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Report

drawn up on behalf of the Committee on Economic and Monetary Affairs

on questions relating to small and medium-sized undertakings in the Community

Rapporteur: Mr H. NOTENBOOM

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PE 49.357/fin.

In connection with the resolution¹ adopted on 11 May 1976 the European Parliament instructed the Committee on Economic and Monetary Affairs to draw up a report on questions relating to small and medium-sized undertakings.

On 21 May 1976 the Committee on Economic and Monetary Affairs appointed Mr Notenboom rapporteur.

It discussed this subject at its meetings of 14/15 February 1977, 23/24 June 1977, 29/30 September 1977, 21/22 December 1977 and 24/25 January 1978.

On 25 January 1978 the Committee on Economic and Monetary Affairs adopted the motion for a resolution and explanatory statement unanimously with one abstention.

Present: Mr Glinne, chairman; Mr Notenboom, vice-chairman and rapporteur; Sir Brandon Rhys Williams, vice-chairman; Mr Leonardi, vice-chairman; Lord Ardwick, Lord Bruce of Donington, Mr Brugha, Mr Carpentier, Mr de Keersmaeker, Mr Deschamps, Mr Ripamonti and Mr Stetter.

¹ see Annex IV

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The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on questions relating to small and medium-sized undertakings in the Community

The European Parliament,

- having regard to the mandate given by Parliament on 11 May 1976 to the Committee on Economic and Monetary Affairs¹,
- having regard to the report of the Committee on Economic and Monetary Affairs (Doc. 518/77),
- considering that strong and healthy small and medium-sized undertakings are essential for the proper functioning of a modern economy because they:
 - (a) help to spread power, responsibility, ownership and risk, and also keep competition alive;
 - (b) are in general labour-intensive businesses in which some 30 million citizens of the European Community are employed;
 - (c) can relatively easily reorientate their activities, which is a great asset in an economy facing the difficult task of restructuring;
 - (d) offer the opportunity to work in a small group, which is in line with the desire for the humanization of work;
 - (e) play an important part in supplying the consumer with products and services, both as regards the quality of the service rendered and the distribution of suppliers;
 - (f) offer the individual entrepreneur the opportunity to develop his specific qualities,
- considering that in a modern economy, small and medium-sized undertakings have at least as important a part to play as large companies and that this is now being generally recognized,
- aware that the definition of small and medium-sized undertakings is unclear and differs from country to country,

¹ OJ No. C 125, 8.6.1976, p. 13

1. Is convinced that the development prospects for SMU, especially in certain sectors such as subcontracting, repairs and maintenance, are favourable provided that the policy pursued by the Member States and the Community offers such undertakings development opportunities equal to those offered to large public and private firms;
- (a) Integration policy
2. Considers that the Member States and the Community institutions must pursue a policy which is not directed at artificially favouring the SMU nor at maintaining uneconomic businesses but at creating equal chances and enabling SMU to overcome the specific handicaps which they have to contend with;
 3. Feels that this implies first and foremost that an integration policy must be pursued at national and Community level, i.e. that the SMU dimension must be incorporated into the economic policy and the various specific areas of policy, to take account of the special nature of SMU;
 4. Is of the opinion that in the first instance, SMU policy must remain a national policy insofar as there is no suitable Community policy in the economic sector in general, and in the fields of company law, competition, taxation, financing, consumer and environmental protection, which are increasingly influencing the conditions in which SMU operate;
 5. Notes with satisfaction, therefore, the Commission's intention of publishing at an early date a policy memorandum concerning SMU and hopes that this document will include not only specific proposals but also an overall assessment of the place of SMU in our society;
 6. Urges the Commission of the European Communities to consult with organizations representing SMU at national and Community level with a view to the creation of a consultative committee for small and medium-sized undertakings which the Commission can treat as a fully-fledged advisory partner;
 7. Considers it desirable that the idea put forward some time ago by the Commission to encourage innovation in small and medium-sized undertakings through Community development contracts should be given further consideration, and requests the Commission to take the necessary steps to that end;
- (b) Statistics
8. Points out that policy must be based on a thorough knowledge of the actual situation and, therefore, regrets that no recent comparative data are available at present on trends in the SMU share in the Community labour market and the gross domestic product, with at least a breakdown into industry, trade and services, or on the 'birth and death rate' of SMU, and calls on the Commission to remedy this situation;

(c) Social and economic policy

9. Is convinced that the most valuable contribution which the governments of the Member States and Community institutions can make to the maintenance and development of SMU is an economic policy consistently directed at stability and combating unemployment;
10. Asks the Commission to consider whether the burden of social charges could not be distributed more evenly among the undertakings by shifting, to a given extent, the basis of assessment for social security contributions from the labour factor, for example, to the 'added value' generated by undertakings;
11. Considers it essential, in accordance with the Recommendation submitted by the Commission in 1976¹, to provide for the self-employed a package of basic measures to cover health services, old-age or invalidity pensions and the payment of child allowances for all categories of people exercising a gainful activity on the understanding that the benefits and obligations should be comparable with those provided for wage-earners;
12. Urges that until the measures set out in the previous paragraph come into effect, fiscal or other measures should be taken to enable the independent entrepreneur to cover himself to some extent against the major risks;

(d) Training and information

13. Notes that inadequate further training, retraining and information for the independent entrepreneur is a major problem for SMU; notes, however, that improvements here should not be made in the first instance at Community level but rather at national or even regional level, although the European Centre for the Development of Vocational Training in Berlin has been assigned tasks in this sphere, especially as regards the exchange of experience between the bodies concerned in the Member States;

(e) Financing

14. Points out that many SMU have to contend with financing problems not only because the capital market is not usually directly accessible to them but even more so because the small businessman often does not know what opportunities are open to him nor how to present his credit requirements in a manner acceptable to the banks;

¹ Doc. 300/76

15. Considers that when banks do however meet the needs of SMU the latter are frequently offered less favourable conditions than those which a large company can obtain and therefore calls for the system of government-guaranteed loans for SMU to be extended;
16. Points out that the 'global loans' granted by the European Investment Bank have a remarkable yield where employment is concerned;
17. Notes that in the past few years global loans from the European Investment Bank, which are granted mainly in favour of SMU, accounted on average for no more than 17% of the total loans granted by this Bank to industry and services and that this percentage must be considered too small;
18. Requests the Commission to ensure that the figures shown in future annual reports of the European Investment Bank make clear what proportion of global loans actually go to SMU;
19. Feels that, in order to encourage the rapid application of new techniques, the European Investment Bank should judge projects submitted to it on their intrinsic value and not so much on the size of the company applying for a loan;
20. Suggests further that it should be possible for the EIB to delegate the decision to grant loans to the intermediary national institutions at least for smaller amounts, and that this should enable the present excessively high credit threshold (100,000 u.a.) to be lowered;
21. Considers that SMU should be allowed to submit combined applications for support from the European Regional Development Fund so that more SMU could meet the criterion of creating or maintaining at least 10 jobs;
22. Hopes that the proposals to amend and supplement the Regulation establishing a European Regional Development Fund¹ submitted recently by the Commission will enable the SMU to receive a larger proportion of the resources allocated by the Fund, and in this context recalls its resolution of 13 October 1977 on the regional policy².

¹ OJ No. C 161, 9.7.1977, p. 11

² Resolution embodying the opinion of the European Parliament on the communication from the Commission of the European Communities to the Council concerning guidelines for Community regional policy, paragraph 21 (OJ No. C 266, 7.11.1977)

(f) Fiscal policy

23. Points out that the administrative burden of dealing with taxation is usually very heavy for small undertakings and calls on the national authorities concerned and the Community institutions to simplify procedures wherever possible;
24. Considers that the Member States should encourage the continuity assured by succession of small and medium-sized undertakings and amend any fiscal measures which stand in the way of such transfers;

(g) Competition and cooperation

25. Considers that action against misuse of dominant positions and excessive concentration is not only in the general interest but also a condition for the survival of SMU and therefore urges the Council once more in this context to adopt at an early date the proposal for a regulation¹ on the control of concentrations between undertakings as amended by Parliament;
26. Considers that the European Commission should be flexible in its approach to the various forms of cooperation between small and medium-sized undertakings;
27. Supports the Commission's idea of increasing the effectiveness of the Business Cooperation Centre by concentrating on a small number of sectors, providing greater support for undertakings which wish to cooperate and expanding its activities to third countries;
28. Considers that the Commission and the Centre should also publish a document setting out for SMU the problems and potentials of transfrontier cooperation;

(h) Export promotion

29. Points out that export promotion measures principally benefit large companies and requests the Commission to investigate practical ways of supporting SMU efforts to open up markets in third countries;

(i) Company law

30. Hopes that the Council will shortly adopt, in the form proposed by Parliament, the draft regulation on a European Cooperation Grouping, which will be of great value to SMU;

¹ OJ No. C 92, 31.10.1973

31. Feels also that a European limited liability company would be an eminently suitable legal form for cooperation between SMU on a basis of equality;

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32. Instructs its President to forward this resolution and report to the Council and Commission of the European Communities and to the parliaments and governments of the Member States.

EXPLANATORY STATEMENTIntroduction

1. On being asked to draw up a draft report on questions relating to small and medium-sized undertakings (SMU) in the Community¹, your rapporteur sent out a questionnaire to a number of representative SMU organizations at both national and European level. The replies to these questions are summarized in PE 47.339, which was circulated as a 'notice to members.' Extensive use has been made in this report of the reactions received.

2. SMU are a heterogeneous group of companies - not to say a motley collection if the Commission's broad definition is adopted: companies with not more than 500 employees.

This means that it is difficult to make firm pronouncements or trace out general policy lines since there is a constant danger of drawing conclusions which may not be valid for each and every type of SMU in all the Member States.

3. In 1974 the Economic and Social Committee made a study² of questions relating to SMU in the Community. This body continued to examine the subject and in November 1977 published its 'opinion on small and medium-sized undertakings'.³ Your rapporteur has tried to avoid any duplication of work between the European Parliament and the Economic and Social Committee and so has concentrated in this draft report on general social and economic aspects. The more technical questions, which the Economic and Social Committee is eminently qualified to deal with, have advisedly received more summary attention.

¹ In consequence of an oral question (Doc. 75/76) by Mr Cousté, Mr Kaspereit, Mr Normanton and Mr Bangemann

² Doc. CES 714/74

³ Doc. CES 1158/77

I. The place of SMU in our society

The importance of healthy SMU

Strong and healthy SMU are essential for the proper functioning of a modern economy. The importance of SMU for our society can scarcely be overestimated. But while the great utility of these undertakings is being recognized more and more in our Member States and at Community level, this recognition is still inadequately reflected in policy. This report is an attempt to help accelerate the translation into policy measures of the realization of how very valuable SMU are to our society.

SMU are essential for the maintenance of the economic order not only because they help to spread economic power, risk, responsibility and ownership, especially ownership of the means of production but also because they keep competition alive: the 'irritating small fry', who are often more interested in modernizing than are the large companies, prevent the giants from resting on their laurels. They play a useful role in spurring on the large companies; where SMU are well developed, dominant positions are not so likely to arise.

SMU have long shown themselves to be more flexible than large undertakings. They can reorientate their activities more easily and that is a great asset in an economy which is facing the difficult task of restructuring. The industrialization of the developing countries, the rise in raw material prices and increasing competition from Eastern Bloc countries will in the years to come require of the Community a measure of adaptability which as a rule is found to a greater extent in SMU than in large companies.

The economic order is in danger when there is an imbalance in the structure of undertakings; this means that SMU must be present in sufficient numbers in industry.

By definition SMU offer an opportunity for working in a small group and for independent professional activity. Many people still prefer to work in an SMU rather than in a large company. According to a recent inquiry¹, one third of the working population of our Member States would prefer to work in a company with not more than 50 employees. Only a fifth preferred companies with more than 500 employees. A very large majority of employees thus prefer to work for an SMU (here meaning any company with less than 500 employees). This is understandable because each person's duties are less clear-cut in a small company, so the work is usually more varied and independent. Work is more geared to the individual in SMU than in the large companies. For many people these advantages clearly outweigh the usually less extensive career prospects. For this reason alone SMU are of great value for the employees.

¹ VWD, February 1977

Yet there is another, more important reason for this: SMU are in general, labour-intensive. Now that there are almost 6 million unemployed in the Community, SMU ought to receive more attention than they have been getting, in view of the contribution they could make to the solution of the unemployment problem¹. This is particularly true when one considers that the primary need of SMU is for qualified people.

It is of great importance to the consumer that SMU be strongly represented in the last links of the economic chain. The supply of products and services to the consumer still leaves much to be desired in the Member States both as regards the quality of the services rendered (in all our countries it has become difficult to find a craftsman to undertake house repairs and to repair consumer durables) and the distribution of suppliers (the corner grocer is being replaced by the supermarket, so the consumer has to travel greater distances).

SMU provide a flexible and varied selection of goods and services and this benefits the consumer and, more generally, the quality of life in our society.

Finally there is the entrepreneur himself. Society ought to be so structured that the individual has the opportunity to develop his specific qualities. Some people have the qualities of the small entrepreneur, appreciating his special way of life. A society which has no place for these people is selling both its citizens and itself short.

Definition of SMU

The role which SMU play in the economics of the Member States can be eloquently expressed in figures. However, the data supplied by each of the Member States are not susceptible of comparison at Community level, for the problem remains of defining the SMU concept. The Community has not yet managed to define it nor have any of the Member States produced an official definition. SMU are defined differently according to the area of government policy concerned - even in the same Member State. However, an official definition of an artisanal business does exist in the Federal Republic of Germany, France, Italy and Belgium².

¹ Mr Cousté made a speech to this effect at the symposium organized by EUROPMI on 27.10.1976 in Lyons.

² 'Définition des petites et moyennes entreprises et de l'artisanat,' Commission Doc. 413/III/76, April 1976.

In practice the Commission considers any independent undertaking with no more than 500 employees to be a SMU. This criterion is open to criticism: is the number of employees the most suitable yardstick? Is not 500 far too high a figure, considering that an undertaking with 500 employees in certain markets must be regarded as a large company? Are not SMU, if defined as undertakings with a maximum of 500 employees a farrago of economic units having few points of interest in common. These objections are all valid; yet the fact remains that any definition is bound to be more or less arbitrary.

The Community statistics are decidedly inadequate. The Statistical Office has made a start with an annual investigation in the Member States into the industrial activities and investments of companies with at least twenty employees; the smaller companies will be included in the statistics only once every five years. The Office will also collect data on the wholesale and retail trades and, possibly, the hotel and catering industry¹. It is not clear whether the data published will be broken down according to size of undertaking, this being essential if the figures are to be of real use.

With the reserve imposed by this lack of statistical data, it can be stated that approximately 50% of the working population is employed in SMU (taking the definition of no more than 500 employees). The number of employees in SMU is stable or is dropping off slightly, while the average number of employees per SMU appears to be gradually increasing.

A policy must be based on knowledge of the subject of that policy. Recent comparable data on trends in SMU's share of the Community labour market and the gross domestic product, in which at least a breakdown according to industry, trade and services is needed, as also data on the 'births and deaths' of SMU and the reasons for them, must be considered a minimum requirement.

It would not, however, be right to delay all action on the pretext that insufficient statistical data was available. For SMU have a number of features connected with small-scale production which offer a sufficient basis for a Community policy, the content of which can later be refined when more is known about SMU.

¹ Note on the study by the Economic and Social Committee on the 'situation of the small and medium-size undertakings in the European Community,' Doc. 1225/III/75.

Characteristics of SMU

What are the typical characteristics of SMU? Assuming that the number of employees per company can be taken as one criterion, it is nevertheless clear that this by no means defines the special nature of SMU. The following are the most characteristic features of SMU:

- (1) SMU are often run by independent entrepreneurs¹, who are usually personally involved in the various stages of the production process.
- (2) SMU are to be found chiefly where there is a differentiated demand: as a rule SMU serve small markets and supply a specialized product. They are particularly numerous in the final links of the economic chain;
- (3) SMU are consequently mostly labour-intensive since they have fewer opportunities of raising productivity by mass production or by substitution of production factors².
- (4) SMU usually do not have direct access to the capital market.

Future of SMU

In a few Member States research has been carried out into the medium-term prospects for SMU³. Perhaps too much importance ought not to be attached to the conclusions of these reports. There are too many factors at play, sometimes working in opposite directions, whose importance it is difficult to assess.

What is, however, certain is that the belief that the large companies will progressively oust the small ones has been shown to be false. It is also certain that the need for products and services from companies geared to a small local market will continue to exist and that economic growth directed more towards quality together with the differentiated needs which this implies holds out good prospects for SMU. This trend is resulting in the formation of a large number of smaller markets, each with its specific demand, and the strength of SMU is precisely its ability to

¹ SMU policy cannot, however, be equated with policy on the self-employed, since there are many self-employed working outside SMU and conversely there are many entrepreneurs in SMU who have the status of employee.

² 'Het KMB in de Nederlandse economie in 1980,' p. 38.

³ See for example 'Analyse und Prognose der Unternehmensgrößenstruktur' for Germany (1975), the report 'KMB in de Nederlandse economie in 1980' for the Netherlands (1976), the study by the 'Anglo-German Foundation for the Study of Industrial Society' (1976) and the report 'Prospective de la PME' drawn up by a working party of the French Commissariat Général du Plan (1974).

produce a product to meet a specific demand. SMU can also raise their productivity considerably by transferring certain parts of the entrepreneurial function (administration, joint advertising and procurement). The prospects for SMU are moreover favourable in the sub-contracting sector and in the repairs and maintenance sectors. There is great potential for the SMU in repairs and maintenance: producer goods and consumer durables are becoming more and more complicated and this is prompting companies and private owners to farm out repairs and maintenance. Then there is the fact that 'large-scale' production has definite disadvantages and the call for the humanization of production benefits SMU.

Set against this is the fact that the optimal business size in many sectors is still increasing; and also that the levelling of incomes and the probable low growth of freely disposable income in the years to come will hinder the individualization of demand and will not work to the advantage of SMU.

A very important factor in the development of SMU in the Community will also be the policy of the Community and the Member States towards these undertakings. It is important that they create the social and economic conditions to make further development of SMU possible.

II. Integration policy and specific measures to benefit SMU

Nobody, not even SMU themselves, wish for artificial advantages for SMU. An SMU policy must be designed

- (a) to ensure that SMU have equal development opportunities i.e. government policy must not lean towards the large companies, nor must it contain any built-in incentive towards concentration. Although apparently neutral towards the size of undertakings government policy is frequently more orientated towards the large undertakings. This has again been clearly shown during the recession: when a large undertaking finds itself in difficulties, the government rushes to its aid because it cannot afford to allow jobs to be lost. A small undertaking, on the other hand, can rarely expect such aid. Social and economic policy and legislation are never completely neutral but they must approach the ideal of neutrality as closely as possible - which is not the situation at present in our Member States. There must therefore be a policy of integration.

(b) to enable SMU to overcome the handicap peculiar to these undertakings: what is needed here is basically 'Hilfe zur Selbsthilfe'. It is obviously not being recommended that the burdens borne by SMU should be lightened by relieving this category of undertakings from their social obligations, e.g. in the field of labour legislation. Such a policy would not only be unacceptable for social reasons but could have an opposite effect to that desired in that SMU might then ultimately become the 'slum areas of industry'¹.

Integration policy

A good SMU policy must first and foremost be an integration policy. This means a policy directed towards incorporating the SMU dimension far more than has been the case hitherto into social and economic policy and the various specific areas of policy (fiscal policy, social policy, company law, competition).

This is not being done adequately at the moment in our Member States or at Community level. There are differences from country to country; and these differences are apparent even where objectives are concerned. The objectives of SMU policy have been formulated most clearly in the Federal Republic of Germany². The Netherlands, Belgium and, to a lesser extent, the United Kingdom also have clearly formulated objectives. However, the objectives do not necessarily correspond to the policy as implemented; action does not always follow the formulation of objectives.

Policy bodies responsible for SMU in the Member States also differ in structure within the Community.

If SMU have missed out where integration policy is concerned, this is partly because as a group it has not always been able to defend its interests strongly enough, which again is due to SMU's heterogeneous character.

As a result, both advisory and representative organizations are too much inclined to take as their starting-point the needs of large companies. Until recently large companies enjoyed a certain preference and SMU were all too frequently neglected to some extent without being consciously discriminated against. A gradual change is now taking place. Integration policy must hitch on to this change in mentality and aim at giving SMU the equal standing they are entitled to.

¹ Sir Harold Lever in the Financial Times, 27 October 1977.

² In particular, in 'Grundsätze einer Strukturpolitik für kleine und mittelgrosse Unternehmen' Bundestagsdrucksache VI/1966.

It follows from the above that this report does not advocate a separate Community policy to favour SMU nor a shifting of powers to the Community. SMU policy can, for the time being, remain principally a national policy since SMU activity is mostly confined within national frontiers.

The influence of the Community, however, is becoming increasingly noticeable in respect of SMU, which have played a major part in the considerable expansion of intra-Community trade, and Community legislation in the field of taxation, competition, company law, regional and social policy and customs procedures affects SMU directly.

These Community institutions, as well as the national governments, have sometimes failed, in preparing their legislation in these fields, to take sufficient account of the specific nature of SMU. Customs legislation is complicated and the deposit which has to be paid in Community transit trade, for example, can raise problems for SMU. The VAT arrangements made for SMU are not very favourable and insufficient account was taken of SMU interests when company law was harmonized. SMU must therefore receive greater attention in future at Community level, especially as the Community's influence on the circumstances in which SMU operate will probably continue to increase considerably. It would therefore seem desirable for the Commission to draw up an action programme which would sketch out a picture of the SMU's function in our economic system and the general policy lines deriving from this conception. Such a programme should also indicate in what areas the Community should have a role and what measures the Commission is considering taking.

The action programme could form part of the medium-term economic policy programme. However, this document devotes little attention to SMU. What the fourth medium-term economic policy programme has to say on them is not incorrect but just extremely meagre¹, as Mr Schwörer pointed out in the report on this programme by the Committee on Economic and Monetary Affairs². Preferably, then, the Commission should draw up a special document on which Parliament should be consulted.

Specific measures

SMU have to contend with a number of difficulties specifically linked to their size. These difficulties have to do with the further training of the entrepreneurs, who often continue to work with outdated management techniques, and also company management's insufficient knowledge of the market structure and particularly of opportunities for cooperation. There are in addition specific problems in the field of financing, where SMU do not have access to external funds on the same conditions as large companies.

¹ OJ No. L 101 of 25.4.1977

² Resolution, OJ No. C 83 of 4.4.1977