

**Markus Pilgrim**

**Institutional Representation  
of Small Business  
in Industrialized Countries**

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edited by:  
International Department  
Institute of Small Business  
Director: Prof. Dr. Wolfgang König

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**Markus Pilgrim** is backstopping officer of the ZDH/TECHNONET ASIA Partnership Programme. The Partnership Programme assists private sector institutions such as chambers and trade associations to play a more active role in shaping the policy environment for small and medium enterprises. The Programme also aims at improving service delivery of chambers and associations to SME members. Before working for the Programme the author did his Ph.D. on saving mobilization in Third World countries including one-year field studies in Latin America. The author studied economics at the University of Goettingen.

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## 1. Introduction

Looking back on almost two decades of SME promotion in Third World Countries, development economists and practitioners are increasingly questioning the traditional approach of SME promotion which largely relied on government programmes as the only means for supporting smaller firms. When analyzing the rather disappointing results of this type of SME development programmes two main constraints impeding a stronger SME growth can be identified:

- a) The traditional approach of SME promotion has focused on direct-input support like financial assistance, extension services, and marketing and has not been well integrated into macro-policy-making. Promotion policies often failed to recognize the importance of framework conditions discriminating against smaller companies.
- b) Because SME promotion has been biased towards government agencies which have dominated or even excluded their counterparts in the private sector, many programmes were designed without taking adequate account of the target group's needs. Therefore, the quality and reach of public assistance to SME has in general been quite limited.

To cope with these SME growth constraints, support for SME development cannot and should not be left to government institutions only. Private sector organizations like chambers and associations have a very active role to play in SME development. First of all, these organizations must strive for a conducive policy environment in the SME sector by advising and influencing governments on social and economic issues affecting their interests. Secondly, a private sector organization could serve as ideal delivery channels for SME promotion programmes because they have a better access to the target group and are able to provide a more practical and "hand on" assistance. Thus, UNIDO's first consultation on small- and medium-scale enterprises - held in October 1989 in Bari, Italy, - concluded that *"non-governmental organizations, such as associations of small and medium-scale enterprises, chambers of commerce, groups of producers, and federations of co-*

*operatives have a vital role to play as key agents of change through institutionalized interaction with Governments. These institutions have an important contribution to make by providing effective support services to their members."* (UNIDO 1990).

But at present, private sector organizations in many Asian countries do not play a direct and major role in contributing to a favourable SME policy framework nor do they deliver effective and sufficient services to their members. Only few chambers have developed professional services for their members. Since they can offer only little, SMEs do not merge and as membership remains on a minimal level, the chambers or associations can not become influential policy advocates for the sector nor can they build up professionally operated services.

In response to this obvious need for institution strengthening in the private sector the **ZDH-Technonet Asia Partnership Project** was launched with the aim to assist SME associations, federations, and chambers in selected Asian countries to play a more active role in shaping the policy environment and to enable them to offer better services to their members. During the initial phase of the project it became obvious that more information on the role of chambers in Germany and other industrialized nations were required, as there is a general lack of analytical literature in this field. Officials and professionals of Asian chambers and associations argued that more detailed information could serve as a source of inspiration for

- identifying government functions which could be taken over by the private sector organizations,
- restructuring internal organization of chambers, and
- improving service delivery to members.

Therefore, this paper tries to give an overview on the structure, status, coverage, and services offered by chambers and similar private sector organizations in selected countries.

## **2. German Chamber System**

Unlike its various other European counterparts, the German chamber system comprises chambers of industry and commerce as well as chambers of small business and crafts. Both chambers are presented below.

### **2.1 Chambers of Small Business and Crafts**

#### *A brief History*

The creation of economic interest associations among firms in the same trade or industry has a long history in Germany. The origins of the Small Business Organization go back to medieval times when the craft<sup>1)</sup> trades founded their guilds. These guilds were self-governing bodies which laid down regulations for the training of craftsmen and artisans as well as their trade membership. But as a result of the major structural changes in the age of industrialization the medieval guilds were gradually abolished. In the second half of 19th century new organizations of small units were established in the form of professional associations and chambers following the pattern set by trade and industry which had obtained a new type of organization incorporated under public law, the chambers of commerce and industry.

The organization of economic interests was favoured by the political situation at that time. Unlike England or France, no broad democratic or revolutionary tradition had taken root in Germany by mid-19th century; what little had developed was reversed by the restoration that followed the revolution of 1848. Paradoxically, the underdevelopment of democracy turned out to be of advantage for economic associations. With general political representation lacking, these associations became influential economic and political instruments in the period of rapid economic development between 1850 and 1900 (Anheier 1990). But the roots of modern small business organization stem also from the need for adequate training of industrial workers (Zelle 1963). In its early days, German industry was not sufficiently attuned to certain quality standards and was met with strong criticism from abroad. It was,

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1) Because of this tradition "Handwerk" although literally translating to crafts, is the term used today in Germany for virtually all small industry.



therefore, necessary to improve the training of industrial workers. These, however, came exclusively from the old craft trades. The government realized this connection and entitled the former guilds to supervise and improve the training of apprentices. This was the beginning of modern self-governing organizations which took over certain public tasks under the limited supervision of the state.

### *Legal Framework*

The legal basis of the present-day small business organization is the 1953 law for the regulation of the small business and crafts sector, which can be summarized as follows:

#### *1. Membership Determination*

Unlike in many other countries, small business in Germany is not defined by the number of employees nor by the volume of assets, but is identified by belonging to one of the 125 classified trades and professions fixed by the law. Small Business and crafts are not considered as a part of industry, whether big or small, but as an independent economic sector apart from industry and commerce. As a general principle it can be said that, whereas the typical industrial company is committed to mass production of a particular article, the small business sector is characterized by meeting individual requirements. There are one-man enterprises as well as those employing several hundred persons. Statistically the average size is eight persons including the owner. The small business law classifies the 125 trades and professions according to the following seven groups:

- I. Construction Industries**
- II. Metal Working Industries**
- III. Wood Processing Industries**
- IV. Textile and Leather Industries**
- V. Food Processing Industries**
- VI. Trades and Industries connected with Health and Hygiene**
- VII. Glass, Paper, and Ceramic Industries and Others**

*2. Obligatory  
Qualification*

A prerequisite for becoming an entrepreneur in one of the 125 professions and trades is the major qualification certificate. This certificate is obtained by passing the master examination. Only those who have achieved master status are entitled to start their own business, to take over a business from somebody else and to engage and train apprentices.

*3. Training*

The regulations governing vocational training in the SB sector are standardized. In this context the chambers are assigned important responsibilities for carrying out vocational training<sup>2)</sup>.

*4. Mandatory  
Membership*

The chambers of small business and crafts are to be given the public law status while the professional associations are voluntary organizations. Compulsory membership accords with the usual German practice in this field. Moreover, it has been explicitly reaffirmed by the Federal Constitutional Court. According to the court, the idea underlying compulsory membership is not only to promote the independence of chambers and their financial basis. Even greater importance attaches to the fact that the chambers represent the entire range of enterprises including employees and thus the entrepreneurial experience of the whole sector. Therefore, the chambers would not be allowed to act as employer's associations because they have to represent the common interest of the small business sector. The chambers' tasks lie in taking a balanced view on the sector's interests and in optimizing them in accordance with long-term macro-economic goals.

As can be taken from chart 1 the small business organization encompasses two main bodies - the chambers of small business and the associations of small business.

*Regional structure*

The chambers of small business are non-profit making corporations under public law with compulsory membership for any individual or firm pursuing one of the 125 small business professions. The chambers provide a wide spectrum of services ranging from advice on technical, financial or legal matters to the supervision of vocational training. They also represent the small business sector as a self-governing organization vis-à-vis public ad-

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2) for further details on training activities of the chambers compare pp. 11.



### *Professional Structure*

The associations of small business are voluntary organizations on a sector basis. They represent the specific interests of their respective professions. These organizations also attend to the tasks of employers' associations. The associations are members of the chambers and are supervised by them. Although membership is not obligatory, between 60 % and 70 % of all firm owners are members of the professional associations.

### *Federation*

The chambers and associations have joined forces in the German Federation of Small Business and Crafts (ZDH) which represents the interests of the small business sector as a whole vis-à-vis the German government and all central authorities as well as within the European Economic Community (EEC) and other international organizations. Apart from the external forms of lobbying (information of the media, talks with politicians etc.) the Federation of Small Business as well as the Federation of Commerce and Industry are entitled to contribute to the legislative process. Both organizations are represented in parliamentary committees which are usually linked to a department or ministry. In the course of the legislative process, committees must schedule hearings to which both organizations can present their case. Given the extent of their political influence, both organizations may perhaps come close to the proto-typical example of liberal corporatism<sup>3)</sup> (Anheier 1990). The Federation's budget is exclusively funded by the contributions of the member chambers (70%) and the member associations (30%).

### *Decision Making*

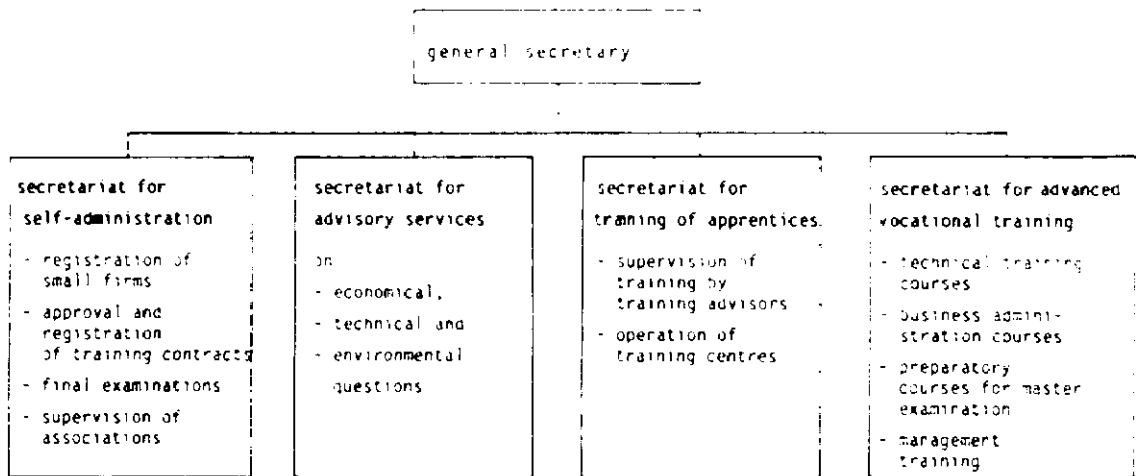
Highest ranking organ of a chamber is the plenary assembly which decides on the annual budget and on all other important chamber matters. Decisions of the assembly are prepared in committees for auditing, vocational training, economic promotion etc. The establishment of an obligatory vocational training committee is a minimal requirement. Elections for the assembly take place every five years. The elected representatives come from all branches including 2/3 entrepreneurs and 1/3 employees. They elect the executive board headed by the president. The board's task is to represent the chamber and to take charge of adequate realization of the assembly's decisions. The board members work on a ho-

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3) Institutionalized forms of policy dialogue are often referred to as neo- or liberal corporatism.

norary basis. They are assisted by a permanent secretariat headed by the secretary general. This secretariat is really in charge of running the chamber. Nevertheless, the secretariat is only allowed to make decisions in accordance with the directives issued by the executive board. The tasks of the secretariat can be taken from Chart 2. Staff members of the secretariat must not be owners of firms, i.e. chamber members.

**Chart 2: Organizational Structure of a Chamber of Small Business**



### *Finance*

Membership fees comprise a lump sum per enterprise and a certain percentage of the trade tax<sup>4)</sup>. Membership fees are fixed by the chamber's plenary assembly and have to be approved by the state ministry of economics which is the supervisory authority of the chamber. As can be seen from Chart 3 about 60% of all chamber revenues stem from membership fees. Another 25 % come from fees for apprenticeship training and advanced vocational training courses paid by the participants. 10 % are government subsidies. These subsidies are only granted for specific uses like

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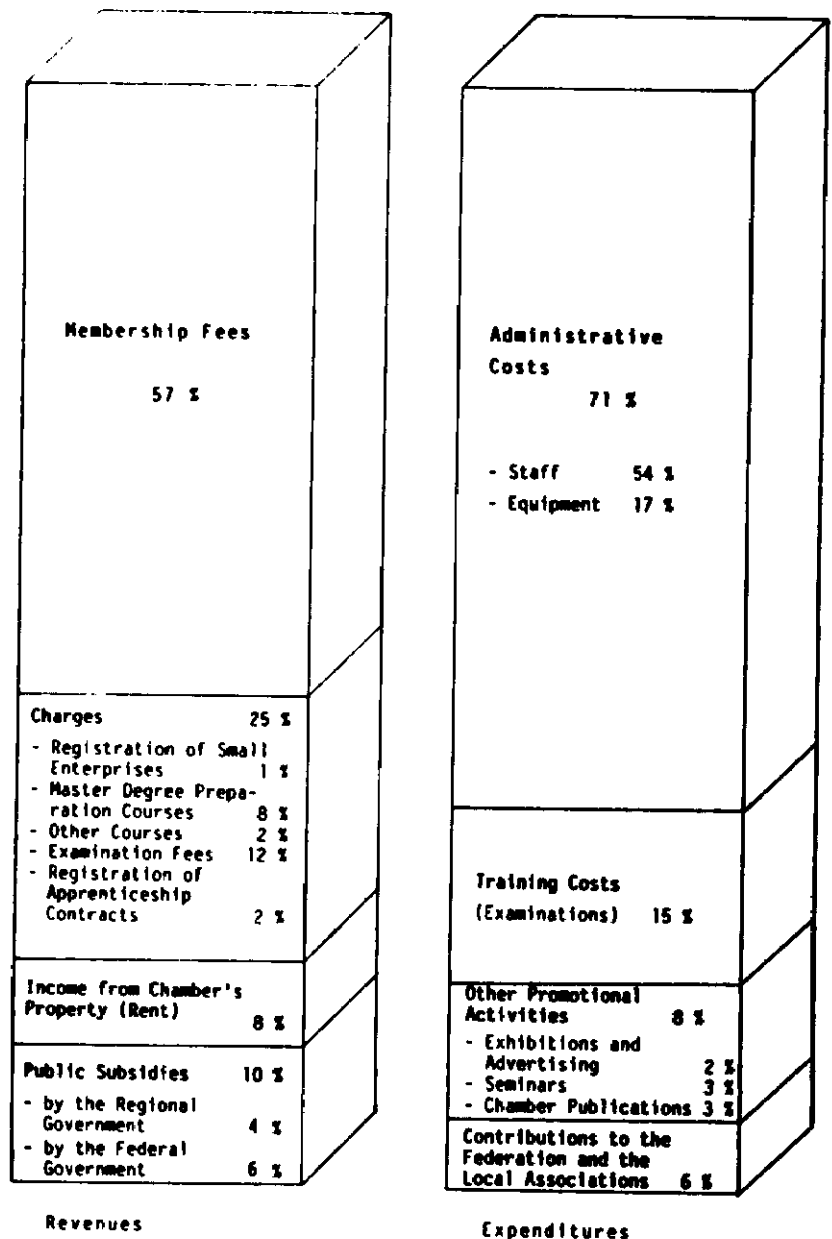
4) Trade taxes are payable to the local government authorities and are charged both on capital and on profits.

building or equipment of training centres. There are no public subsidies for administrative costs of the chamber.

### Public Supervision

As a matter of principle the supervisory authority can only intervene when a chamber infringes valid law. The purely legal supervision guarantees the self-administering character of the chambers in terms of staff, finance, and organization.

**Chart 3: Budget of a Chamber<sup>5)</sup>**



<sup>5)</sup> The presented figures are taken from the annual budget (1990) of the Kassel Chamber of Small Business and Crafts (HWK).

### *Range of Activities*

The chambers have basically two main fields of activities:

- 1) **the delegated functions:** In a number of cases the chambers have the legal authorization to fulfil tasks which are normally assigned to public authorities (e.g. education, business registration). The government favours this arrangement because of the close links that exist between the chambers and the business community enable the former to perform these tasks particularly effectively, as they can be carried out rapidly, with a minimum of red tape and often at little cost (ITC 1982).
- 2) **the autonomous functions:** These comprise all those activities which concern the common economic interest of their members; this includes all kinds of assistance to members and representation of the members' interests by giving expert opinions on bills of law as well as advice to parliament and governmental authorities.

### *Training*

Training is one of the major functions of the small business organization and the most important one in the delegated field of activity. In accordance with current statutory regulations, vocational training is carried out under the "dual system". Under this system government and industry have assumed separate duties. The apprentice receives training on the job in the firm and is given time-off to attend a part-time vocational school run by the government. While schooling affairs are dealt with by government alone, in-company training is supervised by the chambers (Carl Duisberg Gesellschaft 1983). With regard to the delivery of vocational training, the small business organization has taken over the following tasks:

- **Promotion of vocational training** by providing advice for training companies and future trainees.
- **Vocational training regulations** specifying the skills and knowledge to be acquired as well as the examination requirements are elaborated by joint committees of the chambers and government authorities.

- **Apprenticeship training contracts** are approved and registered by the small business chambers. The share of apprentices trained in the small business organization is comparatively high. With 15 % of the German working population employed in the small business sector, the small business chambers train 35 % to 40 % of all apprentices. The reputation of the small business organization as the "trainer of the nation" stems from this engagement in training.
- **Examinations to become a qualified apprentice** are held by the examination committees of the chambers.
- For the **supervision of training** in small enterprises the chambers employ training advisors.
- Since production processes and services are increasingly based on a high degree of technology and on a further division of labour, it has become ever more difficult to carry out training exclusively on the job. For this reason, the chambers run **vocational training centres** to which apprentices are sent from time to time in order to familiarize them with new techniques and working methods. Fees for attending courses in these centres are borne by the apprentice's firm. Furthermore, these training centres are partly subsidized by government. The training centres are also used for conducting courses for advanced vocational training. The fees for these courses are partly borne by the participants, partly subsidized by government. Unemployed can ask for a 100% financing through the public labour administration. In other cases, advanced training is paid for by the employees who are interested in upgrading the skills of their employees.
- **Advanced vocational training** and examinations for obtaining the master status are also organized by the chambers.

#### *Reasons for Delegating*

**Finally, the question might arise: Why does government look upon chambers as suitable vehicles for administering training?** From an economic point of view the cost argument favours delegation of certain tasks to the chambers. It is less expensive to use the chambers as supervisory authority for in-company training



than establishing a government authority. Moreover, chambers can be expected to perform more efficiently than public authorities. Chambers as self-administered bodies of trade and industry know better about the training requirements than any government authority. They are also better able to mobilize private sector than government authorities can do. This involvement of trade and industry in training not only guarantees a high standard of qualifications according to the needs of the different branches and sectors, but also facilitates rapid implementation of new technologies in the training. It should not be overseen that the underlying principle of this arrangement is augment the self-reliance and responsibility of the business sector.

#### *Other Services*

While in the past chambers mainly concentrated on training, today's chambers have become modern service centres offering their members

- **support of cooperations between small firms and larger units** by establishment of small business - industry liaison offices, publication of product catalogues, group exhibitions on industrial fairs,
- **advisory services** on technical, economic, legal and environmental issues. Advisory services are offered through publications, seminars, and professional advisers employed by the chambers. Special importance is attached to the services of the advisers because they can give consultancy designed for the individual needs of the chamber member. Firms can contact advisers - mostly economists and engineers - at their local chamber. Advisers will visit the firm if necessary. The adviser's consultancy is free of charge. Costs of the service are borne by the chamber, the professional associations, and the government. Public authorities subsidize this service in order to enhance the competitiveness of small firms. The main argument in favour of these subsidies is that small enterprises cannot afford the advisory services of free consultants, while larger firms are able to pay for these services.
- **assistance on the creation of new enterprises.** This special advisory service informs the potential entrepreneur on legal and

economic requirements for creating a new firm (e.g. registration laws, advantages/disadvantages of different legal forms of company) and on various means of public assistance available to them.

- **export promotion services** of the chambers comprise data collection on foreign markets including informations on tariffs, taxes etc. Further support is given for drafting offers and contracts with foreign customers. Export promotion service by the chamber includes also advice on transport facilities, insurances, and financial support schemes for foreign trade activities.

## **2.2 Chambers of Commerce and Industry**

### *History*

The precursors of present-day chambers were the French *chambres de commerce*, which had been established during the French occupation of the western part of Germany in the Napoleonic era and whose task consisted in advising government authorities on how to promote trade and industry (IHK 1987). This model was soon modified by Prussian law which created chambers of commerce as self-administering organizations assisting their member firms and providing advice for the government. The first of these chambers was founded in 1830. By the end of the 19th century, there existed a complete network of chambers of commerce and industry in Germany.

### *Membership*

### *Determination*

The chambers of commerce and industry are incorporated under public law and anyone who conducts a business must be a member of a chamber with the exception of small businesses which are organized within the chambers of small business and crafts pursuant to the principles presented on p.5. The operating units of firms abroad or of foreign firms must also acquire chamber membership. Controlled subsidiary companies have to belong to a chamber, too. There are 83 chambers of commerce and industry. Each of them has on average 30.000 members.

### *Federation*

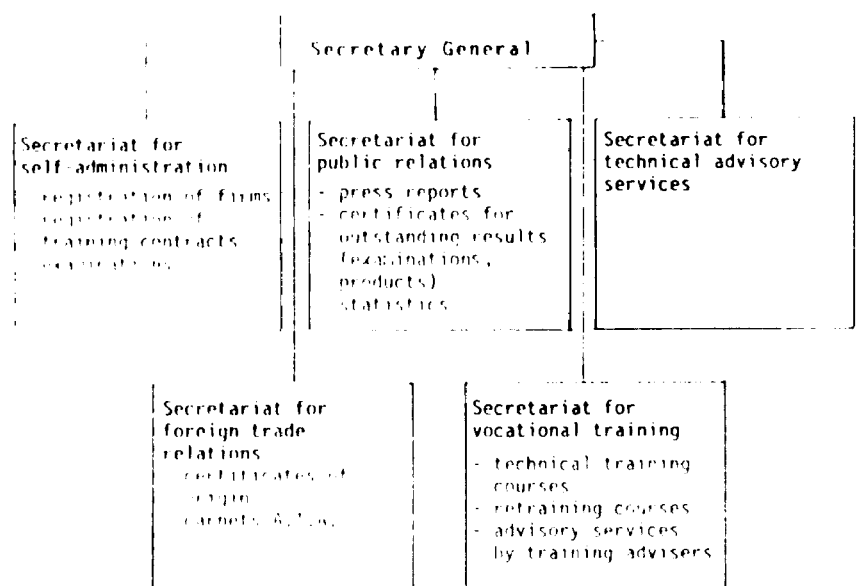
The apex body of the chambers is the Federation of German Chambers of Commerce and Industry (DIHT) which represents

the interest of trade and industry at federal level vis-à-vis the Government and Parliament. The DIHT is a registered society whose plenary assembly is formed from the representatives of the 83 chambers. The president of the federation is elected every year by the plenary assembly.

*Decision Making  
in the Chamber*

The election code for the general assembly prescribes that this organ must reflect the economic structure of the given area covered by the chamber and that the available number of seats must be distributed accordingly. Electoral constituencies and groups are set up for this purpose. The period of office for the plenary assembly is usually four years. Only the owners and legal representatives of the member enterprises are eligible. As the supreme organ of every chamber, the plenary assembly represents the business community throughout the chamber's defined area. Each of the 83 chambers has on average 65 plenary assembly members. The assembly elects the presidium and the president from among its own ranks usually every two years. The assembly also elects the secretary general who is assisted by a permanent secretariat. Staff members of the secretariat must not be chamber members. Like in the case of the small business chambers, the secretariat is really in charge of running the chamber. The president and the secretary general jointly represent the chamber. The organizational structure of a chamber of commerce and industry can be seen from the following Chart 4.

**Chart 4:** Organizational Structure of a Chamber of Commerce and Industry



|                             |  |
|-----------------------------|--|
| <i>Finance</i>              | Members pay a lump sum per firm (1988: 250 DM) plus a variable contribution calculated according to the trade tax paid by the firm <sup>6)</sup> . Membership fees are fixed by the plenary assembly every year and have to be approved by the ministry of economics as the supervisory authority.   |
| <i>Range of Activities</i>  | As in the case of the chambers of small business, the chambers of commerce and industry fulfil delegated and autonomous functions.   |
| <i>Training</i>             | One of their major functions in the delegated field of activities is training. With regard to the delivery of apprenticeship and advanced vocational training the chambers of commerce and industry have taken over functions quite similar to those of the small business chambers <sup>7)</sup> . One of the few differences is that training centres play a less important role in the chambers of commerce and industry. As the average number of apprentices per firm is larger than in the small business sector, in-plant training replaces courses in the training centres run by the chambers. A further important difference is that the master status in industry is not a precondition for founding or taking over a firm. |
| <i>Administrative Tasks</i> | The chambers help with the management of the commercial register. In particular, they must ensure clarity and precision in firms' designations pursuant to commercial law. They also carry out assessments of applications for bank overdrafts as well as applications for official loans. In the field of foreign trade chambers are entitled to issue certificates of origin as well as other certification documents and to authenticate commercial invoices. Equally, the chambers are members of a network of customs guarantors.   |
| <i>Other Services</i>       | Whereas training and administrative tasks are delegated activities, the chambers' autonomous activities largely consist in looking after the member firms by offering advisory services. These services include guidance on export, innovative developments, patent specification offices, and commercial guidance for new entrepreneurs.  |

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6) Other European countries have different sources of funding. In the Netherlands, chambers of commerce and industry manage the business register and finance themselves from fees collected from the registration.

7) Compare pp. 11

*Incl. Guidance  
in Export*

Since many of the chambers' members are medium and large companies engaged in exporting activities to a larger degree than small business, one of the most important services is guidance in export. This includes information services on

- international trade agreements,
- foreign trade regulations at home and abroad,
- financial questions of foreign trade,
- fairs and trade exhibitions at home and abroad,
- export and import business via database searches on export and import supply and demand,
- cooperation possibilities from subcontracting to joint ventures.

Further support with regard to foreign trade is given by the 43 German chambers abroad, e.g. The German-Thai Chamber of Commerce and Industry, the German-Indonesian Chamber of Commerce and Industry. The German chambers abroad are bilateral societies in the respective host country and their aim is to promote mutual economic relations in exports, imports and investments.

### **3. Austrian Chambers of Commerce and Industry**

Unlike Germany there is no "dual" chamber system in Austria comprising of chambers of commerce and industry as well as chambers of small business and crafts. The Austrian chambers represent all economic sectors including large and small business. As this institutional setting is quite similar to many Asian countries (e.g. the Philippines) the Austrian case is of special interest in the context of the study.

*Legal Framework*

In Austria all chambers including the economic chambers, the chambers of agriculture, the chambers of physicians, the chambers of white and blue collar workers etc. are not voluntary and loose organizations but institutions under public law which have been created by an act of parliament to serve the interests of their respective members. In spite of this legal basis, the chambers are independent and autonomous bodies with specific and legally defined rights and obligations. The chambers conduct their activities through decisions of their own democratically elected representa-

tives. The government has no right to give directions to the chambers, it only supervises that the chambers remain within the legal framework.

*Criticism of  
Obligatory Membership*

Recently, obligatory membership in all chambers has received a lot of criticism because of some reported cases of incorrect spending of membership fees in the chambers of white and blue collar workers. The central argument of the Austrian economic chamber for defending obligatory membership is that an effective interest representation is only possible under a public law system. The chamber argues that under a private law system nonmembers could not be excluded from the benefits of an effective interest representation as this is a public good. Therefore, rationally behaving entrepreneurs will try to get a free ride, i.e. receive the benefits of the chamber's lobbying efforts (e.g. tax reductions) without paying membership fees. If many entrepreneurs chose this free-rider-strategy the chamber would be without the necessary funding for organizing an effective interest representation. As a further strategy for coping with the criticism of obligatory membership the economic chambers are trying to improve service delivery in order to produce more tangible outputs.

*Membership  
Determination*

All natural and legal persons who are entitled to run an enterprise are members of the economic chambers. Included among them are enterprises under public ownership and control. The Austrian chamber law groups members according to the following sections:

1. **Small-Scale Production**
2. **Industry**
3. **Trade**
4. **Finance, Credit and Insurance**
5. **Transport**
6. **Tourism**

Furthermore, the chamber law defines membership in the SSE sector in a negative way. This means that all enterprises not belonging to the sections 2-6 are members of the SSE section. In several cases difficulties arise whether to classify a firm as industrial or small-scale enterprise. In order to solve these classification problems, the law gives the following qualitative criteria for defi-

ning an industrial enterprise: High input of fixed assets and working capital, production in series, advanced stage of division of labour.

### *Regional Structure*

Austria is a federal republic consisting of nine federal states. The organization of the chambers is based on this division. In each of the nine states there is one regional chamber dealing with matters concerning businessmen established within its boundaries. The federal chamber deals with all problems exceeding the regional scale.

### *Professional Structure*

A special feature of the Austrian chamber system is their professional subdivision. As already mentioned, the federal as well as the regional chambers consist of six professional sections (compare also chart 4). On the regional as well as on the federal level these sections are subdivided into appr. 130 professional organizations. On the regional level these are generally called professional groups. The corresponding term on the federal level is professional association. The professional groups and associations are also organizations under public law; they are autonomous within their scope of activity. Each individual firm has to become member of its regional and of the federal chamber, but also of its regional professional group and the federal professional association. There are more members in the professional associations than in the chambers. The reason is that a firm engaged in different kinds of activities is a member of all professional organizations concerned.

### *Decision Making*

Elections in the chambers take place every five years. These general and direct elections are held in each of the professional groups separately. The members of each professional group elect a professional group executive. All further elections are indirect. Such, the professional group executives of one section elect their section committee which is entitled to elect the board of presidents of the chambers. The staff employed in the chambers and in the professional organizations has to assist and to advise the elected officers in their activities. These staff members must not be owners of firms, i.e. members of the chambers. They are only allowed to make decisions in accordance with the directives issued by the competent bodies.

## ***Finances***

The main financial resources are fees. The expenses of the professional associations and groups have to be met by a basic fee. Its amount differs according to the sector. It may be a lump sum per firm, or a certain percentage of the firm's turnover. Every year the competent bodies of the professional groups decide on its amount which differs for each profession. Acquisition fees are another financial resource of the professional groups. These fees are non-recurring payments of the members for the acquisition of certain operational licenses. The expenses of the chambers are met by membership fees collected in the form of a surcharge on the trade tax. The percentage of this surcharge is fixed by the plenary assembly of the chamber. In accordance with the law for the promotion of foreign trade, 0,3 % of the value on the invoice of each import/export transaction is collected for the promotion of foreign trade. Part of this money is at the disposal of the federal chamber for the promotion of foreign trade.

Like in Germany the chambers have two main fields of activities:

- 1) the delegated functions
- 2) the autonomous functions

## ***Training***

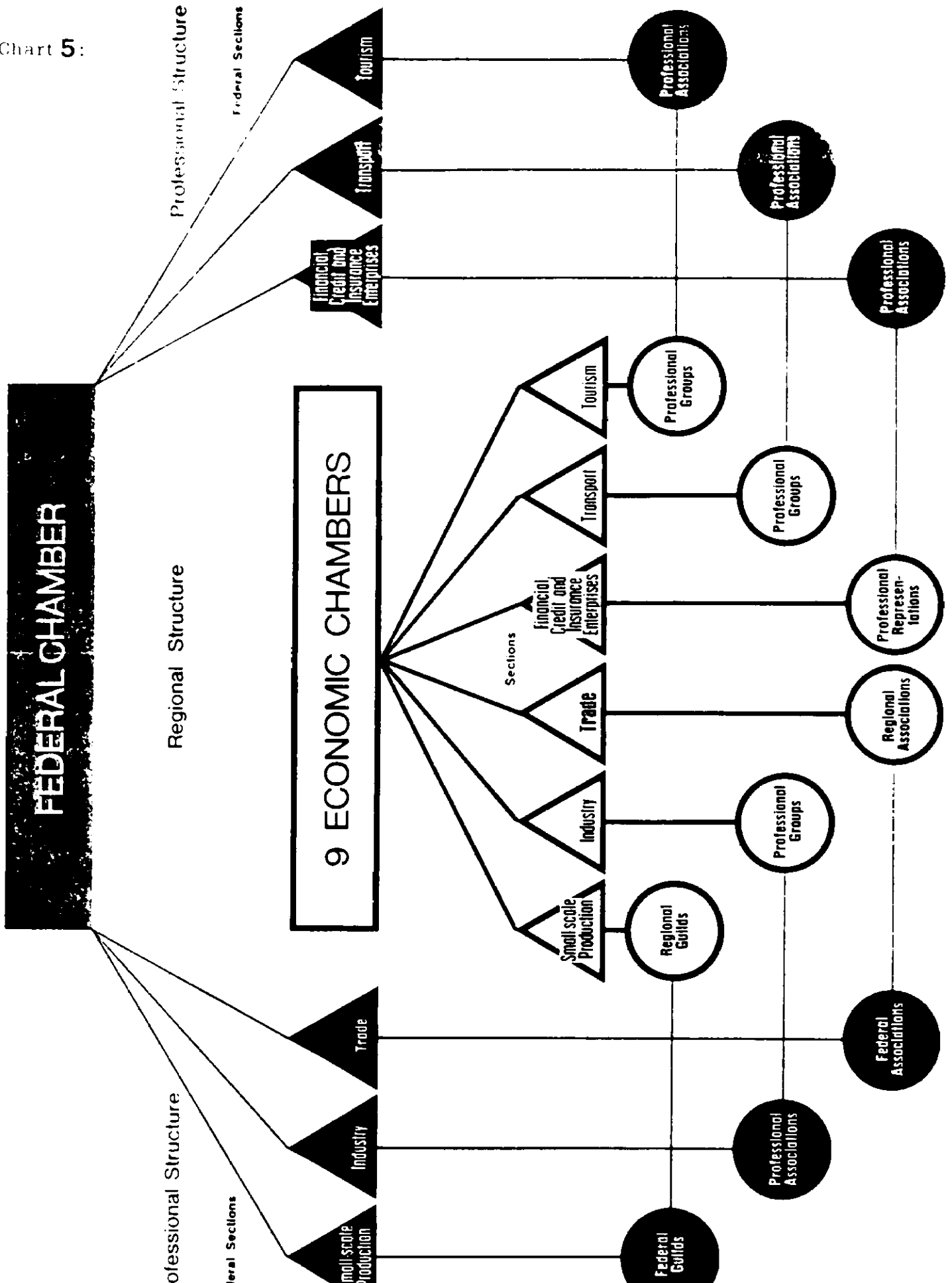
One of the most important functions in the delegated field of activities is apprentice training. Special apprentice agencies have been established within the regional chambers in order to supervise the training of apprentices on behalf of the state. In this context the chambers

- make sure that the companies have the necessary qualifications for such training,
- register the contracts of apprenticeship,
- organize the examinations of apprentices and issue certificates of public validity,
- work out the examination syllabuses and the programmes for training instructors.

Furthermore, chambers are entitled to issue certificates of origin for trading with foreign countries.



Chart 5:



*Interest  
Representation*

The most important task of the chambers and professional organizations in the autonomous field of activities is to represent the interest of their members towards all public authorities. In this context the chambers have the legal right to express their opinions concerning government bills. Furthermore, the chambers are represented by expert delegates in many official institutions, commissions, advisory panels etc.

*Services*

Service delivery to members includes the following assistance:

- advisory services: Most of this assistance to the members is performed by the professional groups and by the district chambers.
- There is one economic promotion institute for each of the regional chambers as well as for the federal chamber. These institutes are the most important organizations for advanced vocational training in the country. The main objective of the training is to develop the technological and organizational qualifications of employers and employees.
- Promotion of foreign trade: In order to find new markets for its members the federal chamber is running about 90 Austrian trade centres in all important markets of the world. Furthermore, the federal chamber maintains a department for trade policy and foreign trade which gives expert advice on export financing, multilateral trade policy, domestic and international tariff laws international tenders, etc. The chamber also gives support for group exhibitions at foreign trade fairs.
- Information and publishing services
- Cooperative advertising of different branches is supported.
- The fashion secretariat operates as styling and consulting office for the fashion industries as well as the textile and shoes industries.

#### **4. Selected Features of Other European Chamber Systems**

The French legislation on Small Business and Crafts is based on the principle of freedom of trade. Unlike in Germany no qualification certificate is required in order to start a business or to take over a business from somebody else.

##### ***Membership Determination***

According to the French legislation the Small Business and Crafts sector is defined by

- 1) kind of activity: The sector's activities comprise production, processing, repair work and services.
- 2) kind of trade: A list of 96 trades and professions specifies which professions belong to the SB sector.
- 3) Size of business: The upper limit for a small firm is 10 employees.

##### ***Registration with Chamber requires Training***

All enterprises which fulfil this legal definition have to be registered with their local chamber of small business and crafts. Then, the chamber takes charge of further obligatory registrations with the tax and social security authorities. An interesting detail of the registration with the chamber is that firm owners are required to take a short management course before they may register with their local chamber. These courses are run by the chambers and are very basic, lasting only one week. Their importance stems both from the principle of obligatory management training and from the fact that many participants become aware of the advantages of further training.

##### ***Public Law Status***

The 104 French chambers of small business and crafts are establishments under public law which represent the interests of the SB sector in their districts at the level of local authorities. Their task is to adapt small businesses to economic and social changes, organize vocational training and ensure the perennial life of the SB sector.

*Service Delivery:  
Training*

The chambers of small business play a very active role in organizing and controlling most of the training for the SB sector. As in Germany the training of apprentices is split between two instructing parties - the firm and the part-time vocational school. The chambers of small business support training of apprentices by

- acting as intermediaries between trainees looking for a job and entrepreneurs,
- supporting the entrepreneurs in fulfilling all legal requirements concerning the apprenticeship contract,
- running 71 vocational training centres for classroom instruction of the apprentices. These training centres are funded by a one percent training tax. French law requires that all firms with ten or more employees spend 1 % of their payroll on professional training. A portion of the funds is reserved for the training centres, a portion must be paid to the government (for apprenticeship training and technical training), and the balance must be spent on training company staff (on external programmes or incompany programmes). If a company is underspending, the difference must be paid to the state (Vickery 1986).

Furthermore, the chambers conduct training courses for owners of small firms as well as their employees on topics like new technologies in the SB sector or business administration. With the support of the government the chambers have trained a large number of technical and economic trainers for this purpose.

*Advisory Services*

In order to offer the small entrepreneurs individual advice the chambers started to employ economic instructors in the beginning of 1960. In addition, the advice of specialists in the fields of law, town planning, credit, export, marketing and sales, data processing can be made available. Other services of the chambers include

*Other Services*

- Mutual Guarantee Systems designed to guarantee bank loans,
- assistance in sales promotion for selling in France and abroad as well as taking part in trade exhibitions,
- group services for secretariat or accountancy work. Since 1969 150 administration centres for the small units have been established,

- Micro Computer Test Centres for initial and advanced training using hardware and basic software specific to the small business and crafts sector.

*Chambers of Commerce and Industry*

Like in Germany there are two types of chambers in France, the chambers of small business and the chambers of commerce and industry. There are 152 chambers of commerce and industry in operation, along broadly similar lines to the chambers of small business. Besides providing training and advisory services they are responsible for running inland and maritime ports and domestic airports. Certain chambers manage industrial estates.

*British Chambers*

Comparing the British and the German or French chamber system two important differences can be noticed. First, there is only one chamber in the UK, the chamber of commerce and industry, representing all economic sectors including large and small business. Second, membership in the chamber is not mandatory.

*Range of Activities*

The different legal status of British chambers has important consequences for the range of their activities. While on the European continent most of the training and consultancy are organized and controlled by the chambers as corporations under public law, the British chambers are not engaged to this extent in the delivery of these services. Government either leaves it up to private initiatives to take over these tasks or organizes its own training and consultancy.

*Chamber Campaign*

Interestingly, the British chambers have started a campaign to take over the training tasks from the government and to achieve a similar strengthening of the chamber system in terms of quality, coverage, and organization as in other European countries. One of their most important arguments is that more must be done to ensure that vocational training in Britain matches the same effectiveness as in other European countries<sup>8)</sup>. To meet these objectives, dialogue with the government for legal recognition and

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8) The head of the training department of the London Chamber believes that the chamber has a major role to play in key training issues. Currently, he suggests, Britain lacks the commitment to a culture of training which is evident in other European Community member states such as Germany (London Chamber of Commerce and Industry 1990).

encouragement of UK chambers to set standards of quality is at the top of the chambers' agenda.

### *Training*

Presently, most training programmes for the small business sector are offered by polytechnics, colleges of commerce, and technical colleges. A large number of these courses are funded by the Manpower Services Commission (MSC) set up by government to develop programmes to combat unemployment. This government agency is said to have difficulties in attracting small firms to participate in the training programmes (Burns, Dewhurst 1986). Furthermore, there are professional associations of small business on a voluntary basis who supervise certain quality standards of their member firms. They also take care of vocational training and organize examinations. But unlike the case in Germany, the issued qualification certificates are not a prerequisite for becoming an entrepreneur, only for becoming a voluntary member in the association.

### *Advisory Services*

The cornerstone of the advisory network for small firms are the local enterprise agencies. Because of the recession of 1979-81, which was connected with a sharp rise in unemployment, these agencies were set up by groups of large firms to advise and help small business (Paul et al. 1989). The agencies offer short one or two day courses on how to start and run a business. There are over 240 locally based agencies throughout Britain. They are usually run by a small staff of two or three people. The bulk of funds come from local authorities and large companies, so as to preserve the private and local element and prevent the establishment of a bureaucracy. The agencies are partly subsidized by the government.

### *Public Services*

Besides the enterprise agencies initiated by the private sector, the government's own small firm service offers a similar range of services. Currently, the services it offers compete against rather than complement those of the enterprise agencies. It has almost 100 offices, often next door to those of the local enterprise agencies. It has been proposed that the government service should become a consultant to the enterprise agencies, expanding into more specialist areas such as in marketing or new technologies (Burns, Dewshorst 1986).

*Issuing Foreign  
Trade Documents*

While the British chambers do not fulfil any delegated functions<sup>9)</sup> in the field of training and consultancy, they have taken over the task of issuing foreign trade documents like certificates of origin, ATA carnets<sup>10)</sup> and international import certificates<sup>11)</sup>. Export documentations are issued at a reduced rate for members. Furthermore, the chambers are running "Export Now", a counselling service for first-time exporters funded by the British Department of Trade and Industry. The scheme's origins lie in a study on the reasons why potential exporters are so easily discouraged. Respondents said they wanted practical advice from experienced businessmen, and not from civil servants.

## **5. Selected Features of the U.S. Chamber System**

*Legal Framework*

Like in Britain the U.S. chambers represent all economic sectors including large and small business. A further similarity to Britain is the liberal approach towards self-administration. Thus, the U.S. chambers are corporations under private law with voluntary membership. This legal status has important consequences for the chambers' range of activities. While in Germany or France government has assigned certain tasks (e.g. vocational training, consultancy) to the chambers, the U. S. chambers do not fulfil any delegated functions.

*Regional Structure*

In line with the liberal approach towards self-administration, there is no chamber law regulating the regional coverage of the chambers. Therefore, it is theoretically possible to found an unlimited number of chambers in one town or district. A certain limit is set by the Federation because the apex body will not accept any chamber as member of the federation. However, regional chambers do not have to become members of the apex body<sup>12)</sup>. Most chambers are organized on the local level covering only one town district. There are many small towns with less than 5000 inhabi-

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9) See p.9

10) This carnet is a temporary passport which allows speedy, tariff-free transfer of goods which are not for sale, in and out of countries.

11) This certificate is required by exporting countries from receiving states. The license has been introduced to increase the effectiveness of export controls on strategic goods such as computer terminals.

12) Around 50 % of the existing 5000 chambers in the United States are members of the Federation.

tants that have their own chamber of commerce and industry. Bigger metropolitan areas have up to several dozens of chambers. It seems that because of this fragmentation the federation has a stronger role when compared to other apex bodies in Europe.

### *Federation*

The federation - the U.S. Chamber of Commerce and Industry - has four regional offices to serve as a link between the federation headquarter in Washington and members around the country. Unlike in Germany, the federation has not only organizational members like regional chambers and associations but also business members like single persons and enterprises. Nevertheless, only the organizational members are entitled to vote in proceedings of the federation. Taking business as well as chamber and association members together, the federation stands nearly five million strong.

### *Activities of the Federation:*

#### *1. Lobbying*

Compared with Germany, there is no privileged treatment of the federation in the legislative process<sup>13)</sup>. Nevertheless, one of the federation's main tasks is to influence policy makers on issues affecting membership. Apart from the chamber specialists, members do also participate in lobbying efforts through the Congressional Action Network System. This grass-roots lobbying programme can generate several thousand phone calls and letters on a single issue. The underlying idea is that legislators seeking reelection will recognize how critical it is to listen to the views of voters.

#### *2. Strengthening Members*

The federation offers a number of support programmes for the organizational members. The **Office of Chamber of Commerce Relations (OCCR)** supports member chambers by giving management counseling on important organizational issues ranging from membership drives to setting the appropriate level of dues for executive salary reviews. The **Association Department** gives support to trade and professional associations by keeping them informed on business issues. The **International Division** cooperates with the member American Chambers of Commerce Abroad. The division provides regular information on international issues and counsels them on management and lobbying techniques. The In-

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13) As pointed out on p. 8, German government committees must schedule hearings in the course of legislative process in which the federation and the federal associations can present their cases.



**stitutes for Organization Management** is dedicated to train organization executives.

*3. Programmes for  
Small Business  
Members*

Small firms make up more than 90 % of the federation's members and provide more than 70 % of its income in membership fees. To serve this membership, the federation offers some special services geared solely toward SB members. The **Small Business Center** is a lobbying cell within the federation that tries to unite and strengthen the influence of small business. The Center often testifies before Congress and the regulatory agencies on behalf of small business, and oversees the preparation of testimony by other departments of the federation to ensure small business concerns are well represented. The **Small Business Programmes Office** serves as a clearinghouse for organization members on federal programmes and regulations that affect small business members. The **Small Business Council** reports to the Federation's Board and reviews pending policies to ensure they respond sufficiently to the concerns of small business owners.

*Finance*

Annual membership fees for members and classes of membership are determined by the board of directors and have to be approved by the plenary assembly. The minimum membership fee comprises a relatively low lump sum per enterprise so that small businesses can afford membership. A further source of income for the chambers are fund-raising campaigns. In 1983, the U.S. chamber launched a campaign known as "The Spirit of Enterprise Fund" to raise a US\$ 35 Mio. capital fund to modernize the headquarter building, replenish cash reserves, provide essential working capital, and expand international activities.

*Role of Government*

Compared with Germany, the U.S. government has taken a distinctly different approach concerning the institutional set-up of small business promotion. While the German authorities delegated tasks like training or consultancy to the small business chambers, the U.S. government either leaves it up to private initiative to fulfil tasks like training and consultancy or organizes its own support programmes for the small business sector. Public support for small business is mostly offered through the Small Business Administration (SBA). From an analytical point of view, the creation of this federal agency indicates that under the private law

system existing in the U.S. no authentic interest representation of the small enterprise sector has developed as the sector is too large and too heterogenous. Therefore, U.S. government intervened by creating a public interest representation of the small business sector. As this institutional set-up is completely different from the European set-up, some more details on the SBA are given below.

### *Small Business Administration*

SBA is a federal agency founded in 1953. SBA presently has 3800 employees and an annual budget of 520 Mio. US \$. SBA's headquarters is located in Washington, D.C. Furthermore, SBA has 10 regional offices and several hundred district offices. Its original tasks were to help small firms<sup>14)</sup> obtain government loans, government contracts, and technical and managerial know-how. In the meantime SBA's role has expanded. Dissatisfaction with the performance of SBA among small businesses led Congress to strengthen the SBA's role as ombudsman for small business within the government (Brock, Evans 1986). In 1976, Congress established the Office of Advocacy at the SBA. This office was directed to "measure the direct cost and other effects of government regulation on small business and make legislative and nonlegislative proposals for eliminating excessive or unnecessary regulations for small businesses" (Verkuil 1982). It should be noted that in comparison with the European set-up of small business promotion the U.S. government created its own public agency in order to protect small business against bureaucracy.

### *Recent SB Legislation*

Congress reemphasized its concern about the impact of government policies on small business by passing, in the beginning of the eighties, further legislations. The **Small Business Economic Policy Act of 1980** mandates the coordination of all federal departments in fostering the economic interests of small business and requires the President to submit an annual report to Congress assessing the impact of federal law and policies on small business. The **Paperwork Reduction Act of 1980** empowers the Office of Management and Budget to limit the paperwork generated by government agencies. Small businesses were seen as a major beneficiary of this legislation (Brock, Evans 1986). The **Regulatory Flexibility Act of 1980** encourages federal agencies to impose lighter regulatory

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14) SBA defines small firms as those with fewer than 500 employees (Acs, Audretsch 1990).

burdens on small firms by requiring these agencies to prepare regulatory analyses of proposed rules and regulations that would exert a significant economic impact on a substantial number of small entities. Finally, the **Equal Access to Justice Act** enables small business to recover legal costs when they prevail in litigation with the federal government. These four pieces of legislation reflect the government's concern that small firms bear a disproportionate share of the regulatory burden and are therefore placed at a competitive disadvantage relative to larger enterprises.

*Small Business  
Development Centres*

Public support for the small business sector has not been confined to the regulatory framework conditions. In 1980, the **Small Business Development Center Act** specified how SBA would support these centers that are mainly based in academic institutions. The services of these centers range from free counselling to individual businesses in financial management, marketing, technical problems and in investment decisions, to training programmes, usually short courses on such subjects as advertising, franchising, and personal management. These courses may run five or six sessions of two or three hours each. Counselling and training activities generally are not organized along sectoral lines. SBA provides 50 % of the funding of the centres, the remainder is provided by the states, chambers of commerce, private foundations, and the academic institutions involved. The location of the centres within academic institutions is intended to make use of all faculty expertise "but in practice this has not always proved feasible ... when extension and advisory work is undertaken by students (graduates and undergraduates) as part of their course requirements" (Paul, Ickis, Levitsky 1989).

## 7. Conclusions

*Public Law Status*

The comparison of the status and coverage of selected chambers shows that in a number of cases these private sector organizations have the legal authorization to fulfil tasks which are normally assigned to public authorities. As a result of the transfer of certain economic functions to the chambers, these organizations are given the public law status. This legal status implies that the chambers under public law possess a far wider field of activities than those

established under private law. Furthermore, the financial security guaranteed by obligatory subscription offers the former a certain facility in the management of their services to members. But, the idea underlying mandatory membership is not only to promote independence of chambers and their financial basis. Great importance is also attached to the fact that chambers under public law represent the entire range of enterprises and thus entrepreneurial experience of the whole sector. This lends the chambers' opinions and proposals particular weight, reflecting as they do a common policy reached after consultations with all sectors of industry.

#### *Delegation of Tasks*

The study underlines the fact that training is the most important task delegated by governments to chambers under public law. But also advisory services and the issuing of foreign trade documents have been delegated to the chambers. The study indicates in this context that the basic argument underlying delegation of tasks is that the close links between the chambers and the business community enable the former to perform these tasks particularly effectively. They can be carried out rapidly, with a minimum of red tape and often at little cost. In practice however, chambers under public law run the risk of becoming inflexible and bureaucratic as sufficient membership is guaranteed by law. In Germany, Austria, or France, one certainly will find chamber members who look upon their chamber rather as a part of public bureaucracy than as a self-governing institution of the private sector.

#### *Private Law Status*

The different legal status of chambers under private law has important consequences for their range of activities. While chambers under public law organize and control most of training and consultancy the private law chambers are not engaged to this extent in the delivery of these services. The government either leaves it up to private initiatives to take over these tasks or organizes its own training and consultancy. In practice, chambers under private law are forced to place much emphasis on offering tangible outputs. Otherwise voluntary membership will remain very small as there are no incentives to join the chamber.

#### *Interest Representation*

Consultative activities vis-à-vis government are of less importance, in that public authorities are normally not obliged to consult chambers established under private law. Thus, "even more than

chambers under public law, their effectiveness when making proposals depends on the strength of their arguments, their reputation, and on how representative their memberships are of the business sector" (ITC 1982). As with regard to small business, the U.S. experience shows that under a private law system no strong interest representation of the small business sector has developed. Therefore, the U.S. government realized the necessity to intervene by creating a public advocate for the SSE sector - the Small Business Administration. When comparing the different institutional set-ups of small business promotion presented in the study, doubts arise as to whether a government agency has the same close links to the small businesses as, e.g., a small business chamber in order to take adequate account of the sector's needs.

Further discussions should focus on the question of whether the introduction of the public law status is really the key for a more important role of chambers in developing Asian countries. A feasible alternative might be the improvement of service delivery in order to increase membership.

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