDY

1.2.1. We shall not define the concept of 'small and medium-sized undertakings' from the outset, the existence of such undertakings, in the accepted sense of the term, being taken for granted.

1.2.2. The situation of small and medium-sized undertakings is extremely heterogeneous in the sense that their functions cover a very wide range and their problems vary considerably — as witness for instance, the fact that for some such undertakings technical know-how and consequently vocational training are of decisive importance, while for others marketing and especially financing questions or distribution are crucial.

1.2.3. A further obstacle to a clear picture and the defence of the interests of such undertakings lies in the fact that they have no integrated organized representative body and trade associations in the individual countries of the Community often exhibit differences and frequently overlap.

1.2.4. The comments on small and medium-sized undertakings refer solely to those in the craft, commerce, industrial, hotel and restaurant, transport and other service sectors. Farms are expressly excluded — although on the basis of size and from the social point of view they could be counted as small or medium-sized undertakings in many cases — because it has been the practice to lay down special rules for EEC agricultural matters and to consider them separately, if only as a result of the EEC Treaty. The so-called liberal professions (such as doctors, solicitors, industrial consultants) are also excluded. Despite the large number of similarities at social level, the economic objectives are different and these professions must therefore be dealt with in another context.

1.3. ACTION TAKEN SO FAR

1.3.1. It would be unjust to say that nothing at all has been done in the European Community framework to help small and medium-sized undertakings. But action taken so far has been insufficient. Policy objectives which correspond to the expectations of small and medium-sized undertakings are lacking.

1.3.2. Very important references, suggestions and proposals intended to help improve the situation of small and medium-sized undertakings are contained in the following documents and publications :

- (a) second programme for medium-term economic policy (1969) ;
- (b) speech given by Director Flory on 'the present problems of small and medium-sized undertakings' to the Section for Self-Employed Activities and Services on 23 March 1972 ;
- (c) recapitulatory list of the measures taken in the European Economic Community in favour of small and medium-sized undertakings (Doc. SEC (72) 650 of 18 February 1972) ;
- (d) the Industrial Policy of the Community – Memorandum from the Commission to the Council (1970).
- (e) communication from the Commission to the Council on the establishment of an office for promoting cooperation between undertakings (Doc. SEC. (72) 2596 of 20 September 1972).
- (f) general information on small business in the United States (Documentation of the European Communities : CD 52/72).
- (g) aspects of a programme for an EEC policy in the field of small and medium-sized undertakings (Benelux Economic Union 6 May 1969).
- (h) Professor Woitrin's study on the situation of small and medium-sized industrial undertakings in the EEC countries (1966).
- (i) small and medium-sized undertakings in the EEC by Dr Commer (no date given, probably 1966).

In addition, certain Member States have prepared programmes to help small and medium-sized undertakings. Associations and individual specialists have issued publications with the same object. A comprehensive bibliography covering the enlarged Community is urgently required.

1.4. OBJECTIVES OF THE STUDY

1.4.1. The aims of this Study are to recall the importance of small and medium-sized undertakings in the Community, to draw attention to the difficulties with which they

are faced and to propose solutions for these difficulties. It is also intended to induce the Commission to pay more attention to small and medium-sized undertakings, to make more allowance for their interests and to ensure that programmes and measures to help them are constantly being developed and implemented.

It is intended that as a result of this study, the Commission will *inter alia* prepare annual reports on the situation of small and medium-sized undertakings and will have more detailed expert opinions drawn up dealing, among other aspects, with the individual types of small and medium-sized undertakings such as these operating in the crafts, trade, industrial and service sectors.

1.4.2. First of all the Study describes the situation of small and medium-sized undertakings in the Community, subject to the limitations mentioned under Point 1.2.4. Starting from their nature and economic functions, the importance of small and medium undertakings for the State, the economy and society is shown. Internal and inter-undertaking structures and also some economic, financial and social problems, are dealt with. The influences of training policy, competition policy, and tax policy are also gone into. The Study also mentions measures to assist small and medium-sized undertakings which are taken by Member States, by associations, and groups of undertakings. Reference is also made to the extent to which the existence and special characteristics of small and medium-sized undertakings should be considered when working out and applying laws and administrative provisions.

Finally, in a chapter dealing with conclusions and requirements, proposals are submitted for measures to be implemented or encouraged by the Community in order to establish a general concept of a fruitful, purposeful policy for small and medium-sized undertakings, a policy which in the long term can be integrated into the Community policy.

1.4.3. We are not attempting to prepare a complete, comprehensive and exhaustive overall description of the economic, sociological, technological and cultural aspects of small and medium-sized undertakings. Important measures for small and medium-sized undertakings have in some cases been alluded to and in others a rough outline has been sketched, but in no case has a final evaluation been undertaken.

The Commission itself must ensure that such points are considered in detail as part of a constructive policy for small and medium-sized undertakings.

The Commission should make supplementary surveys to remedy the lack of statistical and organizational details and to obtain more exact descriptions of internal and inter-undertaking problems.

2. THE SITUATION OF SMALL AND MEDIUM-SIZED UNDERTAKINGS

2.1. THE CHARACTERISTICS OF SMALL AND MEDIUM-SIZED UNDERTAKINGS (VARIOUS ASPECTS)

2.1.1. Types of undertakings

Small and medium-sized undertakings comprise business units in almost all economic sectors. The forms and sizes of these undertakings are correspondingly multifarious. There is no uniform type of 'small and/or medium-sized undertaking' either within the European Community or in other countries. On the contrary, characteristics determining whether a concern can be classified as a small or medium-sized undertaking are many and varied.

Such undertakings are generally owned by one person and are run and dominated by that person. In most countries small and medium-sized undertakings have no special legal form. Where they are partnerships or public limited liability companies the working funds and capital are often owned by members of a single family or by persons who have a close relationship with one another because of their interests.

2.1.2. Characteristics

Uniform assessment, support and assistance of firms which belong to various economic sectors and have different forms is admittedly difficult, but essential for demarcation of these firms vis-à-vis other industrial and commercial concerns. An attempt is made to define the characteristic features of small and medium-sized industrial and commercial undertakings.

Account has been taken of the fact that definitions which aim at describing the economic function, the sociological importance and the outward forms of small and medium-sized undertakings are generally based on qualitative characteristics. On the other hand the definitions used for State measures on behalf of small and medium-sized undertakings rest on quantitative criteria. These quantitative criteria relate, according to the circumstances, to the number of persons employed (particularly in social security law), to the turnover (particularly in tax law) or to other quantitative factors. Generally such criteria are based on pragmatic considerations and in view of the different national and sectoral conditions should not be just simply generalized.

2.1.2.1. Number of Employees

Most Member States have no general rules or legal provisions which would permit classification of a concern as a small or medium-sized undertaking on the basis of the number of its employees. However, in general, the majority view is that – on average – undertakings with up to 100 employees are small undertakings while those with between 100 and 500 employees are medium-sized undertakings.

In this connection specific characteristics of the different branches of activity seem important. For this reason in a study carried out several years ago the Commission used a working hypothesis which was based on the distribution curve of undertakings in a branch of activity :

According to this hypothesis, undertakings which account for the first third of the labour force of all undertakings of the relevant branch or of the economy as a whole are small undertakings.

Medium-sized undertakings are those which account for the first half of the labour force of all undertakings of the relevant branch or of the economy as a whole.

However this division is unsatisfactory. There are many branches whose largest undertaking has markedly fewer than 100 employees and therefore cannot be classified as a medium-sized undertaking on the basis of the criterion of the percentage of the total labour force of the economy. It therefore appears necessary to gear the classification to a general but variable maximum – but without excessively fixing the criteria, in order to be able to take account of the special features of branches of activity.

2.1.2.2. Turnover

Turnover is undoubtedly also an essential criterion for small and medium-sized undertakings. Once again, however, there are considerable differences of opinion about the ceiling above which a concern is to be classified as a large undertaking. In the USA the ceilings for small businesses are between one and five million dollars annual turnover, according to the branch of activity. An examination should be made to see whether this standard is applicable to the European Community.

2.1.2.3. Capital Input

As the activity of the undertaking has a decisive influence on the amount of capital used, considerable variations may therefore be observed, particularly in the case of medium-sized undertakings. In comparison with typical large undertakings, public limited liability companies and combines, there are however without exception quite considerable differences in capital input. Therefore, this criterion can be of assistance in classifying undertakings.

2.1.3. Special features (Qualitative Characteristics)

In principle, the character of undertakings is not determined solely by their size or output. In general, various qualitative criteria also apply. These include, for example, management, organization, form of financing and position on the market.

From the qualitative point of view, the following features are without exception characteristic of small and medium-sized undertakings :

1. **Independent Management** : No factor extraneous to the undertaking can influence the decision of the manager, who is responsible for all decisions.
2. The manager is the owner. If he does not own all the capital, the remainder belongs to his family or friends.
3. The manager exerts direct influence, even in the case of matters of detail, on the general functioning of the undertaking. He is in direct contact with his labour force, customers and suppliers. In the case of a craft undertaking he is capable of carrying out the work himself.
4. The executive staff is not specialized to any real extent. However, an improvement in management gradually leads to a differentiation of production and marketing functions, with the manager coordinating the two as part of the overall strategy of the undertaking.
5. There is no possibility of obtaining funds from the capital market.
6. Relatively close economic and sociological links with the local market and community. However, owing to the fact that the products are sold through normal trade channels and particularly in view of the structure of marketing at industry level by the trade association itself or by a State organization, the market served by small and medium-sized industrial and commercial undertakings can no longer be regarded as a local market at least as regards production (joint sales promotion organizations).
7. Weak negotiating position in both buying and selling.

This is undoubtedly one of the most difficult problems faced by small and medium-sized undertakings. For the level of remuneration for production, the added value which they create and the return on the capital used depends as much on these negotiations as on the business policy of the manager of the undertaking.

8. Considerable flexibility as regards market and demand. Capability of meeting individual requirements of consumers and special orders from other undertakings which cannot be coped with by undertakings tied to a rigid assembly-line programme or to pre-planned work arrangements.

2.1.4. Economic Sectors

Small and medium-sized businesses occur in all sectors of the economy i.e. in crafts, trade and commerce, the tourist industry, the catering trade, transport and industry etc.

In some Member States concerns providing various professional services are included in the sector of industrial or commercial or similar small and medium-sized undertakings. These are generally undertakings which provide advisory and employment agency services, look after the interests of other undertakings or provide services relating to business management or the technical aspect of undertakings.

2.1.5. Number of small and medium-sized undertakings

Taking the average of all the countries, *more than three-quarters of all industrial and commercial undertakings* are small or medium-sized¹. In the final analysis the concrete figure given depends on what classification criteria are used (number of employees, turnover, capital input, production) etc.

The extraordinarily high proportion of small and medium-sized undertakings in the overall total of undertakings in a national economy seems very significant, particularly since the development over several decades towards an advanced industrial society has entailed recurring tendencies for small and medium-sized undertakings to be squeezed out of the industrial and commercial sector. The fact that the number of small and medium-sized undertakings has remained relatively constant quite clearly underlines the indispensability of these types of undertakings in the national economies, though this comment does not imply an evaluation as to their share of Gross National Product being implied.

The ratio of small or medium-sized undertakings to the overall number of undertakings in an economic sector varies according to branch and type of activity.

Small and medium-sized undertakings are fairly well represented in all sectors. They are usually most numerous in sectors where as a result of production techniques, or for other reasons, there are no or not many very large undertakings which dominate the market. On the other hand, the proportion of small and medium-sized undertakings is generally small in industrial sectors with a high degree of business concentration.

2.2. THE ECONOMIC FUNCTIONS OF SMALL AND MEDIUM-SIZED UNDERTAKINGS

The overall sphere of activity of the large sector of small and medium-sized business undertakings covers almost the whole economy. This sphere can be considered as including the supply, to final consumers, of various services and of goods of all kinds which small and medium-sized undertakings make themselves or obtain from elsewhere, supplying agriculture with a variety of services, providing industry and crafts with capital goods, repair and other services, marketing agricultural and commercial products, providing the accompanying after-sales service, even the training of specialized staff for larger industrial undertakings. To round out the picture of the economic

¹ In the United States small and medium-sized undertakings (calculated under the small business rule) even account for more than 90 per cent of all undertakings.

functions of small and medium-sized undertakings, the orders which they receive from the State should be mentioned.

Table No 1 below gives a brief outline of their multifarious functions, which will not by any means all be discussed within this report. Many of these activities are so much taken for granted in daily life that the very reference to them, not to mention stressing their importance, is felt to be mere banality – e.g. the need for hairdressers, the catering trade, garages, building repairs, etc.

Therefore only some major categories from the table of functions mentioned above will be selected in order to give a picture of the sectors of production and distribution, services, repairs and after-sales services.

It is true that these functions are fulfilled equally well by large and by small and medium-sized undertakings. The difference lies in the volume of the amounts produced or sold and sometimes in the highly technical and complex nature of the work carried out. This difference can pose problems for small and medium-sized undertakings. These problems will be analysed in the following chapter of this Study.

Moreover, it is fair to say that the boundary between the functions of crafts and those of industrial small and medium-sized undertakings on the one hand and between retail trade and wholesale trade on the other hand is indistinct.

2.2.1. Production Function

On the basis of recent developments it can generally be stated that even in highly industrialized economies small and medium-sized undertakings make a considerable contribution to covering demand, not only in the marketing and service sectors but, as in the past, in the production sector too. Experience has shown that mass-production by large industrial concerns can only cover essential requirement sectors to a limited extent, or cannot do so optimally. Therefore, there are considerable structural market opportunities for productive small and medium-sized undertakings existing side by side large industrial undertakings.

One example is the large area of personal needs – continuously expanding with rising living standards – which because of the nature of products concerned (e.g. production of artificial limbs) or because of special customer requirements, can only be covered by decentralized single item and small batch manufacture, which can only be carried out rationally in small and medium-sized undertakings. But even in production sectors in which industrial-scale production has gained a footing and partially dominates, small and medium-sized craft or industrial undertakings have been able to hold their own in direct competition with large industrial undertakings.

The economic importance of small and medium-sized undertakings is thus very obvious, for example in the building sector, where it is brought out by their share in total building output.

In various other branches of economic activity, too, productive industrial undertakings are still predominantly classified as small or medium-sized undertakings because of their scale and structure. This is true of the baking industry and the meat industry.

Moreover, the very development of large-scale industrial production has created new production opportunities for small and medium-sized undertakings particularly as regards the supplying of other firms which is becoming increasingly important precisely in highly industrialized economies. For example, nowadays supplies by craft undertakings and small and medium-sized industrial undertakings make up as much as two-thirds and more of the total value of some products of large industrial undertakings.

Small and medium-sized undertakings also play an important role as subcontractors for larger undertakings. Such 'partnership' relationships are by no means rare in the building trade or indeed in other branches of economic activity. In such cases the firm awarding the contract certainly is not always an ordinary general contracting firm but is often a fairly large undertaking which is unable to fulfil a contract and thus contracts work out to other concerns in the same or complementary sectors. We would like here to make reference to the chapter on 'Cooperation between undertakings'. Supply and sub-contracting relationships between large and smaller undertakings in the supply sector sometimes develop into equal cooperation between equal partners.

2.2.2. Distribution function

In the economies of the EEC Member States it is the small and medium-sized undertakings which are to a large extent responsible for the distribution function — a function which as a result of increasing business combination and division of labour at production level has become a crucial factor for the qualitative level of the supply of demand. The retail trade which is naturally responsible for supplying the majority of private consumers is dominated as in the past by small and medium-sized undertakings despite the considerable expansion of large-scale retail outlets in some Member States (chain and department stores, mail order firms and supermarkets). However, the number of small undertakings in this sector is declining in general and the trend towards larger undertakings is unmistakable. This development should, like voluntary association of small and medium-sized undertakings and other forms of cooperation, be regarded primarily as evidence of a process of adaptation to alterations in the market structure. It does not prove that small commercial undertakings no longer have any specific role in a highly developed economy. Experience in countries where the distribution trades are highly concentrated shows that small retail undertakings are necessary, because they provide a service which meets the differentiated needs and buying and consuming habits of customers. The importance of small and medium-sized undertakings for the quality of the distribution network in the economy is shown, for instance, by the development, in conurbations, of specialized shops, which have not only held their own in competition with the selling outlets of large distribution undertakings but are also often vital to the success of shopping centres in large towns. Experience has shown that in retail trade — as in production — the undertaking size which is optimal and suitable for the market varies very widely according to the local

General table of the economic functions of small and medium-sized undert

Table 1

economic needs covered by sector		economic categories of small and medium sized undertakings	Crafts	Small & medium-sized industrial undertakings
			1	2
Private final consumer & agriculture	a)	Private consumer (final consumer) & agriculture	Production (including building, service & craft products), distribution, repair & after-sales service, distribution of goods purchased for resale	Production & to some extent direct sale (building, metal working, wood, plastics, textile sectors etc.)
Industry and commerce	b)	Capital goods sector (including residential building sector)	Construction	Production of capital goods (building, metal, wood & plastics industries)
			Repair & maintenance of buildings, machinery and production installations	
	c)	Production sector as a whole	Sub-contracting assembly and installation	Sub-contracting
d)	Marketing of the products of large industrial undertakings	Direct <i>customer</i> for own needs. Marketing of industrial products & <i>after-sale service</i> of industrial products	Direct <i>customer</i> for own <i>requirements</i>	
State	e)	State bodies (excluding military supplies)	Construction including road-construction	Construction including road-construction) metal, wood & other products of own production (including canteens)
			Repair & maintenance of buildings, machinery and production installations	
	f)	Military supplies	Food, clothing, wood and metal products. Textile products.	Supply of various articles of own production

Retail trade	Wholesale trade	Hotel & catering	Other services (transport etc.)
3	4	5	6
Distribution of goods purchased for resale and after-sales service	_____	Hotel, boarding and catering	Includes transport services
Includes sale of machines, equipment and other products	Includes supply of machinery, equipment etc.	_____	_____
Sale of goods purchased for resale (in special cases)	Sale of raw materials and goods	_____	_____
Mainly sale of industrial products and after-sales services	Mainly sale of industrial products	Direct & indirect customer of large industrial undertakings	<i>Transport services (& customer)</i>
Sale and after-sale service of office machinery & equipment. Sale of office supplies, deliveries to concerns.	Sale of equipment, machines and material	_____	_____
_____	_____	_____	_____

market circumstances and local conditions, and that there is almost considerable room for small business units.

The same goes for the *wholesale trade*, which supplies a large proportion of the retail and also productive undertakings. Although the minimum size of undertakings which is justified by business economics is larger in most wholesale sectors than in the retail trade, the wholesale trade is also largely dominated by small and medium-sized undertakings. The number and economic success of small and medium sized undertakings proves that they are particularly suitable for wholesale trading if they have a flexible management and if they specialize in a manner conforming to market conditions. It is also noteworthy that wholesale trading activities are also carried out on an economically sound basis by small and medium-sized retail undertakings and to an increasing extent by cooperative organizations of small and medium-sized undertakings.

The distribution function of small and medium-sized production undertakings which market their own products in a generally small market area, should also be stressed here. The business economics advantage which on amalgamation of production and distribution functions can provide, particularly in the case of small establishments is one reason why small and medium-sized undertakings have in some cases held their ground well even in market sectors with marked trends towards concentration of undertakings. In such cases the relatively higher costs of small-scale production can often be offset by shorter sales channels and better opportunities for direct gearing of production to actual requirements. Such undertakings are often particularly competitive because of their closeness to the market and their greater flexibility resulting from their structure and they are essential if customers are to receive exactly what they want, particularly as regards differentiated requirements, the satisfaction of which depends in large part on the existence of this type of undertaking. It should also be mentioned that small and medium-sized production undertakings are increasingly supplementing their range by products which they buy in, thus taking over actual trading functions. Sometimes this is done to widen or to complete the range of their own goods and services but such trade is sometimes carried on as a supplementary or largely independent activity in conjunction with their own production.

2.2.3. Exports

However, these details are not intended to give the impression that small and medium-sized undertakings serve a narrow market only. A quite significant number of exporting undertakings also belong to this category. In the sector of small-scale industry and large craft undertakings, very efficient export undertakings have emerged and have gained a reputation and notable business success in the export trade. The industrial consultants and specialized export consultants mentioned elsewhere in the report, and trade fairs and exhibitions, catering more specifically for small and medium-sized exhibitors do much to make exporting possible. As regards crafts, the ENAPI in Italy and the International Craft Fairs in Munich and Florence should be mentioned in particular. The International Association of Craft and Small and Medium-Sized Enterprises has a working committee which deals specifically with export problems of small

and medium-sized undertakings. Individual craft chambers also organize exhibitions to promote exports.

2.2.4. After-sales service, installation and assembly

As a quasi-extension of industrial producers, small and medium-sized undertakings in the craft retail and sometimes small-scale industrial sector, provide after-sales, installation and assembly services, often in conjunction with trading functions. In many cases these undertakings take over after-sales services for plant made by craft and small and medium-sized undertakings. In many cases the trump card of a small or medium-sized undertaking is its efficiency in the field of after-sales services. In many branches of economic activity long-standing and solidly based cooperation has developed between large industrial producers and independent trade and craft undertakings, with the latter taking over responsibility for after-sales services for motor vehicles, domestic appliances, radio and television sets, office machinery etc.

Sales opportunities for large industrial undertakings often depend as much on the quality of their after-sales service system as on the quality of their products. This is why industrial suppliers like to exercise particularly strict control on their 'authorized' workshops in order to provide a standardized service. However, the small and medium-sized partners gain rather than lose from these attempts at standardization, although this statement should not be taken as meaning that disadvantages (or an excessively high degree of dependence) can be ruled out.

2.2.5. Repair and maintenance

One of the main economic functions of the small and medium-sized undertaking is the preservation of the value of machines, buildings and other installations by the provision of repair and maintenance services. These services are available to householders or flat owners, people who own cars, bicycles, radio and television sets, in fact almost to the whole population. Agriculture is just as dependent on these services as industry, the rest of the business sector, and even State bodies.

In extreme situations the value of these services is particularly obvious to all concerned. On the one hand in economic crisis situations when it is difficult to buy brand-new articles and the main anxiety is to preserve the value of existing articles (repairs are also very important when there is a shortage of material and equipment). At the other extreme, a completely different situation in which the importance of repairs and maintenance is particularly apparent is that of an economic boom combined with a shortage of labour; this results in a bottleneck which is often particularly obvious in the case of high cost repair and maintenance work and clearly illustrates the importance of the latter services.

The reliability, efficiency and durability of many products depends to a large extent on careful maintenance. Due to the technical complexity of many products maintenance and repairs can no longer generally nowadays be carried out by the consumer but must

be undertaken by experts who quite often need special tools, or even have to work in specially equipped workshops. Therefore the customer judges consumer durables to a very large extent from the aspect of the repair and maintenance services while the nearness of a workshop and the availability of skilled workers play a crucial rôle.

The most important economic sectors here are the metal-working, building and woodworking sectors.

Special reference should be made here to the repair and maintenance services for industry, particularly industrial concerns since their steadily increasing importance has only been clearly recognized in the last decade. The large industrial undertakings which used to be much more geared to doing most of their own repairs and maintenance themselves have increasingly realised that the often very extensive industrial installations (German 'Regiebetriebe', i.e. working for own account) needed for the purpose can very easily be markedly uneconomic and lead to heavy increases in costs. The varying work-load means that there must be an excessive standby capacity which in turn leads to work being stretched out, to a policy of keeping people busy, to down-right irrational activity. A transfer of part of these functions to an industrial undertaking makes it possible to manage them better, to monitor work and costs better and as a result to cut costs and improve efficiency to an often considerable extent. Moreover, the problem of labour shortage is often considerably eased by delegation of work. In passing it should be mentioned that such cooperation allows undertakings to make good use of numerous interesting suggestions. On the basis of this realization a survey was held some years ago in the Federal Republic of Germany of transfer of work in this sector and finally the Federation of German Industry and the confederation of German Craft set up a joint permanent working party, which is composed of experts from the givers and recipients of orders. This working party strives by frank and systematic exchange of experiences to find ways of improving this permanent partnership. In recent years special committees for maintenance matters have been set up in many Western European countries. In turn these national umbrella institutions have united in an international committee. By holding specialized seminars and issuing publications these institutions strive for greater understanding of this important task at all levels of industry and in all economic sectors. In this framework, too, the great opportunities which result from the transfer of functions through long-term permanent partnerships with independent undertakings are becoming increasingly obvious.

2.2.6. Services and the Catering and Hotel Industry

For a number of years there has been a clear tendency for the number of people employed in the services sector to increase constantly in relation to the numbers employed in the production sector and it is certain that this trend will gather further momentum in the future. In the industrial production sector it is to a large extent possible to introduce labour-saving machines but such substitution is only possible to a very limited extent in the services sector. Moreover since people have an increasing amount of leisure time there is a steadily increasing need for services – particularly in tourism and passenger transport.

In view of the general shortage of manpower, particularly in the EEC countries, the increased staff requirements in the hotel and catering industry and in other service sectors have a particularly pronounced effect and lead to critical shortages. Therefore the hotel and catering industry is more concerned with obtaining sufficient manpower than with obtaining a sufficient clientele. In the hairdressing trade also, the main worry is to obtain sufficient staff rather than obtain sufficient customers. This emphasis is only partly dictated by current economic circumstances. It is more a structural development: thus with the exception of small variations we can expect this to be a long-term trend.

Small and medium-sized undertakings still largely dominate the hotel and catering sector. Although there is also a distinct growth in the size of undertakings in the majority of branches of this sector, in general these undertakings have rarely grown to more than medium-size so far. In the hairdressing trade this is due to a certain extent to the necessity of remaining close to the customer and in the catering and hotel industries it is also partially attributable to the necessity for wide distribution of locations of hotels.

It is worth mentioning that personal contact with customers or guests is a considerable advantage for small and medium-sized undertakings in this sector. Efficient entrepreneurs deliberately use this advantage to off-set other advantages enjoyed by larger undertakings. Along with their frequent locational advantages, this greater ability to provide individual service will probably remain one of the most important assets of small and medium-sized undertakings in the service and hotel catering sectors. From the customers' point of view it should contribute to the 'quality of life' about which we hear so much today.

2.2.7. Financial Institutions

In spite of the tendencies to concentration there are many small and medium-sized undertakings in the sector of financial institutions and insurance. This applies particularly to regional banks, credit guarantee associations, sector insurance companies, financing and lending institutes and mutual insurance societies.

These undertakings provide a wide and very varied range of services; these are characterized by the fact that they are geared to the numerous requirements of their clientele, with which they maintain close contact. Moreover large undertakings in this sector have felt compelled to set up decentralized units — e.g. sub-branches and subsidiaries — in order to give their services the same personal touch.

2.2.8. Transport

In all types of goods and passenger transport most undertakings operating for hire or reward are small or medium-sized.

Goods transport undertakings cover the entire transport needs of craft, commercial or industrial undertakings or help to meet the transport needs of undertakings which also transport goods for their own account.

Passenger transport undertakings are usually involved in tourism. In some cases they also provide replacement transport services for public systems.

2.3. THE IMPORTANCE OF SMALL AND MEDIUM-SIZED UNDERTAKINGS FOR THE STATE, ECONOMY AND SOCIETY

2.3.1. Guarantee for the market economy

In a market economy competition is absolutely essential for the best possible supply of the population with goods and services. Competition generates a permanent pressure to rationalize and thus to increase efficiency. This objective is only achieved when the maximum number of suppliers face the maximum number of buyers in the economy.

Small and medium-sized undertakings meet these conditions perfectly. They are adaptable, versatile and generally attempt to assert themselves on the market by the quality of their services and products. If there were not enough small and medium-sized undertakings the competitive economy would be adversely affected in the long run.

2.3.2. Structural policy importance and decentralization

It is obvious that the existence of small and medium-sized undertakings generally causes a considerable diversification of the economic structure. Production and services are not dominated by a few undertakings but are provided by many undertakings of widely varying sizes scattered throughout the length and breadth of every country. The decentralization of the economy is given the necessary degree of effectiveness by the existence of industrial and commercial small and medium-sized undertakings. Therefore small and medium-sized undertakings are of special importance for Community regional development.

2.3.3. Supplying the population

A wide distribution of undertakings of very varying sizes ensures that the population is provided with an even supply of goods and services of satisfactory quality. If only because of their geographical distribution small and medium-sized undertakings are particularly well placed to provide the population in all regions, even the most remote areas, with the necessary services and goods.

Small and medium-sized undertakings play an important rôle in industrial production also, since many items are not suitable for mass production or because skilled staff are

necessary for producing or distributing them. Above all because of their structure and special capabilities, small and medium-sized undertakings can carry out these tasks.

2.3.4. Importance for the employment policy

If industrial and commercial small and medium-sized undertakings did not exist the decentralized – and also often restricted to a limited area, – supply of labour which could not always find employment and workers would have to emigrate or commute to far away places of employment. Therefore small and medium-sized undertakings are also essential to the *smooth functioning of the labour market*.

2.3.5. Distribution of wealth and sociological importance

A policy of encouraging the establishment, expansion or modernization of small and medium-sized undertakings ensures that the national income, particularly production capacity is not concentrated in the hands of a small number of people or firms, but is widely distributed amongst various sections of the population. The socio-political effects of this undoubtedly contribute to the strengthening and the security of the community.

2.3.6. Social importance and importance for training policy

2.3.6.1. Social importance

Social antagonisms are less marked in small and medium-sized undertakings because the personal contacts are closer and cooperation exists between owners and employees.

Moreover the possibility of establishing one's own business with initially relatively small financial resources is a considerable attraction for suitably qualified people. This encourages the development of a feeling of responsibility and a spirit of enterprise. At the same time this means that capabilities and knowledge which had not been exploited or had only been partially exploited, are used to help meet the needs of the economy.

2.3.6.2. Importance for training policy

Because of their large number, industrial and commercial small and medium-sized undertakings provide a maximum number of training places for the working population. The training itself is very practical and is thus geared to the technico-economic level needed in each specific case.

The versatility of the training should also be mentioned. During their training in small and medium-sized undertakings the apprentices receive a broad vocational and technical training while in large undertakings apprentice training is becoming increasingly specialized.

Thus the diversity of their training allows easy adaptation to technical development; this adaptation is also helped by competition which compels small and medium-sized undertakings, often more than large undertakings, to rationalize continuously and increase their efficiency.

Moreover, small and medium-sized undertakings continuously provide the economy with large numbers of skilled employees who have had a good all-round training. They thus help to ensure that the goods and services needed by the economy are supplied under sound technical conditions.

In the final analysis, the comprehensive broad training which young people receive in the small and medium-sized undertakings of various Member States, reduces public budget expenditure on training since, in the main, undertakings and not the State bear the cost of training.

2.3.7. Technical progress

The results of a survey held recently in the United States are interesting. They show that all major innovations and inventions since 1945 were developed or at least were introduced for the first time in small and medium-sized undertakings. The same is true of Western Europe. It would certainly have been impossible to establish so many industrial and commercial undertakings in Western European countries after the Second World War without the technical know-how of the large number of skilled workers in small and medium-sized undertakings.

So we see that small and medium-sized undertakings are major forces for technical progress. In a manner of speaking they ensure the 'continuing existence of industry although the "death rate" is higher in this sector than among other types of undertakings. Thus the small and medium-sized undertaking has a necessary "demographic" function in an industrial economy, because it contributes largely to the birth of new industrial units which ensure that dying sectors have successors' ¹.

2.3.8. Cultural importance

Although the concepts of 'quality and quantity' are no longer incompatible, and although quality is no longer a prerogative of small and medium-sized undertakings, large undertakings — with their mass-production, high-pressure advertising and

¹ Annex to the minutes of the 60th meeting of the Specialized Section for Self-employed Activities and Services, held on 23 March 1972 in Brussels (page 2). Address by Mr Flory, Director in the Directorate-General for Industry (Doc. CES 232/73 Annex).

creation of needs – do tend to standardize the covering of economic needs more than small and medium-sized undertakings. The latter continue to show concern for individual and regional tastes, design and creativity, whether for economic reasons, tradition or reasons connected with individual capacity. Thus they do much to improve the quality of life.

2.3.9. Protection and shaping of the environment

The existence of small and medium-sized undertakings is a positive factor in the field of environmental protection. Because most of the establishments are small the emission of pollutants is relatively low; any protection precautions which are necessary do not generally entail any great expense and can therefore be taken more quickly. State expenditure on environmental protection is therefore put to effective use in the case of small and medium-sized undertakings.

As regards shaping the environment small and medium-sized undertakings are more easily fitted in to the urban and rural structure than large undertakings since they cause fewer financial difficulties. Therefore any regional structural policy must aim at creating an economic structure which is in keeping with the natural surroundings and in which small and medium-sized undertakings are given conservation functions.

2.4. Internal and inter-undertaking structures

Structurally small and medium-sized undertakings form a very heterogenous group, containing undertakings of very different types ranging from production undertakings to commercial undertakings and undertakings which provide services only.

2.4.1. Structural differences due to conditions in the various sectors.

Whether we take as a criterion the turnover figures of the whole economy or the number of undertakings and persons employed, we find that the proportion of small and medium-sized undertakings in the different economic sectors varies quite considerably. For example their share in the turnover is very small in the energy sector, in the mining industry and in the tyre industry. Certain factors such as capital intensity (particularly fixed-investment intensity), high development costs and, the ability to produce in long production runs which is a characteristic of large undertakings lead to a strong concentration of undertakings in these sectors and industries.

In other production sectors, in the services sector, in commerce, in transport and in the hotel and catering trade, small and medium-sized undertakings are much more strongly represented both in numbers and in terms of the volume of turnover. The position of small and medium-sized undertakings in the services and building sector and also in the catering trade is particularly strong.

2.4.2. Regional structural differences

The economic structure of any given area (town, district, department, province, region, the German 'Land') is very important for the social conditions in that area; this is also true of the functioning and financial strength of the local and regional authorities.

But there are patently no generally valid structural patterns and no absolute criteria for comparisons of undertakings' sizes. Inevitably the structures of large industrial areas (e.g. The Ruhr, Alsace-Lorraine, Milan) differ greatly from those in Southern Italy, Scotland or Brittany. Even a small or medium-sized industrial or commercial undertaking can have a dominant market position in a given commune, while this does not necessarily hold for a large industrial undertaking in a conurbation.

When faced with regional disadvantages as regards location, small and medium-sized undertakings could fare badly in competition with larger undertakings. This has led individual Member States to give special subsidies for transport costs.

The increasing number of business combinations on the one hand, and the continuing existence of a large number of economically sound small and medium-sized undertakings on the other, shows that it is impossible to use the optimum undertaking scale as a rigid yardstick for determining the best size of individual undertaking in a regional economic area. The economic function, the type of activity, the position on the market, the location and personality of an undertaking all make the concept of the optimum size of an undertaking a relative one. This means that we cannot assume the existence of a single ideal undertaking size, either in an industrial sector or in a specific area.

However as a result of technical, management and market circumstances, typical sizes of undertakings do exist in some branches of activity. For example the size structure in the steel industry is different from that in the textile industry, where it is in turn different from that in the textile industry, where it is in turn different from that in the clothing industry. Therefore, the size patterns which are typical of certain branches are a major criterion for a structural policy geared to the size of undertakings; they are becoming increasingly important for economic policy and must be appropriately allowed for in regional structural policy.

2.4.3. Internal structural differences

2.4.3.1. Structure of labour costs and staff

Despite a considerable increase in their capital input, most industrial and commercial small and medium-sized undertakings are highly labour-intensive, and wages make up a high proportion of their costs. In addition such undertakings are very dependent on highly-trained employees and the elasticity of substitution of this production factor is very slight i.e. there are very limited possibilities of dispensing with a considerable proportion of employees by increasing capital input. This high degree of dependence on skilled employees has led to considerable efforts to train employees (problem of

workers leaving). A relatively high proportion of skilled employees is also common to these undertakings.

The proportion of wages to the overall costs of small and medium-sized undertakings varies widely from one branch to another. Approximately 30 to 50 % is common; higher percentages are also found, though markedly less frequently.

2.4.3.2. *Structure of Capital*

The proportion of own capital in industrial and commercial small and medium-sized undertakings depends very largely on the *financial resources* of the owner. Again there are large differences between individual undertakings, although differences between branches are not very marked.

The proportion of own capital to total capital is generally around 40 to 60 %. This percentage can be higher when undertakings own *land and buildings*, if their book value is not too far from their actual value.

The age of the undertaking also influences the amount of own capital considerably. Recently established undertakings very often have a small proportion of own capital, and a large part of their business assets are financed from outside. In all cases where available long-term outside capital is insufficient, the financial stability of undertakings is seriously endangered. Recently there has been a considerable decrease in the proportion of own capital to total capital. Since the economic stability of an undertaking and its ability to ride out crises is crucially influenced by the availability of own capital or long-term outside capital for financing long-term investments, there would appear to be a very urgent need to assist small and medium-sized undertakings in this sector by fiscal or credit policy measures.

In the field of outside capital the credit allowed by suppliers often predominates. It is quite often the most common form of financing by third persons or institutions.

2.4.3.3. *Structure of assets and liabilities*

(a) *Fixed assets*

The extent of fixed assets depends first of all on the branch concerned. Understandably, undertakings in the production sector generally have more fixed assets (machines, equipment, vehicles) than undertakings in the services sector.

Land and buildings, which a considerable proportion of small and medium-sized undertakings own (e.g. undertakings in the construction, tourist and transport industries) also have a large influence. In very many sectors undertakings own neither land nor buildings.

(b) Current Assets

The current assets of small and medium-sized undertakings vary according to whether production is for storage, or whether large quantities of material or marketable goods have to be stored for sale, or whether the products or services provided are paid for by cash or by credit transactions. Credit sales have increased considerably in many undertakings recently, and this has added a further risk factor to normal business risks (currency fluctuations, subsequent inability to pay). Receivables of 30 to 35 % of the turnover are quite common.

2.4.3.4. Expenditure on materials

The amount spent on materials in small and medium-sized industrial or commercial undertakings naturally depends on the branch to which they belong, but in addition, inside the branch, this amount also depends on the function of the undertaking (type of activity) according to whether it is engaged in production, repair or transport. In genuine service undertakings such as hairdressers or dry cleaners, expenditure on materials plays only a minor rôle. Expenditure on materials is however very high in a large number of small and medium-sized undertakings, reaching between 20 % and 25 %; in commercial undertakings the proportion is considerably higher and reaches between 60 % and 80 % depending on the type of operation.

Economic research institutes have recently ascertained that — in contrast to the post-war period, when there was a sharp increase in the cost of materials in the processing sector of industrial and commercial small and medium-sized undertakings — expenditure on materials has decreased slightly as a result of high increases in wages and salaries in all Member States.

2.4.3.5. Structure of overall costs

The survey of the characteristics of the structures of undertakings reveals that the cost structure of industrial and commercial small and medium-sized undertakings varies not only according to branch, but also inside branches between undertakings. The causes for this lie partly in the structure of liabilities and assets, the differing technical equipment, and the field of activity. While this state of affairs helps competition, it often also leads to distortion of competition, disputes over costing, and widely diverging tenders.

The main elements of costs are wages and salaries and accompanying incidentals, particularly the latter which have increased considerably in recent years as a result of wage increases and improvements in social services.

In some sectors, expenditure on material is the main item or is along with labour costs of considerable importance for the management of the undertaking.

Capital costs (interest, depreciation) exhibit considerable fluctuations caused by the different range and quality of technical equipment or of financing; however, for many

undertakings, particularly for recently established concerns, such costs are a dominant or at least important factor.

Conditions connected with the geographical location of undertakings (e.g. rent, transport costs) have a considerable influence on the structure of costs in different cases.

2.5. EFFECTS OF NATIONAL POLICIES

2.5.1. General economic policy

2.5.1.1. Structural policy

The structural policy of the Member States generally contains the basis for measures for the assistance of small and medium-sized undertakings in the craft, commerce and services sectors. However, such measures are usually of a financial nature and as such are not always sufficient. In general, *long-term loans at reduced interest rates* are provided for establishing, modernizing or expanding small or medium-sized undertakings.

In Ireland the Industrial Development Authority (IDA) implements a policy designed (inter alia) to promote the greater efficiency and growth of small firms through adaptation and modernization grants.

2.5.1.2. Short-term economic policy

General *economic fluctuations* affect small and medium-sized undertakings in different ways according to their size and economic sector. There is often a time lag, particularly in the craft sector, i.e. a shortage of orders in say the steel industry hits small and medium-sized undertakings only weeks or months afterwards. Some sectors are also directly affected while others are affected to a lesser extent by economic fluctuations. Basically, however, small and medium-sized undertakings are much more dependent on stability and thus on an economic policy geared to stability than large undertakings. In general small and medium-sized undertakings must save for their investments, the final consumer may be able to influence their prices and their market situation does not always permit them to pass on cost increases.

Furthermore, economic restrictions affect small and medium-sized undertakings which have concluded supply contracts brought about by the economic situation more quickly than undertakings who supply custom-made products under contract.

Moreover, because of their relatively small capital resources small and medium-sized undertakings are affected more quickly by credit restrictions adopted as a result of the economic situation.

In general, changes in central bank discount rates have a very rapid and direct effect on small and medium-sized undertakings. When the rate exceeds six per cent, the direct effect on small and medium-sized undertakings is particularly obvious since they noticeably cut back their plans for borrowing because of the increase in the interest rates. In such cases necessary improvements or extensions to the undertakings are generally postponed or only partially carried out; overdrafts squeeze profits more and more.

2.5.1.3. Regional policy

General *regional measures* have a more favourable effect on development, particularly in peripheral and development regions. Once again favourable credit facilities are to the fore as well as various other forms of financial assistance, such as subsidies or reductions in transport costs.

2.5.1.4. Monetary policy

Since small and medium-sized undertakings usually only have links with the local regional economy, *currency changes* (parities) only affect them as a result of the general development in purchasing power; monetary changes usually affect importing and exporting undertakings directly. In such cases competitiveness and returns are often hit considerably. This does not happen to large undertakings, which can often take compensatory measures to meet the situation or have sufficiently large resources.

In general, small and medium-sized undertakings have not got such reserves at their disposal. Since on the other hand they are mainly concerned with guaranteeing the income of the owner and his family, they are not so inclined to worry about the currency in which any equities they may have is to be expressed.

The open market policy i.e. the buying and selling of securities in order to regulate the money supply, has a direct impact on small and medium-sized undertakings. Investment projects are particularly influenced by the availability of money and credit. In this context it should be noted that all things considered small and medium-sized undertakings generally find it more difficult than large undertakings to tap the capital market in order to carry through investment projects.

2.5.2. Social policy

2.5.2.1. Social function

Since small and medium-sized undertakings are so important for job stability and the maintenance of industrial peace, all social legislation should be geared towards maintaining independent businesses and thus small and medium-sized industrial and commercial undertakings, without opposing any genuine social progress.

2.5.2.2. *Adaptation to social legislation*

Since they are part and parcel of the overall economic and social situation the structural and multifarious special characteristics of small and medium-sized undertakings require an adapted social legislation which meets, as far as possible, all the requirements of individual conditions. Labour intensity and a high proportion of wages to costs are a major obstacle to the achievement of social aims and objectives. On the other hand there must not and cannot be any question in this sector of not given social protection of equal value to that in other sectors.

2.5.2.3. *Social charges*

Despite technological progress, manpower predominates in small and medium-sized undertakings as in the past. The resulting high costs of wages and salaries determine to a large extent the *social charges*. Wages and associated costs, and, contributions to social institutions, must thus be geared to productivity and efficiency, which varies according to the branch of undertakings and industry as a whole. While leaving a certain margin for individual systems, the two sides of industry are responsible for negotiating wages and salaries while the legal aspect is the responsibility of the legislature. At the moment however, in the Member States small and medium-sized undertakings bear the same social charges as large undertakings. The result of this is that 'equal costs' effectively overload these undertakings which have a particularly high proportion of wages and salaries. In many cases the repercussions endanger the very existence of the undertaking. Thus in order to help to maintain full employment it is important that more consideration be given to labour intensive undertakings. The problem of earnings-related social security benefits and contributions needs a thorough examination.

2.5.2.4. *Social security for self-employed persons*

Social legislation will only fulfil its task when it gives the same amount of consideration to the social protection of the owners of small and medium-sized undertakings as to the social security of wages and salary earners. Owners of small and medium-sized legislation ; firstly in their capacity as employers, as regards social charges which they must carry, and secondly as regards their own risks and those of the members of their families for the multifarious contingencies of life such as old age, invalidity, sickness and accident.

As regards income and other social conditions, a considerable number of self-employed persons in the EEC can hardly keep pace with either the income of the social conditions of wage and salary earners. Indeed, in some cases the social status of the latter is higher.

For some time now the Member States have been making efforts to develop a social security system for self-employed persons. However the results obtained so far vary widely from country to country.

The following types of insurance are considered :

- (a) Retirement insurance (old age pension)
- (b) Health insurance
- (c) Accident insurance
- (d) Unemployment insurance
- (e) Other social security facilities such as supplementary benefits and family allowances.

2.5.2.5. *Social obligations, problems and risks*

Small but also medium-sized undertakings in certain economic sectors can, as a result of structural changes which because of technological progress have a relatively rapid effect, find themselves in a situation where they are faced with an unavoidable process of adaptation. Since such adaptation often involves a switch to other types of production, the problem then arises of whether the necessary capital is available for this. If capital is insufficient, the self-employed person can be faced with the choice of either giving up his undertaking or of handing it over to a larger undertaking. In the latter case, the owner is often forced to transfer to the category of a wage or salary earner. One can easily understand that this involves *social problems and risks* which cannot be overcome single-handedly by an individual, particularly where the person concerned is of advanced age or has insufficient job mobility.

2.5.2.6. *Job mobility, recognition of certificates, foreign workers*

Job mobility is a considerable advantage, particularly for workers in small, and to some extent, medium-sized undertakings which often have specialized production. In some sectors this is also true of self-employed heads of undertakings. Much more attention should be given to the need for continuous vocational training; in this field joint efforts must be made by the State, undertakings and workers. In every case the undertaking must be interested not merely in maintaining the vocational skills of its employees but in improving them to keep pace with specialization of production. However, not only personal interests should be considered but also the general interests which links undertakings of all economic sectors. In particular the use of public funds, whether for vocational training or advance vocational training or other means of assistance, obliges those concerned to adopt an outlook which transcends the personal interest of an individual undertaking.

In connection with the vocational qualifications of self-employed persons, reference should be made to the right of establishment which is dealt with in Articles 52 to 56 of the Treaty of Rome. Matters in connection with *mutual recognition of diplomas, examination certificates and other qualifications* are particularly important. Once again, this is particularly applicable to small and very small undertakings. Only if certificates are recognized can the holder carry on his job where the exercise of that job is governed by certain legal provisions.

The high degree of freedom of movement of workers already achieved, combined with a labour shortage has led small and medium-sized undertakings in some countries to employ *foreign workers*. Doing so always involves additional costs due to special social obligations vis-à-vis this type of worker. Such costs are particularly heavy for small undertakings. Furthermore insufficient technical knowledge and language difficulties lead to decreases in productivity.

2.5.2.7. Working conditions in small and medium-sized undertakings

The vocational proficiency of workers is directly related to the *working conditions* in the undertaking. In this sector small and medium-sized undertakings are in direct competition with large undertakings who, moreover, generally have the advantage of being able to divide work up better. Savings at the expense of working conditions can easily prove to be false economy. This is particularly true for working conditions other than direct wages. A high degree of job security is important not only for the worker himself; a relatively secure job with good working conditions creates a sound basis for good productivity and high continuity of output and quality, all of which are to the advantage of the undertaking as well as the worker. Since these interrelationships are without doubt direct and more marked in small undertakings than in large ones, small and medium-sized undertakings should pay particular attention to suitable working conditions.

2.5.2.8. Freedom of association and the constitution of undertakings

One of the more important justifications for the existence of small and medium-sized undertakings in many sectors of industry, commerce, crafts and services is the fact that closer social relationships can be maintained with a beneficial effect on human relations. However, this must not influence freedom of movement of the employee or his independence in job choice. Furthermore, it must not affect his freedom of association or prevent him from choosing, within the legal framework of the constitution of the undertaking, the representatives who will look after his financial and social interests.

2.5.3. Vocational training and training policy

2.5.3.1. The importance of vocational training in the EEC

Vocational training in small and medium-sized industrial and commercial undertakings in the EEC is of *considerable importance* for the economies of the individual Member States. For example, in Germany approximately 70 % of the entire rising generation of new workers in the industrial sector are trained in small and medium-sized undertakings, which thus not only provide for the continuity of the small and medium-industrial sector but also train a very large proportion of future workers in large-scale industry. While stating this, we must however bear in mind that such conditions are not typical

in all Member States since vocational training is not given on a uniform basis in the Member States of the Community.

2.5.3.2. *Different vocational training structures*

A report on EEC medium-term economic policy says an exact quantitative and comparative study of vocational training in the Member States is very difficult because of the *different training structures*. The 1963 'general principles for the achievement of a common vocational training policy in the EEC' state that efforts should be made to approximate the level of training rather than to harmonize the systems. However, it can be very generally stated that in Member States where so far young people have largely been prepared for working life in full-time schools, efforts are now being made to lay more stress on on-the-job training, while in the countries where most training has been given on-the-job there is a tendency to increase the amount of training in schools.

2.5.3.3. *The training systems in the EEC*

In principle there are three kinds of systems in the EEC Member States :

- (1) Training in school
- (2) Training on the job
- (3) A combination of (1) and (2)

In its study of the systems of education and vocational training ¹, the Economic and Social Committee of the European Community has surveyed the systems in the different Member States.

2.5.3.4. *Further and advanced training*

In all the Member States a large number of opportunities *for further and advanced training* exist after the end of apprenticeship. Thus a young skilled worker has the opportunity of taking the master tradesman's examination or an equivalent examination after several years practical work. In addition to the master tradesman's examination he can attend technical academies, colleges of technology and technical universities. Thus by raising the vocational training system he can attain the objectives which can be reached through the general education system. The self-governing bodies of the economy offer a large number of courses in all sectors, of which the following deserve particular mention; advanced training courses in business administration, courses in vocational and labour instruction, courses in management of undertakings, as well as numerous special technical courses. In some cases the courses are State-subsidized under aid programmes and so provide opportunities for further training

¹ Doc. CES 266/70 fin + Annexes.

without any great expense. Recent years have shown that the economy particularly needs skilled workers, who, after training in undertakings, have developed their theoretical knowledge by attending advanced training courses and thus reached the same goals which others attained through the most direct method. Small and medium-sized undertakings in the commercial and industrial sector have made considerable contribution to the practical training of supervisory staff.

In the EEC small and medium-sized undertakings in particular urgently require skilled staff with sufficient and technically sound *vocational training*. The skilled worker with a broad training is very highly sought in this sector, while large firms can sometimes manage with semi-skilled workers. The number and quality of young workers coming on the labour market each year are particularly important for this sector, especially when it is a question of meeting the very sharply increased demand for such labour in the consumer and capital goods sectors.

Several categories of persons are involved with *advanced training*; firstly the owners of undertakings and the managers, then the executive staff and finally the skilled workers who are to receive advanced training in the most varied different sectors.

Further training courses for *owners and managers of undertakings* play a role which is geared to their function, as also do courses which do not provide detailed individual knowledge but give an outline of the innovations in all areas of business.

Nowadays, the introduction of electronic data processing has an important role in the sector of small and medium-sized commerce and industry. Advanced training courses give managers and owners a picture of the advantages of having their undertakings linked up to inter-undertaking computer centres or to centres internal to the organization. Courses which deal with important problems in the fields of industrial, social, fiscal and economic law are also very important, as are courses which are held when changes take place in various individual sectors e.g. the law on foodstuffs. There are also technical and business management courses which are generally attended by the owners of very small, small and medium-sized undertakings. The sectors of teaching, protection of labour and psychology are also essential for vocational training and personnel management in an undertaking.

Moreover, meetings during which owners and managers of undertakings have held regular exchanges of ideas on the specific problems of their sector have also proved very successful.

Training of executive staff also covers to a large extent those sectors in which further training is provided for owners and managers of undertakings. However these courses provide precise specialist knowledge in those areas which are particularly important for executive staff. They do not provide a survey of the most important sectors of the relevant undertaking, but entail instruction and seminars on the particular field of the executive staff.

In addition to courses organized by the various Chambers and vocational organizations in the EEC, ever-increasing importance is being given to *full-time instruction*, which is

organized by the various Member States, towns, chambers of trade etc. and other institutions. Full-time instruction is provided in technical colleges, art colleges, colleges of design, colleges for master tradesmen and technical academies. In the Federal Republic of Germany the master tradesmen's colleges, whose further training courses last up to five semesters, play an essential role in the sector of small and medium-sized commercial and industrial undertakings.

In the EEC Member States there are a large number of bodies and institutions responsible for the *further training of skilled workers*. These institutions provide opportunities for further training in the field of plastic processing, electronics, electronic data processing, technical drawing, welding etc.

2.5.3.5. *Harmonization and comparison of results*

As we have already mentioned, since the signing of the Rome Treaties, *the efforts of the European Commission* and national business organizations have been directed for a long time towards *harmonizing* the level of training in the Member States. The general principles, laid down by the Council of Ministers, for the harmonization of vocational training in the EEC contain more precise rules on this subject. Attempts to harmonize vocational training programmes by implementing existing vocational directives have caused considerable difficulties. In addition it has become apparent that, on their own, the various technical concepts say very little about the possibilities of application at production level. In 1968, during the 20th International Craft Fair in Munich, efforts were made to clarify vocational concepts in France and Germany by giving practical demonstrations covering various technical sectors of work.

Subsequently these measures were continued at EEC level. The results showed that such action can help to eliminate misunderstandings, and also that it is possible in practice, by adopting a direct *common viewpoint*, to lay the foundations for a common basis for future vocational training.

Such scientific studies and the continuation of international job comparisons could be the best way of achieving harmonized vocational training in the various Member States.

2.5.4. **Competition policy**

2.5.4.1. *Importance of competition policy*

Because of their structure and position on the market, small and medium-sized undertakings must be very careful not to slip into a relationship of dependence because of large industrial cartels, market-dominating undertakings or mergers and other forms of concentration without any justification from a technical or management point of view.

On the other hand it is vital for small and medium-sized undertakings to compare notes, learn costing, be able to form working associations and cooperatives, agree on

common supply and production conditions and take joint action for certain purposes, such as exports or special deliveries. The national legislation of the different Member States does not always further these needs.

- *in Germany* cartels are forbidden in principle; exceptions are permitted under special conditions. Such exceptions must be declared however.

The special system for small and medium-sized undertakings in the Federal Republic of Germany concerns :

(a) mergers of undertakings to form working associations in restraint of competition for the purpose of carrying out specific contracts and

(b) the permissibility of price recommendations for small and medium-sized undertakings, to strengthen their market position vis-à-vis large undertakings.

- *In France* cartels which hinder economic progress are forbidden.
- *Belgium and the Netherlands* have legislation to prevent abuses.
- *Italy* has not so far introduced any special regulations.
- *In Luxembourg* there are regulations as regards prices and commercial practices.
- *In the United Kingdom* the Monopolies Commission has the power to investigate certain mergers.
- *In Ireland* there is a National Prices Commission which regulates the prices of practically all commodities and services and the Restrictive Practices Order governs competition and market domination. Legislation is pending governing mergers and concentration.
- *Germany, France, Luxembourg and the Netherlands* have regulations governing cartels, and special regulations for market-dominating undertakings (supervision of abuses).
- *In Germany* mergers which involve a share of the market exceeding 20 % must be declared. The other Member States have no special legislative provisions.

2.5.4.2. *Legal Bases*

Article 85 of the Treaty of Rome forbids agreements between undertakings, associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition. Exceptions are permitted under certain conditions. Article 86 forbids the abuse of market-dominating positions.

The Commission's ideas in this sector are expressed in two communications (the 1968 Communication on agreements, decisions and concerted practices which affect cooperation between undertakings, and the 1970 communication about agreements which are not forbidden by Article 85(1) of the Treaty establishing the EEC). By these communications the Commission hoped to allay any uncertainty which existed as regards forms of cooperation. Accordingly the following agreements are not regarded as restricting competition :

- Exchange of experience
- Joint market research
- Comparative study of undertakings and sectors
- Joint preparation of statistics and costing schemes
- Cooperation in accounting
- Joint guaranteeing of credit
- Joint debts collection
- Joint industrial or tax advisory services
- Working associations for joint implementation of contracts
- Joint after-sales and repair services
- Joint placing of research and development projects
- Joint use of production, storage and transport installations
- Joint sales.

Cooperation between undertakings helps them to introduce rational working methods, run joint advertising, use technical innovations and thus increase productivity and competitiveness in enlarged markets.

The Commission's communication on agreements of minor importance has removed an obstacle to cooperation agreements between small and medium-sized undertakings by defining, with the help of statistics, the effects of agreements on market conditions. This communication says that Article 85(1) of the EEC Treaty does not forbid agreements if the market share of the products of the undertakings concerned does not exceed 5% and if the yearly turnover of the participating undertakings does not exceed 15 million units of account or in the case of agreements between commercial undertakings, 20 million units of account. The practical application of these measures is explained by four important Commission Decisions. Commission Regulation No. 2779/72 which provides for exemptions by category for specialization agreements, should also be mentioned.

2.5.4.3. *The importance of these EEC rules*

There is no doubt that the communications and decisions mentioned in 2.5.4.2. have enabled considerable progress to be achieved. As a result directives have been prepared which cover the conduct of small and medium-sized undertakings. It seems necessary to examine if and to what extent the catalogue of permissible behaviour and agreements could be extended under the principles applied so far, by supplementing the Commission documents or by implementing the individual decisions.

Moreover it is clear that insufficient supervision is exercised, both at EEC level and under national legislation, over the increase in the number of open and secret agreements and practically concerted action by concerns, all of which lead to improper market domination. Only in a few cases are measures implemented in pursuance of Article 85 and particularly Article 86 of the Rome Treaty since the procedures for this are very time-consuming.

2.5.4.4. Concentrations

At the moment in the Member States concentration phenomena exist in all sectors, in many branches of economic activity and in almost all sizes of undertakings. Therefore they are not merely a characteristic of large industry. In many sectors of small and medium-sized industrial and commercial undertakings developments are characterized by a considerable decrease in the number of undertakings, an increase in the average number of workers per undertaking and often a considerable increase in the turnover of the sector in question. This is due in large measure to technical progress, a higher degree of mechanization, rationalization, automation, and specialization and also to increasing capital intensity, expansion beyond the regional market, changes in consumer habits etc. To the extent that concentration phenomena are dictated by technical or management reasons they often facilitate progress, contribute to job security and are in the interests of the economy.

Apart from the problem, which is not to be discussed here, of whether concentrations are basically useful or otherwise¹, it must be realized that since the establishment of the Common Market the development of concentrations has been and still is causing problems for small and medium-sized undertakings.

As a result of concentrations small and medium-sized undertakings often encounter considerable difficulties. Maintenance of their ability to compete seems economically necessary if only for the purpose of sufficiently covering needs and developing a sound economic structure.

However, where concentrations are effected merely to obtain supremacy and market domination they can even endanger the existence of small and medium-sized undertakings in certain sectors.

In such cases small and medium-sized undertakings can only take very limited defensive measures; their fate largely depends on whether the State fixes legal limits and whether executive authorities implement these laws in practice. Account must be taken of the following:

1. Competition caused by concentration, when small and medium-sized undertakings are operating in the same market as large undertakings, must not be artificially

¹ cf. information report of the Section for Industry, Commerce, Crafts and Services, (Doc. CES 773/71).

increased by certain practices, such as loss-leader prices, loss sales, premium sales, unfair advertising.

2. If mergers lead to the closure of undertakings, or the restriction or alteration of an activity, not only the direct effects on the employees of this undertaking must be considered but also the indirect effects :
 - (a) on the suppliers (for goods and services) of undertakings whose operations must be shut down, altered or restricted, and also on the undertakings employed as sub-contractors, to whom important sales markets are closed as a result ;
 - (b) on the employees of these undertakings, who as a result of the decreased operations of the supplier or sub-contracting undertakings, must also be dismissed ;
 - (c) on the activities of commercial and craft undertakings which provide goods and services for the consumers whose number will decrease or whose overall buying power will be reduced.

Since, up to the present, only the ECSC Treaty laid down an obligation for notification and authorization of concentrations of coal and steel undertakings, the Commission has prepared a proposal for a regulation on the control of concentrations between undertakings. The Economic and Social Committee approved the Commission proposal in an Opinion delivered on 28 February 1974 ¹.

2.5.4.5. National law

In this context we would like to make reference to the memorandum entitled 'Summary of the measures taken by the European Economic Community in favour of small and medium-sized undertakings' published by the Commission on 18 February 1972 (Doc. SEC (72) 650). This document provides information on the existing legal situation of cartel and competition law.

2.5.5. Fiscal policy

The achievement of harmonized fiscal legislation is prerequisite to the functioning of the EEC. This is why the Rome Treaties have laid down the principle of equality of competition as a basis both for the harmonization of fiscal law and the approximation of taxation. Harmonization and approximation will still require a considerable amount of time since the tax structures vary so widely from country to country that in many cases even the bases of taxation are different and this leads to disparities in the cost structure. In addition taxation has in recent years become an instrument of economic policy and has been allocated diverging objectives and emphasis. Thus in Germany

¹ Doc. CES 216/74.

special depreciation was temporarily permitted when necessary, in addition to normal depreciation in order to boost the economy. A few months later gradual depreciation was abolished in order to put a brake on the economy.

The following list which only gives the main differences, shows how difficult approximation would be. Even the relationship between direct taxes and indirect taxes inside the EEC influences the structure of the legislation on income tax rates.

2.5.5.1. Income tax

In all Member States income from industrial or commercial activity is classified as taxable. Germany and Luxembourg have no tax concessions for small and medium-sized undertakings with the exception of development programmes for certain sectors but in Belgium and France the owner of a small or medium-sized undertaking can opt for flat rate taxation without being legally obliged to keep books, while retaining the right to opt for individual taxation of his actual trading profit.

Industrial undertakings set up in Southern Italy are exempt from income tax for 10 years. There is no similar concession in any other EEC country except in Ireland where profits on exports of manufactured goods and services may be free of income tax.

The Netherlands and Ireland permit a shortened depreciation period for depreciable assets. In addition in the Netherlands investment reserves are exempted from tax under certain conditions – German craft undertakings have been demanding such tax concessions for many years because the amount of own capital in craft undertakings is generally low.

For taxation purposes a varying degree of importance is attached to the sale or closing down of undertakings in the Member States. In several countries profit on the sale of an undertaking is taxed at a reduced rate, and the increase in the value of the sites of undertakings considerably increases the profit on sale. In other countries however, only certain profits on sales of undertakings are taxed at a flat rate. The problem of taxing land i.e. in respect of industrial sites calls for relief of the tax burden as is also the case with estate duty.

2.5.5.2. Corporation taxes

Difficulties encountered in harmonizing and aligning corporation tax are due to double taxation of dividends, i.e. by both corporation and income tax; in fact various Member States apply different systems to distributed and non-distributed profits.

2.5.5.3. Value added tax

Under the Community VAT system overall tax liability on goods and services is divided up into amounts which are payable at each individual step of the economic process.

The amount of VAT to be paid on an individual purchase is calculated by deducting any VAT paid at previous stages for the item or service involved, from the VAT due on the price paid by the purchaser.

However, the tax rates themselves are not yet harmonized. They vary between four and 33-1/3%. In three Member States two tax rates were introduced, two other States have three tax rates and two others had even four tax rates. Each Member State took advantage of the opportunity offered by the Directive of 11 April 1967 introducing a special system for small and medium-sized undertakings.

An analysis of the various national measures taken in the original Community of Six reveals a wide range of different taxes.

In general the aim of these measures is, at least for the smallest undertakings, to cushion the effects of a tax which, since it is a tax on added value, causes particular problems for those undertakings for whom, as a result of their operations, the labour factor makes up a large proportion of the final value of their goods and services.

The systems in force lay down an upper limit. Undertakings which exceed this limit have to pay the standard tax rate. There is also a lower limit under which no taxes whatsoever are charged. On the one hand the total annual tax bill and on the other the annual turnover are important factors in fixing those limits.

Within the margins of the upper and lower limits a calculation system generally ensures that the tax rates rise progressively in order to avoid brackets which could adversely affect the development of the undertaking, in case the transition from one bracket to another involved an excessive increase in tax rate.

Moreover an attempt is being made to exclude small undertakings from the scope of VAT and to provide tax exemptions for undertakings whose annual tax contributions or annual turnover are below a certain figure.

However only Germany, France, Luxembourg, Italy and the Netherlands apply these principles. Moreover it should be mentioned that the system in force in Germany gives rise to special problems since it does not fit into the VAT system, but into the former multi-stage tax system. Thus the stimulus caused by the deduction from VAT of tax previously paid on purchases in the investment sector is lost; moreover in the case of goods and services obtained by undertakings which benefit from the special system, this leads to a postponement of the tax debt.

Finally, it should be mentioned that Belgium did not provide any equivalent concession for small and medium-sized undertakings. Special measures taken in Belgium aim at simplifying business management; shifting the deduction of tax from the retail trade to wholesale trade, fixing of flat-rate amounts for certain sectors of activity.

Even if a completely uniform tax system cannot be achieved for the whole Community, efforts should, however, be made in future to achieve a certain degree of harmonization of systems, if only to attain a uniform financial burden in each Member State with the

various systems which cover small undertakings in the Community and to guarantee gradual replacement of financial contributions from Member States by the Community's resources in the form of equal shares of receipts from value added tax. Article 25 of the 'Proposal for a sixth Council Directive on the harmonization of legislation of Member States concerning turnover taxes – common system of value added tax: 'uniform basis of assessment' (currently being discussed by the ESC) has been drawn up with these objects in mind.

2.5.5.4. *Local taxes*

In all EEC Member States, with the exception of the Netherlands and Ireland, local taxes such as the trade tax are levied on persons running industrial or commercial undertakings. Since the bases for taxation are different, comparison of the charges is not possible. In general in Germany the trading profit and trading capital are taken as the basis for taxation. In France the craft branch, the characteristics of the undertaking, the location, the rental value of the buildings, the equipment of the undertaking and the number of workers employed are all taken into account when calculating the amount of trade tax (known as 'Patente'). This type of 'Patente' also exists in Italy. It is remarkable that the German Federal government has always postponed the long overdue reform of trade tax, a long standing demand of the craft industry, by pointing to the efforts towards harmonization in the EEC on the basis of the French 'Patente' while France has recently been giving careful consideration to the possibility of introducing a trade tax on the German pattern.

The present differences and inequalities in the Community's tax policy affect small and medium-sized undertakings to a very considerable extent in some cases.

2.5.5.5. *Estate Duty*

The tax liability on the assessed value of the estate passing to the successor of a deceased partner or sole proprietor of a small or medium sized undertaking (which can arise in Ireland for example) can often prove an insurmountable burden which imperils the survival of the business. Such an event can occur when adequate provision has not been made and when finance to meet the unexpected obligation is not conveniently available.

2.6. STATE MEASURES AND INSTITUTIONS TO ASSIST SMALL AND MEDIUM SIZE UNDERTAKINGS

The States and other official institutions of the countries of the Community have long recognized the importance of small and medium-sized undertakings. Therefore it is, to a certain extent, only natural that they take measures to assist such undertakings.

* cf. Opinion of the Section for Industry dated 7 November 1973, (Doc. CES 750/73 fin)

Each country has, in varying degrees, a large number of official institutions and measures whose aim is to assist small and medium-size industrial undertakings. It is impossible to enumerate them all here. In any case they are all well known even if, in some cases this knowledge is not as objective as it could be. Only a few special aspects will be mentioned here.

2.6.1. Maintenance or financing of scientific institutes

These are mainly institutions whose aim is to study the conditions and economic environment of small and medium-sized commercial and industrial undertakings. The objectives of such institutions can include preparing documentation for advice and other measures of assistance as well as purely scientifically orientated independent basic research. In addition they often have the task of education principally by publishing the main results of their research. Books, brochures, essays, lectures, conferences are all forms for passing on scientific knowledge for other scientific sectors, for public services, associations, chambers, undertakings and their advisors, students, courts, politicians etc.

Depending on the structure of the subject, the field of activity of such institutions can cover on one hand economic, business management, technical or legal fields, or on the other research, vocational training or economic history. It is even common to find relative specialization in a clearly defined economic sector such as crafts or retail trade, or more advanced specialization by sector or group of sectors, as for example in the building trade. Organizations connected with universities and other institutes of higher education are also to be found as are independent state institutions and other official bodies, and in these cases finance is provided by public funds. In higher education in many important technical areas such as business management, the emphasis is on large-scale undertakings. Therefore special separate scientific institutes had to be set up for the sector of small and medium-sized industrial and commercial undertakings. Moreover it is much easier for large undertakings and their organizations to finance their own research institutions than for small and medium-sized undertakings and their associations. Therefore it will always be an essential public task to maintain or promote separate institutions particularly in universities and other institutes of higher education.

2.6.2. Maintenance or financing of vocational technical schools for training and further training of young workers

Often such institutes are not specifically geared to the sector of small and medium-sized undertakings. However they are frequently of more decisive importance for this sector than for large undertakings, which are often able to provide similar training and advanced training conditions in institutions belonging to the undertaking quite often without any assistance from public authorities. In addition to measures taken by professional associations, the State has important duties in this sector. It must attach particular importance to maintaining public institutions and also to participating in providing for institutions run by the associations and chambers of commerce, etc.

This sector, which is very important to the whole population, is, as statistics show, as important as other training institutions for providing the economy with a regular and smooth supply of competent workers at all levels of training.

2.6.3. Maintenance or financing of other institutions for assisting small or medium-sized industrial and commercial undertakings

In addition to the two categories of research and aid institutions mentioned above, there are a large number of public institutions which are financed by public funds and are of considerable importance for small and medium-sized undertakings even though they are not always geared solely to the latter but also help large undertakings. For example, in the Federal Republic the regional offices for industry, crafts and commerce (Landesgewerbeämter) should be mentioned. In Italy the ENAPI in Rome (Ente Nazionale per Artigianato e la Piccola Industria) should be specifically mentioned. It is an extremely effective organization for promoting crafts and small undertakings etc. It helps to promote exports and provide direct advisory services for undertakings. Research, active participation in trade fairs and exhibitions, establishing contacts, maintenance of permanent establishments abroad are only some of the tasks of this State promotion institution.

2.6.4. Other measures for assistance by public bodies

The large number of other assistance measures can only be enumerated here :

- Promotion measures connected with credit (dealt with separately and in detail outside this report) ;
- Structural and regional policy measures (dealt with under 2.5.2.1 and 2.5.2.2) ;
- Social policy measures (dealt with under 2.5.3) ;
- Granting of subsidies for assistance measures taken by organizations and chambers (including comparative studies between undertakings, cooperation projects, but particularly for training or further training and especially for the business consultancy system ;
- Promotion of rationalization institutions (Productivity centres in Germany ‘the Centre for rationalization of the German economy’
- Promotion of exports, granting of subsidies for trade fairs and exhibitions, encouragement to small and medium-sized undertakings to help themselves. (by legal provisions : cartel law, fiscal law, cooperative law) ; – das Rationalisierungskuratorium der Deutschen Wirtschaft) ;
- Promotion of small and medium-sized undertakings through public contract systems.

2.7. PRIVATE OR SEMI-STATE ASSISTANCE BY, FOR EXAMPLE, BUSINESS ASSOCIATIONS AND CHAMBERS ¹

2.7.1. Industrial consultancy for small and medium-sized undertakings

Due to rapid economic and technical development the management of small and medium-sized undertakings is increasingly faced with problems whose solution requires the assistance of experts with broad experience and specialist knowledge. Unlike large undertakings, small and medium-sized concerns have insufficient resources to employ enough specialists. To compensate for this they have to consult advisors on a temporary basis. For tax consultancy, permanent long-term partnerships and confidential relationships are established between undertaking and consultant. However advice on business management and technical assistance is of a more sporadic nature. Thus willingness to seek a consultant's advice depends to a considerable extent on the confidence inspired by the individual consultant. Therefore a first step to assistance would be the recommendation of private reliable advisers by neutral organizations independent of the undertaking (State institutions, business associations, chambers, rationalization or productivity centres etc.). In the Federal Republic of Germany for example, this is done by the Council for the rationalization of the German economy (Rationalisierungskuratorium der Deutschen Wirtschaft) – RKW.

Special consultation services are of particular importance for craft retail trade and small and medium-sized industrial undertakings; such services are provided by the State, economic organizations, vocational chambers, institutes and similar institutions. In the Netherlands for example, the 'Central Instituut voor het Midden en Kleinbedrijf' (CIMK) (Central Institute for small and medium-sized undertakings) in Amsterdam maintains a department providing collective and individual consultation for small and medium-sized undertakings in the retail trade, crafts sector and catering trade; in addition some vocational organizations provide consultation services for specific sectors and finally the three central organizations for small and medium-sized undertakings themselves provide advice on simple matters, while more complicated matters or problems are referred to the two previously-mentioned organizations. In the Federal Republic of Germany the craft organizations independent of undertakings i.e. the craft chambers and the vocational associations have for many years provided a comprehensive consultation service for business management and technical problems in the craft sector. Table 2 provides a summary of their fields of activity and structure. Like the wholesale trade association the German retail trade association maintains its own consultation services. Table No 3 gives a summary of special consultation services for craft undertakings in Italy.

In France, the Centre for Training and Advanced Training in Crafts (CEPAM), an organization founded jointly by the craft association and the public authorities, trains industrial consultants for the craft sector – the 'Assistants Techniques des Metiers'

¹ The institutions mentioned here are only meant as examples and the list is of necessity incomplete, particularly as regards purely private law facilities provided by chambers in individual Member States.

and the 'Moniteurs de Gestion', are responsible for providing groups of workers attending joint courses, with information on simple matters connected with business management, administration technique and organization. These consultants are at the disposal of the craft chambers for general activity, or the vocational organizations, along with whom they deal with the problems of a specific vocational sector. They carry on their work either at State level – in the 'Assemblée Permanente des Chambres de Metiers' (Permanent assembly of craft chambers) and in vocational organizations – or at regional level, most frequently, however, at 'département' level in the craft chambers.

In order to be able to carry out its task in the sector of training and further training of industrial consultants the CEPAM is State-subsidised. The State also takes over part of the expenditure which is involved in the employment of industrial consultants.

For the retail trade sector, consultants, known as 'Assistants Techniques du Commerce' are trained by the 'Training centre for business consultants for trade' (CEFAC). They are at the disposal of industrial and trade chambers and also of marketing and producing firms.

The training centre for the trade and sales sector (CECOD), a public institution of the permanent assembly of the industrial and trade chambers, is responsible for coordinating their activities. CECOD is active in the following fields: information, general studies, the commercial aspects of town planning, business consultancy for the retail trade and hotel and catering, training and advanced training.

For Belgium the Economic and Social Institute for Small Business (IESCM) should be mentioned. It is a public institution which comes under the Ministry for the Middle Classes. It has several departments whose activities are financed by public funds. These departments provide direct or indirect consultancy facilities for craft undertakings and associations, small scale industry and small and medium-sized commerce.

The department for business consultancy, for its part, trains business consultants for the private sector.

In the special consultancy organizations which have just been described the consultants are generally employed on a permanent basis and are paid from various State subsidies. The State gives grants to finance two years training for a consultant in the consultancy organization for German retail trade. Approximately 50 % of the costs of the consultation services for German craft industries are provided from State funds; the remaining 50 % is provided by the craft organizations; organizations which employ business consultants in France receive a degressive State subsidy for expenses in connection with the employment of these persons. In the first year this grant is about 70 %, then it gradually decreases and from the 4th year on amounts to 40 %.

Private consultants charge consultation fees to undertakings at the normal rates. Small and medium-sized commercial and industrial undertakings in the Federal Republic of Germany receive graduated subsidies. Depending on turnover the subsidies can be as much as 75% of the consultation fee. However, there is a maximum of DM 300 per day with a maximum reimbursement of DM 50 per day for travelling

Possible structure of a consultation service for craft organizations
 – based on the example of the GFR –

Table 2

Field of consultation	Responsibility of consultant by branch and region	Consultants by sector	
		regional (at federal 'Land' level)	inter-regional (Federal territory)
<i>Business management and commercial sector</i> (including special consultation for sub-contractors)		only in individual cases	yes (typical) by federal vocational organizations
Export only		no	no
<i>Technical problems</i> (including special consultation for sub-contractors)		only in individual cases	only in individual cases, by federal vocational organizations
Only form of undertaking		no	no
<i>Legal questions</i> Industrial law/ social law tax law ; economic law in general (contract law, commercial law, competition law etc. – not meant to replace independent taxation and legal consultant)		limited (*)	no
<i>Vocational training</i>		limited	no

(*) Guilds and vocational associations also provide to a limited extent legal information about vocational branches (e.g. on legislation concerning building prices and foodstuffs) For the craft sector, general consultation on business management and technical matters cannot normally be provided by one person (difficult for a team also).

General consultants (not specialized in a specific sector)		Form of consultation		
regional (federal territory, region district level)	inter-regional (federal territory)			
yes (typical) craft chambers, craft associations at district level, also consultation for sub-contractors	no	more intensive individual consultation on the job (excludes form and export)	Individual short consultation: personal consultations, written and by telephone	General consultation: lectures, publications
yes (Federal 'Länder')	no (but possible)			
yes (typical) craft chambers also sub-contractors	no			
yes (Federal 'Länder')	no (but possible)			
yes (typical) (particularly craft chambers)	no			
yes (typical) (particularly craft chambers)	no			

Consultation services for crafts in Italy

Field of consultation	Responsibility of consultant by branch and region		Consultants specialized in a specific sector		General consultants (not specialized in a specific sector)	
	rôle limited to region	inter-regional rôle	rôle limited to region	inter-regional rôle	rôle limited to region	inter-regional rôle
Business management and commercial sector	yes (including ESA, ISOLA)	yes (ENAPI)	yes (including ENAPI)	generally no (only occasionally)	yes (including ENAPI)	generally no (only occasionally)
Export only	no	no	no	yes (ENAPI Tuscany)	no	yes (ENAPI Tuscany)
Technical problems	no	yes	yes (ENAPI-ESA)	generally no	yes (ENAPI-ESA)	generally no

Consultation services for crafts in Italy :

- ENAPI — Ente Nazionale per Artigianato e la Piccola Industria, Roma
(National Organization for Craft and Small scale Industry, Rome)
- IVL — Istituto Veneto dei Lavori, Venezia (Venetian Institute for Labour, Venice)
- ISOLA — Istituto Sardo Organizzazione Lavoro Artigiano, Sardegna
(Sardinian Institute for the Organization of Crafts, Sardinia)
- ESA — Ente Sviluppo Artigianato, Friuli (Association for promotion of Crafts, Friuli) and
Ente Sviluppo Artigianato Valdostano, Aosta (Association for the promotion of Crafts, Aosta)

expenses. In retail trade only undertakings whose turnover is less than DM 2.5 million receive subsidies; the subsidy ranges from 75 % for undertakings whose turnover does not exceed DM 400,000 to 25 % for undertakings with a turnover of up to DM 2.5 million.

In the Federal Republic of Germany craft organizations provide a free consultation service for undertakings affiliated to them. In Italy consultation is also free for craft undertakings (within the Italian definition of craft) while small industrial undertakings have to pay part of the consultation fees. In the Netherlands undertakings who consult the 'Centraal Instituut voor het Midden-en Kleinbedrijf' are charged a daily fee which varies according to the size of the undertaking. This means that smaller undertakings pay less.

The organization of consultation services for different economic sectors often requires consultants to specialize in certain fields; for example on one hand specialization in business management, on the other hand technical specialization or yet again sectoral specialization or even specialization in several fields; in addition account must be taken of regional limitations of the ability of consultants. Table 2 mentioned above gives as an example the present structure of consultation services in German craft organization. The table shows that the craft chambers provide consultation in legal and vocational training matters, which have long been traditional areas of consultation for these institutions.

In order to create sound bases for consultation on business management in particular the vocational organizations often cooperate in a particularly active manner in the implementation of inter-undertaking comparisons which are mainly the responsibility of public institutions. The associations occasionally carry out such comparisons with and also without public subsidies. The importance and necessity of such comparisons was discussed under assistance measures taken by the public authorities (see pages 66-70).

2.7.2. Measures for vocational training and further training in the commercial and specialized technical field

The traditional tasks of the joint organizations of small and medium-sized undertakings include; maintaining technical colleges, organizing courses, training periods and seminars, holding examinations, running competitions and taking various other measures to provide a systematic sound training and further training for entrepreneurs and their colleagues. The following measures deserve particular mention:

- (a) joint training of apprentices by undertakings, in some cases in training-centres owned by the organization
- (b) organization of advanced training periods and courses for journeymen and skilled workers
- (c) organization of preparatory courses for the master tradesman's examination by the craft chambers, maintenance of technical colleges and colleges for master tradesmen by the vocational associations

- (d) the organization of journeyman's and master tradesman's examinations
- (e) further training of entrepreneurs.

State subsidies are often provided for these measures, since the financial resources of the organizations are generally insufficient and since the organizations are in any case assuming important tasks for the general public.

With the increasing demands of general technical progress, competition and cooperation with large scale industry, more and more importance must be attached to the very large field covered by the above-mentioned institutions whose task is to improve the production capacity of small and medium-sized undertakings. Despite its marked traditional character this field of activity is of very great significance for the present and the future.

2.7.3. Sales promotion, organization of trade fairs and exhibitions

Particularly in the last two decades the chambers and the vocational associations have made increased efforts to promote the sales of undertakings affiliated to them. Without prejudice to the measures taken by State organizations, the chambers and vocational organizations do their utmost to promote exports and to run joint advertising campaigns. They organize exhibitions and trade fairs or take an active part in them. They often succeed in widening the scope of such exhibitions and fairs by organizing parallel seminars and congresses. Specific examples in this context are the international craft fairs which have been held for decades in Munich and Florence. When dealing with sales promotion the possibility of joint marketing must not be ignored. This will be dealt with in more detail under cooperation matters.

2.7.4. Market research

While large undertakings can, to a large extent, use their own resources to investigate important sales and supply markets, small and medium-sized undertakings have difficulties in entering this area without joint assistance. Thus in recent years the organizations and chambers responsible for this type of undertaking have made greater efforts to help them to evaluate the markets which have become increasingly more confused and uncertain.

They collect information through so-called secondary surveys, i.e. using information collected by other organizations, and also by their own primary surveys, observations and considerations. They inform their affiliated associations through specialist journals, information sheets, lectures and individual consultation. They evaluate not only short-term economic fluctuations but also long-term structural developments, a knowledge of which is often essential if adaptation measures of vital importance to undertakings are to be taken. New materials, machines and equipment, new production techniques are just as important as developments in competition or a shift in consumption.

2.7.5. Encouragement of rationalization of undertakings and cooperation between undertakings

As a result of their own market surveys and evaluations and experience gained by consultants in undertakings, certain progressive organizations of small and medium-sized undertakings strive to improve competition between undertakings by encouraging systematic rationalization and inter-undertaking cooperation which quite often go together.

Technical rationalization is achieved with the help of technical consultants and specialists journals published by the organizations, as well as by means of courses, training periods, special exhibitions (e.g. at trade fairs). In the sector of crafts and small-scale industry the incentive payment system which is becoming more and more widespread, has also become vital to many smaller and medium-sized undertakings at a time when there is a great shortage of skilled workers. The increase in construction costs and in the price of land also compels undertakings much more so than in the past, to plan and erect new buildings in a rational manner and to operate with a minimum of labour. Therefore consultation is particularly important for these matters.

In the commercial sector there are always demands and opportunities for rationalization, for new administration methods, accounting, financing, new office machines, space and labour saving installations. In particular opportunities for electronic data processing create new tasks in this field. For years now medium-sized undertakings have been examining the problem of a more intelligent use of small computers in business administration, and for despatch and production control operations in some sectors. Smaller undertakings are particularly concerned with the question of using these new opportunities through central accounting offices and calculation centres – as a matter of division of functions. On the one hand great importance must be attached to the organizations' own consultation service and on the other to the initiatives taken by the organization to establish and develop appropriate Community institutions or cooperation with existing efficient private institutions.

2.7.6. Documentation and information

For reasons already mentioned in another context the organizations of small and medium-sized industrial and commercial undertakings have a particular task in the field of information, if they are to offset, to some extent at least, their unfavourable information position vis-à-vis large undertakings. In larger undertakings several members of the executive staff can deal with the study of information material but the vocational organizations must offer the owners of small and medium-sized undertakings a certain preselection of information important for them. This is why many larger vocational organizations publish trade periodicals and a number of chambers of crafts and of industry and commerce publish journals providing selected information collected from the membership of the organizations. Publication of books, brochures, memoranda, circulars, lectures and the provision of information are

all part of the very important information service provided by the chambers and associations.

In addition these bodies have important tasks in the field of documentation : libraries, archives and statistical departments compile data and information and this is made available to affiliated undertakings which cannot afford such documentation. The chambers and associations also use this data as a source of information in fulfilling their own duties.

2.8. COOPERATIVE SELF HELP MEASURES OF SMALL AND MEDIUM-SIZED INDUSTRIAL AND COMMERCIAL UNDERTAKINGS

Small and medium-sized undertakings must cooperate with each other if they are to counterbalance effectively the ever-increasing influence of large undertakings. Certain functions are pooled in order to raise the output of the participating undertakings and thus increase their competitiveness.

2.8.1. Industrial and commercial cooperatives

The above comments are particularly applicable to cooperatives which were founded approximately 100 years ago to combat economic difficulties in the craft sector.

Purchasing or selling cooperatives are the oldest form of self-help practised by undertakings.

Purchasing cooperatives are more numerous in the retail trade — and particularly in the foodstuffs trade than in the craft sector. They offer small and medium-sized undertakings numerous advantages, such as more favourable purchase prices, rationalization of purchases, a better general view of the market, overall control of deliveries, increased bargaining power etc. Moreover the function of these cooperatives is increasingly expanding beyond joint purchasing. Thus storing, financing, business establishment, sales advice, advertising, book-keeping etc. are now often part of the tasks of a purchasing cooperative.

Apart from Germany, purchasing cooperatives exist in Belgium, France, the Netherlands and Luxembourg, principally in the food industry, joinery and in the clothing, metal and construction industries.

In Italy the system of craft cooperatives is not so well developed at the moment. Purchasing cooperatives exist exclusively in the retail trade sector.

Marketing associations have been developed particularly in the craft sector to promote the marketing of products made by members. Such associations offer the following advantages : improvement in market situation, opening-up of new markets, rationalization of sales, covering of customer risks, increased bargaining power etc. On the whole they are considerably less important than purchasing cooperatives.

The credit cooperatives include various credit institutions with a cooperative structure. They help to obtain external capital, assist in the building-up of own capital and the financing of consumer credit.

Where credit cooperatives operate in the European Community, they play an important role in providing credit for crafts, commerce, the liberal professions, small and medium-sized undertakings employment and non-independent small businesses. Cooperative banks are mutual assistance institutions for the small business sector and as all-purpose banks they provide small and medium-sized firms in particular with a full range of banking services. The credit cooperatives, which were agricultural in origin, (e.g. the Raiffeisenbanken in Germany), nowadays draw their members and customers also from the industrial and commercial sector and are thus very similar to the 'Volksbanken' ('people's banks'). The activities of the 'Volksbanken' and other cooperative banking institutions – particularly on behalf of small business – are reflected in their considerable balance sheet totals.

Production cooperatives are by the nature of their functions of limited importance and do not require more detailed discussion.

For their part the 'primary cooperatives' set up directly by the affiliated members have created 'central cooperatives' at regional and national level. The aims, decision-making processes and relationships with members of 'central cooperatives' are not fundamentally different from those of 'primary cooperatives'; however they have a broader basis for their activity and as a result are able to overcome certain obstacles encountered by primary cooperatives such as geographical restrictions, small and fluctuating membership, varying use of the cooperatives by its members, financing difficulties because of insufficient own capital and insufficient risk distribution.

The multifarious opportunities for cooperation between cooperatives at international level are hindered by linguistic, sociological, economic and political factors. Furthermore the circles of undertakings, which belong for example to craft cooperatives varies from country to country: in France for example, only small undertakings belong to craft cooperatives.

2.8.2. Joint institutions in the trade sector

For many years now trading chains have played a very important role in the retail food trade, alongside purchasing cooperatives. Their role is similar in many respects to that of purchasing cooperatives and despite many formal restrictions they can to a certain extent be regarded as a cooperative self-help measure. Like purchasing cooperatives they help to strengthen the supply market position of small and medium-sized undertakings in the retail food-trade, to provide more favourable buying of goods, to circulate the results of market research from the point of view of both sales and purchases, to provide assistance in advertising, suggestions for shop and display-window lay outs. It would be impossible to do without these organizations in the retail food trade. In this sector there are very few undertakings which are not connected with a purchasing cooperative, a trading chain or a purchasing group.

Moreover in recent years the purchasing groups already mentioned are often to be found in many craft branches and also in the sector of small and medium-sized industrial undertakings. In such cases they are a special forms of purchase cooperative without cooperative legal status. Well organized cooperative institutions can, as joint organizations provide undertakings with services equal to those of cooperatives or trading groups.

In this context mention should also be made of 'shopping centres' in which retail firms, independent of one another are gathered under the same roof.

2.8.3. Participation in working associations

Small and medium-sized undertakings are increasingly participating in working associations, which are an effective and adaptable form of cooperation. For example working associations play an essential role in the construction industry. This sector accounts for a very large proportion of small and medium-sized industrial and commercial undertakings. Indeed it consists largely of undertakings of this size – taking their operating ratio as a criterion, over 90 % of undertakings in the construction sector are small or medium-sized, although their proportion of the turnover is considerably smaller.

Working associations are generally formed to carry out a single relatively large contract. This form of cooperation between undertakings allows small and medium-sized undertakings in the production sector to take on large contracts which they would be unable to accept in the absence of such a partnership. Moreover the working association avoids tying down of all the workers in an undertaking to a single large contract. It ensures broader market contacts and thus greater elasticity in the undertaking. This type of partnership has got other advantages. In particular it can be used to exploit favourable situations or on the other hand to offset shortages. In quite a few cases this type of cooperation brings about an automatic exchange of experiences between the undertakings taking part. Particularly in recent years persons or undertakings awarding contracts have criticised the predominant form of working association in the construction industry. The customers say in fact that they encounter certain disadvantages since working associations are not normally headed by a leading undertaking with full responsibility, like a kind of general contractor. As a result efforts have been made recently to improve existing working associations along the lines requested by their customers.

2.8.4. Joint and collective advertising

Small and medium-sized undertakings have the opportunity of influencing the market if several firms or a whole branch cooperate in advertising. The advantages of such joint advertising are: lower costs and greater efficiency, a powerful effect on the clientele's desire to buy, gaining of new customers, improvement of information, elimination of prejudices etc. However one disadvantage of joint advertising is the fact that an individual firm cannot be highlighted. In addition to joint advertising we have collective advertising.

While joint advertising provides a kind of anonymous advertising for one type of product or group of undertakings, collective advertising is a condensed version of individual advertising efforts. This type of advertising also helps to reduce costs and increase efficiency. The names of individual firms are mentioned. Cooperation in advertising permits small and medium-sized undertakings to take measures and use advertising media which normally are reserved for large undertakings only. This is why joint advertising appears on television screens and is heard on radio. It is used not only to promote sales but is also being used to an increasing extent to recruit staff. This type of advertising campaign is run by the economic organizations.

Collective advertising has also an important cumulative effect, since it provides its subjects with a selection of offers arranged horizontally or vertically. Particularly striking examples in this sector are joint newspaper advertisements inserted by construction firms on the completion of a large contract. In such cases all firms involved in the contract are mentioned along with a joint text and photographs. Such advertisements are more likely to arouse readers' interests than a single advertisement without such a systematic summary.

2.8.5. Exchanges of experience between undertakings and participation in comparison of undertakings

Systematic exchanges of experience between undertakings, just like other methods of cooperation, allow small and medium-sized undertakings to make use of certain advantages which, in the absence of such exchanges, would be the preserve of large undertakings only; this is a tried and tested method which presupposes frankness, confidence, expertise and a sense of commitment on the part of all those concerned who usually are to be found in comparable groups of undertakings, established in keeping with technical considerations and often extending beyond the regional structure. In a large undertaking even exchanges of experience within the undertaking – quite apart from the existence of a more broadly-based executive staff – are of considerable advantage. However the management of small and medium-sized undertakings rarely finds an equivalent discussion partner within the undertaking. Mutual exchange of information between undertakings even about internal otherwise confidential data and experiences can prevent many of the participants from making wrong decisions.

This is also true of participation in comparisons of undertakings, which are not carried out jointly within groups exchanging experiences, but are for example, held by public research institutes or organizations. They make a considerable contribution to improving information and help to avoid mistakes in business management.

3. CONCLUSIONS AND OBJECTIVES

3.1. GENERAL

(a) Following the establishment of the European Economic Community many different initiatives have been taken to exploit the larger market. An attempt was made to eliminate gradually internal restrictions and to replace them by suitable EEC systems in company law, in economic, social, fiscal and educational policy and in many other sectors.

(b) In doing so it was inevitable that certain problems, economic and other sectors, and even certain sections of the population were neglected at the start or received insufficient assistance to adapt.

Unlike small and medium-small undertakings, large concerns can generally exploit the advantages of the enlarged markets, particularly since the measures taken so far by the Commission to help firms to adapt structurally are not particularly geared to assist small and medium-sized undertakings as regards opportunities for development and cooperation. Thus it is understandable that small and medium-sized undertakings often feel very neglected, (not only 'occasionally' as the memorandum on industrial policy says), and criticize the fact that they are frequently only mentioned in sub-clauses in the most varied in which Community institutions take a stand on economic and social policy matters. A case in point is the technological and industrial policy programme, which is of special importance for small and medium-sized undertakings — particularly those who are subcontractors.

(c) Despite the insufficient attention given to the problems of small and medium-sized undertakings, their importance for the State, society, the economy and European integration is recognized by almost everyone.

The importance of small and medium-size undertakings for the Community is due to their large number and their vital role as regards competition, to the innovations for which they are responsible, to their social permeability, when new undertakings are being set up, to the achievement of an optimum supply of consumers and their influence on culture. They are important because they involve owners of small and medium-sized undertakings in work of social value, e.g. they encourage independence, the private formation of assets, individual achievement, and civic spirit, environmental protection and the quality of life. Not every small and medium-sized undertaking exhibits these characteristics but on the whole such an effect is unmistakable.

(d) In the preceding chapters a number of problems peculiar to small and medium-sized undertakings have been raised.

Appropriate solutions can be applied in some cases by the trade organizations, in others by the Member States and in still others by the Community authorities.

This chapter deals only with solutions which could be applied by the Community authorities.

Some of these solutions come within the Commission's terms of reference. To allow the Council to adopt the necessary additional measures, appropriate promotive measures would have to be taken by the Commission. Finally the Council has already before it a number of proposals on which it must take immediate decisions.

3.2. DEMARCATION – DEFINITIONS

(a) There is still no clear definition of undertakings which fall into the category of 'small and medium-sized undertakings'. It is true quite a number of attempts have been made to achieve a generally recognized definition at national and international level but none of these have been successful.

Definitions for sectors of small and medium-sized undertakings cannot cover the situation in all Member States. Furthermore it was not possible to find generally satisfactory criteria for the concept of 'small' and 'medium'. Even efforts to supplement quantitative data by qualitative characteristics did not lead to a uniform accepted definition.

(b) Special quantitative and qualitative criteria in keeping with the assistance to be given can be laid down for considering individual assistance measures (e.g. assistance for financing business consultancy, statistics, public supply contracts, fiscal systems and assistance under regional policy). Qualitative characteristics include, in particular, property conditions, registration on the craft register, market situation geographical situation or the necessity for structural adaptation.

3.3. STATISTICS

Information on the development of small and medium-sized undertakings in the Community is contradictory and insufficient.

To obtain greater clarity as to the development in the number of small and medium-sized undertaking in the craft, industrial, trade and commerce and services sectors, in view of their importance, it must be urgently requested that comprehensive statistical surveys based on the size of the undertaking be held in all main sectors of small and medium-sized industry simultaneously in the Community at least every five years. Calculation of the size of the undertaking should be based on the number of employees and the level of turnover in various size categories. The Commission is recommended to examine what quantitative criteria can be laid down in the production, retail (e.g. and wholesale sectors).

These enquiries would then yield data which would make it possible to keep under review the trend in respect of small and medium-sized undertakings both in the economy as a whole and within individual sectors. In addition an annual survey should be conducted on the development of turnover and of the number of undertakings and workers. Such surveys are an absolute prerequisite for a resolute policy for small and medium-sized undertakings.

3.4. COMMUNITY POLICY

3.4.1. Economic Policy

Short-term economic policy is often based on data which gives very little consideration to the conditions of small and medium-sized undertakings. An examination should be made to see to what extent short-term economic developments can be recorded for the sector of small and medium-sized undertakings, in order to obtain corresponding data for the evaluation of the structural development of small and medium-sized undertakings. The Commission should also develop principles for a structural policy which takes account of the situation of small and medium-sized undertakings.

3.4.2. Competition Policy

We may presume that the repercussions on small and medium-sized undertakings of concentration phenomena in the European economy are being taken into account in the Commission's current studies. Effective control of mergers seems just as necessary as measures to facilitate cooperation between small and medium-sized undertakings by further exemptions by category (this should include for example joint purchasing). Moreover, it would be useful to publish an information bulletin on permissible competition rules and concerted action.

3.4.3. Policy for establishing suitable legal structures.

Efforts to create legal conditions to promote international cooperation between small and medium-sized undertakings should be supported. These include the Statute of a European Cooperation Grouping and also, although perhaps to a lesser extent, the Statute of the European Company. However, priority must be given to harmonization of private limited liability company law with due regard for the situation of small and medium-sized undertakings, and to drawing up a European Statute for private limited liability companies and cooperatives.

3.4.4. Regional Policy

Regional development plans should include the indication of suitable locations for small and medium-sized undertakings, while urban development plans should take account of the need for a sufficient number of shops and service facilities. Regional and town planning should be designed to promote a coordinated effect on the Member States and to encourage institutes which deal particularly with the launching of industrial or commercial undertakings. When the European Regional Development Fund begins to function in the near future the role of the small and medium-sized undertakings should be considered.

3.4.5. Credit Policy

Credit policy measures which have been taken successfully in different countries to encourage small and medium-sized undertakings must be supported. Credits from the European Investment Bank, for example should be used to help small and medium-sized undertakings also.

In order to compensate for the difficulties experienced by small and medium-sized undertakings in gaining access to the capital market, the creation of private associations should be promoted.

Guarantee and credit guarantee institutions should be fostered to allow undertakings or entrepreneurs that do not have real security commensurate with the amount of the loan requested, to obtain the loan by providing that the project to be financed is profitable, that the head of the undertaking is trustworthy and has professional competence and that the undertaking is financially sound.

3.4.6. Policy of technological research and development

As soon as the Council has approved the Commission's proposal for the introduction of 'Community contracts for industrial development'¹ small and medium-sized undertakings must be informed of the possibilities for obtaining Community loans. Thus it will be possible to guarantee that the dynamism and the wealth of innovation which is characteristic of small and medium-sized undertakings, can be used for the technological development of the Community.

3.4.7. Fiscal Policy

Fiscal policy should be geared to encourage undertakings to further development. It is particularly important that small and medium-sized undertakings be given the opportunity to build up reserves enjoying tax concessions for adaptation and expansion measures.

No particular reference is made here to the national systems for small and medium-sized undertakings. As far as possible they should be maintained and also harmonized. When efforts at harmonizing VAT are being made, consideration must be given to the situation of small and medium-sized undertakings. National VAT laws provide a basis for this. However they will have to be approximated to a further degree by future community tax harmonization measures. Above all, measures must be taken to simplify the collection of VAT, (exemption – flat rate) for undertakings whose turnover is small and it must not entail an excessive administration burden for medium-sized undertakings. The same goes for other types of indirect taxation. Moreover, in connection with the transmission of family undertakings by inheritance, ways must be sought to maintain continuity (inter alia in the field of estate duties).

¹ ESC Opinion of 24 May 1973 (Doc. CES 436/73).

Consideration should also be given to providing fiscal assistance for the establishment of new small and medium-sized undertakings. A kind of 'tax holiday' could be considered. Appropriate measures should be taken to help people wishing to give up a business on grounds of old age.

3.4.8. Education and training policy

The existence of small and medium-sized undertakings is by no means as secure and beyond dispute as the statistical surveys – albeit incomplete – in some States appear to prove. The number of works closures (mortality rate) is very high when considered in the absolute. Even if closures are offset by the setting-up of new undertakings, they represent considerable economic losses, quite apart from the serious human problems which are always involved. Therefore greater encouragement should be given to the establishment of new small and medium-sized undertakings. In particular appropriate measures should be taken to demonstrate that an improvement in the training and further training of owners of undertakings increases and extends the efficiency, competitiveness and adaptability of small and medium-sized undertakings. Experiences should be exchanged on the appropriate form of training in business management.

Continuing efforts to harmonize ¹ vocational training of workers are in keeping with the interests of small and medium-sized undertakings. It is important for them that there should be a dual vocational training system in which on-the-job training and vocational education dovetail. Special burdens on small and medium-sized undertakings are to be avoided.

Efforts should be made to achieve close cooperation between institutions responsible for training business consultants, in order to exchange experiences and training and further training programmes, to compare training methods and to evaluate the success of business consultancy.

3.4.9. Social Policy

A study should be undertaken to find possible alternative methods of financing social security systems. A particular factor to be borne in mind is that when social security systems are financed from wages and salaries, labour-intensive undertakings, which help to maintain full employment, are put at a disadvantage.

In view of the diverging social security systems for owners and managers of small and medium-sized undertakings speedy harmonization would be desirable. It is particularly urgent and essential that self-employed persons who pay equivalent contributions should enjoy the same benefits as wage or salary earners.

Regarding measures, financed by the Social Fund, in favour of self-employed persons, we regret that the principles, on which according to the Council decision of 2 February

¹ cf. also the Study on Vocational Training (Doc. CES 266/70 fin).

1971, these measures are to be based, have virtually not been applied. This decision could in fact enable many small and medium-sized undertakings to keep pace with economic and technological developments which have been speeded up by the establishment of the Common Market.

3.5. SPECIAL ASSISTANCE MEASURES

(a) Structural analyses ¹ should be made for the various sectors of small and medium-sized business such as craft, commerce, industry, hotel and catering, transport and other services, in order to give a better picture of their economic conditions.

Similar surveys are also recommended for individual sectors.

(b) Plans and measures for assistance which have often been drawn up in the Member States for various sectors of small and medium-sized business should be continued and developed.

In particular the public authorities should continue to encourage the establishment of technical, business-management and design consultation services by associations and chambers of commerce and industry. A comprehensive exchange of experience between these services is urgently recommended as are measures for the continuous training of consultants.

(c) We must welcome the establishment, on the Commission's proposal, of a business cooperation centre. We recommend that a special section be set up within this body for the promotion of sub-contracting, to stress the particular importance which the centre has for cooperation between small and medium-sized undertakings.

We also think it appropriate to set up within this centre a documentation and information service. The lack of such a service is often felt.

We further propose that the centre should publish an information sheet on the opportunities for establishment in the different Member States, with details of the economic and social conditions and the legal provisions concerning the right of establishment in each country.

(d) To promote European cooperation between small and medium-sized undertakings and to provide information and facts the Commission should encourage European exhibitions and trade fairs dealing with small and medium-sized undertakings or varicus sectors and groups. Particular attention should be given to the fields of design, rationalization and sub-contracting by holding special exhibitions during European trade fairs. The same applies to the promotion of European group and Community stands dealing with small and medium-sized undertakings, international trade fairs and exhibitions.

¹ Experience of interest to small and medium-sized undertakings in the USA and Japan should also be evaluated.

(e) Various scientific institutes have chosen the sector of small and medium-sized business as a research project. We urgently recommend the preparation of an inventory of such institutes and similar institutions and we also recommend cooperation between them.

(f) In view of the exponential increase in population, the gradual exhaustion of supplies of raw material and energy and continuing environmental pollution, there is a distinct threat of an economic and ecological imbalance in the foreseeable future. If the Community takes specific measures to achieve a balance it appears absolutely essential to devote particular attention to the situation of small and medium-sized undertakings, because it is thanks to these undertakings that the aims of economic growth and on improvement in the quality of life can be reconciled.

(g) Encouragement of small and medium-sized undertakings should be dealt with by the Commission in a particularly responsible manner. First of all we propose the establishment of a 'horizontal' department which would have the main responsibility for fundamental matters being dealt with by any of the Directorates-General. In addition consideration should be given to establishing a European institution which, like the SBA in the USA, would implement Community policy on small and medium-sized undertakings.

(h) The manner in which the various Commission memoranda and actual programmes have so far dealt with the conditions in sectors of small and medium-sized undertakings is unsatisfactory. We propose that the Commission should, on the basis of the present study, submit to the Council an annual report on the conditions in small and medium-sized undertakings, which would also be sent to the Economic and Social Committee and the European Parliament for their opinions.

(i) It is imperative that the Commission discuss the scope for assistance measures on a more frequent and active basis — at least twice a year — with government experts responsible for questions involving small and medium-sized undertakings, and in conjunction with representative professional organizations.

(j) We expect that small and medium-sized undertakings should not be used merely as a stimulus to competition but that their importance and desire for efficiency in the interests of society should be recognized and encouraged.

(k) This Study and its conclusions are intended to prompt the Commission to initiate appropriate assistance measures. The ESC should be consulted at the appropriate moment on the individual measures so that its members can express their views both in detail and definitively.