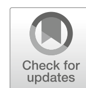
Big Business Bias? European Policy at the Expense of Small and Alternative Ventures



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Abstract This chapter contributes a critical perspective on EU policy and the challenges it imposes on SMEs in general and alternative businesses in particular. The recent financial and Euro crises have undermined public trust in the business world and the political system. Reorientation and/or innovation towards more viable business practice could come from—and inspires—many SMEs, particularly alternative ventures. However, lobbyists of the large corporation scenery exercise substantial influence undermining meaningful policy shifts at EU level. We illustrate resulting dilemmas in the areas of banking and agriculture.

The key points of the chapter are the following ones:

1. to highlight the situation and importance of SMEs in the EU
2. to highlight the notion of alternative ventures and business approaches
3. to understand the problematique of big business lobbyism in the EU
4. to illustrate major dilemmas of EU policy for small/alternative banks
5. to illustrate major dilemmas of EU policy for small/alternative farmers

1 Introduction

The business world is a fascinating realm for several reasons. It provides employment opportunities and thereby the platform to work, and work in turn is a major activity of life if not even a personal raison d'être for many individuals (e.g. Super et al. 1995).

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Businesses are also the provider of products and services enabling our contemporary lifestyle, not least through innovations and inventions companies of all sorts create in response to a competitive environment. Be it in the role of consumers, employees or citizens; we are all affected by business activity in manifold ways.

"The effects of businesses are far-reaching and represent a large component of the social fabric of our lives. Businesses have an unprecedented opportunity and, some would argue, even a duty, to positively impact their stakeholders" (Dillon et al. 2014: 1). Unfortunately, narrow-minded views of profit maximization for the benefit of shareholders as the only legitimate or even natural goal of corporations prevail (Freeman et al. 2004). However, recent public debates reflect the shadow of doubt cast over the notion of positive business impacts on society. The aftermath of the global financial crisis triggered in the subprime real estate segment of the United States in 2007/2008 (e.g. Shiller 2012) has made many people weary vis-à-vis the benefit of (particularly corporate) business activity for all. Endless series of corporate scandals linked to greed and reckless profit maximization (e.g. Gray et al. 2005) reinforce such effects. Yet, the situation calls for a differentiated perspective. On the one hand, large corporations and financial markets dominate the global economy (e.g. Herrmann 2017) and cause much of the recently debated mayhem, which, however, does not mean all their activities, let alone their existence per se would be devastating for the world. On the other hand, countless small businesses have not ceased to contribute to our benefit with new approaches and revolutionary ideas as much as with traditional craft or down-to-earth daily work (of course there will also always be small businesses guilty of malpractice resulting in e.g. workforce exploitation or environmental damage). These notions embed into the larger societal debates about a dichotomy between the corporate/capital market sphere largely composed of multi-national corporations (MNCs) and the 'rest of the world' encompassing civil society as well as the small business scenery. Backlash against a global reign of MNCs (and/or their major shareholders) recently culminated in fierce anti-globalization rhetoric in many media and in the rise of populist movements (not only in Europe), already alarming the elites—even the World Economic Forum has prominently addressed major problems arising from MNC-driven globalization (e.g. WEF 2014).

In Europe, one of the issues linking the big picture to our topic is the recent public outrage about tax advantages for MNCs like Apple, Starbucks or Amazon who generate massive revenues in many European countries, but hardly pay any income tax there (e.g. Barker et al. 2017). Experts point out these corporations act fully in line with the law, outsmarting tax authorities by shifting income to low-tax havens through complex schemes benefiting from loopholes and crafted by savvy lawyers and consultants often based in Luxemburg as revealed by *LuxLeaks* (e.g. Christians 2014). The key issue for our chapter here is that smaller businesses like the bookstore round the corner, local coffee shops or regional organic farmers do not have this tax manipulation option and therefore face unfair competition. That is somewhat ironic, considering the EU commission's avowal to the principle of (fair!) competition as source of a diversified economy, growth, and wealth generation (e.g. European Union 2017).

While the public vigorously debates the question of why such imbalance in regulation remains in place in latter-day Europe, and how to change it, many voices request a return to the business leitmotiv of *Ehrbarer Kaufmann*, or 'honourable trade person', prominently treated in Thomas Mann's famous work on the *Buddenbrook* family. Transferring this traditional role model into our era, Faltin (2015) offers a passionate plea for entrepreneurship as a route to success with consciousness regarding responsible and responsive business practice. He has developed and coached various entrepreneurial projects and blueprints against the backdrop of an increasing public awareness that a viable future requires either a pathway we may label, slightly improvised, as 'back to the roots' of sound business practice for the 'real economy' or even alternative approaches to business. Maybe it even requires alternative economic paradigms altogether (e.g. Felber 2010; Welzer 2014). Various local or regional, citizen-driven initiatives practice—and experiment with—such approaches. Particularly the modern urban lifestyle of European metropole regions induces and encourages an avant-garde of traditionally rooted, yet progressively enacted craft revivals and of alternative business (mostly retail) concepts, most of which emphasize organic, fair trade and other principles/products (Heinrich-Böll-Stiftung 2009) we can consider ethical in one way or another (Crane and Matten 2016). It is clear that (almost) all of these initiatives or approaches originate in the sector of micro, small or at maximum medium-sized businesses, as these are not confined by narrow-minded profit maximization imperatives and myth-propelled return-on-investment goals suffocating most operational practice not aiming at sheer cost reduction (e.g. Chang 2010). In this chapter, we illuminate the conditions small and alternative ventures face because of EU policy. To narrow down this vast field the elaborate exploration of which would go beyond the scope of this chapter, we focus on regulation and subsidies as major EU policymaker's instruments.

European integration has created a huge single European market with some 500 million people living in its area as citizens and of course also as potential consumers. Officially, it grants the free movement of goods, services, capital, and labour. The resulting major advantages for businesses include the wider availability of economies of scale, direct cost reductions due to abolished border formalities and reduced national regulation differences, simplification of cross-border mobility, and lower entry barriers (Johnson and Turner 2016). In reality, however, large businesses, and MNCs in particular can capitalize on these benefits much more than small and/or alternative ventures. One of the main reasons is that, more than ever, lobbying activity accompanies doing business in Europe (Suder 2011)—an arena where big business has an inherent advantage due to financial power translated into political influence.

To illustrate the situation and some of the most pressing resulting problems, we illuminate the two major economic segments or industries of agriculture/food and banking/finance. These two are among the few sectors where up to 80% of all parliamentary legislation in EU member countries originates from the EU

(Guay 2014) so that EU influence is much more prominent than the leeway of national legislation in these areas. Whereas these two areas certainly do not imply generalizability across all industries/segments, we assume wider applicability that remains subject to research in detail elsewhere. We proceed as follows: to frame our context we briefly define and explain the concepts and provide key data of small and medium enterprises and alternative businesses. These two categories are of course not the same, but we will unveil that problems SMEs face are often the same and even exacerbated in the case of alternative ventures. Furthermore, the phenomenon of big business lobbyism in the EU completes our basis. Then we move on to the two areas of banking and agriculture, describing the situation and providing a case study highlighting the most problematic issues, respectively. Finally, we offer a brief conclusion summarizing the key points of this chapter and featuring an outlook.

2 Small and Medium Enterprises (SME)

There is no unanimous definition of SME, neither globally nor within Europe. The European commission emphasizes the importance of SMEs, and there is an avowal to foster this segment. In a preliminary step, the European Commission even defines the very term or concept of an *enterprise* as "any entity engaged in an economic activity, irrespective of its legal form" (European Commission 2005: 12). Based on that, and considering the context of a single market, "it is essential that measures in favour of SMEs are based on a common definition to improve their consistency and effectiveness and to limit distortions of competition" (European Commission 2005: 6). This common definition distinguishes *micro*, *small*, and *medium-sized* enterprises based on the parameters of staff headcount, annual turnover and annual balance sheet. Table 1 summarizes the categories and parameters accordingly.

In Europe, nine out of ten enterprises are SMEs, and SMEs generate two out of every three jobs. Hence, there is their declaration as "the engine of the European economy" (European Commission 2015: 3). As of 2012, the share of micro-enterprises in total employment in the non-financial business economy in Europe ranged from almost 20% in the United Kingdom or in Germany to almost 60% in Greece (Eurostat 2015). Overall in the EU, the share of newly born enterprises without any employee, i.e. owner-operated ventures, amounted to 46.9% in 2012 (Eurostat 2015).

Table 1 SME categories and defining parameters

Category	Headcount (annual work unit)	Turnover or balance sheet (annual €, annual total €)	
Micro	<10	≤2 million	≤2 million
Small	<50	≤10 million	≤10 million
Medium-sized	<250	≤50 million	≤43 million

Adapted from European Commission (2015)

Beyond quantitative criteria, qualitative criteria are worthwhile as well in establishing an understanding of SMEs. Meckl (2010), referring to the German context with its prominent and strong SME segment yet making a vital point of universal applicability, suggests that a central qualitative characteristic of an SME is the unity of ownership, management, liability and risk. Unlike corporations with professional managers who de facto can avert almost any ultimate personal liability risk (e.g. Schwarcz 2015) and with largely anonymous shareholders who only contribute with their investment, most SME owners assume active management roles. Many family-owned businesses have kept ownership and management in family hands over generations. Major challenges SMEs face typically encompass a thin capital basis and distribution problems (Meckl 2010), although they may be able to compensate the latter to some degree thanks to internet technology that theoretically provides a level playing field in terms of sales through direct customer contact (e.g. da Costa 2001). However, they have some competitive advantages due to their very status as SME, such as flexibility, low overhead costs and dynamic approaches to innovation (Somers et al. 2010).

In the EU, one basic assumption is that SMEs—like businesses in general—should find a prosperous business environment particularly due to the single European market, even more so because of the EU enlargement of the past decades opening up further markets and entailing additional business potential.

> In Europe, common rules are there to harmonize access to countries and market opportunities. Opportunities are diverse. For example, the Czech Republic offers opportunities in automobile equipment, agri-business and fishery; Poland in the environmental sector; Estonia in hotel and restaurant equipment; Cyprus in food and perfume (Suder 2011: 65).

SMEs do not only represent an important economic segment, they also play a vital role for new and further economic development and innovation in the EU. A significant share of that has to come from new ventures, which, in turn, need favourable conditions to realize their potential. "For entrepreneurs to take ideas and turn them into marketable goods and services, an environment that nurtures start-ups is essential" (Guay 2014: 316). Of course, not only start-ups but also existing SMEs need nurturing, insofar as the environment should not disadvantage them. EU policy officially reflects this notion. There are EU support schemes and funding opportunities dedicated to SMEs. By the end of 2013, the EU had supported more than 300,000 SMEs through various funding mechanisms, and the strategy concept of *Europe 2020* explicitly emphasizes further importance of support for SMEs, not least, because the financial crisis affected them more adversely than any other group of businesses (Johnson and Turner 2016). In particular, the *Small Business Act (SBA)* of 2008 for European SMEs reflects an official commitment to nurture this segment. However, its success remains disputed. Table 2 features an overview of its key principles/intentions along with remaining problems unveiled during a public consultation in 2014.

Hence, there is the EU policymakers' avowal to support SMEs and keep them in focus. Yet, severe obstacles remain and the reality looks different in several regards.

Table 2 Selected Small Business Act principles and remaining problems

Selected guiding principles of SBA	Remaining problems
• Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded • Design rules according to the 'think small first' principle • Make public administrations responsive to the needs of small and medium-sized businesses (SMEs) • Adapt public policy tools to SMEs' needs: facilitate SMEs' participation in public procurement and better use state aid possibilities for SMEs • Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions	• Administrative and legal burdens remained the biggest concern • Access to finance remained difficult despite the measures taken • Further effort is needed with respect to accessing markets, in particular improving links between existing EU programmes

Adapted from EUR-Lex (2016)

3 Alternative Businesses

There is no universal definition or conceptualization of *alternative businesses*. We use this rather broad label purposefully for enterprises that pursue non-conventional business pathways in their very mission and/or in their operations. They share a strong commitment to the common good in the broadest sense as opposed to shareholder value primacy. Mostly, their commitment focuses on sustainability goals. Those are often classified as environmental or social, acknowledging that the former concept has been researched much more than the latter, which in turn can be defined as "the processes by which social health and wellbeing are initiated and nourished both now and in the future" (Pullman and Dillard 2010: 746). In many cases the founders started the respective enterprise with such mission as the very driver of opening up shop, translating an idealistic or ethical stance into entrepreneurial effort. Besides for-profit businesses there are also non-profit oriented ventures in this domain. However, we exclude NGOs as we only consider businesses in this chapter. It is important to realize that all businesses we refer to as *alternative* exclude profit maximization goals widely associated with corporations and traditional investor-driven businesses (e.g. Demsetz and Lehn 1985). As a logical consequence of their orientation and their ownership structure (often owner-operated, family-owned, partnerships or co-operatives), alternative businesses are mostly small, if not even micro, but some of them have reached medium-size. Overall, we consider their segment as non-mainstream SME scenery niche.

Many businesses we consider alternative are *values-based*. Values are subjective notions of the desirable representing normative orientations, providing direction for individuals as well as organizations and the individuals within them (e.g. Schwartz 2012). Furthermore, we should even consider their potential of driving innovation

(Breuer and Lüdeke-Freund 2015), hence potentially inspiring start-ups and eventually incumbents feeling the pressure to innovate in insecure times and volatile market environments to remain competitive or to stay afloat. Largely, values-based businesses foster

> a culture shaped by a clear set of ground rules establishing a foundation and guiding principles for decision-making, actions and a sense of community. In a values-driven culture, employees find alignment between their personal values and the organization's values creating a unified and motivated workforce. Management and leadership set examples for their organizations and live the values they preach (SHRM 2017).

There are various potential bases of the shared values uniting and guiding the workforce. One such basis is spirituality. It is difficult to capture, as it means different things to different individuals or even constituencies. As common ground there are deeply held values (Milliman et al. 1999). But not all spiritual organizations are alternative in our sense. Other potential value bases more consequently in line with our line of thought are intentions of creating "green, socially responsible, or sustainable" (Honeyman 2014: 3) ventures. In essence, founders of such businesses question the taken for granted mainstream business conduct that allegedly is harmful for humanity and/or the environment in many ways (e.g. Tencati and Pogutz 2015; Welzer 2014). Beyond reducing harm, the raison d'être of alternative businesses may even be to solve or alleviate pressing problems. This applies in particular to actors in the field of *social entrepreneurship*, which can be defined as "the innovative use of resource combinations to pursue opportunities aiming at the creation of organizations and/or practices that yield and sustain social benefits" (Mair and Noboa 2006: 122).

An often-cited and European pioneer example of a successful values-based business is *The Body Shop*. Anita Roddick founded the company in 1976 for a simple reason: "I just wanted to go in the opposite direction of the cosmetics industry" (Roddick 2005:vii), and she translated that idea into business principles such as forgoing animal testing, buying ingredients on a fair-trade basis, and fostering human rights as well as environmental protection. However, this company is an interesting case also for another reason: in 2006 *L'Oréal*—one of the established mainstream corporations of the cosmetics industry—acquired The Body Shop. This case shows that once an 'alternative' start-up has grown substantially enough to achieve a certain level of commercial success it can become part of the 'big business world', and it also shows how it can spark substantial criticism in that process (van den Ven et al. 2009). Another case in point to illustrate how alternative approaches can turn mainstream is *fair trade* undergoing dramatic transformation: in a process of appropriation the commercial sector adopts the more convenient elements of fair trade so that the concept loses its radical edge, which "will be greatly to the detriment of a movement that has always acted as both critic and conscience" (Low and Davenport 2005: 143). Hence, we notice that beyond the dynamic scenery of small-scale (and partly 'radically alternative') players and their ideas, larger concepts diffuse into the broader business world.

We are witnessing such occurrences in many guises. To name just two remarkable ones: firstly, there are the increasingly popular constructs of the *Certified B*

Corporation and the closely related *Benefit Corporation*, both subscribing to the movement understanding business as a 'force for good' (e.g. Branson 2013; Honeyman 2014; Mackey and Sisodia 2013). They represent hybrid business entities required to have a material positive impact on society, while at the same time generating profits up for distribution among owners (Singer and Day 2014). There is a growing global 'B Corp' community of currently around 1600 certified B Corporations from 42 countries and over 120 industries (B Lab 2017), and this movement initiated in the United States is gaining momentum in Europe as well. Secondly, the Austrian initiative of the *economy for the common good* is growing. Its core principles are cooperation instead of competition to strengthen democratic values and an economy in the service of society instead of individual profits (Felber 2010). More than 400 international member companies, including regional banks and organic bakeries among manifold others report their contribution to societal benefit (Gemeinwohlökonomie 2017).

These examples show that boundaries between conventional and alternative business spheres are partly blurring. Arguably, that is also a result of the societal debates mentioned earlier. However, a strong divide remains between publicly traded corporations stuck with the paradigm of shareholder value maximization, despite its mythical and legally misguided nature (Stout 2012), on the one hand and alternative enterprises negating profit maximization for the sake of a viable future for all on the other hand.

4 Big Business Lobbyism in the EU

In the broadest sense, inquiry into lobbying belongs to a field of analysis referred to as the social reality of interest politics (Bouwen 2002). In technical terms, one of the standard definitions highlights lobbying as "a way for interest groups to be heard, exchange ideas and information with policymakers and try to influence the regulatory and legislative process" (Guay 2014: 60). Observers that are more critical point to lobbying as "power unaccompanied by accountability of any kind; that which is not required to report to anyone concerning its activities and which, being difficult to understand, is equally difficult to counter" (George 2015: 8). Essentially, this view represents an evaluation of lobbying as a threat to democracy.

Due to a—despite manifold opposite allegations—comparatively small apparatus of EU bureaucrats with 33,000 staff members, corresponding with about half of Edinburgh's public sector headcount, policymakers need additional sources of information provided from the outside world (Guay 2014). They solicit much of that information from parties with stakes in areas affected by (future) political decisions, and certainly, lobbyists provide, beyond that, unsolicited information to promote their agendas. Overall, there are roughly 5000 registered interest groups and an estimated 15,000–30,000 lobbyists with access to the European Parliament or Commission (Guay 2014). Various (mostly non-governmental) organizations criticize a lack of transparency in terms of who of the lobbyists actually gets access to which members of the EU commission or parliament how often and in which matters exactly (e.g. ALTER-EU 2016).

Undoubtedly, lobbying activity accompanies doing business in Europe more than ever. In large part, we can attribute that to the fact that business—and arguably the 'big business scenery' in particular—"has become aware of the competitive advantage that public affairs management on an EU scale offers" (Suder 2011: 306). It is undisputed that large firms have the highest degree of access to the European Commission (Bouwen 2002), which puts them into a privileged position in relation to other business or civil society groups when it comes to achieving policies in line with their interests (Tansey 2014). It is not surprising to notice, "SMEs do not usually have the resources which large firms dedicate to influencing policy-making or lobbying" (Suder 2011: 294). There certainly is no directly or exactly calculable relation between money spent on lobbying and money received in subsidies for a certain industry, or money saved due to prevented regulation that would have led to higher costs for a certain industry. However, there certainly is a correlation between financial power to fund lobbying activity and favourable policy outcomes.

A recent culmination and (although only unveiled in fractions) demonstration of the lobbying power of the biggest corporations are the negotiations between the EU and Canada/USA concerning CETA/TTIP/TiSA. George (2015) unveils how transnational corporations tailor such transnational treaties to their interests, and Bank (2016) points out that 90% of the lobby discussions of the Directorate General in theses contexts were with lobbyists representing large corporations. Considering that the latter essentially represent the top 1% of global wealth (e.g. Oxfam 2014), thus neither SMEs nor civil society, we have to diagnose a striking mismatch regarding represented interests.

5 Banking

The first sector we consider to illustrate the 'big business bias' of EU policy is banking (and finance). "The financial system is meant to facilitate efficient allocation of resources and help people and businesses fund, invest, save and manage risks" (Admati 2016: 1). Confronting people with such mundane technical statement about the role of finance will most likely cause a plethora of cynical outbreaks, considering the financial meltdown of 2008 and the seemingly endless series of scandals riddling the sector. The system, instead of fulfilling its function outlined above

> is rife with conflicts of interests. Reckless practices if uncontrolled by market forces and effective rules, can cause great harm. Most of the time, however, the harm from excessive risk in banking is invisible and the culprits remain unaccountable. They rarely violate the law (Admati 2016: 1).

5.1 Lobbying and Revolving Doors

One of the main arguments brought forward is the lobbying power of financial industry groups (e.g. Pagliari and Young 2014). In Brussels, the finance industry employs around 1700 lobbyists, thus outnumbering the EU civil servant work force

dealing with the financial sector by factor four. It spends roughly 120 million euros per year to that end, which in turn is about 30 times as much as all trade unions, consumer protection and environmental protection agencies combined have at their disposal to work on the same issues (Schumann 2016). There is a clear rationale behind this massive effort and cost-intensive apparatus: political limitations imposed on the finance industry to reduce the risks (ultimately born by taxpayers) would also reduce its profit potential easily amounting to several hundred millions per year. Hence, preventing or at least delaying major reforms curtailing the most profitable (i.e. speculative/risky) activity is a worthwhile investment for the sector (Schumann 2016).

In addition to the pure financial lobbying power, the 'revolving doors' phenomenon exacerbates the system-induced problems and conflicts of interest: the same people rotate their roles within institutions in the financial system, politics and regulations, and other organizations—resulting in regulatory dysfunction (Admati 2016). José Manuel Barroso who led the EU commission as its president for a decade until 2014 represents one of the most prominent recent revolving door examples: he joined Goldman Sachs as advisor. Thereby, he spurred a debate about conflict of interest in general and potential violation of EU codes of conduct (stating that ex-commissioners must act with integrity and discretion during and after they have left office) in particular. Arguably, it is especially problematic that Barroso joined not just any bank, but Goldman Sachs—of all firms—due to this bank's alleged involvement in harming and undermining the integrity and functionality of the EU, or more specifically the Euro zone at various instances (e.g. Rankin 2016). Revolving door occurrences raise the question whether the role-holders involved have not actually worked for their ultimate (corporate) job destination all along, now reaping the implicit reward there for having served the corporate interests even throughout an earlier official political role.

5.2 Pre- and Post-Crisis Banking and Finance Regulation in the EU

The financial crisis of 2007/2008, turning into the so-called *Euro crisis* in 2010 (Bohn and de Jong 2011), certainly marks a watershed event for the EU in general and the Euro zone (technically referred to as European Monetary Union—EMU) in particular. It may well be "the most serious economic and political crisis in the history of the EU" (Copelovitch et al. 2016: 811). Many experts claim the defunct arrangement of EMU from the outset, as politicians initiated it on geopolitical grounds while ignoring prerequisites for a successful single currency area; first and foremost political and social union (e.g. Busch et al. 2017; Eichengreen 2012). Hence, it is worthwhile to highlight pre-crisis versus post-crisis financial policy and market regulation in the EU.

In the first decade after the introduction of the Euro, there was fast-paced financial market integration (Quaglia 2012). Despite initial fears of continental

banks, the liberalization and widening of the financial market intensified quickly. That encouraged large banks with global player ambitions to open up substantial investment banking units. These emerged as powerhouses of the above-mentioned lobby scenery, heavily promoting the interests of big finance. As a consequence, policymakers and their regulation in favour of the big players pushed aside national parliaments along with the interests of small banks (and other businesses), and ordinary citizens (Mügge 2010). The big financial institutions' lobbyists (even of US banks) had also major influence in the design of the so-called Basel II accord that set international capital requirements, which, in turn, the EU incorporated into its legislation (Quaglia 2012).

The crisis culminated in highly controversial bank bailouts of institutions 'too big to fail', especially in Germany and Spain (e.g. Spiegel 2012) on the one hand, and in an overburdening debt crisis of periphery EU member states on the other hand. The so-called PIIGS countries of Portugal, Italy, Ireland, Greece and Spain incurred severe economic shocks with growth, employment and public finance largely collapsing (Brazys and Regan 2015). The Irish state accumulated more than 70 billion of additional debt to keep banks (with inflated pre-crisis business models) liquid. Even more dramatic is the case of Greece. This country's deficit developed so dramatically that the EU, partly together with the IMF, conducted several rounds of financial assistance programmes in return for harsh austerity policies (e.g. Capelovitch et al. 2016). To make matters worse, it turned out that most of the 'bailout' payments (and beyond that guarantees not paid out yet) hardly reached the indebted nations, but primarily guaranteed debt service to their lenders. These large (mainly French, German and British) banks effectively shifted their risk to taxpayers. Hence, some of the co-initiators of the crisis have benefitted most of the policies in its response (e.g. Schumann 2013).

In light of these occurrences, it seems particularly puzzling that EU leaders have adopted piecemeal, incomplete reforms at best containing but never solving the crisis and its aftermath, let alone prevent future crises. Jones et al. (2015) ascribe this behaviour to the phenomenon of 'failing forward': repeatedly, interstate bargaining leads to fragmented, eventually failing incremental reforms that intensify financial integration ever further, which provokes rather than prevents a potential future financial meltdown. One reason for this approach is that there are prevailing divergent national interests:

> At every step, the European decision-making process has been marked by a struggle on the part of the member states to ensure that more of the risks and costs will be borne by other states. This is one reason why the full costs of the debt crisis have not yet been allocated. This dynamic is evident in the resistance of the Netherlands, Finland and Germany to allowing the ECB to purchase sovereign debt or transfer funds across national borders to stem the crisis of confidence in the financial markets. It appears in the glacial movement toward banking union, which has endowed the ECB with supervisory authority over large European banks but is still elusive on the issue of who will pay to wind down insolvent banks (Hall 2014: 15f).

According to another diagnosis, EU institutions "have invested huge financial and political capital to manage the crisis, but not to resolve it. Behind the Euro's

Table 3 EU regulatory responses to the global financial crisis concerning banking

Regulatory measure, date	Essential content
Amendment of Deposit Guarantee Scheme directive (October 2008)	Minimum level of coverage for deposits increased, payment time reduced
Proposal for new Deposit Guarantee Scheme directive (July 2010)	Harmonization of coverage and simplification of pay-out
Capital Requirements Directive (CRD) III amended (2008–2010)	Higher capital requirements on trading book and securitization, sound remuneration practices
CRD IV, following Basel III to be proposed in 2011 (December 2010) *[enacted 2013]*	Redefinition of capital, higher capital requirements, increase of weight risk for certain assets, leverage ratio, liquidity rules

Adapted from Quaglia (2012: 175)

manifold contradictions lie disparate and divisive forces that make clear-cut outcomes unlikely" (Marsh 2016: 5). Nevertheless, there are regulatory responses. Table 3 below summarizes reform steps following the financial crisis of 2007/2008.

There are two highly relevant regulation/policy aspects for our context. Firstly, there is the Anglo-Saxon dominated Basel III accord and its incorporation into CRD IV with heightened capital requirements for banks at its core. Whereas the Anglo-Saxon economic culture relies on financial markets and corporate finance rather than bank loans to the real economy (especially consisting of SMEs), it is the other way round in many European countries (Quaglia 2012). Therefore, German lobbying intervened and succeeded to some degree in obtaining a more favourable regulatory treatment of bank lending to SMEs in CRD IV (Keller 2015). Secondly, there is the ECB's recent extreme low-interest policy with negative bank deposit rates. The official rationale of this move is to stimulate bank loan activity especially vis-à-vis businesses and in peripheral states. However, there are indications that this policy provides too weak an incentive for banks holding excess liquidity (in core states) to provide more bank loans, neither at home nor to periphery countries (Bucher and Neyer 2015).

5.3 *The Case of Alternative Banks in Germany*

The German banking sector is quite distinct in Europe with its three pillars of private commercial banks, public sector banks (*Sparkassen*), and co-operative banks (*Volks- und Raiffeisenbanken*). There are also several alternative banks in Germany. In line with Butzbach and von Mettenheim (2014) we consider alternative banks those that are not run to maximize profit or to satisfy shareholders and therefore pursue a business model that is the antipode of classical (finance-market, shareholder value-driven) banking. Notably, four institutions in Germany fully subscribe to ethical principles based on strict ethical, ecological and social criteria covering both their investment and their loan offer policies. Table 4 summarizes these institutions.

Table 4 Alternative banks in Germany

Institution, year of initiation	Major characteristics
EthikBank *founded in 2002*	• Smallest alternative bank in Germany • Subsidiary of a regional *Volksbank* • Strongly engaged in social projects
GLS Bank *1974 (first ethical bank in Germany)*	• Anthroposophical context • All investments publicly disclosed
Triodos Bank *1980 (Netherlands), Germany 2009*	• First and largest European ethical bank • Incorporated, owned by a foundation
UmweltBank *licensed as Volksbank since 1997*	• Incorporated, widely held stock • Investment focus: renewable energy

Summarized from Attac (2017)

These alternative institutions have grown substantially—although from a very low basis and still within a small niche—in recent years. Undoubtedly, the financial crisis and mainstream bank scandals of the last decade have contributed to that growth, as an increasing clientele does not want to support financial market speculation externalizing its risks to taxpayers any longer. However, EU banking and finance regulation as highlighted in the previous section severely disadvantages the business models of small banks in general and of alternative ones in particular.

Significant problems arise out of the current EU regulation approach: it violates the principle of commensurability. EU bodies and sequentially national bodies follow the Single Supervisory Mechanism (SSM), imposing the rules designed with large, corporate, global player institutions in mind equally on small banks. Thereby, regulators ignore their fundamentally different risk profiles and customer bases and therefore overburden these institutions with bureaucratic exercises and costs incurred to meet excessive reporting requirements (Ferber 2016). To make matters worse, ECB's negative interest policy cuts off the already small interest margins and leeway of small/alternative banks to support SMEs of the real economy (EthikBank 2016). As a result, those very banks that have been committed to sound financial practice preventing financial crises and scandals suffer most from post-crisis regulation, whereas the big player 'culprits' can easily live with it and keep the 'casino' (Strange 2015) open.

6 Agriculture

The second sector we use to highlight the 'big business bias' of EU policy is the sector of agriculture with an emphasis on subsidy policies. The overall budget of the EU amounted to 144 billion euros as of 2013, which is less than the individual national budgets of Austria or Belgium and breaks down statistically into a contribution of some 280 euros per capita per year (European Commission 2016). This is still a substantial total volume allocated for various purposes. Like elsewhere in the world, farming and food production are essential elements at the core of a viable economy and society in Europe. Consequently, EU budget allocation reflects the

importance of this sector: roughly, 40% of the total budget is reserved for direct agricultural subsidies and the development of rural areas (EU Commission 2016).

6.1 EU Agriculture Subsidies

The Common Agricultural Policy (CAP) of the EU dates back to the earliest stages of the European Community in the late 1950s and early 1960s—an era where times of food supply shortages and starvation during the World War were still present in collective memories. There were several reform stages, three of which are of particular interest for our context. Firstly, the ‘Agenda 2000’ reforms of 1999 created its still valid structure with the two pillars of production support (i.e. direct subsidies to farmers or other food producers) and rural development. Secondly, the so-called ‘decoupling’ reform of 2003 changed the pattern: instead of paying fixed amount per commodity output (e.g. 200 euros per hectare of wheat); the EU would now provide support based on a single payment scheme. It gives member states some freedom to choose how to implement this scheme. There can be regionalized payment with farmers receiving identical payments per hectare within a region, a farm-specific payment (like in France and Italy basing payments on historical farm production levels) or a combination of both (like in Sweden and Germany) (Brady et al. 2009). Furthermore, in 2010 the EU launched the latest reform covering the years 2014–2020, outlining the challenges of food security, environment and climate change, therefore also announcing a ‘greener’ policy scheme. However, environmental prescriptions of the new scheme “are so diluted that they are unlikely to benefit biodiversity” (Pe’er et al. 2014: 1090). Experts predict the abandonment of an estimated 8% of farmland in the EU because of recent CAP reforms, mostly concerning livestock grazing farms of more marginal areas of Europe. Besides a reduction of farmland biodiversity, they at least point to potential improvement of agriculture’s footprint (Renwick et al. 2013).

There is another highly criticized aspect of the ‘greener’ EU agriculture subsidy scheme: it awards money mainly based on the size of the land owned. In the UK some of the most bizarre misallocations include the payment of 400,000 Pounds a year to subsidize a farm where a billionaire Saudi prince breeds racehorses, more than 500,000 Pounds to the Queen or more than 785,000 Pounds to the Mormons (Harrabin 2016). Not only large-scale landowners benefit from the current policy scheme, but also large corporations. In Germany, Südzucker AG—the world’s largest sugar producer and a highly profitable agro-industrial business—received 1.9 million euros of direct EU payments in 2014 (Rosenberger 2015).

6.2 Agricultural Market Structure

With its 28 member states, the EU has some 12 million farmers with a further 4 million people working in the food sector. The farming and food sectors together

provide 7% of all jobs and generate 6% of the European gross domestic product. There were 10.8 million farms in the EU in 2013, with the vast majority of these (96.2 %) classified as family farms—defined as farms under family management and with at least 50% of the regular labour force provided by family members. Hence, family farms account for more than 19 out of 20 farms across the EU. However, they only have about two thirds of the cultivated agricultural land (Eurostat 2017a). Looking at the resulting products available to consumers, the picture turns around: while a visit to European supermarkets suggests that there is an enormous variety of food and beverage products, diversity actually diminishes on the supply side: multinational food and beverage giants provide most of the products (KSTA 2017).

The developments in the EU mirror the global trend towards agro-industrial concentration and a highly financialized supply chain. The concentration and merger wave is continuously increasing: Five out of 12 capital-intensive takeovers within the last two years occurred in the sector of food, beverages and agriculture. 50 food producers account for 50% of the revenues worldwide, seven large companies dominate the market for seeds and pesticides worldwide, and with the permission of the antitrust authorities, there will be only three by the end of 2017 (KSTA 2017). There are a number of highly problematic consequences: agro-food enterprises become increasingly involved in financial activities, food retailers are dominant actors within the agro-food system, there is intensified exploitation of food workers, and small-scale farmers see their livelihoods become more uncertain due to increasing volatility in agricultural markets and due to growing competition for their farmland (Isakson 2014). Furthermore, industrial livestock farming and mass production of food are associated with massive environmental pollution and climate change promotion. Recently, Germany's government had to report that there is groundwater pollution through high nitrate concentrations (BMEL 2017).

6.3 The Case of Dairy Farmers in Germany

Germany is one of the most important agricultural producers and the leading milk-producing country in the EU. The top six milk producers of the EU are Germany (19.6% of total EU production), France (16.2%), the UK (9.1%), Poland (7.9%), the Netherlands (7.8%), and Italy (7.4%). Together, they account for more than two thirds of EU milk production (Eurostat 2017b). In Germany, there are still some 72,000 dairy farmers holding 4.3 million cows. Two thirds of German dairy farmers hold less than 50 cows per farm. Structural change is under way; the overall number of dairy farms decreases by 2–4% per year (MIV 2016). Especially the number of small farms is declining, while the number of bigger producers grows. A dairy farmer with less than 100 cows must calculate a cost of around 800–1400 euros for a new shed per cow and year, including depreciation and interest. To finance this, every litre of milk would have to yield at least 40 cents. However, the latest statistic shows that only about 28 cents are yielded. Table 5 features a cost overview for a litre of milk.

Table 5 Composition of milk price in Germany

Cost components/value chain stages	Average costs per litre of full milk, sold @ 60 cents in supermarket
Farmer	28.8 cents
Dairy factory cost + margin	9.6 cents
Packaging (container)	6.6 cents
VAT (7%)	4.2 cents
Recycling fee (*Grüner Punkt*)	2.4 cents
Logistics and warehouse costs	1.2 cents
Transportation	1.2 cents
Supermarket/retailer costs + margin	6.0 cents

Adapted from Binder (2017)

Dairy farmers have suffered from low milk prices during recent years. Nowhere else in Europe, retail prices for milk are as low as in Germany: for the litre of whole milk, food discounters charged even less than 50 cents in 2016, and to keep up, the big food retail chains followed suit in lowering prices. Although the prices went up to some 60 cents (see Table 5), small farmers still have a gap of at least 10 cents per litre for viable milk production. Obviously many farmers—those with less than 100 cows—cannot survive in the long run. Even larger dairy farms face a problematic situation, although they have a more favourable cost structure mainly through economies of scale achieved with automated production based on milking robots. In the German state (*Bundesland*) of Nordrhein-Westfalen, the number of dairy farms decreased by about two thirds over the last 20 years (from some 18,000 to 6179), and by some 9% from 2015 to 2016 alone (Binder 2017).

From a farmer's perspective, only large-scale production promises survival. That leads to the paradox that since the EU abandoned milk quotas to counter oversupplies farmers are producing much more than before. But even export is an inappropriate solution, as EU farmers exacerbate worldwide over-production of milk. German (and other EU) farmers who have invested heavily to modernize and scale up production during recent years now face huge problems due to lack of liquidity. These farms may not all have to close down but many probably face expropriation when banks or investors take over (e.g. Busse 2016). Market concentration, scaled-up production and (large) investor-driven agriculture are least likely to solve some of the urgent problems like food quality or environmental and social sustainability.

Despite crises and criticisms, the dominant policy stance has not departed from neoliberal paradigms promoting further integration of large parts of European agriculture into agro-food circuits of capital (Potter and Tilzey 2005). There is no lack of programmes and reforms, there are some good intentions, and there is substantial funding. However, in the sector of agriculture, like in the banking sector, principles of fair competition and a market economy for the benefit of all EU citizens—a major raison d'être of the EU—are violated further with policymakers stuck on the current paradigm pathway.

7 Conclusion

In this chapter, we took a critical perspective on EU policy with regard to the business environment it creates for SMEs and, even more so, for alternative ventures. In light of the financial crisis of 2007/2008, turning into the Euro crisis by 2010, the greater public feels at unease with the current paradigm of business for the sake of profit maximization at the expense of the greater good. One of the problematic consequences is that the entire business world loses public esteem and credibility.

However, the business scenery is diverse and has the potential of generating innovation, wealth and solutions for many of the latent or the pressing problems facing society. Furthermore, entrepreneurship provides enormous possibilities, maybe even more than ever before. Many people, ranging from seasoned professionals to young idealists just entering the world of work look for meaning and believe in business as a force for positive change. They experiment with values-based or alternative business models. We acknowledge that there are diverse mind-sets in terms of in how far small business founders/owners are (not) fervent supporters of (unrestrained) market forces (Goss 1991) or other controversial policy paradigms. However, overall, interests of big business, in particular MNCs often conflict with those of SMEs (e.g. Guay 2014).

In Europe, most businesses are SMEs, and most alternative businesses are in that category. Despite an avowal to foster SMEs as a backbone of the economy, and despite major programmes such as the Small Business Act, the EU de facto serves big business interests first. It even hinders, albeit possibly unintended, the unfolding of small ventures through regulation and subsidy schemes. We illuminated this trend for the sectors of banking and agriculture. Regarding banking, the case of alternative (ethical) banks in Germany illustrates how post-crisis regulation with an emphasis on capital requirements and negative interest rates nearly suffocates the very institutions standing in for future-proof banking practices. Policymakers have failed to see that banking comes in various guises, and not only in the form of large, corporate, global player institutions (Butzbach and von Mettenheim 2014). Regarding agriculture, the case of milk farmers in Germany illustrates how subsidy schemes favour, sometimes culminating in bizarre forms, large-scale agrarian industry and rich landowners, and how these schemes drive small, often organic and/or regionally rooted farms at the brink of extinction.

One reason may be that European decision-makers mainly aim at securing full market integration inside the EU rather than at shaping regulation to meet a common public purpose (Posner and Véron 2010). Another reason certainly is that diverging national interests persevere, and the task of policymaking at EU level remains complex. In the near future, we do not expect much change to the direction of EU policymaking. National electorates put pressure on politicians who otherwise might be committed to the common European cause (Menasse 2012). More differentiated policymaking in terms of considering different business needs, situations, profiles and contributions to society could help substantially to solve the

issues at hand (e.g. Ferber 2016). However, the most severe obstacle is (and will remain) the sheer lobbyist power of MNCs in Brussels, which is unlikely to give in any time soon. Keeping it at bay for the sake of a viable future for us Europeans remains a formidable challenge.

Questions and Activities

1. Explain the importance of 'big' businesses and of 'small' businesses/SME for the economy and for society in Europe.
2. Select any five 'big businesses', e.g. from major stock markets such as the German DAX or the British FTSE 100, look into their history and explain how/why they have grown to become big (even global?) players.
3. Besides their size, what are the main differences between large corporations and SME? In how far do these differences help explain conflicting interests between the respective spheres of 'big' and 'small' business?
4. Which social and/or economic trends encourage the development of 'alternative' businesses, which trends are detrimental to it?
5. Research which organizations and/or individuals are registered with the EU as lobbyists and exemplify the major goals of some of them.
6. 'Lobbying at EU institutions should be stopped altogether, as it only favours one-sided corporate profit interests'. Comment on this statement, differentiating perspectives of various stakeholders or interest groups.
7. Explain the business model of a bank and discuss how it could be transformed to survive major changes or disruption in the marketplace such as the current zero-interest policy of the ECB.
8. Research the current milk prices across EU member states and explain reasons for differences.
9. Discuss in how far consumers have influence and responsibility regarding the problems facing the agricultural and banking sectors in Europe.
10. Can you think of other sectors suffering from the EU policy phenomenon of 'failing forward' quoted in this chapter?

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