

# REGIONAL POLICY MAKING AND SME

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**Abstract:** *The purpose of this article is to analyse the possibility for SME interests to influence the Regional Policy-making process. It begins with theories on policymaking and continues with research for experiences with representatives from SME on multi regional level. We intend to reveal patterns and trends. Study considers the ways SME representations should be organised to influence and form regional policy-making scene.*

**Keywords:** *SME, SME representation, Policy-influencing, Regional, EU, national policy-making, Regional development,*

## 1. Introduction

SMEs are always one of the interesting subjects for the researchers. Researchers have drawn some characteristic for the SMEs. Attributes often discussed as typical of SMEs are limited resources, informal management style, flexibility, and dependence on single decision makers. Those attributes influence how SMEs are managed and run historical background.

SME interest seems to be less successfully represented than large firm interests. It raises questions about how SMEs are represented in the policy-process on regional level. We analyse the SME interests in the policy-process, as well as examine if the representation patterns explains the possibilities for SMEs to influence regional as well as national policies.

To understand the problem and to understand the SME's associations' possibility to influence regional policies it is important to take the multilevel policymaking arrangement into account. SME associations are not acting in a vacuum.

**We will therefore study** the possibility for SME interests to influence the regional policy-process by focusing on how the interest representation is conducted in the current policymaking system.

**We will analyse** how SME interests are organized on regional level system, how they participate in regional institutions related to policymaking, and how well SME interests are represented in the crucial initiating phase of the policy-process. We intend to define implications for the possibility for SME interests to influence the policy-making process.

## 2. Historical background and context

Theories concerning SME Business Interests Associations (BIAs) are mostly based on Olson's [8] theory of the 'logic of collective action'. It develops a theory of **political science** and **economics** of concentrated benefits versus diffuse costs. Olson argues that individuals in any group attempting **collective action** will have incentives to "**free ride**" on the efforts of others if the group is working to provide **public goods**. Individuals will not "free ride" in groups which provide benefits only to active participants.

Theory also notes that large groups will face relatively high costs when attempting to organize for collective action while small groups will face relatively low costs. Furthermore,

individuals in large groups will gain less per capita of successful collective action; individuals in small groups will gain more per capita through successful collective action. Hence, in the absence of collective incentives, the incentive for group action diminishes as group size increases, so that large groups are less able to act in their common interest than small ones. The book concludes that, not only will collective action by large groups be difficult to achieve even when they have interests in common, but situations could also occur where the minority (bound together by concentrated selective incentives) can dominate the majority.

This theory refers mainly to the logic of membership and adopts a 'bottom up' perspective. It asks why and under what conditions members of a group would be willing to form and join an interest association, and what associations have to do in order to recruit and keep members. The main critic against Olson's theory is that he ignores the social aspect of associations and the possibility to associate in order to achieve 'common goods', such as benefits from the implementation of specific policies.

This discussion is relevant in relation to SMEs, but simultaneously somewhat beyond research field since we are focusing upon business associations at the national and EU level. Once a decision has been made to associate at the national level it is also rational to associate at the European level. For both the regional level impacting regional development is to be understood.

The collective action problems are therefore no more than background factors to the constituency of SME federations (associations of associations), since these federations draw their membership constituency primarily from those who are already politically active. Hence, participation in an federation is a means to advance the interests of the national grouping [1].

Associations that manage to be present throughout the different policy levels, multilevel players, are considered to be the most successful. Furthermore interests need support from a powerful coalition of member governments, EU and national institutional support, and interest representation, to be influential in policymaking. Another important power tool for business interests is said to be resources and market power.

However, Greenwood and Webster [5] argue that market power does not automatically translate into political power and claims that it is possible for business interest associations with special interests to prevail in certain types of circumstances. Finally, business interest associations are not rational actors, which take rational decisions.

### **3. Typology and main characteristics**

Examining the participation patterns of SMEs and their Interest Associations enable us to better understand the possibility and constraints of SME interests representation in the different levels of the EU policy process.

SME interests refers partly to issues of specific concerns for SMEs, such as cutting administrative burdens and EU funding, and partly to taking SME concerns into account in all business questions, especially in relation to large enterprises.

There are two kinds of Business Interest Associations (BIAs) that represent SMEs; Horizontal Cross-constituency Associations, and Sectoral Business Associations. Horizontal BIAs represents all kinds of SMEs, and Sectoral BIAs represent a particular business sector with a high degree of SME constituency.

Organisations that manage to be multilevel players, i.e. active and present at different levels throughout the policy cycle, are supposed to be the most successful.

### ***Direct representation in the Czech Republic***

Direct representation means that an enterprise lobbies by itself towards national institutions. It is, of course, concerning the direct representation that the organisational patterns differ the most between SMEs and large enterprises. SMEs lack the financial possibility to act alone, and even if they did each SME's share of the market would additionally be too small for its problems to be taken into account by political actors. Since large enterprises have more resources they can also more easily be multilevel actors. This is because large firms can, if considered more efficient, interact with each other or the state administration directly, rather than through their associations. Large enterprises can therefore allocate their resources among different channels of influence and achieve a 'privileged position' in the policy-process, in away that SMEs cannot. This privileged position could have consequences on the SME interests since some of the interviewees stated that large firms often have different interests than SMEs. This contrarily to the SME organisations believe that 'enterprises are enterprises no matter the size'. Besides, large enterprises are said to be more interested in influencing the policy-process than SMEs in the Czech Republic.

There seems to be lack of accurate knowledge related to SMEs in the Czech Republic, both in the national institutions and within the enterprises. Due to the lack of EU knowledge and time constrains the SMEs are said to only react late in the implementation phase of a policy.

### ***Polymaking on the National level - Czech SME Representation***

While the analysis of EU level Interest Organisations has received a fair amount of attention there is a lack of studies on the consequences for National Associations. There are often great variations among National Associations within a particular field, and the SME Associations are no exceptions. Most Associations in this survey represent both small, medium and large enterprises although they have a substantial SME constituency.

The Czech Associations possibility to work independently is therefore limited. Hence the cooperation between the SME Federation and its member Associations is crucial for SME Interests to be represented multileveled. Heterogeneity and slow decision-making is said to be particularly problematic for organisations since institutions demand for homogenous preferences to regard the Organisation as legitimate. If heterogeneous opinions were exposed in public, the SME Federation loses influence and legitimacy. Both European Federations and Czech Associations affirm that differences exist within the SME Federations.

However, one problem to become a multilevel actor is the issue of financial resources. Financial resources also seemed to be somewhat problematic for Czech SME Associations and could thereby limit the multilevel possibilities. Another restriction that makes it hard for SME Associations to act as fully effective actors is that SME Federations are the official representatives of the European SME Interests within the policy process in Brussels.

Czech SME organisations are represented in all levels of the EU policy-process and SME interests have access to both national and supranational institutions. Both UEAPME and BUSINESSEUROPE are Social Partners and all groups have regular contacts with the Commission. Hence the Horizontal SME Federations can be seen as an 'included group' in DG ENTER (DG= Directorate General), which additionally is seen as a powerful part of the Commission. However, the distinction between more widely policy-concentrated DGs and

more regulative DGs affects SME interests negatively since SME interests are less represented in the more regulative body.

The Czech associations are represented in both Czech Republic and Brussels and the Czech officials seem interested in promoting SME interests in the EU policy-process. However, the Permanent Representation venue seems to be the least successful. Financial restrictions are mentioned by the Czech SME Associations as a restriction, and this could also be important in this particular case since the Structural Funds could be seen as only an indirectly SMEs issue.

### ***Policymaking on the European level – European SME Representation***

The European SME Federations (association of associations) can be said to be multilevel actors through the work done at national level by National Associations. EU SME Federations keep contacts with the EU institutions and concentrate mainly on the agenda-setting and policy formulation. Hence these Organisations are specialised in representing SME interests at the EU level during the early stage of the policymaking process.

UEAPME is the employers' organisation representing the interests of European crafts, trades and SMEs at EU level. As the European SME umbrella organisation, UEAPME incorporates 82 member organisations from 34 countries consisting of national cross-sectorial SME federations, European branch federations and other associate members, which support the SME family.

### ***European Horizontal SME Federations***

The Czech Associations are represented at both national and European level, but it is the Horizontal Federations that are seen as the 'official' SME organisations by the Commission. To make a distinction between horizontal and sectoral federations is one important problem for SME Interests representation since many parts of the policy-process is designed for sectoral interests.

The wide constituency in Horizontal Federations gives SME interests legitimacy in general business strategies but simultaneously weaken representation in specific sector policies, since only sector federations are represented in particular industry policymaking.

To overcome the problem of heterogeneous preferences SME Federations and their member Associations have an intense and large amount of contacts. Even though the Federations stress the hard work to come up with a common position the Czech associations seem pleased with their possibility to influence.

### ***Representation in expert groups***

SMEs interests are also represented directly in the crucial agenda-setting phase in Expert Groups. However, the results demonstrate that SME federations are mostly represented in Consultative Committees. The horizontal characteristics of SME representation mean that SME interests have limited access to the regulative parts of the policy-process. However, the Sectoral SME Federations seemed to have better access to the Regulative Committees. Concisely, SME interests are represented in multiple venues in the EU policy-process, and can especially influence general business policymaking issues. However, the dual policy-system makes the horizontal SME representation less influential in sectoral policies. The horizontal SME representation is found mainly in Consultative Committees and not in Regulatory Committees. The Sectoral SME Federations are more suitable in Expert Groups but are simultaneously not 'included' SME Federations within DG ENTER. A close cooperation

between different types of SME federations would probably strengthen the now somewhat fragmented SME representation in EU policymaking.

#### **4. Main Patterns and Solutions of Policy-making process**

Czech Republic searches to attract foreign investment and establish FDI in order to launch regional development. It has rather negative consequences for both Regional development and SME.

State stimulates regional development by FDI by investment support and incentives. From the part of the state the investment support and incentives are focused on large companies as minimum limit for investment in the Czech Republic makes minimum 800 000 EUR. (Act No. 72/2000 Coll., on investment incentives) Because of conditions, this act works in both positive and negative ways, for SME rather negative - SME can hardly reach the required limits. Large eligible companies headhunt for SME employees, and secondly because of holiday vacations large companies do not push for tax lessening. State tends to treat large companies possessing investment support better than SME because they are “too big to fail”.

Many tools supporting SMEs, has been recently launched. It is intended to better take into account the needs of SMEs and to help them ‘grow and succeed’. It reflects the political will to recognise the crucial role of SMEs in the regional economy. The purpose is to put into place a comprehensive SME policy framework. The main principle in policy making turns from regulation to public service, and to promote SMEs’ growth by helping them tackle the remaining problems which hamper their development.

Main feature of current situation seems to be somewhat typical for SME interests in the local level – there is a will to support SMEs, but the measures undertaken are not regarded sufficient by the SMEs. This is interesting since in policymaking, business interests generally seem to have priority over other interests in society.

The fragmented nature of the Czech policy-making structures implies that different institutions or part of institutions take the lead over different types of policies. The Ministry for Industry and Trade has an important role and power. It formulates policy proposals for SMEs. Also the Czech Parliament has for a very long time attracted a great deal of lobbying activities, and the SME Organisations are no exceptions. The contacts between the SME organisations and the Members of Czech Parliament are managed through meetings and personal contacts. The personal relations with MP and their assistants are said to be important, as well as the contacts with the responsible persons for SME issues in different political parties. There is additionally a Small and Medium-Sized Enterprise Intergroup in the Czech Parliament and MP are recognised to be interested in the points of views of local national enterprises .

The legislation is still made for big organisations and enterprises points of view of. This is due to that most officials who create legislations are from big administrations or employees in big enterprises. There is much focus upon big firms and the EU in the beginning was for large enterprises. But this approach changes step by step!

Competition policy has a special place in the European policy environment because it defends the essential mobilising principle of the EU, the collective interest in economic efficiency secured through the creation of a common market. There seems to be a tension between competition policy and company support, such as policies to encourage SMEs, since competition policies was mainly created to reduce problems with monopolies and state aid.

However, exceptions from competition policies are made for SMEs. But instead of exceptions legislations should be made for SMEs, since they are the majority.

One reason why the SMEs are still exceptions is that only 8 percent of the SMEs are involved in export. Yet one can imagine SME concerns to be less influential if the large enterprises are pleased. Additionally, 90 percent of all SMEs are actually microenterprises, with in average five workers. These micro-enterprises account for 53 percent of all jobs, so they are of **great importance to the regional development**. However, large enterprises are the main employer, when separating micro, small and medium-sized enterprises, with a 32,9 percent share. One can therefore argue that there are still incentives for politicians and officials to take great considerations about large firms when making economic policies. Hence there are still 'practical barriers', such as institutional factors and SME economical importance for SME interests.

## 5. SME's Policymaking – discussion

In order to analyse how, and to what degree SME and its associations can influence EU policy-making, the influencing mechanisms need to be considered. Yet, these associations are not acting in vacuum and therefore one also has to consider the structure of policymaking on the national level and in the EU.

It is widely accepted that external circumstances and institutional organisation has important consequences for interest associations and their possibility to influence SMEs. It is regarded as important to retain a sense of limits as to what interest associations can and do contribute to public policy making and SMEs support generally. [8]

A central feature of the European lobbying system is that it is essentially a multi-arena, multi-level, decision-making system in which all actors necessarily participate in complex series of 'nested games' at both national and European levels. Thus, it is a system of multiple access points created by institutionalised multi-level governance.

The fact that there are so many different venues for lobbying means that the EU is a multifaceted policy process [9]. It is therefore necessary for interest organisations to have dual strategies and to be present at both the EU and the national level in order to monitor and influence EU programs throughout the entire policy cycle. This because policy debates at one level and in one arena do not necessarily trigger changes at another level or in another arena. Moreover, lobbying resources allocated in an early stage of EU policy-process are assumed to produce greater returns than resources allocated later in the policy process and the preparatory phase of policymaking is therefore seen as crucial.

However, **according to several authors** some interests can prevail over general policies under certain circumstances. According to Greenwood [3] one example is interests with a highly technical character, with a narrow sectional interest where the costs are diffused widely across the society. Policies that can be used to distribute benefits across a wide range of countries or regions, and thus provide political benefits to a wide range of actors and who does not create obvious winners and losers, are another advantaged interest.

Dominance may also arise where the interest of a particular constituency are uniform with the broader aim of European integration and within the climate in which policymaking arises. This allows the interest's constituency to define and 'frame' issues from which policy initiatives follows. Furthermore, an interest will be widely shared and accepted if it is relevant to a pressing issue and promises a successful problem solving [10].

Several authors also discuss and emphasize that EU and national institutions play an active role in the SME policy process [3]. Institutions are said not just to be ‘political arenas’ but actors actively shaping norms and values, able to develop their own agenda, - not simply as a structure in which other actors - SMEs - pursue their goals.

Institutions make use of selective mechanisms for the inclusion and exclusion of SME interests, thus active and selective in the consultation of interests. Hence, associations and SMEs representations are forced to take the political and institutional constraints of public actors involved into account, and moderate their expectations accordingly. This allows the Commission to skillfully moderate input demands by pointing to the need of finding a solution that will win favour in other institutions.

## **6. Research outcomes and conclusions**

From the above observations there seems to be some kind of rivalry between the different federations concerning the extent to which they represent SMEs and how the definition for SMEs should be defined.

We stresses that the rivalry normally is not a problem but that some kind of competition exists when position differs. The reason to why interests sometimes differ can be different constituencies.

When large enterprises associate they do it mainly in sector organisations. This makes the institutional setting still dependent on expertise mainly from big enterprises. The opinion about the need for special SME sector treatment differ.

Organisational problems for SME representation are heterogeneous preferences within the federations due to national differences, a division between service - and policy representation and competition between different federations. The rivalry between different European federations could harm the possibility to work united for the interest of SMEs and thereby weakening the possibility for SME interests to be influential in the policy-process. The wide range of enterprise constituency is probably also affecting the SME interest representation.

The intention of this article was to examine how the interests of SMEs are represented in policy-making process. We discussed the implications of our research upon the possibility for SME interests to influence this policy-process.

The results show that SMEs are represented by both private and public national associations and by horizontal and sectoral federations.

Without collaboration between general and sectoral federations the SME influence will probably be less far-reaching. Hence, cooperation between horizontal and sectoral organisations could strengthen the SME representation in the policymaking structure.

SME interests seem to be considered as important by both European and Czech institutions. As such SME interests can prevail in general policymaking due to their importance for the regional competitiveness, its wide constituency and since its interests can be related to the European integration. However, institutional barriers exist since institutional arrangements were formed for large enterprises, and because SMEs still use the international market to a less extent than large enterprises.

The analysis shows that SME interests can frame the EU economic objectives, but that institutional arrangements and barriers make it difficult for SME interests to be influential

within the entire EU policymaking system. In addition, SME interest representation is mostly horizontal, with a cross-constituency, and EU policymaking is often conducted in sectoral settings. This produce less widespread SME interests representation in the EU policy-process.

Associations do not always understand what they are doing and what the outcomes may be of their decisions since they are involved in a whole series of policy games at different levels of the national and EU system. This explains why they may appear to settle for sub-optimal choices.

Regional policy making is combination of legislative actions, political commitments and concrete practical steps. It is necessary to study HOW new focus on SMEs is reflected in the national and EU policymaking process.

Our focus upon SMEs and their interest associations therefore adds a further dimension to the research about regional policy making and SME interest representations.

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