



*European Economic and Social Committee*

**INT/178**

**Entrepreneurship in Europe**

Brussels, 24 September 2003

**OPINION**

of the European Economic and Social Committee

on the

**Green Paper - Entrepreneurship in Europe**

COM(2003) 27 final

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ADMINISTRATOR: **Jakob Andersen**

On 21 January 2003, the European Commission decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the

*Green Paper on Entrepreneurship in Europe*  
COM(2003) 27 final.

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 3 September 2003. The rapporteur was **Mr Butters**.

At its 402<sup>nd</sup> plenary session, held on 24 and 25 September 2003 (meeting of 24 September), the European Economic and Social Committee adopted the following opinion by 38 votes to three, with two abstentions.

### **Summary of the opinion**

- The introduction explains the scope, objectives and context of the opinion, clarifying in particular the need to work within the parameters set by the Green Paper in order to contribute, as constructively as possible, to the ongoing process of developing a long-term European policy framework that will encourage entrepreneurial activity.
- Brief general comments on the Entrepreneurship Green Paper as a whole are provided in section 2, before raising two points that are central to this area: promoting the spirit of entrepreneurship and creating an environment that encourages entrepreneurial activity, which are discussed in greater detail in sections 3 and 4.
- Section 5 considers some key elements raised in the Entrepreneurship Green Paper:
  - whether we need to distinguish between different types of entrepreneurship;
  - whether entrepreneurship is for everyone;
  - the contribution of entrepreneurship to society;
  - the factors that motivate entrepreneurs;
  - whether the US model of entrepreneurship is the right model for Europe;
  - the impact of entrepreneurs on society.
- Section 6 of the opinion identifies a number of policy priorities for encouraging entrepreneurial activity and makes certain concrete recommendations for action and a number of suggestions to be taken on board in the follow-up to the Entrepreneurship Green Paper.
- Section 7 provides brief responses from the Committee to the ten questions raised in the Entrepreneurship Green Paper and the conclusions are drawn in section 8.

## 1. Introduction

1.1 This opinion seeks to contribute to an ongoing process of understanding and stimulating entrepreneurship. The Lisbon Agenda and subsequent European Charter for Small Enterprises underlined the importance of entrepreneurial activity to sustainable development in Europe and the need to engender a policy environment conducive to promoting enterprise.

1.2 Entrepreneurship is an all-embracing cultural concept, a common characteristic of which is a mindset, and is manifested in many ways. This opinion focuses on the economic articulation of entrepreneurship, in the form of running a business, and the factors that influence people's engagement in this activity.

1.3 The Committee's opinion will work within the parameters of the Green Paper, its framework and agenda. It will explore and expand upon the points contained therein and will contribute positively with recommendations for the Action Plan (AP) requested by Heads of State and Government at the 2003 EU Spring Council.

## 2. General comments

2.1 The Committee welcomes the Entrepreneurship Green Paper and congratulates the European Commission for this excellent piece of work. It considers that the Entrepreneurship Green Paper provides an extremely useful inventory of the main challenges faced by future and existing business owner-managers in Europe, offering a valuable overview of the reasons why entrepreneurial activity is relatively low in Europe.

2.2 By stimulating a lively debate within the business and policy-making communities, the Commission's Entrepreneurship Green Paper should be considered a successful initiative in its own right. However, it will only have a lasting impact if the Commission now builds on these foundations by setting out an ambitious and far-reaching plan for concrete actions and then goes on to ensure implementation of the AP by policy-makers and stakeholders at local, regional, national and EU levels.

2.2.1 Beyond this, the Committee draws attention to the vital importance of defining policy based on the needs of entrepreneurs. This requires the input of the whole SME community, through the involvement of the widest possible range of organised business representative organisations, at all levels of policy-making and from the preliminary stages in the decision-making process.

2.2.2 The Committee feels that a distinction should be made between a policy to promote entrepreneurship, aimed at bringing enterprise culture to all, and a business support policy comprising a range of legislative and operational measures designed to reduce the constraints and stimulate business development. It recommends that the AP divide its content into two distinct areas:

- promoting the spirit of entrepreneurship: this action should be aimed at developing a culture of entrepreneurship, "restoring" and improving the reputation of the entrepreneur among potential entrepreneurs in schools, universities and family circles, as well as in public and private services, especially financial institutions and European and Member State administrations;
- creating an environment that encourages entrepreneurial activity: this is aimed at defining a programme of operational measures to encourage business activity in response to the ten questions in the Green Paper.

### **3. Promoting the spirit of entrepreneurship**

3.1 As the Green Paper states, entrepreneurship is a mindset. This mindset cannot be taught, but can be stimulated. A combination of a rounded education and exposure to entrepreneurship, from an early age, can help by encouraging children and young adults to think and behave more entrepreneurially and, ultimately, to consider business ownership as a career option.

3.2 The AP must pay careful attention to introducing the concept of entrepreneurship to boys and girls from school age, as these formative years are an important socialisation window for potential owner-managers of the future. For a long time, business ownership has conventionally been regarded as a route to employment and social mobility for some with otherwise limited opportunities in the labour market, such as low academic achievers and economic migrants. Yet, society and the labour market is gradually demonstrating that business ownership can offer opportunities for all. The AP should consider how entrepreneurship can be portrayed to people of all abilities, as a positive option, rather than a response to limited labour-market opportunities.

3.3 Celebrating entrepreneurship is an important part of improving the public's perception of entrepreneurs in Europe. However, changing cultural attitudes to entrepreneurship is notoriously difficult and a long-term process. The use of role models and extolling the virtues of entrepreneurship can help, but practical policies to create the right environment for enterprise to flourish will be more effective in the long run and should be the focus of policy-makers' attention.

3.3.1 The Committee notes that the curricula taught in public and private universities and colleges tend to focus on big business to the detriment of the study of small business. At present, the term "business" is considered primarily in terms of capital assets and stock-market value. However, a clearer understanding of small and micro-businesses requires an appreciation of the distinctive social aspects of the enterprise culture, as well as conventional financial considerations.

The Committee calls for economic and scientific studies to be carried out on models specific to small businesses. This will allow the promotional campaigns scheduled for the AP to convey the reality of business on a human scale, enhancing the image of those who run such businesses; the micro-enterprise must be perceived by the public as important and just as much a symbol of professional success, both for its manager and for its employees.

3.4 As a precursor to the celebration of entrepreneurship, the AP needs to appreciate what constitutes an enterprise and what running a business involves. Running an enterprise involves the marshalling of a range of resources, including human, financial and physical (buildings and equipment) for the purpose of producing goods and services to meet a market need. Business owners have to manage relations with suppliers, staff, customers and external stakeholders, including representative bodies as well as government agencies. In doing so, business owners also have to maintain their own motivation, as well as that of their staff. Only an appreciation of these roles and processes will help form the foundation for the celebration of entrepreneurship.

3.5 The promotion of the culture of entrepreneurship may involve engagement by a range of public and private sector organisations. For public institutions, it is important that an appreciation of entrepreneurship is embedded in the activities and policies of all agencies, such as the European Commission and national, regional and local administrations. The spirit of entrepreneurship and concept of enterprise need to be understood better by, and inculcated in, administrators in these institutions, as well as in politicians, and the plethora of other private and public institutions that either initiate, oversee or implement policies that impact upon future and existing entrepreneurs' businesses.

3.6 The role of intermediaries is also key to the successful promotion of an entrepreneurial culture. Many business membership organisations are keen to cooperate more closely with policy-makers and are far better placed than public sector agencies to reach their constituents through promotional initiatives.

3.7 The media play a key role in conveying the spirit of entrepreneurship and an understanding of how business works. However, there tends to be an over-emphasis on big business and multinationals. The action plan should define strategies to highlight the role of the entrepreneur and thus to put across the image of small businesses and micro-enterprises and to enhance that of specialised trades and traditional and craft activities.

#### **4. Creating an environment that encourages entrepreneurial activity**

4.1 There is a certain feeling of disillusionment within the SME community about EU-initiated policy aimed at helping entrepreneurs. Indeed, there is a commonly held belief that the way the EU institutions can best help SMEs is to do less in certain areas. The SME community perceives the EU to be the source of much onerous legislation whilst, on the other hand, finding it difficult to grasp and appreciate measures designed to promote business ownership emanating from the EU.

4.2 Clearly, more can be done to stimulate entrepreneurship and promote business ownership. Yet, it is important that a more "bottom-up" approach is adopted than has been done in the past, drawing on the wealth of experience and practice and in collaboration with businesses and their stakeholders, rather than the "top-down" imposition of initiatives, policies and laws.

4.3 Given the proliferation of enterprise initiatives at European level and the disillusionment of the SME community, it is essential that the AP demonstrates continuity with previous and ongoing activities and relevance to achieving the goals of the Lisbon Agenda. In particular, continuity from the 2000 European Charter for Small Enterprises is needed and the AP must seek to complement and incorporate recommendations on achieving the Charter's 10 lines for action<sup>1</sup>.

## 5. The main points covered in the Entrepreneurship Green Paper

5.1 Discussions over the definition of entrepreneurship will never end and there is no right or wrong answer. However, the definition of entrepreneurship in II.A.iii (p. 6) and the tone of the Green Paper, in general, fail to consider properly the existence of what might be described as "routine entrepreneurship". Not all entrepreneurs blend risk-taking, creativity and/or innovation with sound management, as the Green Paper's definition of entrepreneurship implies. Moreover, the Committee would argue that any definition of entrepreneurship equally needs to incorporate the concept of reward and recognise the broad range of rewards that motivate entrepreneurs.

5.2 There are many more examples of business owners seeking stability and survival than there are of the kind of entrepreneurs to which the Green Paper refers. SMEs are run by people with varying aspirations for their enterprise, with different talents and management capabilities, are based in prosperous and deprived locations and in a variety of industry sectors – some traditional, some cutting edge. The follow-up to the Entrepreneurship Green Paper need not be prescriptive about what constitutes entrepreneurship and should instead seek to embrace all types of entrepreneur, running all types of business and based in different local and sectoral contexts.

5.3 It is important to underline that entrepreneurship is not the solution to all of society's problems and that not everyone is potentially a successful entrepreneur. The follow-up to this paper must remember this fact. The AP should consequently focus on identifying, encouraging and supporting those who want to become successful entrepreneurs, rather than trying to convince people to become entrepreneurs against their better judgement, or indeed compelling employees and the unemployed people to become self-employed.

5.4 The statistics used by the Commission may suggest that job satisfaction among the self-employed is higher than among the employed, but a growing proportion of self-employed workers brings with it new challenges for European society. On an individual level, self-employment can also present problems and, as with entrepreneurship itself, self-employment is not the right choice for everyone. These issues need to be considered in the AP.

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In its own-initiative opinion on the European Charter for Small Enterprises, the European Economic and Social Committee called on the Commission to "initiate a genuine multiannual operational plan of action at Community level and within Member States with a view to ensuring the effective and efficient implementation of the Charter" OJ C48 of 21.02.2002. Rapporteur: **Mr Giron**.

5.5 The Green Paper rightly, in B.iii, underlines the fact that people become entrepreneurs for a variety of reasons, and financial gain is certainly not always the priority. Other motivating factors include independence, job satisfaction, the application of personal competences and skills and the ability to manage one's own work-life balance. Thus, although lowering taxes is an obvious way to increase entrepreneurs' rewards, the importance of self-realisation must also be a key consideration when looking at the risk/reward balance.

5.6 The notion of a single "model for entrepreneurship" implies that policy-makers are seeking to develop a prescriptive and homogenised view of the entrepreneur across Europe. This would, in all likelihood, reinforce the commonly held view within the SME community that policy-makers have little appreciation of the reality of entrepreneurship and the diversity of practice it embraces.

5.7 Section C of the Green Paper looks at the EU's entrepreneurial gaps and potential and, indirectly through its choice of data, raises a fundamental question: should the EU aspire to a US approach to encouraging entrepreneurship? The data given indicates that compared with the USA, proportionately fewer Europeans are involved in start-ups and significantly more prefer employment to self-employment. Many observers believe that the European social model is one of the key reasons why more people in Europe prefer to be employees. The follow-up to the Green Paper needs to consider a) whether this data is itself sufficient for benchmarking EU activity between nation states and with the rest of the world b) the effect of this preference for employment over self-employment, c) whether it is directly related to the lack of entrepreneurial dynamism in Europe and d) whether the solutions are acceptable to European society.

5.7.1 The Committee calls for the development, collection and application of more systematic European benchmarking data on small firms, using common definitions.<sup>2</sup> This will facilitate measurement of entrepreneurial activity throughout Europe, between Member States and regions and over periods of time and thereby providing a sound basis for policy-making.

5.8 The Committee would argue that the pursuit of greater entrepreneurial dynamism should concentrate on the quality of entrepreneurs, not quantity. Encouraging more people to become self-employed, or even involved in a business start-up will not necessarily lead to an increase in successful, sustainable entrepreneurial activity. The displacement effects of an over-vigorous start-up policy on existing businesses need to be considered and the AP should include more options for existing businesses.

5.9 All enterprises have an impact on society, positive and negative, intended and unintended. Given the vision for European economic development outlined by EU Heads of State at Lisbon in 2000 and the central role that SMEs play in this process, it is important that the follow-up to the Green Paper provides a more comprehensive view of entrepreneurs' contribution to society (B.iv).

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<sup>2</sup> Based on the May 2003 revised Commission definitions of micro, small and medium-sized enterprises to be applied from 1.1.2005 [C(2003) 1422].

Many SMEs may practice "responsible entrepreneurship", while many equally may not. An appropriate non-legislative policy approach needs to be found for promoting responsible entrepreneurship.

## 6. Policy priorities for encouraging entrepreneurship

6.1 The impact of policy-making on entrepreneurship is complex and difficult to measure with any precision. However, the statement "Policy can contribute to boosting levels of entrepreneurship" is certainly valid and applies to policy-making at all levels.

6.1.1 The Committee recognises that views on the policy priorities for encouraging entrepreneurship will vary according to different stakeholder perspectives. The Commission's European Employment Strategy (EES) highlights that the key contribution of entrepreneurial activity to competitiveness, growth and the creation of sustainable and quality jobs relies on a "broad policy mix", encompassing many of the key areas that the Committee would also highlight. This mix would include a better regulatory and administrative framework, access to a skilled labour force, fostering more positive attitudes towards entrepreneurship and managerial skills, a supportive financial environment, well functioning product and labour markets and favourable conditions for research and innovation.<sup>3</sup> The Committee urges the Commission to refer closely to the EES when drafting the AP.

6.1.2 Beyond this, the Committee also underlines the importance of macro-economic stability in encouraging entrepreneurial activity.

6.1.3 The Committee highlights the need for the AP to strike a balance between the often competing demands of stakeholders when establishing policies for encouraging entrepreneurship.

## 6.2 Better policy-making

6.2.1 As the previous reference to the EES clearly illustrates, policy options to support small firms must not be pigeon-holed as "enterprise policy". Rather they should be embedded, horizontally, into all relevant policy-making areas (employment, taxation, environment, education, etc.) and, vertically, at all policy-making levels. This will help ensure that the needs of existing and future entrepreneurs are taken into account by a far wider range of officials and politicians than is currently the case at most administrative and political levels in Europe.

6.2.2 For example, regional policy is an important mechanism by which enterprise policy can be delivered. The Committee therefore calls on the Commission to include the recommendations made in the Charter for Small Enterprises within the operational priorities of the future Structural Funds and cohesion policy.

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<sup>3</sup> COM(2003) 176 final

6.2.3 The Committee believes that an effective, relevant and deliverable enterprise policy must embrace all of the appropriate public and private institutions and agencies. The engagement of national, regional and local institutions is a pre-requisite to the effective development and delivery of policy. For example, changes in the fiscal regime cannot be delivered at European level and depend on Member States' involvement.

6.2.4 For policies to be implemented effectively, the Committee calls for the AP to identify clearly at which level policy will be developed, delivered, monitored and evaluated. For example, the promotion of entrepreneurship in schools may be enshrined at the European level, but delivery can only take place with the cooperation of local agencies, including education authorities. This integrated approach will ensure the delivery of policy and also reduce the development of initiatives that are not tenable.

6.2.5 Moving further away from a ring-fenced enterprise policy approach at EU level does not mean that the Commission's Directorate-General (DG) for Enterprise has any less of a role to play. On the contrary, DG Enterprise should play a greater role, building on the appointment of an SME Envoy by strengthening its influence across the Commission's services. The AP should include a clarification of how the role of the DG Enterprise will be extended to have an even greater impact across the Commission. How will DG Enterprise engage SME representative organisations in policy-making systematically and from a sufficiently early stage, to be able to contribute constructively to the policy-making process?

6.2.6 There is sometimes a considerable gap between business-owner-managers and policy-makers. This gulf can be bridged by consulting intermediary organisations and representative bodies on all relevant policy initiatives throughout the various stages of drafting. This will allow the SME sector to embrace the policy process, influence policy outcomes and better appreciate the efforts of the policy-makers.

6.2.7 The European Economic and Social Committee has done much valuable work in the area of better regulation and simplification in the past, most recently in the form of its opinion on Simplification<sup>4</sup>. This is an area that needs to continue to improve if policy-making is to be more sympathetic to entrepreneurs whilst simultaneously taking into account the perspectives and interests of other stakeholders. Greater efforts should be made to engage entrepreneurs directly in the decision-making process at a much earlier stage. Impact assessments need to be carried out thoroughly, based on wide consultations, systematically taking into account alternative solutions and, in the case of proposals for regulation, explaining why a non-regulatory option has not been chosen.

Beyond the policy areas identified above, there are of course innumerable more specific ways that public policy can help entrepreneurs, some of which are given particular attention in the next section.

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OJ C133 of 6.6.2003, rapporteur: **John Simpson**.

### **6.3 Educating potential entrepreneurs**

6.3.1 The Committee reiterates the need to introduce the concept of entrepreneurship from an early age through exposing children to positive examples. Beyond this, teaching across a broad range of subjects in schools and higher education institutes needs to encourage the development of entrepreneurial skills and to bring students into contact with entrepreneurs.

6.3.2 The education of potential entrepreneurs should also recognise that people can become entrepreneurs later in life too and not therefore, concentrate exclusively on the young.

### **6.4 Setting up a new business**

6.4.1 The Paper refers to the length of time it takes to set up a new business and policy-makers across Europe have recently made considerable efforts to reduce this time. However, the barriers to entrepreneurship before and after the setting-up process are far more significant and this obsession with speedy company registration is misplaced. Indeed, this focus on making company registration quick and inexpensive may inadvertently encourage a "create and destroy" approach and, in so doing, curtail the appropriate period of research, planning, capacity-building and overall consideration before an entrepreneur embarks on a new business venture.

### **6.5 Business support**

6.5.1 Good business support can certainly contribute to more successful enterprises. However, any such support that is perceived as a state-run service could be flawed, as the public sector is simply not regarded as a natural source of advice by some entrepreneurs. Entrepreneurs requiring support will turn initially to their trusted network of advisers. Evidence shows that this comprises, firstly, of other entrepreneurs, then their regular advisers (accountants, banks, solicitors, etc.), sectoral organisations and professional bodies and only then will they turn to other sources. This underlines the important role that mentors can play in supporting entrepreneurs and policies should therefore build on natural support providers.

6.5.2 It is also important that EU business support policy is linked strongly with Member State institutions and policies to allow successful and efficient delivery and secure help to achieve intended objectives.

6.5.3 The AP should consider means by which entrepreneurs might be encouraged to ask for and use business support.

6.5.4 The AP should contain measures to ensure the provision of support and advice throughout the process of business formation, namely pre, during and post-launch, which will greatly improve the chances of an enterprise's survival and prosperity.

## 6.6 **Fostering capacity and skills**

6.6.1 Fostering capacity and skills is essential to increasing entrepreneurial dynamism in Europe. The personal attributes of the owner-manager are central to successful business. However, entrepreneurial dynamism is as much about the daily management of the business as the innovativeness and vision of the entrepreneur.

6.6.2 Successful entrepreneurship is more likely if owner-managers are supported by mentors and other key individuals that complement their skills.

6.6.3 Promoting apprenticeship and work-linked training and encouraging transnational mobility among apprentices are important ways of passing on entrepreneurship. The Committee asks that the Action Plan considers the establishment of Community-funded exchange programmes for apprentices and entrepreneurs.

## 6.7 **Informal training**

6.7.1 There is an assumption that smaller firms do not train their workforces adequately and that business owners themselves sometimes lack the skills necessary to undertake their duties. Evidence shows that the bulk of training in smaller firms, for both owners and employees, is ad hoc, informal and geared to the specific needs of individuals to perform their jobs. Much of this activity is not recognised by government and its training providers in assessing the type and volume of training undertaken in small firms.<sup>5</sup> On the other hand, public sector-led training schemes for small firms are often qualifications-based, involve time away from the enterprise and are structured. As a result, the take-up on training initiatives by business owners and their staff is often lower than expected.

6.7.2 In developing a more relevant training policy for small firms, the AP needs to consider this current mismatch between the provision of training and the needs of businesses especially in relation to training content and delivery format. Policy may seek to bridge this gap by moving more towards how entrepreneurs and their staff train and encouraging a more flexible mode of delivery. Business owners will also require convincing of the benefits of training for individuals in their business and the performance of their enterprise.

## 6.8 **Business transfer and succession planning**

6.8.1 Careful succession planning and owner-manager exit strategies are fundamental to good and sustainable entrepreneurship. Resources therefore need to be devoted to considering which policies might be employed to alleviate the "succession crisis", whereby there are plenty of businesses for sale, but not enough buyers.

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<sup>5</sup> See for example, **Kitching J.** and **Blackburn R.** (2003) "*Measuring Training in Small Firms*", Small Business Council, London, March.

6.8.2 One possibility is to strengthen the market place to make the process of business transfer more transparent. Other possibilities include an examination of the legal and tax systems in the business-transfer process, but taking into account existing workers' rights in this area, already in force at EU-level.<sup>6</sup>

## 6.9 Access to finance

6.9.1 Research shows that small firms tend to finance start-up and growth from their own resources. When they do go outside for finance, this tends to be with the banks. Take-up of equity funding, including informal and formal venture capital, has not been as widespread as originally envisaged and this may be a result of market deficiencies as well as entrepreneurs' reluctance to dilute ownership. In general, the current low interest rates in Europe have provided entrepreneurs with relatively cheap debt finance for their activities.

6.9.2 Surveys vary in their emphasis on finance as a barrier to enterprise. Currently, access to finance for start-up, business development and growth appears to be a major problem for specific types of economic activity, for businesses in certain locations and for entrepreneurs having specific characteristics. The equity gap up to €1.5m in particular needs addressing.

6.9.3 There has been a growing interest in the role of micro-credit as a means of stimulating new businesses. The significance of this form of finance in the overall context of funding for SMEs is minor. Nonetheless, evidence to date suggests that it may be most relevant for specific types of business owners and for enterprises in less-favoured regions. For example, micro-credit may fill a significant gap in financing the activities of micro-businesses in the new Member States. The Committee suggests that the AP considers the relevance of micro-credit, the circumstances under which it can be an effective mechanism for promoting business ownership and how it can best be promoted.

6.9.4 The AP should consider further the specific types of businesses experiencing finance problems. The current market for finance is complex and crowded. Attempts should be made to bolster existing channels of finance and initiatives for financing entrepreneurs should build on existing intermediaries' efforts rather than create new structures.

6.9.5 The Committee feels that the solutions proposed in the Green Paper, such as micro-loans and risk capital or business angels, are only partially suited to the needs of small businesses. The Commission needs to consider the development of professional and mutual guarantee funds so as to facilitate access to credits for the development of the business. The Committee calls for the European Investment Fund to reinforce the financial instruments for guaranteeing loans to SMEs by gearing them more appropriately to the needs of small and micro enterprises and craft businesses, particularly for investment associated with standardisation, the environment and the acquisition of production and communication technologies.

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<sup>6</sup>

European Commission (2002) Final Report of the Expert Group on the Transfer of Small and Medium-sized Enterprises, May.

## 6.10 Public procurement

6.10.1 Amongst the most obvious, efficient and direct measures that can be taken by public authorities to help entrepreneurs is to enhance small business access to public contracts. However, in the same way that small businesses feel a natural affinity to other small businesses<sup>7</sup>, it seems that public administrations, when allocating contracts, gravitate more to big businesses that are run in a similar way. This important cultural barrier, caused by both public authority and SME attitudes, needs to be surmounted if public procurement is to be taken up by small firms.

6.10.2 The need to open up public procurement to smaller firms may present many challenges. The criteria for winning contracts from the public sector make it difficult for small firms because of the large size of contracts, the bundling together of various services within contracts and the bureaucratic procedures linked to bidding for tenders. More recently, state attempts to ensure that contractors are environmentally compliant may further militate against opening up public sector procurement to small firms. The AP needs to consider these issues in more detail.

## 6.11 Tax burdens

6.11.1 Informal investment in enterprises could be greatly encouraged through a more suitable tax regime. This could build upon tax incentives for the re-investment of profits by enterprises. This has the advantage of efficiency of delivery and fits with the investment preferences of business owner-managers. It also avoids the dilution of ownership associated with external investment whilst acting as a major incentive for business growth.

6.11.2 Business owner-managers will always call for lower taxes, but they would also appreciate a lower tax-administration burden. The AP should recommend an analysis of different approaches to support for owner-managers in paying various taxes.<sup>8</sup>

6.11.3 This area is another example of the need to embed enterprise policy into other policy spheres and at European, national and regional levels.

## 6.12 Social protection for the self-employed

6.12.1 The notion of social protection for the self-employed needs to be considered carefully and the correct balance found between risk and protection. There is no obvious contradiction in asking for both lower taxes and increased social protection. Nonetheless, action is needed to ensure that there

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<sup>7</sup> The Committee would challenge the assertion in III.B.vi of the Green Paper that "it is natural for firms of all sizes to work together".

<sup>8</sup> One example is the Belgian approach of using intermediary agencies to administer employees' income tax and social security.

is no discrimination against the self-employed and owner-managers in the provision of social protection.

### **6.13 Entrepreneurship and Social Exclusion**

6.13.1 Entrepreneurship touches on all areas of society and the Committee emphasises the need for the AP to appreciate this diversity. In particular, social economy enterprises, including co-operatives, mutual societies, foundations and associations embody entrepreneurial activities, but with social objectives.

6.13.2 Business ownership is, equally, one way in which socially excluded groups can enter the employment market. However, the Committee recognises that more research is needed into understanding the contribution of business ownership to overcoming social exclusion.

6.13.3 It is important that the AP recognises the variety of enterprises and the experience of those with social objectives. It is also important that it stimulates support services to meet their needs.

### **6.14 Spin-off**

6.14.1 The AP should pay attention to the encouragement of spin-off ventures from universities and higher educational institutions. There is evidence to suggest that, although there are examples of good practice in the EU, the potential for developing spin-off has not yet been fully realised. Consideration needs to be paid to the potential for this type of enterprise, the processes it involves and if appropriate, relevant policy options.

### **6.15 Stigma of failure**

6.15.1 The Committee welcomes the Green Paper's recognition of the need to address the damaging tendency in Europe to stigmatise as a failure an owner-manager who has run a business that has gone bankrupt. Potential investors and financial institutions, in particular, need to take a more positive attitude to such business experience which, it can be argued, is a valuable stage in an entrepreneur's learning curve and often leads to more successful future business ventures.

### **6.16 The Internal Market**

6.16.1 The European Single Market still remains a distant concept to many SMEs, a high proportion of which will never seek to exploit opportunities beyond their local or national markets. Nonetheless, other smaller firms are well placed to sell their goods and services across borders and in other Member States. They could, in particular, be supported in this process through the ongoing development of an infrastructure that supports the movement of goods, people and information and increased mutual recognition of professional qualifications.

## 6.17 **Enlargement**

6.17.1 As the Committee has stated in the past, SMEs are “a pillar of the transition process and make a large contribution to GNP and employment” in the new Member States. SMEs in these countries face exaggerated difficulties in several areas, notably in terms of access to finance, training, support and advice.<sup>9</sup>

6.17.2 It is important that the AP considers the effects of enlargement on SMEs in the EU15 and in the new member states. It is also important that the AP considers how existing policy can accommodate the diversity of needs of small firms throughout an enlarged EU.

6.17.3 As previously mentioned, accessing appropriate forms and levels of finance in these states presents particular problems and requires particular solutions.

## 7. **Brief response to the ten points raised in the Green Paper**

7.1 The above paragraphs spell out in detail the Committee’s opinion on the Green Paper. In briefly answering the ten questions raised in the Green Paper, however, below are some of the most important messages in this opinion, together with suggestions for several key areas for action.

### 1) **What should be the key objectives for an agenda for entrepreneurship in the European Union and how should these relate to other political ambitions? How can we build a model for entrepreneurship in an enlarged Europe?**

A European approach to stimulating increased entrepreneurial activity needs to focus on how to provide the best environment for existing SMEs through a more favourable risk-reward balance. In so doing, this will also reduce many of the most significant deterrents to the creation of new enterprises.

The approach must recognise the broad range of key objectives, notably: a stable economy, a better regulatory and administrative framework, fostering more positive attitudes towards entrepreneurship and managerial skills, a supportive financial environment, well functioning labour markets and access to a skilled labour force and favourable conditions for research and innovation.

Just as enterprises impact on many areas of society, these objectives encompass and relate closely to several major EU policy areas and political ambitions. It is therefore essential that the views of a wide variety of stakeholders be taken into account in developing a European approach to stimulating increased entrepreneurial activity.

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<sup>9</sup> OJ C193 of 10.7.2001. Opinion on "The employment and social situation in the central and eastern European applicant States".  
Rapporteur: **Eva Belabed**.

- 2) **How can we improve the availability of finance (tax measures, public-private partnerships, stronger balance sheets, guarantees) and what alternatives to bank loans should be promoted (business angel finance, leasing, factoring and micro-loans from non-bank lenders)? How can entrepreneurs be supported in obtaining external finance?**

In the current economic and financial climate, surveys suggest that in general there is no lack of finance available to small firms. However, this should not detract from the long-term structural finance problems faced by small firms. Improvements should focus on four elements: continuity in the flow of finance (at all stages of a business' development), a variety of financing options, transparent criteria for enterprises applying for financial support and fiscal measures to encourage business development and investment.

One of the main challenges is that entrepreneurs are notoriously reluctant to dilute ownership through taking up equity finance, venture capital and other external sources of finance. Informal investment in enterprises could be encouraged through a more favourable tax regime, which is both efficient and preferable to business owner-managers. It is important that those seeking external finance are encouraged to be "investment ready".

Solutions need to be tailored to different local and regional requirements, with businesses in several of the new EU member states in particular facing unique challenges.

Public authorities should identify existing successful solutions, informal or formal, and consider how they might be developed or duplicated.

- 3) **Which factors most hinder growth ((lack of) mutual recognition and EU rules or their (non-) implementation at national level, national tax provisions or the situation on the labour markets)? What actions are best suited to supporting growth and internationalisation (trade missions, market analyses, clustering and networking, information and consultancy services)?**

The Committee would highlight macro-economic instability, negative attitudes towards entrepreneurship, poorly functioning labour markets and the burden of excessive and poorly drafted regulation, as the main hindrances to growth.

Public authorities at local, regional, national and European level could contribute to the growth of many younger, smaller businesses very directly by allowing them improved access to public contracts. The Committee feels that securing a skilled labour force and meeting small businesses' recruitment requirements are priority European issues, and asks that the requisite economic and political measures be put forward in the Action Plan.

- 4) **To ensure high quality businesses, what training and support should be offered for a business start-up (basic training - compulsory or voluntary, incubators, mentoring) and business development (networks, courses, mentoring, distance learning, e.g. e-learning)?**

**Should there be services tailored to the needs of specific groups (women, ethnic minorities) or businesses (knowledge-based activities)? Should the quality of delivery of support services be improved (using ICTs, professional standards)?**

Support needs to be provided to meet the diversity of needs of business owners and their enterprises. This involves the segmenting of support, for example, according to business sector, the stage in their lifecycle and their geographical location. The Committee acknowledges the challenge of getting established businesses to take advantage of support offered, but would argue that this could be improved by tailoring the services more to their needs and supplying them in a flexible manner.

Support targeted specifically at start-ups needs to commence at the very earliest conceptual stages and be maintained throughout the preparation, launch and early growth phases.

EU support initiatives and those at national, regional and local level need to be better joined up.

- 5) **Are the obstacles and incentives for business development and growth in the European Union similar for entrepreneurs in the Candidate Countries, and does the forthcoming enlargement call for specific measures in the Candidate Countries?**

Potential and existing business owner-managers undoubtedly face particular problems in the EU's new member states. The development of more systematic European benchmarking data on small firms would greatly assist comparative analyses of SME performance and experiences in the EU and the new member states and thereby help identify areas of policy for development, delivery and evaluation.

The Committee recommends that policy-makers look more closely at the experiences of entrepreneurs in the new member states; having started and run businesses in such a rapidly changing political and economic environment, they are well-placed to provide valuable input into the development of a more entrepreneur-friendly environment across Europe.

- 6) **What can EU Member States do to make the balance between risk and reward more favourable to promoting entrepreneurship (reducing the negative effects of bankruptcy, making more social benefits available for entrepreneurs, reducing the tax burden either in terms of administration or rates)?**

Risk is an unavoidable factor in any entrepreneurial venture. Nonetheless, the level of risk is perceived by many in Europe as being disproportionate to the potential rewards.

In line with the European social model, the Committee calls for measures to be taken to ensure that business owner-managers are not discriminated against in terms of social protection. This will have the additional advantage of making the decision to switch from

being an employee to becoming self-employed or an employer less daunting, which is currently a major obstacle to entrepreneurial activity.

Lower rates of corporate taxation would contribute to an increase in the financial rewards to be gained from entrepreneurship and motivate more people to become entrepreneurs. However, the AP must also recognise the wide diversity of reward sought by entrepreneurs and be aware that, while financial gain clearly remains a significant motivation, there are numerous other factors that inspire people to become entrepreneurs.

7) **How might more prospective entrepreneurs be encouraged to consider taking over rather than starting a new firm (buyers and sellers' databases or marketplaces, special training for family-owned businesses, management or employee buy-outs)?**

The process of business transfer must be made more transparent and better publicised to potential entrepreneurs as an effective and efficient way of entering business.

The Commission has undertaken some valuable work in identifying best practice in supporting business transfers. The Committee expects the Action Plan to build on this and for Member States to deliver tangible improvements, particularly in relation to the legal and fiscal aspects of business transfer.

The Committee urges attention to developing a clearer understanding of the process of business closure and society's response to owner-managers' involved in closures. This involves raising intelligence on the causes of closure, stakeholders' attitudes to those having closed a business and the treatment of these owner-managers by financiers, the legal system and other support bodies. The AP should seek to stimulate a better understanding of those involved in business exit by society, government and support agencies.

8) **How can spin-offs be made more attractive (management buy-outs, showcasing, specialised advice, tax or other provisions for employees and their employers whilst starting a business)?**

The Committee calls for a review of existing approaches to spin-off in different Member States and consideration of how the potential for developing this process might be realised.

- 9) **How can education support the development of the awareness and skills necessary for developing an entrepreneurial mindset and skills (entrepreneurship training as part of a school's curriculum, getting entrepreneurs into the classroom, apprenticeships for students to work with experienced entrepreneurs, more entrepreneurial training in universities, more MBA programmes, matching entrepreneurial training with public research programmes)?**

As already discussed in the main part of this opinion, an entrepreneurial mindset cannot be taught, but can be stimulated. Currently, too few younger people consider starting and running their own business as a realistic and appealing career option.

More young people need to be exposed to the concept of entrepreneurship from an early age. There also needs to be greater concentration on entrepreneurship in teaching later in the education process. This should cross-cut traditional academic disciplines rather than be merely circumscribed to business studies.

The potential for people to become entrepreneurs later in life should also be encouraged.

- 10) **What could business organisations, the media and public authorities do to promote entrepreneurship (role models, media campaigns, open door days of firms, award schemes for entrepreneurs) and at what level (European, national, regional or local)?**

The most effective way to promote entrepreneurship is by ensuring that the risk-reward balance is more favourable to business owner-managers and practical policies to achieve this objective should therefore be the priority for policy-makers. This requires a better understanding of business among policy-makers, more involvement of representative intermediary organisations through early, systematic consultation and a more cohesive approach to enterprise policy at all levels.

The use of role models, media campaigns and raising the profile of entrepreneurs can certainly help, but the Committee would argue that representative organisations and other intermediary organisations are better placed than public authorities to fulfil this need.

The Committee also underlines the fact that entrepreneurship is not the right choice for everyone and any promotional efforts should therefore focus more on changing public perceptions rather than trying to encourage as many people as possible to become entrepreneurs themselves.

## 8. **Concluding remarks**

8.1 The Committee welcomes the Commission's Green Paper and the added urgency it has given to reflections on European enterprise policy among officials, politicians and stakeholders. In

order for this process now to have a lasting value, it is essential that an ambitious, yet carefully targeted, AP is delivered efficiently.

8.2 It is clear that an improvement of the risk-reward balance for entrepreneurs is central to any increase in entrepreneurial activity and must be a theme running through the AP.

8.3 The Committee stresses that public policy needs to be targeted and should seek to tackle the most urgent matters first if ultimately all objectives are to be realised. Within the broad range of policy areas covered by the Green Paper, it is therefore imperative that the AP *prioritises specific policy areas*.

8.4 The Committee highlights several key areas for action that the AP should prioritise:

- improving SMEs' access to public contracts;
- a review of the fiscal regimes in which SMEs operate across Europe, assessing taxation levels, administration and collection;
- a clearer understanding of the process of business closure and society's response to owner-managers' involved in closures;
- action to promote the spirit of entrepreneurship and to encourage people of all ages and backgrounds who demonstrate the appropriate mindset to become entrepreneurs;
- the development of more systematic benchmarking data on SMEs in order to facilitate measurement and inform appropriate policies.

8.5 Better enterprise policy will only have a positive impact if it is also delivered effectively. Commensurate with each of the priorities identified in the Action Plan, the Committee therefore calls for a strategy for implementation. Each strategy should set out policy targets and time-scales. Most importantly, the priorities must state at which level responsibility for delivery lies: EU, national, regional or local.

8.6 The Committee has frequently stressed that consultations with representative business organisations at various levels, including those representing small businesses in line with the Charter's tenth recommendation, is the only way to ensure that European measures are suited to the different kinds of businesses and are able to be applied in practice. The Committee asks that the organisations representing small businesses continue to be directly involved in developing the Action Plan through consultation in order to ensure that it – and the practical measures that will follow – are effective.

8.7 The Committee feels that, although real progress has been made in implementing the European Charter for Small Enterprises at Member State and Community levels, its impact has been low. The Committee and the Parliament have asked that the Charter be given legal status. Without this

status, the Charter will remain a mere political declaration of intent devoid of any genuine, firm and concerted framework. The Committee has pointed out in a number of opinions that the Commission has most frequently used the Charter as grounds for measures already planned for enterprises in general, not for small businesses in particular.

8.8 The Committee is pleased that the Spring Summit and recent Competitiveness Councils have called for the Charter to be applied more effectively. The Committee asks the Council to improve implementation of the Charter by taking a formal decision stipulating that:

- no legislative or quasi-legislative text with a potential impact on SMEs may be submitted by the Commission unless it has been subject to consultation with the organisations representing small businesses;
- impact assessments carried out by the Commission on policy initiatives of potential significance to SMEs must include a specific analysis relating to small and micro enterprises;
- specific measures must be adopted in all Community programmes that might potentially involve small businesses to assist them, in line with the Charter.

8.9 The Committee deplores the fact that the Convention proposals make no mention of enterprise, entrepreneurs or entrepreneurship. It calls on the intergovernmental conference to take up this policy and asks that the future European constitution make reference to enterprises and small businesses as opposed to merely industry in general. It also calls on Member States to support this approach at the IGC.

Brussels, 24 September 2003.

The President  
of the  
European Economic and Social Committee

The Secretary-General  
of the  
European Economic and Social Committee

**Roger Briesch**

**Patrick Venturini**