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The European
Common Market and
German Small Business

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International Department
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Part I:

Domestic Issues

by Gustav Kucera

After the customs union was realized in the 1960's, in accordance with the European Community, the further development towards a European internal market stagnated in the following years. It was in the mid 1980' that new incentives were given through the publication of the so called White Paper from the Commission to the European Council completing the Internal Market. According to this resolution, not only the free movement of goods was the prime focus. It also aimed at establishing a regime enabling free passenger transport as well as the free movement of services and capital. The hitherto existing barriers and disincentives are to be mostly disposed of at the end of 1992.

According to international law, the foundation of the measures taken was the signing of the Single European Act by the foreign ministers of the EC member-states in February 1986. It was the Single European Act, which further supplemented and altered many clauses of the EC treaty.

It is yet unknown to what extent the schedule for the realization of the EC internal market can be adhered to. Still, long-lasting effects on the economies of the member-states as well as other non-EC countries are generally expected. Taking into account that small-scale firms mainly operate on a national level, more so within regional boundaries, foreign trade relations of small-scale firms are relatively negligible. Notwithstanding this fact, it is assumed that the small-scale business will be affected more or less strongly by the completion of the EC internal market.

In the first place, it is all the more clear that the effects upon each of the small-scale enterprises may differ from case to case, because of the fact that the small-scale business is not homogeneous as far as material equipment, personnel, and the regional location are concerned. Apart from the money and insurance markets, it comprises all sectors of the economy as well as different firm sizes - from larger units up to the smallest business operating at a very small scale. It also comprises different types of business ownership and various modes of production.

I do not intend to embark on the discussion of the different types of small-scale businesses. Neither will I try to cast light on their perspectives along the integration under way - this is part of Mr. König's discussion - but, instead, I will attempt to illuminate a few aspects which are typical of small-scale business as a whole and which could be affected upon completion of the EC internal market.

Although in detail the small-scale business differs greatly, the question arises what actually is characteristic of the small-scale business as such in the Federal Republic of Germany. This makes one particularly think of two organizational and two structural facts:

- 1) The most apparent unifying element of German small-scale businesses is the regulation of their legal status through the small business code providing for the enrolment in the small businesses' register. This enrolment and, hence, both the independent professional activity and the authorized qualification for instruction as an entrepreneur basically require the Major Qualification Certificate. Apart from exceptions, every independent entrepreneur must obtain this certificate.
- 2) As a further binding link next to the required Major Qualification Certificate, there is the well developed organization of small-scale business. In the process of economic policy related decision-making, the small-scale business is jointly represented by chambers and associations headed by the "Zentralverband des deutschen Handwerks" (ZDH, National Federation of German Skilled Crafts and Trades). On the basis of their group power these associations exert an influence on economic policy. The fact that they represent half a million enterprises and four million employees makes them one of the most potent economic domains.

Both facts, namely the small business code with its vital part, that is to say the required Major Qualification Certificate, and the organization of small-scale business give a corporate identity and a uniform image to the small-scale business of the Federal Republic of Germany. It is an image in the public, that not only weighs heavily when it comes to the capacity to influence deci-

sion-making in the sphere of economic policy. It is also significant, if the issue is the competitive position of the small-scale business, as opposed to enterprises of other branches of economic activity, in that it engenders a sort of "brand article effect".

- 3) As far as the enterprises are concerned, small-scale business is characterized by its small and medium-sized firm structure. The average size of the firm is around eight employees. Accordingly, in this sector of the economy, small firms, in absolute and relative terms, are predominant.
- 4) As for the products, namely material goods and services, it is characteristic that small-scale businesses produce in proximity to their individual needs. Furthermore, its production caters to market niches that are neglected by the industry, since small-scale business proves to be more efficient for firm-size related reasons. This applies, for instance, to the service and subcontracting sector.

When we consider these four characteristics, what perspectives evolve for the German small-scale business through the realization of the EC internal market?

ad 1) Perspectives on the Small Business Code and the Major Qualification Certificate

The completed EC internal market envisions the free movement of all factors of production within the common market. This includes freedom to set up a business, anywhere the independent entrepreneur chooses. The legal requirements as to the access and professional activity as an independent entrepreneur differ greatly among the EC member-states. The majority of the countries concerned do not even have a small business code and are not familiar with the notion of small-scale business. Only in Luxembourg do the legal regulations as to small-scale business more or less correspond to standards in the Federal Republic of Germany. Therefore, for decades it has

been planned to harmonize the pertinent national regulations. As harmonization failed, a recourse to preliminary EC-directives was made.

In light of the new initiative to complete the EC internal market, it can be questioned whether the time has come to harmonize the various national regulations on professional activity in small-scale business. Thereby, from the outset it is quite unlikely, that across Europe states will be willing to conform to the German regulations, as agreed upon in the small business code. It has to be assumed that a uniform regulation would be considerably more liberal. For this reason, the Deregulation Committee under the direction of the Federal Minister for Economic Affairs, is presently investigating inter alia whether or not a deregulation of the small-scale business is necessary from the viewpoint of the realization of the EC internal market.

It is obvious that a harmonization of legal provisions pertaining to the small-scale business, on a much more liberal basis, would signify a noteworthy change of regulative policy for the Federal Republic of Germany. Presumably, this change would have a serious impact on the perceived role of the small-scale business as such, but it would also necessitate long-lasting consequences on the part of every single small-scale firm.

Because this critical point seems to have been perceived and because the other member-states are aware of the problems stated, although they perceive them from different standpoints, it followed that the Single European Act of 1986 brought along a corresponding modification of the EC treaty in art. 57, par. 2, phr. 2. Henceforth it requires unanimity with respect to those directives that concern for example crucial aspects of vocational training (Art. 16). This also applies to the small business code. This provision, though, prevents the Major Qualification Certificate from being suspended by a majority vote of the EC committees, but it does not warrant that, in the course of the completion of the EC internal market, all governments including the German government will deem it necessary to liberalize and standardize regulations in this field. Based on EC-directives, today's existing regulations as to freedom of movement have, up to this date, rather poorly performed in inducing foreign entrepreneurs to establish their production in

the Federal Republic of Germany. In the last 20 years they have approximately numbered 3,000. With respect to German small-scale business, this drastic regulatory perspective of a proceeding integration may still be considered an up-to-date issue. This still holds true, while currently many politicians of every breed emphasize that the Major Qualification Certificate should not be impinged upon.

ad 2) Perspectives on the Organization of the Small-Scale Business

In the domain of applied economic policy at present various interest groups gain particular significance when it comes to economic policy related decision-making. This is mainly due to the plurality of society's interests and the complexity of the usual dealt-with material, that entails a proper processing of a tremendous amount of information on the part of key agents in economic policy. Small-scale business must also make sure that its interests and necessary information become a coherent part of the process of economic policy related decision-making and has to ensure that it continues to be. In order to illustrate this point, I may refer to the Euro-Fitness-Program of the Federal Department of Economic Affairs, currently under way: without the help of the organization of small-scale business, last but not least of the "Deutsches Handwerksinstitut" (German Institute of Small-Scale Business), the Federal Department of Economic Affairs would have hardly been able to allocate the respective financial resources efficiently in favor of small-scale business.

Although the interests of various firms may very well differ and, as a matter of fact, will differ, the logic of this decision-making process makes it necessary that the small-scale business constitutes a key body of uniform interests aided by its organizations. This ensures some weight against the interests of other sectors of the economy. The combined power of business related interest organizations constitutes the vehicle of active influence on decisions concerning economic policy. Active influence particularly hinges on the degree to which the clientele backs the interest organizations' demands and on what market power they represent. In the Federal Republic of

Germany, the corporate identity of the small-scale business and its economic significance are known to both the public and the key agents of economic policy. Therefore, the position of the small-scale business's organization is relatively powerful with respect to economic policy related decision-making. Its needs and specific interests are understood and ensured.

As a consequence of the proceeding integration and, particularly, the completion of the EC internal market, many economic decisions are made rather on a supranational than a national level. Community institutions will be in charge of a growing number of decisions. It stands to reason that national institutions will influence the Community's economic policy less than they have done with respect to domestic policy. This gives rise to the problem of an inappropriate consideration of interests. It will be necessary to organize these interests internationally in order to make a strong emphasis possible.

Thereby, the small-scale business is confronted with the following problem: most of the EC countries do not have a small business code and, accordingly, the term "small-scale business" as a specific economic sector is unknown. As a result, in these countries enterprises which can be termed small-scale firms do not have a corporate identity. They have been reduced to an undefined and fairly far-fetching notion of small or medium-sized enterprise or small business. Accordingly, they were unable to develop a strong organization tailored to their needs, such as the German small-scale business's organization. For this reason, it is supposedly difficult, if not impossible, to form a strong international small-scale business's organisation within the EC through the linkage of national organizations. Its economic effectiveness within the sphere of supranational economic policy would be anything but comparable with the effectiveness of the German small-scale business organization in the sphere of national economic policy. As far as the other sectors of the economy are concerned, an international formation of institutions and their uniformly oriented interest policy is more likely to be feasible.

Hence, the following perspective for the German small-scale business emerges: with the completion of the EC internal market it is expected that

the influence of the small-scale business upon the process of economic policy decreases. As other sectors of the economy may yield different results - within the EC, they may be able to create a corporate identity more easily - problems, such as an interest policy related distortion of an European economic policy may arise. This would result in adverse conditions for the small-scale business, namely for small-scale businesses in the Federal Republic of Germany, which previously managed relatively well to secure their position by economic policy.

ad 3) Perspectives on Size-related Structures of the Small-Scale Business

The benefits of the EC internal market are, among other things, to be seen in the firms' realization of economies of scale due to a larger market without having a significant rise in the firms' transaction costs. If this expectation proves right, the following perspective for the small-scale business, structured mainly in small and medium-sized firm units, opens up with respect to its viability potential; the advantages of larger production units, i.e. economies of scale, would either result in the small and medium-sized firms' use of the advantages of larger production units, adjusting thereby along this trend to industrial modes of production, or, in case they do not succeed in using these advantages, they will disappear from the market or continue to exist under rather poor circumstances. The branch small-scale business would in any case be strangled; as the potent enterprises shift to industrial activity, the weakest will cease to exist, and the rest will linger at the brink of the social scale.

This perspective corresponds to the one that the small-scale business already encountered at the end of the nineteenth century, when the world market was established. At that time, the advantages of larger production units were also praised and the competitiveness of small-scale business oriented modes of production was questioned in the long run. In fact, this development did not take place and it is very likely that it will not take place in the course of the EC internal market. The small and medium-sized firm structure of the small-scale business is neither a result of trade barriers along state borders, nor of protectionist measures designed to thwart competition within state

borders (catchword: "Deregulation of the Small-Scale Business"). It is a result of the need to perform economically necessary functions, which are likely to be performed by small and medium-sized enterprises - i.e. the small-scale business, in particular - in a more efficient manner than by larger production units within the framework of a dynamic process of competitive behavior. Therefore, this situation cannot be expected to change substantially on completion of the EC internal market. The situation, though, may change if different aspects of market failures are not taken into consideration in the supranational economic policy program of the European Community. Therefore, distortions in competition can evolve much to the detriment of the small-scale business, because the key agents of economic policy in the decision-making process were not made aware of them with the necessary decisiveness (e.g. a lack of combined power from the European Small-Scale Business organization).

Last but not least, this critical situation exists because small-scale business's influence on the EC's economic policy probably lags behind that of other sectors of economic activity.

ad 4) Perspectives regarding individual Supply, its Proximity to Customers, and the Activity in Market Niches

The economic functions, which small-scale firms typically fulfill and which guarantee their survival in a functioning competitive market, are concerned with an individually designed product range, its proximity to costumers, and market niche activity which cannot be realized efficiently by industrial enterprises. The completion of the EC internal market will not evolve without having an effect on the competitive situation of the small-scale business in the Federal Republic of Germany. An intensified competition on German domestic markets of small-scale business is, directly or indirectly, in sight.

A direct competition for domestic small-scale enterprises within German markets could develop either via the import of goods and services from for-

eign small-scale enterprises or via the settlement of foreign entrepreneurs in Germany.

An intensified import of foreign goods and services, produced by small-scale firms, and foreign services could materialize to a certain degree, as transaction costs of foreign enterprises decrease as a result of both adjusting norms and regulations and reducing border formalities. The import of services provided by small-scale firms can be interesting, because the differing labor cost levels in the member-states provide incentives to create such activity. Up to now, the scale of such activities remained low because of various barriers and disincentives.

According to EC-directives, opportunities as to the settlement of entrepreneurs from EC member-states in the Federal Republic of Germany have existed for a long time. Still, it has remained virtually insignificant. The language barriers, family-related and psychic immobility are among the many reasons for this behavior. Costs, that accrue because of the very different administrative regulations in the various countries, are of particular significance. It is mainly information costs, which constitute a major burden for small firms in relative terms, because information costs represent to a certain degree fixed costs and are not proportional to the size of the firm. In light of non-existent costs of this kind in the EC internal market and considering the growth of a new generation of entrepreneurs to whom barriers to mobility and language acquisition do not pose serious problems, an increased settlement of foreign small-scale enterprises seems probable.

This intensified competition through direct foreign competitors will not be a problem to German small-scale firms, if they utilize their considerable human capital stock, which is a result of high educational standards in the small-scale businesses in Germany, so as to be able to lead a competition for quality and product innovation. Meeting new individual needs and finding yet unexplored market niches, would also result in an improved competitive position against indirect competitors, which can be expected due to the integration progress.

The indirect effects of the completion of the EC internal market can be multifarious; a large market facilitates the industrial enterprises' opportunities to produce special parts in larger numbers and in a profitable manner. The specialization of production, which secures the competitive position of the subcontracting small businesses, may then be performed by industry itself. This applies not only to the subcontracting industry. Also, as for consumer items, large markets and low transaction costs give rise to the industry's capability to produce a certain product range less costly and to crowd out small-scale enterprises from market niches.

Even small-scale repair businesses can indirectly be affected by the enlargement of markets if, on account of economies of scale, consumer items turn out to be so cheap as to make their repair less worthwhile.

On the other hand, the market situation of many small-scale enterprises will also improve. Larger markets will intensify the demand for supplied parts. Also, more and new goods will enter the market, which will require additional need for repairs and services.

Finally, I may point to a perspective of the proceeding integration, which seems particularly important to me; the most significant effect of the European internal market is considered to be the increase in living standards. A higher per capita income, though, signifies an increased demand for consumption goods of higher quality. These goods are mainly capital-intensive. In the domain of high human capital intensity, in particular, the small-scale business, especially the German small-scale business, finds itself in very favorable condition. It is more than anything else destined to supply human capital intensive goods and services based on its well developed educational system.

Part II:

External Sector Issues

by Wolfgang König

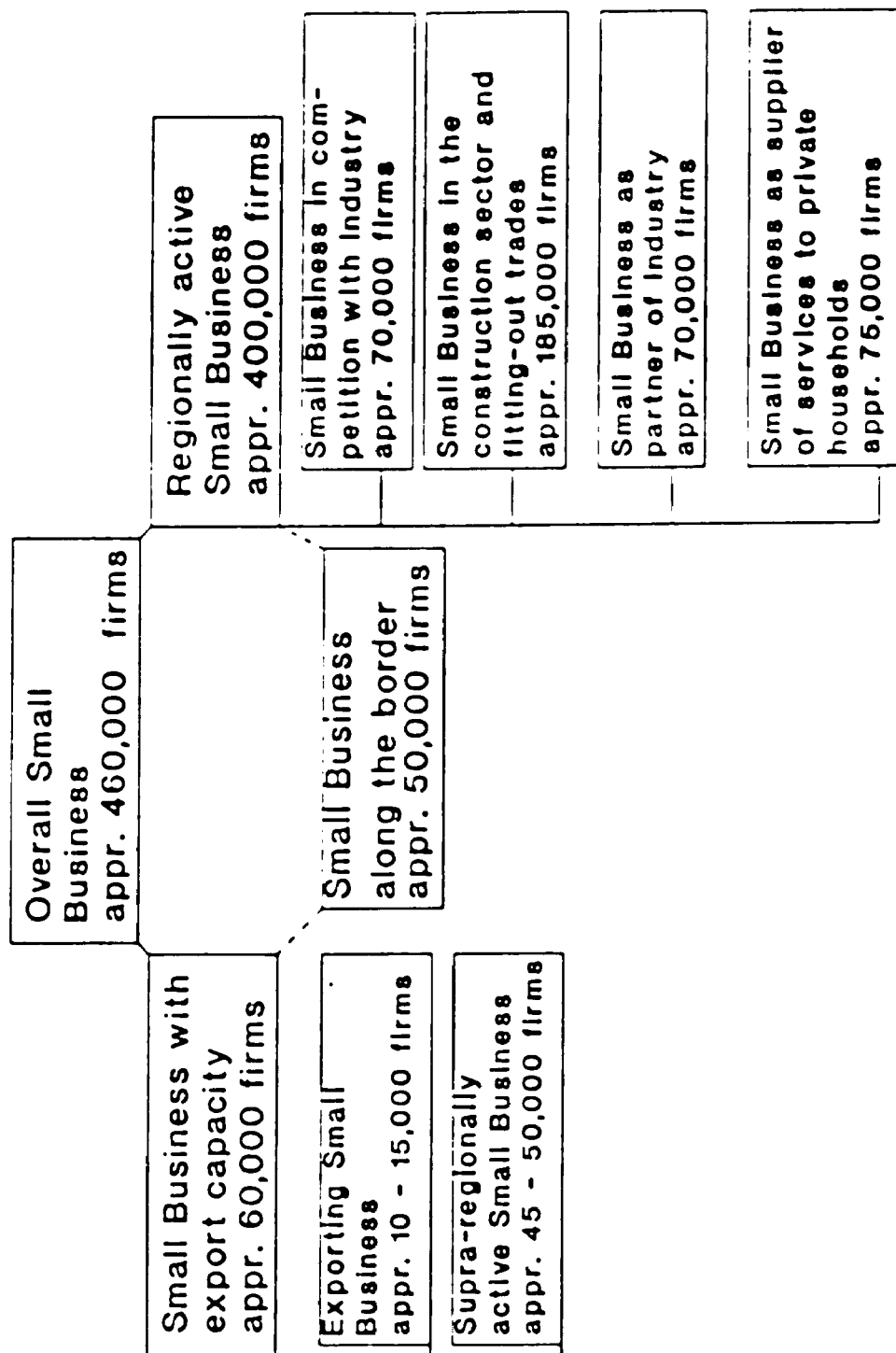
From the German small businesses' point of view, the discussion of the chances and risks of the EC common market goes far beyond the question of attracting business units for export trade. Rather, it should be emphasized that in the process of an increasingly open economy, small business is individually exposed to international competitiveness to a significant degree. The reason is that patterns of production and competition are drastically changing.

Basically, the effects may transpire in three ways. Firstly, a general expansion of growth can be expected. Secondly, competition will intensify in several parts of the economy and finally an acceleration of structural change will take place. There are signs that effects of this kind are already materializing within the entrepreneurship: those with a relatively high propensity to internationalize are making preparations for the common market, both in the field of investment policy and corporate strategies.

In general, the anticipated expansion of growth, the intensification of competition, and the acceleration of structural change are unanimously viewed as positive consequences of the EC internal market program. From the overall economic standpoint, this view may be easily supported by seemingly sound arguments. However, as soon as the effects of the extended market on specific sectors of economy are examined, a more thorough argumentation becomes necessary. Indeed, the effects of the EC internal market on German small businesses need to be appraised with respect to their own unique situation. In this sense, the discussion should not only concentrate on the question of small business as such. Instead, a suitable classification of German small businesses should be made, such as the empirical study carried out by the Institute of Small Business at the University of Göttingen. Such a classification is presented in the following table:

Table 1:

Classification of German Small Businesses according to potential EC involvement



An analysis of inputs stemming from the common market makes it necessary to thoroughly study the factors accounting for the expansion of growth, the intensification of competition, and the acceleration of structural change. The extent of growth will depend to a large degree upon the capacity for mobilizing idle resources. Furthermore, an analysis should take into account whether an expansion of growth occurs in geographically distinct regions and whether the effects of agglomeration or deglomeration exist with respect to the entire EC region and its urban centers.

The intensification of competition is mainly dependent on four motivating factors: price, quality, product differentiation and the geographical scope of the market. These factors are interdependent and can partly compensate each other. From the supplier's perspective for example, improvements in quality may possibly counteract price-cutting trends. Similarly, there seems to be a close link between quality and product differentiation.

The acceleration of structural change is mainly motivated by five factors: the so-called elasticity of demand is crucial in determining whether the product in question displays an increasing, constant, or decreasing share of expenditures for different groups of purchasers. The respective suppliers would revise their position relative to structural change in the same direction. The motivating factors of product innovation and process innovation are elements of technical progress. The acceleration of structural change is finally marked by changes regarding the optimal size of the firm as well as by factor mobility.

Therefore, the three principal results of the EC internal market program, i.e. the expansion of growth, the intensification of competition, and the acceleration of structural change, are related to a total of ten motivating factors. The next question is how these factors and essentially the outcome for particular small businesses, become relevant for the analysis. This necessitates a classification of the indicators that measure the effectiveness of various motivating factors. These indicators can register positive as well as negative effects. The following table shows the complete model of analysis. No claim

is made that the list of indicators for effectiveness is complete; some indicators may partly overlap each other.

Table 2: Effects of the EC Internal Market Program on German Small Business

Results	Influencing Factors	Indicators for Degree of Effectiveness
A. Expansion of Growth	1. Mobilization of idle resources 2. Agglomeration/ Deglomeration	<i>Factor markets, especially the employment market, exchange of knowledge, border costs, price elasticity, fluctuations in capacity utilization</i> <i>Location (Center/Periphery), organization of upstream industries, mechanism of income distribution, geographical harmonization of supply and demand, degree of interdependence in the german economy</i>

<p>B. Intensification of Competition</p>	<p>3. Price</p> <p>4. Quality</p> <p>5. Product differentiation</p> <p>6. Geographical range of the sales market</p>	<p><i>Price variation of inputs and salable products; production costs/tax and duty burdens/gross wage costs per unit of output, size of the procurement market, improvement in productivity, variation in productivity, price/performance ratio</i></p> <p><i>Material and time-related customer preferences, level of real income, technological standard, know-how, capacity for innovation, internationalization of consumption patterns, service intensity, readiness to deliver, schedule effective-ness, precision, delivery time, proliferation of european preferences</i></p> <p><i>Marketing efforts, role of norms and standards, share of production as a problem-solver/order/special output, structures of distribution, flexibility in supply, variety of products, orientation towards special needs, company-specific technical know-how, broadness and depth of the program, examination and certification processes</i></p> <p><i>Individual and regional customer preferences, intra-industrial specialization, barriers to market entry, potential for cooperation between firms, export intensity of the business, degree of internationalization, potential for internationalization, dependence on locality for subcontractor's orders, characteristics of the product (weight, volume, perishableness), transport and other distance costs, participation in trade fairs, firm-size related organization of industries, number of close competitors</i></p>
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C. Acceleration of structural Change	7. Elasticity of demand	<i>Growth of income, potential for modernizing downstream industries</i>
	8. Product innovation/ Process innovation	<i>Technical rate of progress, R & D expenditures, product cycle, potential for problem-solving, equity base/external finance possibilities Research capacities, capital/labor-intensity of production, potential for rationalization and automatization, innovative proficiency, size of the market, intensity and quality of education, endowment with human capital, process innovation with respect to ageing products, flexible utilization of the process, the applicability of patents</i>
	9. Change of the optimal size of the firm	<i>Potential for cost minimization (economies of scale), fix cost requirement, transformation of value-added linkages, shift of market shares, potential for division of labor and dislocation Serial mass production vs. serial single-item production, marketing strategies of upstream industries, creation of production and marketing posts abroad with downstream industries, change in the range of manufacture</i>
	10. Factor mobility	<i>Barriers to entry, geographic Displacement of comparative production costs, management capacities, the share of unskilled workers, potential for internationalization, familiarity with foreign countries, language skills, the scope of business functions</i>

Referring to the most significant indicators for effectiveness, the analysis can now be carried out for particular small business groups. As far as export-oriented small business is concerned, the empirical results of the Institute for Small Business at the University of Göttingen can be resorted to. To a certain degree this should also be possible for other supra-regionally active small businesses. As for the remaining small businesses, the analysis must be administered under the aspect of plausibility. The main focus of the impact analysis is centered on the intensification of competition and the acceleration of structural change. In contrast, an expansion of growth as a possible consequence of the EC internal market program represents a more general aspect and is of minor significance for small business in the Federal Republic of Germany. This is due to the fact that in the future there is likely to be a shortage of skilled workers with the degree of capacity utilization above its average level.

Small Business with Export Capacity

The discussion focuses on export-oriented small businesses and those that are engaged in supra-regional activities. As far as the latter is concerned, the assumption is made that most are set towards exporting operation. For the case of small businesses capable of export, a survey of 3,500 firms in Lower Saxony (FRG), 135 of which were established as exporters, can be instrumental for the analysis. A survey of 73 exporting small businesses in the Lower Saxony metal industry guild (Landesinnungsverband Metall) was also conducted. In addition, 58 exporting small businesses were elaborately interviewed. Next to these empirical surveys an inquiry including 146 firms leaning towards export engagement was conducted as part of the studies at the Institute for Small Business at the University of Göttingen.

Compared to the non-exporting small business groups, the analytical model indicates that the EC internal market program has overall positive effects for those small businesses actually in the process of export trade. Indicators for positive effects are represented by border costs, the size of the procurement market, the technology derived from the products, the amount of

consumer-oriented applications, intra-industrial specialization, the basic potential for internationalization, the potential for modernization in downstream industries, the endowment with human capital, the relatively high elasticity of factor substitution, and the feasibility of serial single-item production vs. serial mass production.

The German small businesses in question thus do not only profit from the expansion of growth, but also realize gains from the intensification of competition and the acceleration of structural change. Of course, this has a lot to do with the fact that they have firmly established themselves on the international markets. This, in general, positive interpretation should hardly be cast into doubt by negative effects stemming from the restructuring of branches due to competition and changes in consumer preferences.

One should not forget that the group of exporting small businesses is heterogeneous. This group is comprised of subcontractors as well as firms that service the demand for high-quality articles. A number of auto-repair businesses are also pretty heavily involved in the exporting business.

Approximately one-third of the exporting businesses had no plans to continue their engagement in foreign trade. An export rate of 25 % that was revealed in targetted surveys of exporters was considerably higher. In most cases, it turned out that the impetus for export ventures was purely coincidental, before an international engagement could be established by systematic visits to trade fairs. About 70 % of the businesses do not take advantage of advisory services or export aids. More than half the firms questioned export to more than 10 countries. The above mentioned indicators for positive influence were corroborated by an intensified import activity (due to intra-industrial specialization), by the fact that foreign prices are increased rather than reduced, that consumer-oriented applications cannot be readily supplied by competitors, and that under most circumstances standards do not have to be changed.

Exporters consider their business prospects to be more favorable than non-exporters. Exporters are mainly dictated in their decision-making by

revenue considerations and select direct delivery to foreign customers as their main channel of distribution. The role of intermediary trade agents in the exporting country, export cooperation, or indirect exporting via German traders do not play any significant role. The export operations are frequently embedded in a quite complex business policy. The export good is very often connected with a number of services. Technology transfers of different sorts are similarly important factors and can frequently serve to protect foreign markets. Once in a while exports may lead to cooperations with or without equity participation. Numerous small businesses have also shown that they are quite capable of the export of services, such as the installation of machines and facilities abroad. As a result, the maintenance and repair of these engagements can also be counted as a function of exporting for industrial firms. About 75 % of the exports are traded within Europe, two-thirds of the exporting firms would like to see their operations extended.

Those small businesses engaged on a supra-regional level without exporting show a markedly different picture. Disregarding barriers of psychological nature, export trade has been hampered by problems in obtaining suitable contacts as well as by a lack of information. Other areas of potential conflict are policies insuring against risk and pricing methods, so that these supra-regionally operating small businesses cannot be counted to the group of firms leaning towards an active role in exporting. Rather, the indicators for negative effects of the aforementioned model of analysis certainly should deserve greater attention in this case. These include export goods that are subject to an EC-wide price variation and that, if material and technical barriers are eliminated, could turn out to be disadvantageous for German small businesses. In the same fashion, the discussion could be extended to norms and standards and hitherto existing market barriers.

At the moment it is difficult to determine in what way the EC internal market program will bear positive effects on the basis of the indicators; in what way innovative skills, the potential für modernization of downstream industries, and the size of the procurement market may result in a correspondingly overall positive effect of the program for business operating on a supra-regional level. For a particular case it will boil down to the

question of whether the relation is competitive, complementary or indifferent with respect to the industry.

Small Business along the Border

The elimination of material barriers is significant for this small business group, so that in reference to the indicator of border costs positive effects are quite likely to be anticipated. For this case, there will be a non-recurring cost reduction that should create incentives to invest. Considering the indicators for the intensity and quality of education as well as firmspecific know-how, comparative advantages against the competition should develop on the other side of the border. In contrast, negative effects can be particularly foreseen in light of higher wage costs which are conducive to higher hourly cost rates.

Furthermore, the increasing number of close competitors will have adverse effects for small businesses operating along the border. Under certain circumstances this factor will be more than compensated for by the increasing size of the German procurement market for German firms, as well as by relieving the bottleneck situation for workers and facilitating cooperations between countries.

The regionally active Small Business

Two of the small business groups mentioned here are liable to encounter adverse consequences due to the EC internal market program. The two groups in question are those that are in competition with industry and those small businesses in the construction sector, which itself can be considered as a principal competitor of industry. In particular the food industry, small businesses in the textile sector, carpenters and similar occupations can be mentioned.

For this range of small businesses, including the construction sector, the indicators of EC-wide price variation and production costs will not play a minor

role. Barriers to free market entry will also pose a further problem: for small businesses in the construction sector these will be specifically regulations pertaining to government procurement. Most likely there will be shifts of market shares in favor of the industry. These disadvantages can be possibly counteracted through positive effects of the indicators. These indicators include know-how, orientation towards special needs, and customer preferences, which can be produced by the respective small-business-like units under the motto: "Quality from the master's hand".

The opposite arguments apply for small businesses conducting partnerships with the industry. These businesses are subcontractors and those small businesses that cater to the marketing of industrial products, such as auto-repairmen, electricians, optometrists as well as radio and television technicians. There can be especially profitable opportunities considering the indicators personal and regional consumer preferences, product variety, service intensity, and the extension of the procurement market. It should be made sure that one's own market position is not hampered by the possible internationalization of consumer habits or an alteration of the structure of value-added in favor of retail business.

The latter point also lends itself to small businesses operating as suppliers of services to private households. A modification in the structures of distribution, e.g. in favor of a franchise, may be an indicator for negative effects. Otherwise, the EC internal market program should not have any negative effects on service businesses. It may be deemed positive that the technical rate of progress in this sector of the economy is intrinsically low and also that business activity is strongly marked by personal and regional consumer preferences. In addition, it should be pointed out that since the establishment of the EC small business code 22 years ago, only 2,000 EC members were granted easier access to enroll by special permit in the small businesses register. In 1987 there were only 74 special permits with roughly 34,000 successful examinations for the title of master.

Concluding Remarks

Even though the above mentioned analysis relied to a large extent only on logical argumentation, it was possible to underline the fact that the EC internal market program will result in a number of consequences for German small business. By classifying German small business into seven groups it was possible to make qualified statements. This leads to the conclusion that the establishment of the European single market entails both winners and losers for German small business. The situation of small businesses selling services to households is relatively neutral; the effects of the EC internal market program will be minor in this case. Those small businesses that are already in the process of exporting and those that are setting up exporting capacities or are located close to the border will definitely be able to reap profits from the program. Small business as a partner with industry can also be rated as one of the winners of the EC market program. In contrast, supra-regionally active small business that cannot or will not engage in exporting, small business in competition with industry, and small business of the construction sector are attached with such disadvantages, that even with a defensive strategy, a negative effect seems to be inevitable. Empirical research is called upon to analyze the problem more intensely and gain better insight into the concrete future perspectives for selected business sectors.

**Publications of
the Institute of Small Business
University of Göttingen
(since 1986)**

Göttinger Handwerkswirtschaftliche Studien

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