

## **CECOP's position on the European Commission consultation on the Small Business Act review**

Brussels, 15 December 2014

*CECOP – CICOPA Europe is the European confederation of cooperatives and worker-owned enterprises active in industry and services. It groups national organisations in 16 countries, which in turn affiliate over 50,000, enterprises the vast majority being SMEs, and employing 1.4 million workers across Europe. Among the main sectors of activity, we find metal and mechanical industries, media, ICT, construction and public works, health and social services, environmental activities, white goods, transport, education and culture. Most of them are characterised by the fact that the employees in their majority are member- owners. More than a thousand worker cooperatives in the CECOP network were established as business transfers of conventional enterprises in crisis or without heirs to their employees.*

CECOP wishes to thank the European Commission for giving stakeholders the opportunity to make their voice heard through this consultation. The “*new Small Business Act*” (SBA), announced for 2015, should include all types of enterprises and should take into account economic pluralism, by which different forms of enterprises coexist. We are glad to see that, in the European Commission’s explanatory document for this consultation<sup>1</sup>, this plurality is recognised and that cooperatives are mentioned. We agree with the Commission that the needs of cooperatives should be better integrated into policy actions and EU programmes. Moreover, given their contribution to the sustainable economic development of Europe and its regions, specific policy actions and programs for small and medium sized cooperatives (SMEs) are necessary in order to strengthen the start-up and growth phases of the latter. The “*new SBA*” should clearly mention it.

Considering that the focus of the “*new SBA*” is SMEs growth, it is essential to design this new instrument coherently and in relation with the other Commission’s policy initiatives having an impact on growth, such as the mid-term review of the EU 2020 strategy and the ‘European Semester’. The European Commission needs to create a more coherent and integrated approach where different measures reinforce each other instead of having the opposite effect. Austerity programmes adopted by Member States in order to achieve fiscal consolidation, namely the main priority of the ‘European Semester’, have translated into cuts in public spending which in turn are having a weakening impact on growth, while worsening the already highly critical unemployment rate, as well as increasing inequalities. In other terms, they are paradoxically diminishing Member States’ capacity to achieve the EU 2020 goals such as employment, investment in R&D, training

---

<sup>1</sup> “*A strong European policy to support Small and Medium-sized enterprises (SMEs) and entrepreneurs 2015-2020 Public Consultation on the Small Business Act (SBA)*”, page 4

and education, which, on the contrary, need public investment and are key for the EU and its SMEs to recover growth.

According to the Commission: “*The growth of SMEs is hampered in some countries by more burdensome national legislation such as the application of more stringent social security regimes, taxes and labour legislation when passing a certain threshold of employees or turnover.*”<sup>2</sup> According to us, it is crucial to go beyond this approach and add an important element which is not mentioned once in the consultation documents: **investment**. Investment, by which we mean productive investment, and which should be clearly distinguished from purely speculative financing, is one of the key instruments in favour of sustainable, smart and inclusive SMEs growth. The “new SBA” should give a central place to investment and give a strong signal in this sense to Member States.

## **ACCESS TO FINANCE**

Because of their specificities, cooperatives and other employee-owned enterprises, such as the Spanish *Sociedades Laborales* or worker-owned enterprises, that are active in industry and services require financing modes that comply with their specific business model, by which the share capital must be owned and controlled by members. They have a strong tendency to build financial reserves with their own funds and, wherever they reach a certain density, they tend to establish financial instruments among themselves and under their common control. In order to achieve the long-term financing objectives set by the EU, any European or national financial initiative, be it public or private, willing to promote cooperatives should acknowledge the needs and the governance structure of the latter, and contribute through existing intermediaries, when they exist. They should not only concentrate on the start-up stage but also on the development stage of the enterprise.

## **PROMOTING MARKET ACCESS FOR SMES**

### ***Internationalisation of SMEs***

CECOP welcomes the announced integrated Commission strategy to help SMEs do business outside the EU.

Groupings of cooperative enterprises, such as those that can be found in our network, are an entrepreneurship model stimulating cooperation and partnership strategies between small and medium cooperatives. Such a cooperation instrument enables small and medium sized cooperatives to face the challenges of globalization, to internationalise and be more competitive. Such cooperative groups, which are horizontally and not vertically integrated, should be supported and promoted by the “new SBA”. They enable SME to develop common brand names or range of goods and services to access international markets, invest in innovation and engage in R&D. This type of business combination could be applied to other types of SMEs, as groupings or cooperatives of SMEs.

---

<sup>2</sup> Ibid

## **RELEASING ENTREPRENEURIAL & INNOVATION POTENTIAL FOR GROWTH**

### ***Bankruptcy – business transfers***

In the announced initiative on business failure and insolvency, alongside measures giving a second chance for honest entrepreneurs, the Commission should also include measures giving a second chance for viable enterprises facing closures. According to the study “*Business Dynamics: Start-Ups, Business Transfers and Bankruptcy*” published in 2011 by the Commission, among business closures, bankruptcies account only for approximately 15%.<sup>3</sup> This means that business failure is a phenomenon which is far wider than bankruptcies and that for an important part of closed business there is certainly a part – if not the entire – activity to be saved.

Several hundreds of cooperative enterprises from the CECOP network are in fact the result of businesses that have been transferred to, or bought out by the employees and re-established under the worker cooperative form since the beginning of the crisis. In France, for example, there have been 224 business transfers to the employees since 2008, with a very high survival rate within the first 5 years, actually higher than the average for all French enterprises.<sup>4</sup> In most cases, there has been net job creation after the transformation. The sustainability of such operations is the fruit of a considerable level of expertise in the organisations specialised in doing business support to such operations in their transformation process, such as national and regional cooperative federations, as well as non-banking instruments of the cooperative movement and cooperative banks, who work in close cooperation with each other in these operations. The cost of such operations which maintain SME alive and allows them to develop, is low and, more importantly, any public investment in them is refunded in a rather short time through taxes. The new French Social and Solidarity Economy law adopted in 2014, a substantial part of which addresses business transfers to the employees under the worker cooperative form, provides an even more promising policy framework in this field and should be promoted among Members States.

The decades-long experience of our enterprise network with business transfers under the form of cooperatives or other forms of enterprises jointly owned and democratically controlled by their own staff provides clear evidence about the importance of genuine and participative accountability on the part of the employees if such operations are to succeed with a high rate of long-term economic sustainability due to the generally high feeling of responsibility on the part of the staff, and the fact that the know how remains within the enterprise. In some EU member states, in turn, the tax system supporting employee ownership at succession does not provide any specific tax regime to business transfers to the employees under the cooperative form, and instead promotes models that can lead to effectively ‘ownerless’ enterprises that fail to serve employees’ interests, and which for this reason may lose the important economic sustainability component mentioned above.

We hope that the “new SBA” will give a more central role to initiatives for business transfers

---

<sup>3</sup> p.114

<sup>4</sup> According to INSEE (French Institute of Statistics and Economic studies), for more information on that topic see CECOP 2013 publication “Business Transfers to Employees under the Form of a Cooperative in Europe”, p.12 ([http://www.cecop.coop/IMG/pdf/bussiness\\_transfers\\_to\\_employees\\_under\\_the\\_form\\_of\\_a\\_cooperative\\_in\\_eur\\_ope\\_cecop-4.pdf](http://www.cecop.coop/IMG/pdf/bussiness_transfers_to_employees_under_the_form_of_a_cooperative_in_eur_ope_cecop-4.pdf))

than the consultation document does, and we call on the Commission to mention specifically business transfers to employees. Urging members States to put in place national action plans on business transfers is an excellent initiative but we need a clear reference to this type of transfers that are still difficult to achieve or even ignored in some countries.

The “new SBA” should also encourage specific measures facilitating business transfers to employees and employees’ buyouts such as:

- direct financial mechanisms aimed at helping employees invest in enterprises in crisis or without a successor in particular under the cooperative form
- training in cooperative management and governance for the future worker-owners should also be supported.

### ***New European Cluster Strategy for Growth***

CECOP welcomes the announced new cluster strategy. In some highly industrialized European regions, like Italy’s Emilia-Romagna region and Spain’s Basque Autonomous Region, cooperatives have established strong industrial clusters and horizontal groups, already mentioned above, owned and controlled by their constituent cooperatives. Today, in great part thanks to this grouping strategy, cooperatives make up a very high proportion of the economy of these regions (around 15% of Emilia-Romagna’s GDP) even with the present economic slow-down and in spite of the strong difficulties which some specific sectors are suffering. The “new SBA” should include specific measures such as:

- Member States should be encouraged to adopt regulatory frameworks for the creation of cooperative horizontal groups as well as measures promoting them, under the cooperative form.
- Inter-SME collaborative networks under the cooperative form (cooperatives of SMEs, producers’ cooperatives, activity and employment cooperatives etc), especially in strategic sectors, should be supported, in particular at local and regional level, as those networks considerably reinforce the sustainability of the constituent enterprises. This goes perfectly in line with the Commission’s objective “*simplifying organizational processes, eliminating unnecessary burdens, reducing costs and, therefore, increasing SMEs efficiency and growth*”.<sup>5</sup>

### ***Youth entrepreneurship and education***

CECOP welcomes the reference in the Commission’s consultation document to the promotion of entrepreneurship among young people and youth start-ups.

An increasing interest for the cooperative way of doing business has been noticed among young Europeans. One can conclude that cooperative democratic governance and control over the enterprise can be particularly attractive among young people. Creating a cooperative can be, for young people, a sustainable response to the very critical employment prospect which they are currently facing in the EU, while at the same time it can help young people to have a more active and autonomous place in society and make them take charge and feel more responsible for their

---

<sup>5</sup> See consultation explanatory document “A strong European policy to support Small and Medium-sized enterprises (SMEs) and entrepreneurs 2015-2020 Public Consultation on the Small Business Act (SBA) », page 13

own future. The “new SBA” should include specific measures facilitating the establishment by young people of worker, social and producers’ cooperatives, as well as other worker- or producer-owned and controlled enterprises active in industry and services, such as the following:

- national legal frameworks should enable young people to establish a cooperative in all sectors of activity, including the most innovative ones ;
- through different levels of education, from primary education, specialised technical schools, to university courses, young people should have access to programmes where the cooperative business model is taught. Through cooperative education, young people should get acquainted not only with entrepreneurial skills but also with values such as self-responsibility, democracy, equality, equity and solidarity, which are cooperative values as stipulated in the international cooperative standards enshrined in ILO Promotion of Cooperatives Recommendation n° 193 (2002), like the operational principle n°5 of cooperatives, namely information, training and education.

Student cooperatives, which exist in several EU member states, also offer students not only the practice of the cooperative type of enterprise, but also enables them to develop managerial skills for enterprise in general, which would be difficult to implement among students through another business model.

## **Reinforcing skills development to overcome the shortage of skilled labour**

Cooperatives and worker-owned enterprises in industry and services lay a strong emphasis on education and training not only in the educational system but also, and even more importantly, within the enterprise itself. Apart from managerial training and education on the cooperative business model, they also often value technical skills training and technical know-how.

The experience of our cooperative sector calls for the importance to strongly invest in skills training in SMEs. For European SMEs to remain competitive and increase their competitiveness, the issue of skilled labour is fundamental. Conversely, the loss of skilled labour will seriously jeopardize Europe’s and European SMEs’ competitiveness. The European Commission should dedicate even more attention to this issue than it has done so far.