

GREEN PAPER ON ENTREPRENEURSHIP IN EUROPE

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EUROCHAMBRES' RESPONSE

EUROCHAMBRES' POSITION

*On behalf of European entrepreneurs,
EUROCHAMBRES seeks
an enlarged competitive European Union –
where entrepreneurial behaviour is promoted and rewarded,
where the legislative and physical environment for profitable business is the best in the world;
where SMEs are encouraged and supported;
where competition is fierce but fair;
and which is open to free and fair trade with the rest of the world.*

EUROCHAMBRES' detailed comments and proposals concerning the Green Paper on Entrepreneurship are contained on the following pages. However, in order to help prioritize the debate, the business community urges the existing and acceding Member States and the Commission, Parliament and other European Institutions to:

1. RISK/REWARD

Re-balance the risk-reward balance in favour of enterprise.
Research the effects of the European social model on entrepreneurial behaviour.

2. TRAINING AND EDUCATION

Embed an understanding of entrepreneurial behaviour throughout the full educational system.
Devise and expand training and development schemes for entrepreneurs – tailored to suit the long (and flexible) hours worked by owner-managers.

3. FINANCE

Ensure that the new capital adequacy rules for banks (Basle II) respect the needs and requirements of all sizes of firms – including SMEs.

4. BUREAUCRACY

Cut out the unnecessary bureaucracy and red tape that still surrounds the establishment and operation of even the very smallest firms.

1. KEY OBJECTIVES

1. **EUROCHAMBRES welcomes the publication** of the European Commission's Green Paper on Entrepreneurship, and commends the Commission for the manner in which the issues are highlighted, and key questions posed.
2. The business community is pleased to note that the discussion on entrepreneurship is placed firmly within the **Lisbon process**. This is as it should be. Encouraging and supporting an increased number of entrepreneurs to enter business in Europe will ensure the dynamism required in the Lisbon objectives. Helping to make certain that much higher percentages of those entrepreneurs who enter business *stay* in business will help Europe grow and prosper. Therefore, it is vital that all 25 national governments, European institutions and economic partners (including Chambers of Commerce & Industry) actively seek to foster a stronger and more vibrant culture of enterprise in Europe.
3. EUROCHAMBRES looks forward to working with the Commission in the development, and implementation, of the **Action Plan** which must follow. Without a comprehensive plan, based on clear and unambiguous targets, and with the total involvement of enterprise stakeholders, the Green Paper - and the debate it generates - will be worthless.

Also, **we must avoid to 're-invent the wheel'**. Any new initiatives arising from the Action Plan must fit firmly within the existing Lisbon process. In our view, if Member States concentrate on that process, and fulfil the promises they have already made, the lot of entrepreneurs will be enhanced significantly. Member States – and the Commission – should not be distracted from that task. That said, there is scope within the Lisbon process for an action plan aimed at entrepreneurs.

4. In this regard, we believe it will be crucial for the Commission and Member States (we consider all 25 countries of the enlarged Union as Member States in this context) to clarify the link between the Action Plan and the **Charter for SMEs**, and how both fit within the Lisbon agenda.
5. There are clear linkages also between entrepreneurship and the European **Employment Strategy**. In considering the risk-reward balance facing any entrepreneur, we must take into account the social models prevalent in Europe, and consider how these models impact on an individual's choice: employee or employer? We believe that the Action Plan must include comprehensive research on this question.
6. Finally, the challenge, not only for Europe but worldwide, is how to combine business growth with social and environmental sustainability. The Action Plan must also address this.

2. FINANCE

7. The European institutions must ensure that the **Basel II** outcome is pro-entrepreneur, pro-SME. This is by no means assured at the present time. While Eurochambres broadly agrees with the overall objectives of the 3rd consultation paper of the Basel Committee on Banking Supervision, we express our strong concerns about the potential economic impact of the proposal, particularly the risks of increased bureaucracy, increased costs and restricted access to finance for SMEs.

This is particularly important for entrepreneurs, for two distinct reasons. Firstly, once entrepreneurs have committed their own funds, and those of their family and friends to their new venture, they turn next to the banks for loans, not to venture capitalists for investment. Secondly, without a rating history, young and new entrepreneurs will face increasingly difficult prospects of raising bank loans.

8. We must make it easier and less complicated for entrepreneurs **to access international finance institutions** and their funding programmes.

3. FACTORS FOR & AGAINST GROWTH

9. The **costs and administrative difficulties of creating enterprises** still vary widely across Europe. We believe that each of the 25 Member States must aim for a start-up process that is *measured in days, not weeks*, and which is offered at *zero cost*. If we are serious about helping and encouraging start-ups, we see no justification for the levying of a 'start-up State tax'. In this regard, EUROCHAMBRES supports Schumpeter's theory of creative destruction: we believe the higher economic growth demanded by Lisbon is assisted by the displacement of less innovative firms by those which are more entrepreneurial and aggressive. While fewer start-ups may lead to a more stable environment, they will also lead to a less dynamic Europe.
10. The **Internal Market** has had a positive effect on European SMEs. However in certain areas, a true Internal Market is far from a reality, and SMEs view the results with less enthusiasm than larger firms. Member States must live up to their repeated promises, complete the Internal Market and give entrepreneurs fair conditions in which to compete.
11. EUROCHAMBRES welcomes the stated intention to extend the Internal Market into the field of **services**. European Chambers are eager to learn about the second stage strategy and proposals that the Commission will make by the end of 2003 to remove the identified barriers to trade in services.
12. Another barrier against entrepreneurship is the **difficulty and cost of protecting intellectual property and patents**. The recent agreement by the Council of Ministers concerning the community patent is worth little to would-be entrepreneurs who have a good idea, but whose finances need to be devoted to setting up, promotion and manufacturing/development of the service – not to buying expensive EU-wide protection.

4. TRAINING AND SUPPORT

13. EUROCHAMBRES is pleased to note that many Member States – and indeed several accession countries also – appear to have stepped up their activities in support of **education and training** for SMEs. That said, much remains to be done, particularly with regard to training for entrepreneurs.

Education and training are a key foundation for the culture of entrepreneurial spirit necessary for the EU to become the "most competitive knowledge based economy" by 2010. Individuals need to improve their capacity to combine job vocations and professional skills, which are of value for the creation of new firms (entrepreneurship) and within existing firms (intrapreneurship). Entrepreneurs, particularly in small businesses, are "self made", and lack technical knowledge of business management; the fact that, until they reach a certain size,

managers of such companies are essentially self-employed, and the business is easily controlled by the owner and relatively straightforward to manage. Expansion brings organisational and bureaucratic burdens, responsibility (including the responsibility of employees – and the possibility of employee litigation!), the need to delegate and assign responsibility which often conflict with the mentality and capabilities of people who have chosen to work for themselves.

EUROCHAMBRES believes there is a clear inadequacy between the offer and demand for professional skills, mainly due to state-operated training systems that do not meet the expectations of business. Improving the efficiency of vocational training means building training models that are flexible and adaptable, close to businesses so as to be able to keep track of the consistent and rapid development of the latter's needs.

Training needs to be supported by advice, technical assistance and mentoring in the start-up phase and during development.

14. All Member States and European institutions must encourage more enterprise in **disadvantaged communities, and under-represented groups** such as women entrepreneurs. In this regard, it is important not to create 'ghettos'. Member States must consider how to increase the numbers of such groups participating in existing training and support programmes – which are open to all. In other words, without setting up separate programmes exclusively open to disadvantaged groups, how can *all* training and support programmes be promoted more effectively towards inner city and rural communities, the needs of women starting and growing small enterprises, and ethnic minority businesses?

The Commission should co-ordinate benchmarks and the exchange of best practices across all 25 Member States in this regard.

5. ENLARGEMENT OF THE UNION

15. Member States and accession countries should clearly state their **Charter targets** up to 2010, and the Commission should chart the progress made each year, not just list all the individual actions that have commenced.
16. EUROCHAMBRES points to the great needs of the business communities in the accession countries, in particular SMEs, for business-focused information to be relayed to them about all EU matters. EUROCHAMBRES believes that **Brussels-based business representation** is essential in terms of helping accession country enterprises to adapt to the single market and *acquis communautaire*.

While Governments themselves, and networks such as Euro Info Centres provide a wealth of general information on European matters, we believe SMEs and other businesses need their own direct representation/information offices based in Brussels.

Accession country Governments should help seed-fund Brussels-based representations of their national business bodies for a period of 5-7 years, thereafter reducing the funding incrementally over a further 3 year period, allowing such offices to become self-sustaining over time. This seed funding should commence immediately, as the needs of the SMEs in these countries for relevant, specific business-focused information will be greatest over the coming years.

17. “The **representation of small businesses’ interests** in the policy making process is not sufficiently established...The participation of business representatives in the policy-making process is often optional and dependent on the will and recognition of the authorities. As regards tripartism and bipartite social dialogue, the interests of business are covered by the employer’s side, which in many cases is dominated by large companies.” Thus did the Commission report on the implementation of the SME Charter comment on the consultation process with business in the accession countries earlier this year. EUROCHAMBRES’ recommendations about this problem are found under part 10 of this submission

6. THE RISK REWARD RATIO

18. Member States must reduce and simplify **corporate taxes for small businesses** with low levels of revenues and profitability. The cost to the exchequer is limited, while the value to the entrepreneur is immense.
19. Member States must accelerate the **revision of national bankruptcy laws**, to help lift the stigma of honest failure. It is imperative that these laws distinguish clearly between ‘honest’ and ‘dishonest’ bankruptcy.
20. As mentioned, we must take into account the **social models** prevalent in Europe, and consider how these models impact on an individual’s decision whether to remain an employee or become an entrepreneur/employer? This is an essential part of the risk / reward balance.

7. TAKING OVER, NOT STARTING UP...

21. While more Europeans might prefer to start a new business rather than take over an existing one, **effective and timely succession planning is vital** for all businesses, and is particularly challenging for small and family owned enterprises.

Forecasts show that as many as one third of all enterprises in the EU will transfer ownership in the next 10 years. Yet, barely half of the **legal and tax recommendations** set out by the Commission in 1994 to facilitate business transfers has been put into practice by the 15 existing Member States. The fate of some 610,000 SMEs and 2.4 million jobs is at stake every year.

Member States should implement these tax and legal measures proposed in the Commission’s 1994 Recommendation on the transfer of SMEs.

The Action Plan should consider the benefits of giving **tax breaks** (for sellers) when selling all or a branch of a business, by treating the transaction as fiscally neutral. Taxation could be postponed until liquidation/final disposal.

8. SPIN-OFFS

22. EUROCHAMBRES believes this is an area worthy of further study under the Action Plan. Certainly, the provision of **incubator units** housed on the campuses of existing universities – and reserved for those fledgling companies making use of the knowledge and technology emanating from those universities - have helped to develop some ‘star’ companies.

23. There also exist some good examples of where large **MNCs** have assisted and fostered smaller local companies, setting aside procurement opportunities - but also management time - to help these smaller companies to develop and grow.
24. EUROCHAMBRES further believes that the probability of spin-offs will increase as and **when entrepreneurial education and training is spread throughout the educational system** – across all ages, but also across all disciplines. The Chambers would like to see entrepreneurial courses given, not only to all commerce / economics / MBA students, but also to all those following vocational training courses, and to those studying engineering, medicine, law, etc. On the one hand, such exposure may lead these individuals to consider establishing their own businesses – then or later in their lives, and on the other hand, it will help encourage them to consider investing in other entrepreneurs' activities.

9. THE IMPORTANCE OF EDUCATION

25. It is clear that entrepreneurial thinking is not only necessary for entrepreneurs and those who want to become entrepreneurs and build up their own company, but that it is 'a must' for everybody in a performing market society. Member States must further encourage **entrepreneurship throughout the education cycle**, beginning with primary school and continued through to third level university and vocational training. The final report of the BEST procedure on Education and Training for Entrepreneurship makes a number of useful suggestions in this regard, as well as setting out a list of possible indicators to use.

Concerning education, EUROCHAMBRES concurs with the opinion of the Economic and Social Committee, that "these formative years (pre-college or university education) are an important socialisation window to introduce the concept of entrepreneurship to the potential future owner-managers of the future," and that the Action Plan "should consider how entrepreneurship can be portrayed to children of all abilities as a positive option rather than a last resort."

26. There needs to be more focus on **helping teachers** understand and appreciate the enterprise culture. Lack of entrepreneurial attitudes and entrepreneurial spirit is not only a pedagogical question, it is in the first sense a very important question for the labour market. Entrepreneurial spirit - in entrepreneurs and in employees - creates new opportunities, enlarges the possibilities in a market society and creates new jobs and job opportunities. Therefore it must be an objective, not only for educational policy but especially also for employment policy to make sure that this transfer of entrepreneurial skills and attitudes takes place and that teachers are able to do this.

Teachers should be assisted with general economic knowledge (how does the modern market economy work), with deeper knowledge about the function of an entrepreneur and of the different types of entrepreneurs (including the new emerging forms of self-employment), and all the possibilities which offer self-employment for personal and economic success. Everything which is linked to the creation of an own (small) business should be explained and exposed. Questions of risk taking, risk assurance, financing must be dealt properly. Market research and reaction to the demand, the role of publicity etc. are further important subjects.

27. EUROCHAMBRES calls on the 25 to:

- **Strengthen the interaction** between business and schools and universities, to help develop an education that is relevant to the needs of the whole society, including setting up business-education taskforces in all countries to help identify key skills for the knowledge economy. The Chair for Entrepreneurship, set up in Vienna, and funded by the Austrian Chamber of Commerce is another example.
- **Support more direct contacts between training establishments and business.** For example, providing incentives for enterprises offering traineeships to students (and/or professors); creating possibilities for apprenticeships, enabling new and more flexible forms of employment.
- **Tackle obstacles to mutual recognition of qualifications:** pilot a programme where a number of awarding bodies from different Member States / accession countries would identify a number of qualifications in key occupational and sectoral levels. The main objective should be to remove, in all States, as many mandatory education requirements as possible. With the exception a few “safety-related” positions, it must be a matter for the individual employer to determine if a person has sufficient skills to work or not. The programme would then also investigate how to convert the diplomas into one mutually recognised standard and how to promote this as a useful voluntary instrument for job seekers and employers.
- Help **improve understanding of the role of business and entrepreneurship** in schools in relation to wealth creation and social inclusion.
- Include, in schools’ and universities’ curricula, special activities aimed at developing more **individual self-initiative and self-responsibility** that are a prerequisite for an increased willingness to take risks.

10. CHAMBERS OF COMMERCE, MEDIA AND OTHER SUPPORT ORGANISATIONS

28. The need for enhanced and more flexible training has been emphasised already. In this regard, organisations which are close to the business community can play **a key role** in offering tailored, practical training which is suitable to the entrepreneur or would-be entrepreneur.
29. However, another vital service that Chambers of Commerce & Industry, Junior Chamber International (JCI) and other locally-based support organisations can provide is the opportunity for **networking**. Sharing experience and working together in networks can help entrepreneurs to find the motivation, inspiration, advice and access to technology and knowledge that is required by entrepreneurs, as well as identifying potential business partners. Such mentoring and business advice support can be critical particularly in the first three years of the enterprise’s life.
30. Support networks can play a major role in helping entrepreneurs, but we warn Member States and/or the Commission from creating or imposing any new support infrastructures over those that already exist. Chambers of Commerce & Industry, JCI, trades associations, EICs, etc - *all are well established*. These networks may not be perfect, but they have survived and grown over the years, despite the introduction by many Governments of new, State-run, State-sponsored organisations. The Chambers and others have grown and flourished precisely because they are business-led, enterprise-driven and devoted to the growth and prosperity of their business members.
31. There is a **lack of progress concerning the development of stronger, more effective representation** of entrepreneurs and small enterprises’ interests at **national level**.

The European Charter for SMEs was very clear on the need to ‘develop stronger, more effective representation of small enterprises’ interests at European Union and national level’.

Regrettably, almost three years later, the Commission report on the implementation of the Charter is also very clear on the following points:

- “..there is still a dividing line between those few Member States that systematically consult small business on legislation and policy making and those which do not.”
- “Several Member States still provide no opportunities for small business to express their interests.”
- “Very little progress has been reported in this area in the past year.”

EUROCHAMBRES believes that **all** Member States and **all** accession countries should create appropriate mechanisms whereby business representative bodies (including those representing SMEs) are consulted on all proposed enterprise policy and legislation, including economic and social initiatives.

32. **At European level, the consultation process is dated, limited and elitist.** When it comes to consultations over the many macroeconomic debates that impact of entrepreneurs, many Directorates General within the Commission, Parliament and Council consider it satisfactory if they consult with UNICE, ETUC, UEAPME, CEEP, CEC and Eurocadres. EUROCHAMBRES fundamentally objects to the description of such a limited number and type of bodies as ‘*the* (only) social partners’ to be invited to social affairs summits, tri-partite social summits, etc where economic and social issues are discussed, but no negotiations are conducted.

As economic and political thinking has matured, as the open method of coordination under the Lisbon process has evolved, as the importance of effective regional SME representation is welcomed, as social policy is perceived as complementary with economic policy, it is now accepted that a wider number of stakeholders are affected by, and concerned with, the state of our enterprises and the state of our society.

As a body representing some 15 million European enterprises, 95% of which are SMEs, EUROCHAMBRES demands to be informed and consulted on economic and social matters, and invited to participate in meetings such as the social affairs summits/tri-partite summits. However, as a body which does not have, nor claim to have any negotiating mandate in social affairs, the Chambers do not wish to be part of direct management-union negotiations leading to pan-European social agreements.

33. The **role of the media** is critical to changing the underlying perceptions about entrepreneurial activity. More must be done to encourage the European media to promote the culture of entrepreneurship, and to highlight positive role models of entrepreneurs – both successful entrepreneurs as well as those who are (currently!) unsuccessful. However, EUROCHAMBRES does not underestimate the challenge of influencing the media in this way.
34. Finally, the role of Governments goes beyond the creation of pro-enterprise legislative frameworks. The 25 Member States must develop comprehensive and user-friendly **eGovernment services** effectively and urgently. They must truly lead by example in this regard.
35. The Action Plan should also include studies on how **public procurement** contracts are determined, and how easy/difficult it is for smaller, newer firms to win such contracts.

ONE SPECIFIC EUROCHAMBRES' SUGGESTION

In the past, the European Commission created and then supported Europartenariats – large scale opportunities for companies from one country to meet with companies from many other countries in a structured way. The objective was to promote sales, identify new business opportunities, promote joint ventures between the enterprises present...

In the context of the Action Plan to follow, EUROCHAMBRES strongly urges the Commission to consider whether the Partenariat format could not be used in a slightly different way – not to facilitate established business-to-business links as in the past, but rather to offer the opportunity for entrepreneurs (and would-be entrepreneurs):

- To meet business angels, and their networks
- To meet venture capitalists
- To meet potential mentors
- To meet other entrepreneurs
- To discuss with experts issues such as IPR, legislative queries, acquis communautaire, etc
- To obtain advice about the financial and other supports available to them
- To learn what training and support schemes are available from Chambers of Commerce & Industry and other support organisations
- Etc...

EUROCHAMBRES believes such events would attract significant interest from entrepreneurs, and from the support organisations concerned. EUROCHAMBRES also believes such events would provide excellent platforms to show the European Union commitment to entrepreneurship.

EUROCHAMBRES would be prepared to play a role in creating such Enterprise-Partenariats, if the suggestion is deemed worthy of support.