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## **ERENET PROFILE**

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### **INTRODUCTION AND MESSAGE OF THE SCIENTIFIC DIRECTOR**

## Dear Readers, Distinguished Friends,



It is my great honour to welcome you at the start of a new Internet periodical **ERENET PROFIL**. The aim and purpose of the periodical is to enhance local and regional understanding of the possibilities offered by small and medium enterprise. It is equally directed to encouraging cooperation among experts who are concerned with entrepreneurship, small and medium enterprise research and the necessary education and training required to encourage economic development across Europe.

As the Regional Advisor on Entrepreneurship and SMEs at the United Nations Economic Commission for Europe, while visiting countries of Central and Eastern Europe, I have had the privilege of visiting countries in all parts of the region. This experience made me personally aware of the need to understand the obstacles encountered and progress made implement national policy on SMEs. It demonstrated the need for greater communication and cooperation across borders which this periodical hopes to support.

The UNECE Forum on Best Practices in Good Governance for Small and Medium Sized Enterprises (1-2 April 2004, Palais des Nations, Geneva) took a similar position. As a step forward, the Hungarian Delegation proposed establishing a network among Colleges and Universities dealing with entrepreneurship and SME research and education first of all in Central and Eastern Europe. A year later on 22 April 2005 the initiative was launched.

Why start with Central and Eastern Europe? Historically, in the Middle Ages this region marked the division between the Roman Empire and the so called Barbarians or German speaking peoples. Later these countries were enclosed by that political triangle, which surrounded by the German, Russian and ottoman empires. Central and Eastern Europe stand for long time under the influence of the Russian despotism. Without the Czar assistance the Habsbourg throne would not be able to suppress the 1848-49 fight for freedom. However the population was never homogenous although Christianity became the dominant religion. Over the years the Austrian, Russian and the Turkish Empires exercised control over different nations such as Poles, Hungarians, Czechs, and Bulgars as others but beyond the reality of an imposed political framework, Central and Eastern Europe has been closely connected through culture and tradition.

Nationalism and a sense of spirituality have given coherence to those living in Central and Eastern Europe. Its expression has come through art and literature. Béla Bartok., Antonin Dvořak, George Enescu, Richard Strauss and Vatroslav Lisinski led the way in similar manner to János Arany, Karel Čapek, Miroslav Krleža, Rainer Maria Rilke, Hugo von Hoffmanstahl and Sándor Márai or Ivan Meštrović, Gustave Klimt, Tivadar Koszta Csontváry and Mihály Munkácsy. Nor should one forget the power of architectural convergence; walking in the streets of Brno, Debrecen, Graz, Oradea, Subotica, Lvov or Zagreb there is a sense of “*déjà vu*”. We belong here – it is our common ground but the disparity between economic development in western and eastern and central Europe remains serious.

It is the result of Europe’s postwar history. The dream of a free welfare society built on scientific theory, central planning and forced Industrialisation failed. At the same time the European Union moved forward to offer its citizens, in general, a high standard of living. Since 1989 and the Fall of the Berlin Wall much has been done to ‘level the playing field’ across the European region but serious problems remain in Central and Eastern Europe; unfinished nation-building, creating nation wide democracy, encouraging civil society modernizing the economy and developing good neighborly relations where there has been previous conflict. Most importantly there is serious unemployment especially amongst youth.

The declared goal of many politicians is “to arrive” in Europe. They highlight the threat that otherwise we shall detour and end up on the periphery of Europe. The twenty-first century will contravene this statement. We should not catch the train to Europe, because we are already at home. Belgrade and Budapest, Bratislava and Bucharest, Ljubljana and Zagreb are European cities, which since many centuries have been enriching the

European cultural and economic space. Even more, when the Western kings greedy run to obtain more colonies in the New World, Central Europe stand bravely on the bastion and protected the European Christianity for the Ottoman Empire. And again, when the young Hungarian revolutionists in 1956 upprised against the Soviet tyrant, the West played false and left in the lurch this little nation. It took 33 years to erode the Berlin Wall, remaining always as a symbol for the end of the Cold War. The asymmetric integration of the new EU members and the invasion of the multinational supermarkets giving preference their cheapest suppliers while the indigenus small entrepreneurs and farmers are dying shows that Eastern and Central Europe may recon only itself.

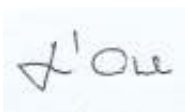
*Endre Ady*, the great Hungarian poet, born in Transylvania in 1908 already wrote in his “A Hungarian Jacobin song” the following:

“One voice has the Danube and the Olt,  
Indistinct, quiet, moribund.

When, then, shall we live in unity?  
When shall we speak with one voice,  
We, the downtrodden, the broken  
Magyar and non-Magyar alike?”

There is a pressing need to recognize the many projects relating to SMEs and so encourage domestic entrepreneurs. There is a need to discover and renew friendships with neighbouring countries, harmonise educational programmes, develop joint research projects, exchange lecturers and students and demonstrate a set of European values built on trust, mutual recognition and acknowledgement of diverse cultures. By starting out with a focus on Central and Eastern Europe we hope to demonstrate how essential it is to pay attention to the micro economy, as well as the macro economy. We believe ERENET has the capacity to accelerate enterprise and employment not just in Central Europe but across all 55 countries of the UNECE.

Let the Research and Development Partnership grows, bring new fellows to our great joy, recognition and welfare of our nations.



Dr. Szabó Antal  
Scientific Director of ERENET

## PAPERS

**Ilies Liviu – Matis Dumitru – Györfy Lehel**

University of Cluj-Napoca (Romania)

### ENTREPRENEURIAL DIMENSION OF HIGHER EDUCATION INSTITUTES

#### Abstract

The author aims at highlighting the necessity of establishing entrepreneurial universities, defining their concept, orientations and objectives.

#### 1. The concept of "entrepreneurial university"

It is common knowledge that universities have to face competition on the market of academic knowledge and services to an ever-increasing extent. To stagnate while competitors keep improving means guaranteed failure. Universities have to respond to a multitude of new challenges launched in the economic, political and social environment.

Institutions that apply traditional approaches to work are confronted with difficulties in coping with changes. In order to obtain results, the focus should shift from traditional methods, practices and values to accepting change in view of passing to an entrepreneurial type of university that actively strives to innovate both the way and the type of activity, to operate large-scale changes referring to both organisation and procedures. The more and more demanding requirements imposed on universities determine them to modify their functions. More precisely, this means giving up "bureaucratic management" practices, showing more preoccupation for transformation, changing - by means of research and training in the service of the community - situations determined by social practice in view of supporting democratisation and continuing education, offering assessment guidelines, actional patterns, cognitive, attitudinal and behavioural styles. Institutions that assume an entrepreneurial role need to focus on results and to integrate quality in their own structures; this requires efficient management.

The entrepreneurial university becomes more and more involved in the life of the local community, while the active partnership with public administration, economic and financial factors, non-governmental organisations, and ~ cultural, economic and scientific societies generates new commitments for the academic community, diversifies its actions and services, thereby improving the image of the university in the local/regional environment. The need to assume an entrepreneurial role is also determined by the fact that universities are sub-financed by public administration, a fact that engenders preoccupations for identifying and exploiting new financing sources by diversifying the (professional) academic services offered by the members of the academic community in addition to scientific research.

The entrepreneurial university is "an innovative, active university, which accepts change and aims at exploiting all the opportunities regarding institutional development and expansion of the financial basis. Its objectives are systematic innovation, research and exploitation of new opportunities to meet customers' requirements. It seeks to innovate its activity style, to operate deep changes in its organisational character, thus envisaging successful prospects". (B.R. Clark, 2000)

The entrepreneurial university must have a precise purpose when looking for the sources of innovation, its changes and the symptoms pointing to favourable opportunities for successful innovations. As Peter Drucker (1993) shows: "Innovation is the specific instrument of the entrepreneurs, the means by which they exploit change as an opportunity ... It may be represented as a subject-matter, it may be learnt, it may be projected".

Innovation is an instrument specific of successful management, it is the means by which management implements changes taking into account the risk factors which appear in the environment. In order to innovate successfully, entrepreneurs need to determine thoroughly the sources of innovation, the changes that need to be implemented and the way in which these changes are perceived by the employees. Successful entrepreneurs have a pro-active orientation, a strategic vision, seeking to anticipate changes and to find the best solutions in order to be successful.

An entrepreneurial university should be characterised by:

- elimination, as much as possible, of risk factors in order to prevent unexpected events;
- anticipation of changes in the economic and social environment, in the workforce market structure and in demography;
- more understanding of and receptiveness for the needs of external customers (graduates, employers, community);
- provision of new knowledge, more focus on solving problems rather than on merely transmitting information.

The management of the institution must understand that innovation ensures competitiveness on the market and should abandon all outdated traditional methods and practices. Universities must accept the fact that the services they offer live a short life. They must clearly define their position on the educational market. Successful modern universities, the so-called "academic entrepreneurs", have introduced the new, projecting their activities on new and different terms.

The rapid changes in the present society, economy and technology - both opportunities and threats - urge universities to become entrepreneurial and innovative to a greater extent than the economic organizations. Experience has shown that universities innovate with more difficulty than economic organizations, the main obstacle being "what exists". Their dimension is the only criterion in assessing success, and from this point of view development has become an end in itself, whereas the dimension of economic organizations is the result of a profitability test. This fact determines universities to strive for supremacy and for a bigger budget capable to support their development in accordance with the requirements of the market; otherwise a market for competitors may appear. If the university does not exploit all the opportunities that it has, it leaves room for competitors, thus preparing the market for them. For the university to become innovative, to adopt an entrepreneurial approach it needs to consider social, technological, economic and demographic changes as opportunities in these domains, otherwise all these changes become obstacles. If the university does not pay enough attention to what is going on outside, to the trends in the external environment, it will not be able to turn these changes into advantages.

The entrepreneurial university offers a new public image, opening doors to the economic and social environment, focusing on a permanent flow of knowledge towards society both by means of its graduates and by an active transfer of science and technology directly towards economic organisations. This idea of entrepreneurial university has become a new concept, in which the university has become a component of the organisational culture.

Organisational changes referring to the establishment' of an entrepreneurial university, i.e. institutional transformation, should be based on: efficient management; accumulation of discretionary funds; dynamic periphery of units open to the exterior; availability of academic departments for cooperation within the framework of new relationships and associations; generalised entrepreneurial mentality able to orientate the institution on a new development route, conferring it an outlook completely different from the traditional one. The entrepreneurial dimension of a university should be understood both as an approach (i.e. it should be daring, it should not hesitate to achieve objectives which appear to be difficult), and as a degree of generalisation of the entrepreneurial attitude at all didactic and research levels, as well as in the decision-making process and the management of the university.

C. Kerr (1993) shows that: "the entrepreneurial dimension does not mean a personality type or a stage in the life of an institution, but rather a management style searching for opportunities other than those available at present".

Such definition focuses on a well-determined organisational effort in seeking opportunities in an efficient way, without neglecting the basic values that define the institution.

As universities join programmes and projects that cannot be successful in a modified environment, they will be less and less capable to achieve their mission and they will not be able to give up programmes and projects that they cannot fulfill. Non-innovative universities will be satisfied with their performance, but will lose their legitimacy.

## **2. The need for an entrepreneurial approach**

Universities are growing more and more aware that they no longer have the funds and the infrastructure capable to meet the more and more complex requirements of the present, and consequently

they are urged to assume the entrepreneurial approach by establishing new ways of contacting the economic medium, the local authorities, as well as by developing new forms of international cooperation. Universities are sub-financed, thereby being obliged to identify new sources of income rather because of the need to compensate for the reductions in the system than because of strictly educational reasons. The entrepreneurial approach requires considerable effort from the part of the university in order to:

- enhance managerial ability;
- ensure diversified income;
- develop an entrepreneurial culture at the level of faculties and departments.

Universities must obtain bigger and bigger incomes from multiple sources by actively performing in a competitive environment. The new financing basis determines the differentiation of universities from the viewpoint of "success" or "failure" with regard to:

- acquisition of research grants from the public or private sector;
- number of foreign students enrolled;
- training and consultancy services offered etc.

The experience of successful universities shows that generating income does not mean abandoning the traditional academic spirit. An entrepreneurial university happily combines academic excellence and the ingenious generation of income. Academic initiative should be based on a positive organisational culture, capable to give the necessary impetus in order to overcome difficult decisions and periods. Academic and practical initiatives have interacted, generating positive effects that consolidate the reputation of the institution. Critics of the entrepreneurial university that is firmly engaged in generating extra budgetary income state that an apparently "mercantile attitude" puts academic integrity in jeopardy, but do not forget to appreciate the funds which encourage academic development. At present, it is obvious that even the most conservative universities have agreed to business partnerships with famous companies.

The university resists the entrepreneurial and innovative system because of the following reasons:

- the management of the institution is based on traditional, old-fashioned methods;
- the mentality of academic staff: many university teachers are satisfied with what they know and understand;
- the university relies rather on the "budget" than on the results it obtains, considering that engaging in more ambitious objectives means a more impressive budget. In this particular case, success means obtaining as big a budget as possible rather than results;
- the university must focus on external customers (graduates, companies, local community etc.); it must meet the requirements of whatever is new on the market, but, at the same time, it must know whatever is new and controversial;
- the mission of the university is not just moral, but also economic, based on the expense/profit component;
- difficulties appear for universities in defining objectives in absolute terms etc.

### **3. Orientations and objectives of the entrepreneurial university**

The main orientations of the entrepreneurial university are:

- to increase competitiveness by improving the quality of the offer and of the results. The structure and the content of the academic offer must be compatible with the requirements of the social-economic environment in which it is to be inserted.
- to develop quality-centered culture and education: a system of cultural values able to build a certain type of mentality;
- to offer acknowledged educational programmes, appreciated and certified by the standards in force;
- to attract external financing by means of an offer of educational programmes guaranteed by their quality and recognised internationally;
- to expand the international dimension with regard to curriculum development, international cooperation, mobility programmes and integrated study, training and research programmes;
- to bring activities in the non-academic service sphere, related to the instruction and research process, in line with international standards and thus to increase the attractiveness of the study programmes for the students who wish to pay for their studies;

- to modify the organisational structure of the university by promoting new management forms, methods and styles and by separating academic management from the administrative one;
- to set up an active cooperation portfolio between the economic environment, the civil and the academic society;
- to diversify the financing basis;
- to involvement and motivate the entire staff.

The entrepreneurial system means a challenge for education and training. The university cannot rely on a mere "extension" of what has been created before, accompanied by certain improvements. Changes must be accompanied by new (innovative) thinking and by new approaches at all hierarchical levels in the institution. Innovation and the entrepreneurial system must become part of the activity performed in our institutions.

The specific elements that characterise entrepreneurial universities are:

- strategic planning;
- efficient entrepreneurial management;
- organisational culture favouring innovation and the entrepreneurial spirit;
- appropriate budgetary strategy.

#### **4. Entrepreneurial strategies, policies and the budgetary dimension**

Entrepreneurial strategies, understood as market strategies, will lose their essential role in institutional development unless related to an appropriate budgetary strategy. Without an appropriate budgetary process and dimension, many objectives are difficult, if not impossible, to accomplish. Extension of decision-making authority and autonomy of departments or teams is not sufficient if necessary resources are not available.

Distribution of responsibilities to departments should be done on the background of appropriate resource allocation mechanisms. Otherwise, it will only mean a "cosmetic" exercise, and extension of decision-making authority and autonomy of departments will only be a slogan. Delegation of authority, which represents the essence of extending the decision-making authority and autonomy, imposes the existence of a real and efficient control of resources. The entrepreneurial system is not compatible with the idea that "universities must be oriented towards customers only, disregarding financial aspects". The starting point is the idea that, if academic and research objectives, once established, will be achieved, success is guaranteed. This is an obsolete conception, since success in education and research depends, largely, on resources.

Entrepreneurial universities must consider the budget issue as one of top priority. The adoption of the entrepreneurial system within the university cannot be successful unless financial management and budgetary control are decentralised.

Many specialists realise that budgetary control represents "a hard core element" within an institution. If we wish to provide freedom of action and to allocate professional responsibilities to the academic and non-academic staff in order to ensure their involvement in the achievement of the objectives of the university, we must decentralise budgets and their control. In consequence, the financial management of the university will become a key-element in achieving the entrepreneurial strategies and an important additional source of motivation.

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## **EFFICIENCY & EFFECTIVENESS IN TEACHING ENTREPRENEURSHIP - THE CASE OF HIGHER EDUCATION?**

### **Introduction**

A successful development of European economies has been achieved through creation of indigenous businesses (Garavan and O'Cinneide, 1994) that were deeply rooted in local economies. Such development could not be secured without expansion of the pool of successful local entrepreneurs with the potential to grow internationally. Were those entrepreneurs born or made? Such rhetoric question describes well the spirit of an ongoing debate about the merits of teaching entrepreneurship. The debate on whether entrepreneurs can be taught still rears its head from time to time. Empirical evidence (see for reviews Birley and Westhead, 1994) shows that while not all adults have what it takes to be an entrepreneur, there are many aspects of entrepreneurship that can be taught. There is, and always will be, a role for the gut feeling in entrepreneurship, and indeed that is what may distinguish a successful entrepreneur from the unsuccessful one. However, like in art, starting and building a business successfully can be done best when talent and training are combined (Moore, 2001). Henceforth, there is clearly a major role and need for entrepreneurship education and training (Garavan and O'Cinneide, 1994).

Yet, the discussion about merits of entrepreneurship education and training remains a frequent topic among academics. In business world, an increasing share of ventures based on new technologies within the modern SME sector demands specialized technical and business knowledge to manage their venture teams and the formal education demands for entrepreneurs are ever increasing. The number of degree and non-degree programs in entrepreneurship has increased sharply in western countries and Slovenia as well in recent years. It is reasonable to ask whether the increased availability of entrepreneurial education has made an impact on the entrepreneurial inclinations of alumni students. A review of empirical research shows some support to the public policy expectations that entrepreneurship curriculum will contribute to stronger entrepreneurial activity nationwide, and more specifically within the population only entering job market (Garavan and O'Cinneide, 1994).

The aim of this research is to examine the development of entrepreneurial intentions of a specific group in the population – junior students enrolled at the Faculty of Economics of University in Ljubljana (FELU). We seek to answer the question of how entrepreneurial education affects skill acquisition and confidence, which are central to the development of entrepreneurial self-efficacy, a cognitive skill, which has been shown in previous entrepreneurship research as a strong predictor of future career choice decisions. The structure of the paper is as follows. First, we review previous literature on entrepreneurial education, entrepreneurial intentions and self-efficacy. Then we discuss empirical sample issues and measurement, present our empirical findings, and finally conclude with a discussion and some practical implications.

### **Efficiency and effectiveness in teaching entrepreneurship**

As originally developed and refined by economists, the concept of *efficiency* refers to the relationship between the inputs into a system (such as educational), and the outputs from that system (such as educated individuals). An education system is said to be efficient if maximum output is obtained from a given input, or if a given output is obtained with minimum possible input. The problems of measuring efficiency in education are considerable. They stem mainly from difficulties in measuring educational output, as well as from quantifying the relationship between inputs and outputs. How educational output is measured depends on the nature of the objectives of the educational system. Depending on the philosophical, political or analytical viewpoint adopted, the objectives may differ considerably (Unesco Institute for Statistics, 2005). The

*effectiveness* of teaching can be largely evaluated through students' satisfaction with program. The challenge of measuring effectiveness is that it may not be answerable in absolute terms since teaching effectiveness is a broad concept varying by discipline, course design and level of experience. Various internal evaluations on effectiveness in teaching (for example: Cornell Centre for Learning and Teaching, 2005) show that effectiveness can be best conceptualized in relative terms: to what degree has improvement in practice revealed an individual's capacity for growth and development. By taking a public policy perspective, efficiency and effectiveness in teaching entrepreneurship in higher education can be evaluated by a scope of quantitative and qualitative indicators: by the number of students who become self-employed after leaving the university; the number of students who aim to develop their professional career in small firms, the number of students who return to university by enrolling in graduate entrepreneurship programs and more generally by the number of small business owners profiting on the acquired education.

A number of empirical studies on merits of entrepreneurship education is increasing. Empirical studies typically analyze the process of entrepreneurial intentions formation. In entrepreneurship theory, a link between entrepreneurial intentions and subsequent firm start-up has already been established (see for reviews Shook et al., 1999) although empirical research on entrepreneurial intentions has not been extended to the opportunity search or to the subsequent venture creation. Given that the full-time enrolment in an education programme and being self-employed as an entrepreneur are all consuming activities by themselves, entrepreneurial intentions of students may be a good proxy of measuring the impact of entrepreneurial education on their future career choice.

In a recent study of the effects of entrepreneurship education on entrepreneurial intentions among graduates in entrepreneurship majors, non-entrepreneurship business majors, and non-business majors, Noel (2001) found that entrepreneurship majors have opened more businesses than other business and non-business graduates, although the difference was statistically significant (marginally) only between entrepreneurship and non-business majors. However, the decision to open a new business may occur over a fairly long period of time, during which the nascent entrepreneur gains knowledge and confidence. Another study by Franke (2004) compared entrepreneurial intentions among students enrolled to two German speaking universities (University of Munich and University of Vienna) and MIT (USA) and found a great variability of entrepreneurial intentions between American, German and Austrian students. The study failed to determine what personality based characteristics contributed to such differences. The variability of entrepreneurial intentions was significantly related to the variability of students' perceptions of the general entrepreneurial environment and the university entrepreneurial environment. This suggests that university entrepreneurial education can enhance entrepreneurial intentions among students and increase the number of potential entrepreneurs since traditional personality traits (i.e. risk-taking propensity, the need for achievement, and locus of control, among others) fail to explain the differences among entrepreneurial intentions (Franke, 2004).

### **Towards entrepreneurship higher education success**

*"Entrepreneurship education program alumni start more new businesses, develop more products and are more likely to be involved in high technology endeavours than their peers. Alumni of entrepreneurship programs make more money and their firms grow more rapidly, relative to other business school alumni."* (<http://www.eller.arizona.edu/news/>)

Luckily the above quote is not only an isolated evidence reported by a marketing department of business schools. Some general agreement among researchers on merits of entrepreneurial education and training on facilitation of entrepreneurial activity has already been reached. McMullan et al. (1998), Kourilsky (1995), Rasheed (2000) among others, have demonstrated the influence of entrepreneurial education on the success of new venture creation activities as well as on the success of the newly founded ventures. The importance of entrepreneurial education is further supported by accelerated development of pedagogical resources for existing and potential entrepreneurs, and to those who train or educate entrepreneurs. Moreover, more courses in entrepreneurship are being taught in more educational institutions throughout the world and they are taken by an ever increasing number of students, at both the undergraduate and graduate levels. On the brink of the new millennium, there were over 800 colleges and universities with entrepreneurship programs worldwide (Fiet, 2000). In addition, there were several cross-disciplinary

programs being offered at business schools, such as European Doctoral Program in Entrepreneurship and Small Business Management, initiated by the European Council for Small Business and currently organized by the Universitat Autònoma de Barcelona in Spain and Växjö University in Sweden (Hisrich, Drnovsek, 2002).

Generally, the merits of entrepreneurial education reside in the process of providing individuals with the concepts and skills to recognize opportunities that others have overlooked. For example, the Kauffman Center for Entrepreneurial Leadership found that a course containing efficacy-enhancing elements includes instruction in opportunity recognition, marshalling resources in the face of risk, and initiating a business venture. It also includes instruction in business management processes such as business planning, capital development, marketing, and cash flow analysis (Cox, Mueller & Moss, 2002).

Entrepreneurial training of undergraduate students at the **Faculty of Economics** has started in 1991, which is relatively early, considering that Slovenia was undergoing the process of economic transition at the time.<sup>1</sup> One major course was introduced - Basics of Entrepreneurship, which is a required undergraduate level course. Its curriculum builds on the use of a variety of pedagogical instruments, intended to enhance mastery and vicarious students' experience. The course incorporates lectures, which facilitate student learning of entrepreneurial business concepts that are needed for successful business start-ups. Further, students are motivated to show practical application of the obtained knowledge through the preparation of a business plan, which contributes the highest weight to the final grade of the course. Successful entrepreneurs from the local community are regular guest speakers in the class presenting practical viewpoints on problems that entrepreneurs face and enhancing students' perceptions of their own entrepreneurial feasibility. Finally, students are also challenged through team work. Throughout the course the students have to work in teams of five members to develop the idea they chose with the final result being a viable business plan. The business plan has to be presented to a group of pedagogical workers that judge the idea as potential investors. Correspondingly, the course – Basics of Entrepreneurship is designed in a way to promote teamwork, innovative thinking, testing of market and business concepts, acquisition of computer skills and use of modern media, and development of communication and presentation skills.

After some 15 years of experience in teaching entrepreneurship, FELU is facing new challenges in the academic self-renewal process to accord curriculum to Bologna 3 + 2 academic framework. In doing so, understanding success factors of teaching and fostering entrepreneurship among students is pivotal.

## **Linking entrepreneurship education to new venture creation process**

### *Entrepreneurial intentions and nascent entrepreneurs*

Entrepreneurs do not start ventures as a reflex but rather as a response to cues from the environment and start construing the perceived opportunity into viable business (Krueger, 2000). A cumulative empirical evidence of human agency shows that intentions are the best predictor of planned behavior, particularly when that behavior is rare, hard to observe, or involves unpredictable time lags. Because the new ventures inherently emerge over time, involve certain levels of risk and considerable planning to manage such risks, entrepreneurship is exactly the type of planned behavior (Bird 1988; Katz and Gartner 1988) for which intention models are ideally suited (Krueger, 2000). The development of entrepreneurial intentions is primarily driven by interplay of personal cognitions and elements of social contexts, such as political, social, cultural, and economic environment. A specific human cognitive element, which is crucially important for the development of entrepreneurial intentions is self-efficacy (Boyd and Vozikis, 1994; Krueger and Brazeal 1994; Gatewood et al. 1998; Chen et al. 1998; De Noble et al. 1999), a particular belief that people hold about their capabilities to produce designated levels of performance in exercising influence over events that affect their lives (Bandura, 1994).

Further, starting up a new firm is seen as a career choice from the perspective of the prospective student, who is in the process of entrepreneurial intent formation conceptualized as nascent entrepreneur. Nascent entrepreneurs are those individuals who are identified as taking steps to establish a new business but have not yet succeeded in making the transition to new business ownership (Carter et al, 1996), or more particularly, whose start up did not have a positive monthly cash flow that could cover expenses and the

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<sup>1</sup> Prof. Vahčić, Prof. Petrin and Prof. Glas did a seminal step in introducing entrepreneurship program at FELU.

owner-managers salaries for more than three months (Reynolds, 2004). The assumption that undergraduate students are an important source of nascent entrepreneurs is based on a large body of empirical research on entrepreneurial intentions in a specific population sub-group approaching a career decision. Krueger (1993) presented arguments for the impact of prior entrepreneurial exposure on perceptions of a new venture's feasibility and desirability among university business students whereas Reynolds (1995) found in his study a high occurrence of nascent entrepreneurs among university students.

### *Entrepreneurial self-efficacy*

Entrepreneurial self-efficacy construct originates in social learning theory as originally developed by Bandura (1986), who defines perceived self-efficacy as people's beliefs about their capabilities to produce designated levels of performance that exercise influence over events that affect their lives. In other words, self-efficacy affects the choices people make, the level of effort they put forth, the length of persistence when confronting obstacles in face of failure and emotional states. Because self-efficacy is a perceived belief it can be built by interventions through four major channels: a) resilient sense of efficacy is created only when people successfully overcome obstacles through perseverant efforts (mastery experience); b) by observing others similar to oneself in mastering activities needed to succeed (vicarious experience); c) by social persuasion of an individual to possess capabilities needed to master given situations, and d) by inducing affective states where positive mood enhances perceived self-efficacy whereas despondent mood diminishes it (Bandura, 1994). The self-efficacy perspective is highly appropriate for the study of entrepreneurship because it is a task-specific construct (Chen et al., 1998), it incorporates internal (personality) and external (environment) factors and it is the closest to action and action intentionality (Boyd and Vozikis, 1994). It can be used to predict and study entrepreneurs' behaviour choices, persistence and effectiveness. The relationship between self-efficacy and behaviour is best demonstrated in the challenging situations of risk and uncertainty which are believed to typify entrepreneurship (Chen et al., 1998). Although self-efficacy of entrepreneurs has emerged as a key construct for understanding entrepreneurial success, empirical evidence on its effects in the domain of new venture creation and / or venture growth has not been cumulating (see Drnovsek et al., 2004 for reviews). Given the gaps identified in the present conceptualization of the construct in the domain of entrepreneurship a proposal for a re-conceptualization to (a) focus on entrepreneur's beliefs about (b) one's capability to successfully tackle challenging tasks (whether success is actually attained or not) in domains relating to (c) either venture creation or venture growth was recently advanced by Drnovsek and colleagues (2004).

This research seeks to understand entrepreneurial intentions of a specific population – undergraduate students enrolled in a second year of university program at FELU. The main research question addresses the potential of entrepreneurship education programs at FELU in facilitation of entrepreneurial intentions and correspondent creation of nascent entrepreneurs among undergraduate students. We posit

**H1: Perceived self-efficacy beliefs to create new businesses will have a significant positive effect on the development of entrepreneurial intentions.**

How can entrepreneurship education programs contribute to the development of entrepreneurial self-efficacy beliefs? Given the channels of self-efficacy interventions, mastery experiences are induced by involving business students into fictional business plan preparation. The second way of strengthening self-beliefs of efficacy is through vicarious experience by being exposed to guest speaking entrepreneurs. Seeing people similar to oneself succeed by sustained effort raise observers' beliefs that they too possess the capabilities to achieve success. Role models with similar personal characteristics provide an important source of self-efficacy. Social persuasion is the third way to strengthen self-efficacy beliefs because self-employment is constantly promoted as a viable and preferred employment for the students. We posit:

H2: Perceived self-efficacy beliefs to create new businesses will increase after having taken entrepreneurship course.

## Research design

### *Data and sample*

The empirical data was collected through a questionnaire published on the web pages of FELU. In order to measure the influence of entrepreneurial education on the development of entrepreneurial self-efficacy we included a longitudinal component in data collection process by examining our sample at two points in time: before the beginning and at the end of the course. The first phase involved administration of the questionnaire to second year students at the beginning of the fall semester 2004, one week before the official start of the courses. Students were also invited to participate in the data collection process at the end of the fall semester (in the early January 2005). In order to motivate the students we offered two extra points to their final course grade for those who participated (out of 100 total points). The size of target population of students was 650 active students. The number of students that filled in both of the questionnaires was 368, corresponding to 56 % response rate. 229 of the respondents were female and 139 male. The students were all enrolled in the second year of the university program at FELU and their average age was 20.3 with a minimum of 19 and a maximum of 24.

### *Measures*

The on-line survey instruments consisted of four groups of questions. The central part of the questionnaire measured entrepreneurial task specific self-efficacy in the following domains: creativity, general entrepreneurship competence, marketing, finance, and legal activities necessary in the process of starting a new venture. Within each contextual section three aspects of creation self-efficacy beliefs were included: (1) self efficacy beliefs of one's ability to perform tasks, (2) self- efficacy beliefs about one's ability to achieve desired outcomes, and (3) self- efficacy beliefs about one's ability to overcome negative emotions (Drnovsek et al., 2004). The central part included 37 items on a Likert scale ranging from 1 to 6 (1- completely disagree; 6 – completely agree), which were randomly mixed across the survey. Twelve of the items used reversed scaling. Principal component factor analysis with Varimax rotation was used to group the questions measuring ESE into factors. Two main factors were extracted explaining 27 % of the variability. Twenty-two out of thirty-seven items loaded on the two factors with all at or above the level of 0,40. The two factors were formed as suggested by Drnovsek et al. (2004), the first being items connected to task and goal entrepreneurial self efficacy (ESE) and the second being the items connected to ones' self efficacy (F1) on controlling negative thoughts (F2). The main reason why the items connected to task and goal self-efficacy grouped into one factor is that it is hard to differentiate between ones' ability to perform certain tasks and the ability to achieve goals as performing tasks. Only items that had similarly high loading with both iterations of the poll were included into the average factor value calculation.

General self-efficacy (GESE) was measured on a general scale consisting of eight items as used in Gideon (2002). Those questions were measured innovatively on a continuous scale using the spectrum of colours with red colour meaning "completely disagree" and green colour meaning "completely agree". The respondents positioned themselves correspondingly. This gave us a very sensitive measure as 300 different positions were possible. The scale performed surprisingly well. As it measured general self efficacy, which is a relatively fixed personal belief that changes very slowly over time, general self-efficacy was expected to be equal for both iterations. Even though the scale was very sensitive, a paired sample t-test showed no significant difference between the two iterations implying that the mean value of the variable stayed stable. The positive results encourage further testing of the scale.

Finally entrepreneurial intentions were measured by asking the students if, and when they plan to start a new company. The students had to choose an answer ranging from "I already own a company" to "I plan to start my own company later then in 10 years". "I will never own my own company" and "I don't know" were also options. The answers were later recoded to categories from 1 to 7, one being "I already own a company" and 7 being "I will never own a company". "I don't know" was evaluated as 6, as it is still better than the determination that one will never start a company.

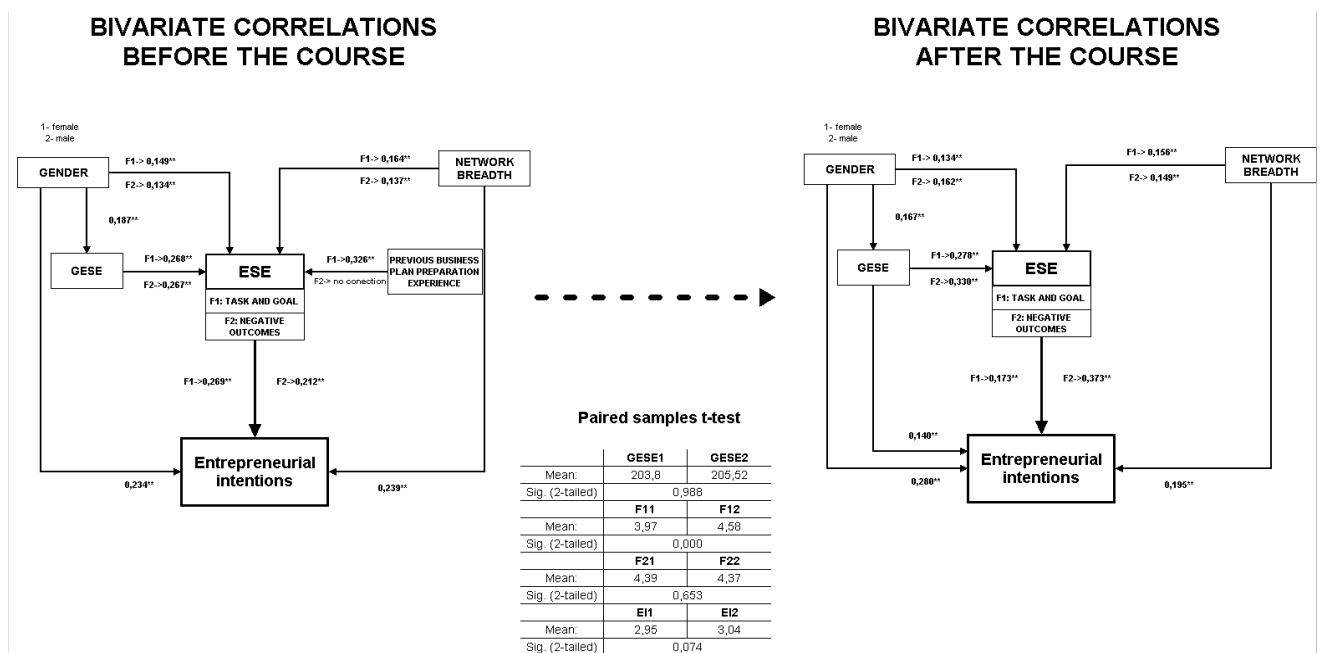
Some background variables such as gender, previous business plan preparation experience and the breadth of the network of entrepreneurial friends and family were also collected.

Methods

Multivariate statistical methods were used. Descriptive statistical analysis was used to determine general characteristics of the target population. Linear regression analysis was used to assess relationships between the variables of interest. As the students had to identify themselves with both polls, paired samples T-test analysis was used to analyze the difference in level of respondents' entrepreneurial intentions and ESE before and after exposure to entrepreneurship education process.

Findings

To form a broader model and to test the connection between ESE and entrepreneurial intentions we tested which factors influence the level of ESE. First we tested for bivariate correlations between background variables and variables of interest. See Figure 1 for the results and paired sample t-tests of key variables.

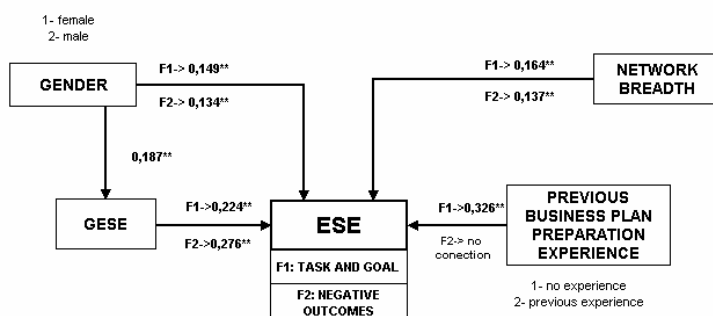


After, we searched for a statistically significant regression among explanatory variables and the level of ESE of the students. Explanatory variables that we used to explain levels of ESE prior to the course were general self-efficacy, gender, the breadth of the networks of entrepreneurs that the students know and previous business plan preparation experience.

### Before the course

Figure 2:

### Bivariate correlations between ESE and explanatory variables before the course



First we tested the connection between explanatory variables and task and goal entrepreneurial self-efficacy (F1). The linear regression was statistically significant ( $p < 0,01$ ). The results show that the most important factor for the level of ESE before the course was previous business plan writing experience, followed closely by the level of general self-efficacy with. Network breadth and gender are less important.

Table 1:

### Linear regression for task and goal self-efficacy before the course

	<i>B</i>	<i>Std. Error</i>	$\beta$	<i>t</i>	<i>Sig.</i>
(Constant)	2,36	0,21		11,13	0,00
Gender	0,16	0,08	0,10	2,04	0,04
Bus. plan preparation experience	0,44	0,08	0,26	5,33	0,00
General self efficacy	0,00	0,00	0,23	4,68	0,00
Network breadth	0,09	0,04	0,12	2,51	0,01

Secondly we tested the same model for ESE on controlling negative thoughts. The linear regression was also significant ( $p < 0,01$ ). However the only factor with a confidence level  $p < 0,01$  was general self-efficacy with an even higher beta of 0,25. Previous business plan writing experience showed no significant connection and also network breadth and gender had no important influence on controlling negative thoughts.

Table 2:

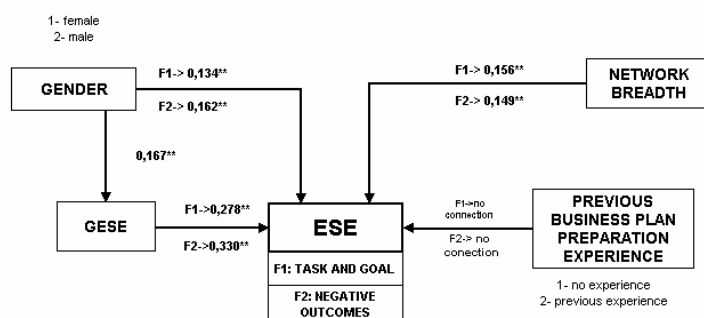
### Linear regression for controlling negative thoughts self-efficacy before the course before the course

	<i>B</i>	<i>Std. Error</i>	$\beta$	<i>t</i>	<i>Sig.</i>
(Constant)	3,19	0,24		13,27	0,00
Gender	0,14	0,09	0,08	1,59	0,11
Bus. plan preparation experience	-0,02	0,09	-0,01	-0,26	0,80
General self efficacy	0,00	0,00	0,25	4,86	0,00
Network breadth	0,09	0,04	0,11	2,10	0,04

### After the course

Figure 3:

### Bivariate correlations between ESE and explanatory variables after the course



The same regressions were tested on the data collected after the course. The linear regression was statistically significant ( $p < 0,01$ ). General self-efficacy became the strongest predicting factor, while other factors lost their strength and significance.

Table 3:

### Linear regression for task and goal self-efficacy after the course

	<i>B</i>	<i>Std. Error</i>	$\beta$	<i>t</i>	<i>Sig.</i>
(Constant)	3,36	0,18		18,50	0,00
Gender	0,11	0,07	0,08	1,63	0,11
Bus. plan preparation experience	0,10	0,07	0,07	1,41	0,16
General self efficacy	0,00	0,00	0,33	6,47	0,00
Network breadth	0,04	0,03	0,06	1,26	0,21

Also for self-efficacy on controlling negative thought the regression was statistically significant. General self-efficacy remains the strongest predictor. Gender and network breadth are also statistically significant, however have a very weak prediction power.

Table 4:

### Linear regression for controlling negative thoughts self-efficacy before the course after the course

	<i>B</i>	<i>Std. Error</i>	$\beta$	<i>t</i>	<i>Sig.</i>
(Constant)	3,09	0,24		12,84	0,00
Gender	0,17	0,09	0,10	1,94	0,05
Bus. plan preparation experience	-0,15	0,09	-0,08	-1,62	0,11
General self efficacy	0,01	0,00	0,31	6,05	0,00
Network breadth	0,10	0,04	0,12	2,36	0,02

The paired sample t-test confirms the change of task and goal entrepreneurial self-efficacy at a highly significant level ( $p = 0,00$ ). The mean value for the measure rose from 3,97 to 4,58. However the t-test for controlling negative thought entrepreneurial self-efficacy failed to confirm statistically significant differences in the mean value for the measure. Therefore we can not support Hypothesis 2 in general. Entrepreneurial self-efficacy is a system of beliefs and beliefs can be changes through external factors. However, some beliefs are easier to change than others. Previous research (Stajkovic et. al, 1998) found two different types of self-

efficacy that differ conceptually and psychometrically. Specific self-efficacy represents task and situation specific cognition. General self-efficacy on the other hand is a generalized trait consisting of one's overall estimate of ones ability to perform in life. By working on a viable business plan the students learn to perform specific entrepreneurial task and by doing so they achieve certain entrepreneurial goals. Mastery experiences that students get influence the level of task and goal entrepreneurial self-efficacy, which results in higher levels after the course. However, general self-efficacy beliefs and beliefs on controlling negative thoughts are much harder to change in such a short period of time and therefore remain unchanged after the course.

### Entrepreneurial intentions before the course

To test Hypothesis 1 we checked the validity of a linear regression with entrepreneurial intentions before the course using the two identified factors as explanatory variables. The correlation proves significant at a level  $p < 0,001$  and both factors prove statistically significant. Hypothesis 1 was supported. However, beta is higher for task and goal self-efficacy.

Table 5:

#### Linear regression for entrepreneurial intentions before the course

	<i>B</i>	<i>Std. Error</i>	$\beta$	<i>t</i>	<i>Sig.</i>
(Constant)	0,51	0,45		1,14	0,26
Task and goal ESE	0,32	0,09	0,20	3,34	0,00
ESE on controlling negative thoughts	0,26	0,11	0,14	2,31	0,02

### Entrepreneurial intentions after the course

The same analysis was done on the data from the respondents of the poll after the course. Again the regression is statistically significant; however, a major difference arose after the course. Task and goal self-efficacy that was previously the more important factor proves to be statistically insignificant after the course. The beta for self-efficacy on controlling negative thoughts became much higher and statistically more significant.

Table 6:

#### Linear regression for entrepreneurial intentions after the course

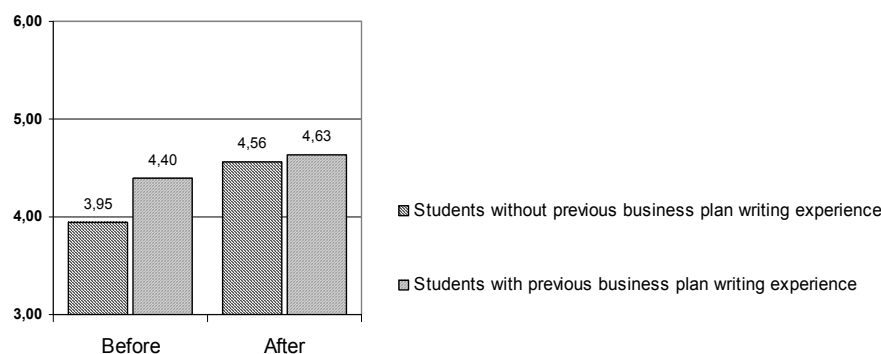
	<i>B</i>	<i>Std. Error</i>	$\beta$	<i>t</i>	<i>Sig.</i>
(Constant)	0,56	0,37		1,51	0,13
Task and goal ESE	-0,02	0,10	-0,02	-0,25	0,80
ESE on controlling negative thoughts	0,59	0,10	0,38	6,08	0,00

The results do not simply support the hypothesis that a strong entrepreneurial self-efficacy leads to stronger entrepreneurial intentions. Although the correlations before and after the course are statistically significant, the importance of both factors changes notably. Before the course task and goal self-efficacy had a higher explanatory value, but after the course the factor lost its explanatory power and statistical significance and self-efficacy on controlling negative thoughts became much more important. Task and goal ESE were increased through the mastery experiences given by business plan preparation training. While ones cognition on his ability to perform tasks and achieve goals changes relatively fast through training, changes in beliefs develop at a slower pace. The situation prior to the course can be partially explained by the importance of previous business plan preparation experience that the students had. Students that had previous experience formed significantly higher task and goal entrepreneurial self-efficacy. However after the course, all of the students had similar business-plan writing experience so the factor completely lost its explanatory power. As shown above the mean value for the measure has risen from 3,97 to 4,59 and also the standard deviation decreased from 0,78 to 0,63. Further analysis shows that students with previous business writing experience

had higher mean values for task and goal ESE. Mastery experiences that the students received through the course increased the mean value of the students without prior experience to nearly the same level, so there are almost no differences between the two groups. As all of the population has similar knowledge on business plan writing after the course, the factor can not be connected to entrepreneurial intentions.

Figure 4:

**Mean task and goal ESE for students with and without previous business plan writing experiences.**



## Discussion

There are several important findings from this study. First, the results clearly confirm existence of different types of ESE. Task and goal self-efficacy can be significantly increased through training, while beliefs like one's self-efficacy on controlling negative thoughts are less malleable. Second, in line with previous studies (Chen et al., 1998, among others), our study similarly confirms that students with higher levels of ESE form stronger entrepreneurial intentions. However, after the course the task and goal ESE lost its explanatory power as all of the students had similar levels given the recent training. One's estimate on his ability of controlling negative thoughts and handling negative entrepreneurial outcomes proved to be a statistically significant and strong predictor of entrepreneurial intentions ( $\beta=0,38$  after the course). The level of this type of ESE has not changed through training as it is a strong belief that does not change quickly. This measure acts similarly as general self efficacy. Third, by exploring the correlations between background variables and ESE we established a basic model of what influences the formation of different types of entrepreneurial self-efficacy. This gives us a solid framework to test in our future research on the subject.

Finally, an alternative to the Likert scale that can be used with online polls was used to measure general self-efficacy and produced promising results. The scale is more sensitive and solves the issue of undecided respondents inclined to picking the "in-between" answers. The results collected through the color scale proved to be adequate for analysis and even though the measure was very sensitive the results showed, in line with expectations, that general self-efficacy did not change through time. Further testing will be done on the scale.

## Limitations

The nature of the study is exploratory; therefore some limitations have to be considered. First, the study was done only among students of FELU who are positively biased to the development of above average entrepreneurial intentions. While this does not affect any of the key findings of the research, it does not allow us to generalize the levels of ESE to the whole student population. It is also possible that with a population of students that do not study economic and business topics the effect of entrepreneurial education on ESE would be even higher.

Some measurement problems occurred as well. The main challenge relates to measurement of entrepreneurial intentions. 277 of the students stated that they did not know if they would ever own a company. This represents a problem as it accounts for two thirds of the whole population. Also, the use of the same scale for students who form entrepreneurial intentions and those who do not is not the best solution. The scale measuring entrepreneurial intentions should be revised for future research.

solution would be simply to remove the answer “I don’t know” from the possible answers. Students would then have to choose how likely they think it is for them to start a new venture in the future. However, the previously presented results show that although the scale could be improved it showed valid and statistically significant results. And finally, measures for other background variables could be improved to get a better insight on antecedents of ESE.

### Future research

This research design can be easily replicated in future samples of enrolled students. The model and empirical constructs used with this research will be improved to get better results and to further understand how different types of background variables affect the levels of ESE and how it can be enhanced through education. Students from non business faculties in Ljubljana that have similar entrepreneurial training will also be included. A renewed educational program, with joint undergraduate and graduate programs will give us an opportunity to study how general self-efficacy and ESE on controlling negative thoughts change through time and how it can be affected at different levels of entrepreneurial education process.

### Practical implications

The study shows that entrepreneurial education at FELU has a straight impact on the levels task and goal ESE. Alternative pedagogical approaches should be used to improve ESE on controlling negative thoughts. An idea given by the students in a focus group organized prior to the poll was that not only successful entrepreneurs should be invited to lecture to the students, but failed entrepreneurs as well. Indeed, students can profit considerably by having contacts and learning from business failure experiences from less glamorous entrepreneurship stories. A collective effort should be initiated to counterbalance a common belief that failure is a shameful experience and that one cannot learn from it. To achieve this goal, a joint effort of society at large, media, policy makers and educational institutions is needed.

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## PLANNING A LONG-TERM GENERATIONAL CHANGEOVER OPERATION

Having the results of an analysis, even the most accurate, on hand is undoubtedly an important step, especially for gaining **awareness** of the changeover problem. Gaining awareness could be compared to the double-year section of some degree courses: a bar that prevents access to subsequent stages until it has been passed. It is an obligatory step; a bridge for crossing over from the threatening bank of tangled knots to the more promising one of possible solutions.

But awareness and the availability of information, along with the will to clearly define the problem, are not yet a guarantee of being able to successfully control the generational changeover process. That would be like imagining that because we have all the right pieces of *Lego* on hand the house is already built; or that having a group of known players available means the match is already won.

One of the more insidious obstacles that makes planning, monitoring and developing - in a word, **controlling** - the generational changeover difficult, is the fact that those most closely involved - first and foremost the Seniors - are **on** the field they should be designing and are an integral part of the flows and processes that they themselves should be regulating. In order to govern effectively, though, they must be able **to see the company, the family and themselves from the outside**. Which is certainly not easy.

It is rather like presuming to see the colour of your own eyes without the aid of a mirror. An important entrepreneur/manager, Pietro Marzotto, keeps a wooden plaque on his otherwise empty desk inscribed with the following words in silver: '*Are you here with the solution, or are you part of the problem?*', evidently intended for the managers of his complex multinational business. As if to say that his carefully selected international managers are not expected to explain critical aspects in order to solve them with his contribution, but only their proposed, carefully-honed solutions, to which he will at most be asked to give the final 'OK', ... **unless** ... it is a problem that also involves them personally. This is the only time when, despite their professional expertise, an outside view and consequent action may be considered legitimate, even necessary.

Keeping the guidelines laid out in my booklet '*Di padre in ... meglio*' (*Handing over: ...from one generation to the next*), (\*), now known as the *kit.brunello*, in the background, and on the basis of solid experience gained from several hundred micro, small and medium businesses, I will here try to outline a logic and an example of assistance to ensure continuity in all its various components.

### Integrating the various operations concerning the people and the business in a systematic plan

The first step of an operation aimed at continuity is therefore **an act of humility** made by someone who has a real decision-making role in the *Enterprise Family* and is **ready to accept outside assistance** in the transition stages. I quite deliberately use the term *Enterprise Family* here to show the indissolubility and oneness that family and business represent in family companies.

Although far from seeking out 'all-rounders', genuinely useful efficient assistance does require the contribution of specialists, each one of whom is properly qualified in his area of expertise: organisational, psychological/relational, legal-fiscal, financial, insurance.

However, it is essential that **co-ordination of the assistance** is not left to chance, but is entrusted to a single consultant with the role of Director. Here then is the need for a 'specialist', qualified to promote and sustain a line of continuity in the company; a consultant capable of outlining the whole array of problems, of concentrating on the aim of continuity, and of knowing how to communicate this both to his specialist colleagues in each area, and to those with a significant role in the family and in the business.

In other words, a figure capable of taking on the role of **Director**: not so much *more qualified* than his specialist colleagues as *differently qualified*. A professional, with a background that allows him to take an effective listening position, and to dictate types of behaviour and action, aimed at the common goal of continuity.

It is now evident that one of the most serious risks in managing the changeover is in the uncoordinated activities of several experts who, although excellent technicians in their own spheres, do not communicate with one another and are not made participants of a single, common project.

This is a very important requirement, but awkward in that it is expensive in terms of time required and even more so of availability and commitment to mediating between possibly diverging positions that tend to emerge according to the diverse facets of the problem under consideration. For outsiders it is therefore a requirement that is in some senses poorly rewarded, at least in the short term.

Experience teaches that in the lack of an explicit request, or even a clear **binding condition set by the client**, individual specialists will have great difficulty in proposing to create such coordination between themselves, despite this being indispensable if a positive result is to be achieved.

It is equally indispensable that the person given the role of Director has the complete trust of the *Enterprise Family*, or rather, as we shall see, their 'blind' trust, at least for a certain period. The progress of the transition processes, linked to the prevalence of now emotional, now rational stimuli, is by its nature fairly 'erratic' and inconstant. This means that if there is any lack of continuity or the consultant does not retain a firm position, he may have difficulty in mastering problem dynamics and directing them towards overall continuity and not just the single part in play.

Let us now analyse a fact: experience shows that on the question of problems relating to the changeover, entrepreneurs often feel the need to talk to a 'confessor from a different parish', rather than trusted consultants who also know the history of the company. Why? Perhaps they think the usual consultant may be influenced by his knowledge of the company's past history. Or they feel the need to 'change gear' for the start of a new stage. Or they feel the need for a specific skill which they credit the continuity consultant as having.

Whatever the case, it is useful to try to define the characteristics the specialized consultant must have to co-ordinate management of the generational changeover in the role of Director.

### **Characteristics of the specialized continuity consultant (Director), expert in assisting generational changeover** (a still relatively new profile).

On the basis of direct experience with small and medium businesses, I think the typical expertise of the specialized continuity consultant must be centred on three basic characteristics:

- I. Knowledge of the overall dynamics that typify the changeover processes, clearly keeping the continuity of the company as the main option;
- II. Ability to 'see' the various technical facets of the changeover problem - by its very nature divided into many sectors - in a single frame, in order to make himself an authoritative interlocutor with his individual colleagues qualified in the various technical disciplines;
- III. Consequently, his own technical/professional qualifications enabling an understanding and mastery of relational aspects: this is probably the only skill that cannot be delegated and which the specialized consultant must personally possess, in that it is indispensable for communicating both with his technical colleagues and with the *Enterprise Family* clients (Seniors and Juniors).

It is clear that the profile presupposes a background in relational (for example psychological) rather than strictly technical matters.

### **The new relationship of trust.**

Let us now question how that relationship of solid trust, which is necessary for offering assistance on such a delicate matter, can be established.

The relationship with the new technical/professional 'confessor' seems to function if it is launched on the following premises and in the following ways.

It seems indispensable that some sort of mutual feeling is established. This may be initiated for example with reference to an awareness-raising or training meeting open to entrepreneurs, an interview or an article with some particular stimulus that strikes the potential interlocutor in a positive way. And it is precisely

this latter potential client (Senior, Junior, even a manager) belonging to the *Enterprise Family* who makes the first, perhaps slightly visceral, choice of which professional to question.

The person in question, whether he be part of an organisational group such as a consultancy firm or a trade association, must seem appealing not only in a professional sense, but also in terms of personal, human relations.

Such rapport seems to be a necessary but not sufficient condition for confirmation in the medium term. Only after the first firm contacts have been made, and after several months (in practice after the set-up stage) will it be possible to understand whether a sufficiently trusting relationship on which medium term assistance can be constructed has been established. Initially, from a first cautious contact, a request for more, for a first visit, will emerge. This visit is very important. It must take place with a representative of the *Enterprise Family* who has sufficient authority to make the company accept the idea of a preliminary analysis being made. In this meeting, which must not be too short, nor be disturbed by interruptions, the following must be brought into focus:

- a. the consultant's credentials;
- b. the method of collaboration proposed for continued assistance;
- c. the essential historical lines of the company's development, in its blend of family elements, at least as experienced by the entrepreneur in question (the latter aspect, to be seen as past history and possibly in perspective, could also be saved for a second ad hoc meeting).

Let us look at these aspects in detail.

#### **The first visit.**

**a. The consultant's 'credentials'.** How to evaluate them. Each consultant will present his own and those of the organisation he works with. As a specific element in this context, the company representative must be made aware that:

- expertise on generational changeover is quite specific and very different from the traditional discipline of management.

Long term experience in company management - the normal expertise of Seniors - is not particularly significant in terms of having or not having managed one or more specific changeover situations.

- Such specific skills are a recent disciplinary field, a little like notions concerning the Internet; to give an example: recent targeted investigations may be more important and useful than years of generic experience (this is valid even if evaluated from the side of the consultant).

#### **b. The types of collaboration proposed for providing continued assistance.**

It will be necessary to clearly define a procedure and set this out in short, medium and long term stages.

The stages are closely connected, but at the end of each one - and with determined conditions throughout their realisation (see stage III in particular) - the activity may be interrupted at the request of the *Enterprise Family* if there is any loss of conviction on the part of both generations.

The following is a summary of such a procedure (which is then presented in more detail).

- Stage I. Set-up analysis, for the consultant to get to know the situation;

(duration: at least three months).

This stage should close with a planning proposal being made by the consultant. The proposal must necessarily contain a hypothesis for synthetic (strategic) development and (not necessarily) any analytical (tactical) proposals.

- Stage II. Changeover Planning (or Co-planning) and Linkage, according to the strategic objective; (duration: from one to several months, according to the complexity of the company).

At this stage - which is here conceptually distinguished as a unit, but is actually an integral part of the previous and subsequent stages - the consultant works together with the components of the *Enterprise Family* and the other professionals to construct and implement the detailed Changeover project in all its various facets.

- Stage III. Monitoring the Changeover Launch;

(duration: at least two years, with the contribution of the Director and multi-disciplinary assistance).

This is the stage when the changeover project is put into action and its tangible problems confronted. If it is accepted and launched - which involves an investment of trust in the consultant who has in the meantime become better known to the *Enterprise Family* - this very delicate stage presumes 'unquestioned' assistance in the medium term in the sense that, for the first two years at least, the assistance may be interrupted only with the approval of both generations concerned.

- Stage IV. Gradually more diluted assistance towards Generational Development

(duration: according to the criticality of the *Enterprise Family*).

This is a consolidation stage, aimed at stabilisation both during and after the transfer of leadership to the continuers.

**c. The essential lines of development of the company**, in its entirety with the family elements, at least as seen by the entrepreneur interviewed.

This aspect involves a free account being made by the interviewee - who will usually, though not necessarily, be the senior entrepreneur - resulting in a history, an interpretation and an expectation on the part of the *Enterprise Family*, or at least of the person interviewed. It is very important that the Director should manage to get an idea of the possible future outcome of the situation right from the end of the first meeting. This last challenge is very demanding, but it will be a big help to the Director in his 'reading' of the account being made by the interviewee if he is able to focus on the ways in which that particular company, at that particular crisis point, can be assured of its future continuity (and that means under the direct, or indirect, leadership of the *Enterprise Family* currently in charge - but in any case with the Director's informed knowledge. In other words, the Director should be able to come out of the first meeting with at least some idea of where to start.

At the end of the meeting, the assistance proposal will be formulated, provisionally along the lines of point b illustrated here.

Segmentation into several stages allows for the *Enterprise Family* to establish a direct relationship with the consultant as the collaboration gradually proceeds, through to when the stage of Monitoring the Changeover Launch is reached. This stage is, to reiterate, perhaps the most delicate point in the entire assistance relationship: the one at which the *Enterprise Family* is called on to decide whether or not to place that above-mentioned 'blind' trust in the consultant.

It is clear that the setting-up stages of the plan are both the natural context and the real testing ground for such unconditional trust, which on the other hand seems indispensable.

We will now try to better understand why, through the detailed description of a hypothetical interview.

**An operational hypothesis.**

Let's imagine a Senior entrepreneur who, having taken part in a meeting organised by a trade association and been impressed by the speaker, asks him for his business card then phones him for a first private meeting. Usually he will ask whether he must come in to the consultancy offices or if the meeting can take place at his own premises, how long the first meeting will take, whether or not it will involve a fee and, if so, how much. The answer obviously depends on the personal style of the consultant and partly that of the organisation he works with (some organisations typically offer the first meeting free of charge), but should in any case leave it up to the client to choose the meeting place (even his home), recommending only that he set aside at least two, better three, hours without phone calls or other interruptions.

It is during this first meeting that the consultant could, if requested, give some clearly explained details on his training and personal experience, and possibly those of the organisation he works with (see point a, credentials). He will also broadly illustrate the usual methods of collaboration that typify the assistance

programme (usually after the interview itself; see point b, collaboration methods). He will then invite the client to freely recount the story of his *Enterprise Family*, possibly in chronological order, starting in the past, referring to the present and projecting into the future and the possible problems that must be confronted. At this stage in particular, things go more smoothly if the consultant keeps himself somewhere between being detached and involved. This means being careful, on one hand, to professionally understand the dynamics of the developments being explained from his outside point of view; and on the other to show that he is a sensitive person, qualified to understand and in a certain sense to accept and almost share the emotional implications of the situations being explained, though without losing his *observational point of view*.

At the end of the meeting, if the client intends continuing, it is worth putting an assistance proposal into writing in line with the general outlines already explained.

The proposals, which the consultant will outline verbally, will be along the following lines:

### **I. Set-up: awareness of the situation on the part of the consultant Director.**

This stage requires two (where possible, three) parallel lines:

1. A series of individual face-to-face trust-building meetings between the consultant/Director and the main Actors of the *Enterprise Family*. It is imperative that these include significant family members that are not formally involved in the business: typically the Senior's and/or Junior's wives who have other jobs, brothers or sisters not nominally involved in management and, possibly on a second level, any managers of particular prestige and influence. These people must be given the best possible conditions in which to express themselves quite unreservedly, and it could be worth visiting some of them at their homes.

The consultant should appear - and be! - someone who knows how to effectively gather up information from various sources, but also how to sieve it with the utmost delicacy and reserve. He will have an outline for the meeting, reflecting his own personal style, but not be rigidly bound by this. If the Director is able to get an idea of possible outcomes of the situation as early as the first visit, these meetings will be useful opportunities for verifying any ideas - for now confidential - he may have for development.

After an initial round of talks, it will be more or less indispensable to expand on these before moving on to a written report, which may logically be defined as a Link Report.

2. In parallel, a Staff Questionnaire will be administered by a professional figure independent of the Director to the main Actors to find out the *Enterprise Family's* specific situation. It will lead to a kind of 'self-portrait' of the *Enterprise Family* in such a form as to make it comparable with an archive of Cases already surveyed or to be systematically surveyed.

3. Finally, at least two, open, awareness-raising meetings lasting from two to three hours each, and primarily of an informative nature, will be aimed at the main members of the *Enterprise Family* to show them the dynamics of the changeover with dates and examples, thus getting all those involved, both present and potential, onto the same wave length.

After these activities, the consultant will have a series of useful elements for proposing justified reasons for continuing with the project. He will do so with the report we have called the Link Report

#### Link Report.

The Link Report, strictly the responsibility of the consultant Director, acts as a bridge between the Set-up and Planning stages.

It is absolutely private, being directed mainly towards one person only, the initial client, unless he specifically asks for it to be shown to other actors, be they internal or external family members or associates. It will tend to focus with the utmost clarity on the situations identified. Both the meetings and the findings of the Self-Analysis emerging from the staff Questionnaire will bear fruit for the consultant. The latter - more aseptic - could also be made known to a larger group within the *Enterprise Family*.

N.B. Depending on the harmony that has or has not been created in developing the preceding activities, a third awareness-raising meeting, more involving than the two already indicated, could be used to present the results of the various subjective evaluations emerging from an analysis of the questionnaires, with preparation of the Link Report already under way. However, this presentation will usually be saved till later,

when it is known that the actors in the *Enterprise Family* have acquired full awareness of the changeover problem.

### Duration

The set-up stage requires at least three months, as it involves reflection and assimilation on the part of the Director and of the Actors - who for example become much more open between the first and subsequent meetings. This period is not so much a technical/mechanical requirement, but one depending on the 'physiological' processes of *digesting* and *incubating* the overall picture analysed.

Naturally, the Link Report will suggest a prospect for the continuation of the activity in subsequent related stages.

It can be more or less synthetic, more or less detailed, but it cannot fail to at least define a **synthetic, strategic line of development** bringing together the orientations not only of the Client, be he Senior or Junior, but necessarily of both generations involved.

**The Director, in that he is the Planner, is required to autonomously identify this strategic line at least in the medium term, and know how to then transmit it.** His pole star in this context will be, to repeat once again, at least the continuity of the company's niche leadership on the market. This does not exclude the possibility of selling or even closing the company: but all will then be seen as the outcome of a guided, controlled process, and not suffered as an unavoidable fact or accepted as an inevitable solution.

The **tactical lines**, which can spring from the structural analysis made on the basis of the questionnaire, though of less moment than the strategic lines, also have their importance. But because they risk diverting attention onto several facets at their first reading, it will be useful for the Director to get the OK from the generations involved for a few targeted, substantially strategic elements of the project's continuation, and avoid confusing them too much.

The Report will normally be presented at another ad hoc meeting in a 'safe' environment (e.g. at home, in the evening, on Saturday or Sunday, in the country house...) with the reasoning very clearly explained and future prospects clarified. **Continuation of the assistance or its (premature) suspension** will depend on the agreement or disagreement of the various generations with the proposed lines and their discussion of these.

Solid experience suggests that the continuity consultant Director should remain as detached as possible about his possible future role during the entire initial stage, including the presentation of the Link Report. He should demonstrate an absolute willingness to abandon the project if required, because precisely in this way will he be seen as a genuinely independent partner who cannot be influenced by whoever has the power to grant, or cancel, his appointment.

On the basis of experience, it may be asserted that it is imperative for the consultant Director to abandon an assistance project without hesitation if he does not have the full agreement of the Actors in the two generations involved, at least at the initial stage. It is an error to put oneself in the position of *someone who doesn't want to lose an assignment*, even if motivated by legitimate professional pride and not by mere convenience.

This is of enormous importance for the future and seems to be a consequence of specific attitudes on the part of the consultant:

- never exerting any particular pressure to go on with the Project, for example pushing for meetings or discussions;
- nevertheless, clearly making himself available on request, in which case ensuring the most rapid reply, better if in person but at least by phone: speed is the essence.

This type of attitude seems to be a real investment, as much in the short term (in that requests will be proposed by the Client on the basis of a genuinely felt need); as, and especially, further ahead, in the periods of turbulence that inevitably typify an assistance project.

Let us now analyse the proposals that will be contained in the first stage of the Link Report. The Consultant will suggest moving the formulated dialogue on to a new stage. This is conceptually seen as autonomous but is actually connected to and an integral part of both the Analysis stage that precedes it (constituting its conclusion) and the Monitoring of the Changeover Launch stage that follows it (and of which it is the concrete introduction and moment of take-off).

## **II. (Co-)Planning the changeover.**

This stage proposes long-term lines to guarantee the continuity and development of the company of which they are already aware. It should, in my opinion, take not only the company as an economic fact in itself into account, but also the family front and the company's importance to the quality of the *Enterprise Family's* life, in harmony with a cultural vision that could be defined as 'European' or a *2000 relational point of view*\*.. It will obviously be done with particular care not to invade anyone's privacy.

The Planning stage will be aimed at developing the two big strands of the Link Report:

- **Strategic**, with a synthetic evolution program, indicating a clear target for all those who will be involved in the Project to understand and focus on;
- **Tactical**, which indicates multiple technical/specialist lines of intervention; useful for the final purpose, but alone unable to ensure the ultimate aim of continuity.

In the new stage, these lines must be translated into individual **Operational Actions**.

**The strategic line** has three substantial elements:

1. The targeted unification, harmonisation and co-ordination of the various fronts which are touched on by the changeover Project, fronts that in the company are usually found dispersed on various unravelling threads: organisational roles, corporate, financial, training and other aspects; (in this context it is recommended that a physical space is allocated and an internal staff member identified to take responsibility for safeguarding the documents and for the advancement status of the project calendar);
2. Sensitisation of the individual members of the *Enterprise Family* to the aims of the strategic Project, and to the implications of this for their positions;
3. Definition of an incubation period aimed at stage III of the Project, which is by its nature subject to highs and lows in the course of such *gestation*.

**The tactical lines**, deriving from the systematic analysis of the various fronts, will involve the indication of single points of intervention in accord with the results emerging from the Questionnaire.

When the strategic and tactical planning formulation is being set in motion, the consultant should ask the *Enterprise Family/Client* for the mandate to go ahead in the medium term, activating the third and most delicate stage of Monitoring the Changeover Launch. Stages II and III will normally be approved at the same time with a single decision. As already mentioned, the Monitoring the Changeover Launch stage requires particular autonomy on the part of the consultant and, although this will be expressed in stage III, it must be formulated now as an essential part of the Planning stage.

We will here try to explain this with a digression, indicating several types of behaviour that have proven useful in stating the problem.

### **Blind faith.**

In aiming to ensure the prospect of continuity as an essential asset for the company, it is also essential that the Director, who has the continuity of the entire company at heart, occasionally finds himself jumping from one side to the other; one minute supporting and the next opposing the members of the generations who from time to time disagree. Such a difference of opinions is typified in the great majority of cases by extraordinary good faith since each member is aimed at interpreting the best direction for the good of the company and therefore, in his/her viewpoint, the good of all.

In this situation the Consultant must be able to move with sufficient autonomy without each time running the risk of being discharged because he is creating problems for one or other of the parties involved.

A situation comparable to a surgical operation is common in these cases, where the patient presumes to tell the surgeon to cut a bit more to this side or that, or where a painful operation tends to be refused by one of those involved because - lodged firmly inside the shell of personal viewpoints - he/she doesn't see the common benefits, particularly in the medium term.

One way to overcome this limitation that has proven effective is the following:

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\* This would be in line with the 'European' point of view suggested by Annette Lawson of the Tavistock Institute of London, who poses the crucial question: 'In family-business, what is success, what is failure?'

A single intervention is recommended when planning Stage III, Monitoring the Changeover Launch, lasting at least two years, contractually removing *a priori* the possibility that the assistance project will be interrupted, unless both generations involved agree to do so.

Here is a metaphor expressing this concept:

*'The safety regulations force you to do that which you probably wouldn't do of your own accord: equip your premises for air purification. This obliges you to make a long-term investment, which you may also pay in instalments, but which in any case you must pay off once you have made the commitment to install the purifier.*

*Well, the continuity consultant is a purifier of the human air, aimed at continuity.*

*He will be tied to you by formal contract for at least two years, with periodic visits and availability to act in particularly critical times, but his work cannot be interrupted unless with the agreement of both generations. If this exists, the assistance will be suspended immediately'.*

(A fixed monthly payment - a mere token sum, but of psychological significance - could be agreed as part of the practical operational plan over the course of the two years, to be added to any fees accruing for each actual visit).

A further note: whenever the amount of dialogue and collaboration undertaken in the set-up stage proves insufficient for the *Enterprise Family* client to feel able to take this step, a temporary continuation of the reciprocal awareness stage could be provided for, with remuneration for each visit, in order to allow:

- the *Enterprise Family* to verify its trust in the consultant;
- the consultant, in parallel and in a similar way, to evaluate how convinced the Client really is to activate a serious project.

### **The co-planning standpoint**

During the planning stage, the Director consultant will aim to at least broadly identify the best people to work with on the various facets of the strategic line indicated, together with the *Enterprise Family* client. As mentioned, in order to be translated into action, such a line will involve operations in various areas: organisational, fiscal, psychological, legal etc.

The Director's work will be easier and more effective the more the *Enterprise Family* itself, its internal members (managers, employees and possibly their representatives) and external associates (consultants, trade associations, clients, suppliers and banks) are involved.

The Director's first task will therefore be to create harmony, needless to say, centred on the strategic objectives, with those traditional partners in the *Enterprise Family* who shall be presented to him/her by the client and towards whom the entrepreneurs do not exhibit any distrust which would normally be directed towards new figures.

These traditional interlocutors – accountants, lawyers, notaries, trade associations experts, on rare occasions some far-sighted bank employee too – further possess precious information and have witnessed the evolution of the *Enterprise Family* with a more objective perspective than that held by the Actors themselves, directly involved.

In parallel with the family, they will also have a converging and objective interest in the positive development of the company. It could therefore also be fairly useful for them to become more subjectively aware (something not always taken for granted).

The Director should therefore aim to involve both the clients themselves and their 'traditional' partners in the early stages of co-planning at least, especially with regard to application methods, given that the latter are professionals who have for some time had the trust of the *Enterprise Family*.

Because facing up to the subject of the Changeover is in itself a source of stress for the *Enterprise Family*, it is important to make all possible efforts not to increase the level of stress by introducing new associates.

Measuring and managing this involvement is obviously a highly delicate task for the Director. But it is also a valuable one, because it is apparent that Seniors who have themselves known how to positively plot and steer a course between these rocks by putting the proper value on relationships are the ones who have best managed the various stages of the changeover.

(Concluding: as this activity lies between the Planning stage proper and that of Monitoring, real situations alone can suggest how to gauge the stages of intervention; although these are clearly defined conceptually).

### III. Monitoring the Changeover Launch.

Once the OK has been given by the *Enterprise Family*, and the agreement for an uninterruptible (e.g. two yearly) assistance contract formalised in harmony with the Project, the Director consultant will initiate the Monitoring of the Changeover Launch itself. The background to this will be the big, fundamental, strategic thread of continuity; while the individual corrective actions of a tactical nature will perhaps be more in evidence on the surface.

This is not done by improvising, but by providing continuation that is consistent with the logic behind the whole matter of governing generational changeover overall.

The aim is basically to establish a new methodological thread alongside the traditional management functions and processes to be carried out. This does not so much place some specific company management actors under control, despite their importance, but the fundamental structure itself, in order to guarantee control of the continuity, or at least of the processes that would interrupt such continuity.

It also means activating a procedure and a management tool that is appropriate to the task.

Such a tool will be none other than a planning statement, where the state of advancement of the actions planned and programmed for each aspect taken into consideration is systematically and periodically verified. This will be a kind of 'budget' which can be checked according to how closely it follows or how far it deviates from the programme, and which leaves the best measures for confronting any individual situations that are not in line with the continuity Project being monitored (see *kit.brunello*: image) open to choice.

In terms of content, it is important that the Monitoring of the Changeover Launch stage sees the formulation of those aspects of system engineering able to ensure governability. The most important of these is the ability to ensure the most concentrated form of decision-making and therefore the most compact possible formation of a majority.

The fragmentation or break up of ownership shares must be averted, despite this being more than legitimate on the legal front, aiming to replace them with external assets and with alternative mechanisms, not regarding the company; formal administration roles and responsibilities must be adjusted so as to encourage *management* opportunities for the continuers.

As far as possible, *common alphabets* should be created to reduce the impact of cultural change with ad hoc training actions. But it is better if a comparison with other Senior colleagues can also be encouraged: the *your word against mine* model with a Senior founder is not a winning one. It is much more productive to encourage open comparison between equals, such as at a meeting between entrepreneurs, being people with experience in setting up and developing companies.

While on these levels of action the Director consultant will mainly be concerned with stimulating and co-ordinating the activities of others (technical professionals on fiscal, legal, financial and other matters), **the strategic aspect of verifying the advancement of the leadership transfer from Senior to continuers is his direct responsibility** and a more delicate one. On this aspect it is necessary to consider three interconnected fronts:

#### a. The Senior's Development.

It is essential that the Senior has a personal development plan before him that is constructive rather than destructive, aimed at the creation of something significant and not at abandonment. Visible appreciation of what he has done in the past and his personal image must also be assured, especially at a time when, if the generational changeover proceeds well, this is taking on new forms geared to the future.

#### b. The Junior's Development.

The potential continuers must be able to grow in at least two areas:

b1. Technical-functional, becoming more skilled in techniques, areas, functions and specific disciplines (e.g. commercial, production, financial), better if these are transverse (quality, information technology, web, relations, internationalisation);

b2. entrepreneurial leadership, practising assuming full responsibility in limited areas; but also thinking of the company as a single whole.

(Incidentally, this second aspect seems to be one of the most neglected in the training of aspiring young continuers, who are often trained in several areas but not given 360-degree responsibility *without a safety net*).

c. The progress of Senior-Junior governing relations. This is the most important front, and the most difficult to understand and control.

Supervising or conducting this front involves always having a 'third eye' in addition to the everyday view and that of the organisation from outside which typify good management and organisational consultancy. This 'eye' is slightly more elevated, poised to notice if anything really is changing in the relations between the powerful figures of the company, beyond the actions, the words and the reciprocal complaints, and if so, what. It must notice who really does exercise significant power, beyond mere forms; what really is perceived by the associates; which spaces really are conceded or occupied by the Senior and Continuers respectively; how the external partners perceive the attitudes, decisions and changes occurring within the company and, most importantly, how the various independent and reciprocal behaviours are seen by the family.

In particular, there is a moment when the 'vetoes' or 'negations' of the Senior, up until yesterday absolute and binding on all, remain on paper or up in the air, voiced but not given substance.

It is therefore necessary to make the real development mechanisms more transparent and comprehensible, especially to the continuers who tend to often wrongfully complain of having too little space, teaching them to *read* the facts in which they are a co-partner with a new eye. Unlike technical understanding, which is more or less well accepted by all, relational progress is absolutely crucial. If the continuers, for example, oppose the Seniors irrationally and incorrectly, this does not necessarily mean that they are wrong, because they are trained to act according to their own viewpoint (provided they do not exaggerate and are not too gratuitously unrealistic; but... where is the confine between the suitable and useful and the erroneous?)

On the other hand, if the Seniors really do get in the way, even at times seeming almost capricious - to the point where it is necessary to override them to achieve something positive - in a way that seems incomprehensible in view of their personal history, it may be that they do it more or less consciously as a kind of reassurance. They perhaps feel the need to *reassure* themselves that, if the continuers manage to succeed within the company in their presence, it is more likely that they will also be able to do so outside: putting the same energy and determination required to override them at the service of the company they themselves founded and developed.

Perhaps the most demanding element in this operation for the Director is the ability to *see long-distance*, in perspective; appreciating the Junior's progress, however imperceptible, on the road to autonomy, or contriving ways to rethink obstacles, for example with greater consideration for the needs of the Seniors. One thing seems clear: although a Senior has supported, wanted, accepted and undersigned a changeover project, it is not necessarily true that he has taken on board all those fundamental requirements that are the basis of its success, and which can be summarised as follows:

1. To stay alive with a change of leadership, a company must change, mostly by abandoning some elements of success as relics while they are still vital and profitable;

2. The ability and courage to make one's own mistakes are essential for successful future leadership;

3. Culture and management criteria are changed along with the system, which involves huge difficulties of understanding and readings of these on the basis of individual operations, of individual methods and procedures. If one does not have the keys to a new technical-cultural system, single parts of it tend to seem incomprehensible and absurd to one who has worked within the logic of the preceding system. Consequently, he will fight them like the plague in the most absolute good faith.

4. Such culture, such convictions, such worries and such hopes are an integral part of the person: the move from one culture to another, from one type of leadership to another, involves development of these deeply rooted *beliefs*, and people at least need help in detaching themselves from these, when it is not too arduous for them in psychological terms to accept letting go of long-term anchors that have proven valid for decades.

### Duration.

The duration of the final Monitoring the Changeover Launch stage will seldom be less than two years. Indeed, typified as it is by periods of stop and go, of physiological pauses, of legitimate reflections and various technical-legal implications (ratifications, formalisation of acts, deliberations of external bodies - e.g. banks, approvals etc.), it will generally last somewhat longer.

### **IV. Gradually more diluted assistance towards Generational Development.**

This last stage is one of genuine accompaniment and involves calmer assistance interventions, unless events occur that call for corrections and alterations to the situation in play - something that is not all that rare.

At this stage, in which a certain consolidation of the new levers in significant roles is presumed, it is also important to consolidate relations with the outside, finalising formal aspects and those of the company order, to prepare new preventive measures for future - even generational (sic!) - development, for example altering statutes, setting down or improving sketchy or only verbal family agreements, and finally, gradually creating a means of administering the Family that is parallel to that of the company.

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### **FAMILY BUSINESS TRANSITIONS – EMPIRICAL EVIDENCE ON GENERATIONAL ISSUES OF FAMILY FIRMS IN CROATIA**

**Key words:** *Family business, System approach, Business system, Family system, Ownership system*

### **1. INTRODUCTION**

Family firms controlled large portion of the pioneering economic activities in U.S (Vanderbilts, Rockefellers, Astors, Carnegies, Fords); in Europe (Rothchilds, Zegnas, Heinekens) and Asia (Li Ka Shing, Salim; Formosa). Family firms are a vital part of the economy structures all over the world, and have a long tradition. They are estimated to account for 70% of all businesses in Europe<sup>2</sup> and for 50% of the gross domestic product<sup>3</sup> worldwide. Within the United States economy, family businesses, comprise up to 85% of all business units; contribute up to 49% of the total GDP, and employ 59% of the US work force<sup>4</sup>. Family business is considered to be a business where ownership/control and management/leadership are concentrated within the members of the family.

Family businesses have significant impact on the economy and unique features, compared to the small and medium sized businesses. They have complex issues to deal with in order to sustain growth. Due to heterogeneous structure of the family firms population, family business researches have become increasingly

<sup>2</sup> Leenders, M; Waarts, E.(2003) Competitiveness and Evolution of Family Businesses: The Role of Family and Business Orientation; European Management Journal; Vol. 21; No.6, pp. 686-697.

<sup>3</sup> Gersick, K; Davis, J; Hampton, McCollom, M; Lansberg, I. (1997) Generation to Generation: Lifecycles of Family Business, Boston, Mass: Harvard Business School Press.

<sup>4</sup> Extracted from The Business Forum Online (2003) The Family Business; <http://www.businessforum.com/family04.html>

sophisticated since 1980s. Family firms are known for their vulnerability to decline after entrepreneurial founder generation<sup>5</sup>. Evidence suggests that about one third of family businesses survive the transitions from the founders (first generation family firm) to the second generation of owner management. Furthermore, of those who do survive; only about one third tend to survive transition from second to third generation of ownership management<sup>6</sup>. The question: “How to increase the probability of subsequent generation survival among the heterogeneous population of family businesses?” becomes one of the most frequently researched topic for academics and practitioners.<sup>7</sup> Transition of the family business is a process of passing business management and controlling power from one generation (incumbent) to other generations (successor) among the members of the same family. Evidence shows a number of critical factors involved in this process as well as existence of the distinct stages during that process<sup>8</sup>. Family business literature indicate that family business requirements and strategies at different stages have to accompany this transition. However, there is limited evidence upon the key issues, developmental stages, and distinct strategies to handle the needs of the evolving family business. This paper investigates subsequent generation behaviour, strategies, and control mechanism of the family businesses in Croatia.

The paper investigates perceptions of the number of factors important for the family firm effectiveness that differentiate first generation family firms from the subsequent generation family firms. Understanding significant differences in the features of the behaviour, strategy and structures of the multigenerational family firms, in comparison with single generation family firms, can increase the subsequent generation survival rate. It could provide more insights on how to manage family firms, how to provide services or how to enhance family firms longevity. Furthermore, there is limited research in family firm behavior, strategy, and structure in developing countries. In Croatia, family businesses are not separate category in the official economic statistics. There is limited evidence on family business prevalence, its performance and significance on the economy of the country, as well as about the behavioral, managerial or policy issues. This study is exploratory for the condition of the family business in Croatia, aimed to contribute to the body of evidence about Croatian family businesses, as well as to contribute to the international family business researches in developing societal / cultural evidence and theory building in the field of family businesses. Therefore, a number of stakeholders can benefit from such an investigation: managers, and owners of the family businesses, service providers (financiers and advisors), policy makers, and theory builders.

## 2. BACKGROUND

Family firms and family business management is far from the general description of the small or medium sized enterprise or general model of management. Unique advantage features of the family firms include: long-term commitment, strong sensibility to cost structures; reliance on the internally generated (in terms of human and financial capital) resources; preference of the stability toward growth, and detailed knowledge of the business that is based on the early training in the family<sup>9</sup>. On the other side, family firms face some unique disadvantages: they are fertile ground for nepotism, self-dealing; entrenched management, maximization of the family interest over business interest; or interests of the shareholders, as well as before mentioned vulnerability to decline beyond founding entrepreneurial generation.

Literature of the family business field acknowledges that family firms are among of the most complex types of organizations<sup>10</sup>. Complexity of the family business is due to the three interactive, interconnected

<sup>5</sup> Morris, M.H; Williams, O; Allen J.A; Avila, A. (1997) Correlates of success in family business transitions, *Journal of Business Venturing* 12, 5, 341-422.

<sup>6</sup> Wang, Y; Watkins, D; Harris, N; Spicer, K. (2004) The relationship between succession issues and business performance: Evidence from UK family SMEs, *International Journal of Entrepreneurial Behaviour and Research*; Vol. 10; No.1/2; pp.59-84

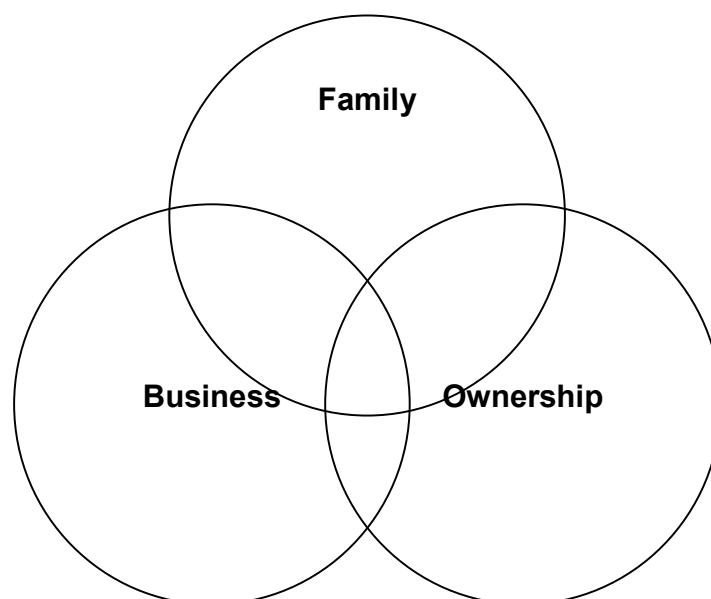
<sup>7</sup> Sharma, P; Chua, J.H; Chisman, J.J (2003), Succession planning as planned behaviour, some empirical results, *Family business review*, vo.16, no.1, pp.1-15.

<sup>8</sup> Stavrou, E.T; Swiercz, P.M.(1998), Securing the future of family enterprise: a model of offspring intentions to join the business, *Entrepreneurship Theory and Practice*, Vo.23; no.2, pp.19-39.

<sup>9</sup> Kets de Vries, M.F.R. (1993) The dynamics of family controlled firms, *Organizational Dynamics*, 21, 59-71

<sup>10</sup> Birley, S; Ng, D; Godfrey, A. (1999) The Family and the Business; *Long Range Planning*, 32, 6, 598-608.

systems: family entrepreneurial maturity (family system), stage of the business development (business system); and managerial or controlling system steaming from ownership<sup>11</sup> (figure 1).



**Figure 1: Three cycle framework of the family firms**

*Source:* adopted from Birley, S; Ng, D; Godfrey, A. 1999.

Developing family firms across generations presents a variety of challenges to each of the requisite systems. Key challenges in developing family firms are transitions from one stage of development to another in each of the constituent systems, as well as their balanced interaction with transition in other systems. Key challenges of the systems and developmental phases of the three systems are presented in figure 2.

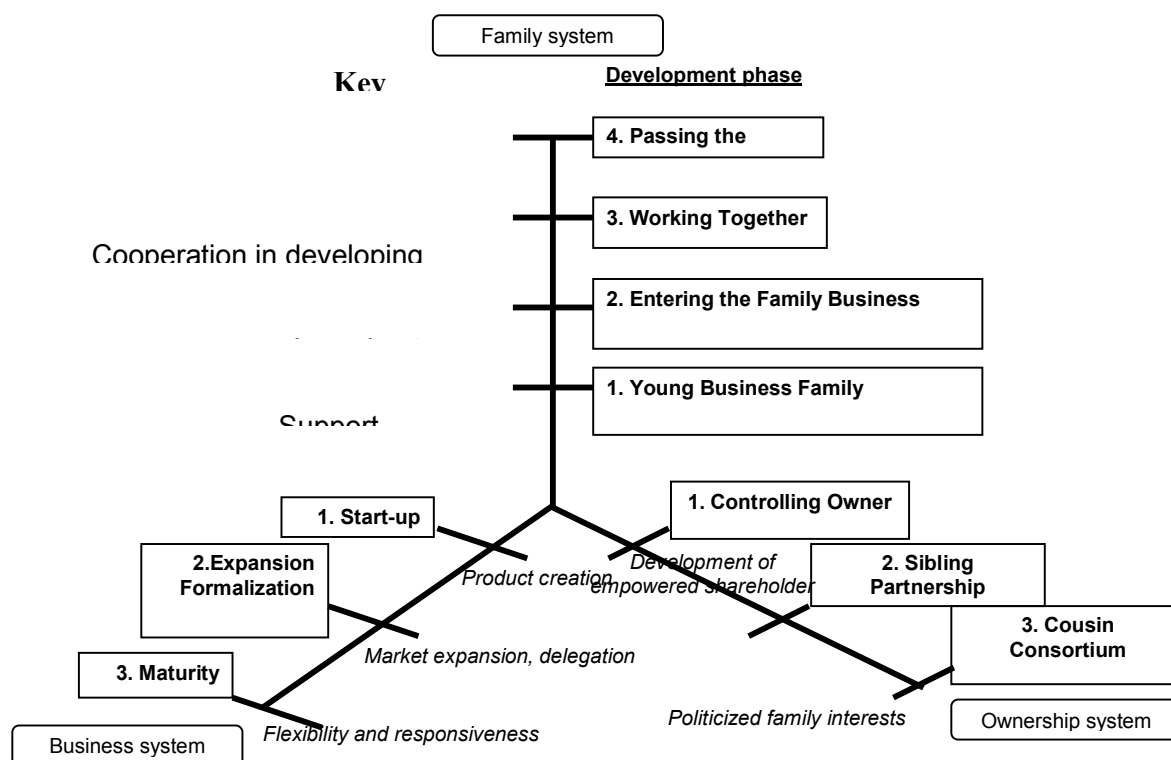
Family firms health and longevity can be predicted, in terms of institutionalized functioning of each of three systems and linkages between them. It is believed that as family firm evolve and develop across generations, each of the requisite systems evolve too, indicating that subsequent generation family business would have distinctive family, ownership and business priorities<sup>12</sup>, strategies and success conditions. Although the three cycles developmental model of the family business is well accepted, there is only limited research into generational differences among family businesses.<sup>13</sup>

Sample of the Croatian family firms were grouped as first generation family firms (1GFF); second generation family firms (2GFF); and third generation family firms (3GFF) in order to test the difference in perception of the family system variables, business development patterns; and ownership prospects.

<sup>11</sup> Gersick, K; Davis, J; Hampton, McCollom, M; Lansberg, I. (1997) *Generation to Generation: Lifecycles of Family Business*, Boston, Mass: Harvard Business School Press.

<sup>12</sup> Gersick, K; Davis, J; Hampton, McCollom, M; Lansberg, I. (1997) *Generation to Generation: Lifecycles of Family Business*, Boston, Mass: Harvard Business School Press.

<sup>13</sup> Sonfield, M; Lussier, R. (2002) First generation and subsequent – generation family firms: A comparison. *Proceedings of the National Entrepreneurship and Small Business Educators Conference*, pp.153-161.



**Figure 2: Key challenges for the basic systems and development stages**

Source: adopted from Davis, J.A, 2001.

### 3. RESEARCH OBJECTIVES AND HYPOTHESES

Generational issues were peripheral to the main family firm research topics. Differentiation of the population of family firms using generational criteria seems very fruitful. Categorization of the family firms population is often elusive, vague and conceptual categorization based on performance, strategy description, or maturity of the business. Since these indicators can be ambiguous and dependent of the context (industry average, macroeconomic context, societal context); the number of the family generations involved in management and ownership of the family firm seems like clear and recognizable, less vague, less elusive and less contextual indicator of the family firm evolution. Family firms owners can instantly recognize their firm as first generation, second or subsequent generation firms, while having no clue whether they are young or mature, small or medium; fast or modest; etc.

Three system developmental stages seem also important. It is assumed that subsequent generation firms have different perception of the challenges and critical success factors. Subsequent generation family firms would therefore need different managerial and policy measures. More evidence to support whether significant differences in the features or behavior patterns exist between generational categories of family firms is necessary. Those who research and those who provide assistance or policy measures need to have broader evidence about whether it is necessary or valuable to differentiate measures or assistance based upon generational categories, and three systems developmental stages of family businesses.

Building on previous research of Sonfield and Lussier<sup>14</sup>, the number of hypotheses about the family, business and ownership cycle of the family business were tested on the sample of the Croatian family firms. Hypotheses targeting particular system development are presented in the table 1.

Table 1: Hypotheses

<b>Subsequent-generation family firms have significant differences than first – generation family firms in following characteristics and behaviors:</b>	<b>System</b>
H1. Number of managers that are not members of the family	<i>Family system</i>
H2. Number of female family members employed in a business	<i>Family system</i>
H3. Important decision discussed: 1: statement do not describe our business; 7=statement perfectly describe our business	<i>Family system</i>
H4. Members of the family have different opinions about decision: 1=not describe; 7=perfectly describe	<i>Family system</i>
H5. There is a plan for succession of the generation: 1= do not describe; 7=perfectly describe	<i>Family system</i>
H6. Professional infrastructure engaged: 1=do not describe; 7=perfectly describe	<i>Business system</i>
H7. Managers practice long term planning: 1= do not describe; 7=perfectly describe	<i>Business system</i>
H8. Manager use break-even; cash flow, etc.: 1: do not describe; 7=perfectly describe	<i>Business system</i>
H9. Goals of the founder still influential: 1=do not describe; 7=perfectly describe	<i>Ownership system</i>
H10. Investors outside of the family considered: 1=do not describe; 7=perfectly describe	<i>Ownership system</i>
H11. Source of finances: 1=debt; 2=savings	<i>Ownership system</i>

#### 4. METODOLOGY

Despite its presence, family business is hard to track in official statistics worldwide. This study is based on questionnaire responses from 50 out of 70 family firms in Croatia. Family firms sample was established through referrals from the regional Centers for Entrepreneurship, to ensure that the firms were operating and family based. Intensive contact effort by mail, telephone and personal visit resulted in a response rate of 71, 4 %.

The questionnaire has been divided into two sections. The first section includes questions about the number of the generations involved; age of the business existence, number of employees; type of business; and organizational form. The second part of the questionnaire included 10 statements about factors of family, business and ownership system, and Likert scales: (7=This statement describes our firm; 1=This statement does not describe our firm) were used. Statement 11 about preference of equity financing rather than debt included-cut was a nominal scale.

Descriptive statistics and testing the differences among generations were used. Hypotheses 1-10 compared dependent variables among the three generations using one-way ANOVA. Hypothesis 11, nominal variable, was tested using chi-square.

#### 5. RESULTS

The sample of family firms showed that there are a few multigenerational firms in Croatia, due to the short period of the privatization history. However, those that are multigenerational are predominantly in the production sectors, which can be explained by the long standing craft

<sup>14</sup> Sonfield, M; Lussier, R. (2002) First generation and subsequent – generation family firms: A comparison. Proceedings of the National Entrepreneurship and Small Business Educators Conference, pp.153-161

tradition that have been the only existing private firms in the socialist Croatia. Table 2 present descriptive statistics of the family firms in Croatia.

**Table 2: Descriptive statistics**

Variable	1GFF	2GFF	3GFF	Total
Generation (n/N) %	22%	70%	8%	100%
Years in business (mean)	8,5	12	34,5	13
Numbers of employees (mean)	14	15	9,5	14,5
Type of business				
Service and trade %	36%	49%	75%	48%
Product %	64%	51%	25%	52%
Ownership				
Partnership	27%	9%	0%	22%
Sole proprietorship	73%	91%	100%	88%

Mean values of statement appropriateness were computed using number of generation in the family firm as a grouping variable. The results are presented in the table 3.

**Table 3: Comparison of the mean values across generations**

Variable	Mean value		
	1GFF	2GFF	3GFF
H1. Number of managers that are not members of the family	0,54	0,71	1,0
H2. Number of female family members employed in a business	1,09	1,45	0,5
H3. Important decision discussed: 1= statement do not describe our business; 7=statement perfectly describe our business	6,51	5,71	4,0
H4. Members of the family have different opinions about decision: 1=not describe; 7=perfectly describe	4,09	3,80	4,25
H5. There is a plan for succession of the generation: 1= do not describe; 7=perfectly describe	4,36	4,60	-
H6. Professional infrastructure engaged: 1=do not describe; 7=perfectly describe	3,55	4,31	5,25
H7. Managers practice long term planning: 1= do not describe; 7=perfectly describe	4,36	3,74	6,00
H8. Manager use break-even; cash flow, etc.: 1: do not describe; 7=perfectly describe	4,71	4,0	4,25
H9. Goals of the founder still influential: 1=do not describe; 7=perfectly describe	5,09	4,7	6,75
H10. Investors outside of the family considered: 1=do not describe; 7=perfectly describe	3,09	2,46	2,75
H11. Source of finances: 1=debt; 2=savings	1,63	1,66	1,75

The majority of the mean values are above 3.5, indicating that identified factors are relevant and more than good descriptors for family firms in the sample. It is evident that majority of the family firms in Croatia, independent of the number of generation included in the family firm, prefer savings as the source of financing; do not perceive targeting outside investors as a good descriptor of their firm; perceive founders as influential in decision making, etc. Significance of the differences in the perception of the characteristics and

behavioral patterns in the Croatian family firm sample was additionally tested. Results are presented in the table 4.

**Table 4: One Way ANOVA hypotheses**

Statement	F	Significance P
H1. Number of managers that are not members of the family	,232	,794
H2. Number of female family members employed in a business	2,653	,081
H3. Important decision discussed: 1: statement do not describe our business; 7=statement perfectly describe our business	3,16	,051
H4. Members of the family have different opinions about decision: 1=not describe; 7=perfectly describe	,17	,847
H5. There is a plan for succession of the generation: 1= do not describe; 7=perfectly describe	2,82	,070
H6. Professional infrastructure engaged: 1=do not describe; 7=perfectly describe	,99	,379
H7. Managers practice long term planning: 1= do not describe; 7=perfectly describe	2,66	,081
H8. Manager use break-even; cash flow, etc.: 1: do not describe; 7=perfectly describe	,43	,653
H9. Goals of the founder still influential: 1=do not describe; 7=perfectly describe	2,19	,123
H10. Investors outside of the family considered: 1=do not describe; 7=perfectly describe	,33	,718
H11. Source of finances: 1=debt; 2=savings	,170 <sup>b</sup>	,919

<sup>a</sup> Grouping Variable: number of generation engaged in a business: 1; 2; 3and more generation

<sup>b</sup> Chi square: variable is nominal

Although none of the differences are significant at the 5% significance level, the more flexible rule of 10% significance shows there are few significant differences in perception of the variables across generation categorization. Subsequent-generation family firms have fewer females among the family members employed in a business; they use less team management styles and have more planned approach toward succession. These statements are descriptors of the family system issues in running the family business.

Only one variable from the business system seems to be significant from generational perspective: subsequent family firms engage different amount of time to long term strategic planning.

None of the ownership system variables proved important for differentiating between generational perspectives in Croatia. Neither generation has a significantly different perception of the use of the non-family members within top management; and presence of the different opinions in decision-making. Neither generation has a significantly different perception of the professional advisors, services as well as of the use of sophisticated methods in business management. There is no significant difference between perception of founder as influential across generation categories; and-cut public offering prospects, and preference of the equity financing.

## 6. DISCUSSION

The majority of the family firms in Croatia started up after liberalization, and evolved during the last twelve years. At this early phase of the family business evolution in Croatia the most profiled and distinctive system in the family business description is a family system evolution. Family firms in Croatia are more distinctive in family system issues than in business, or ownership system variables. Given the fact that the majority of the small and medium sized family businesses are necessity based, and serve to the sole purpose to provide the decent life for the founder and family members, this comes as no surprise. Given the short history of their existence, the lagging of business and ownership issues developmental differentiation seems logical as well.

The results indicate that ownership, or business system issues have not yet evolved in the same dynamics as family issues in family firms, so they do not contribute much to the description of generational categorization of the family firms. Croatian 1GFF; 2GFF; 3GFF shared the same perception of the business

and ownership characteristics and behavioral patterns. Business and ownership system variables provide a strong unifying force in Croatian sample.

On the contrary, the differentiating forces in the Croatian sample are family system issues. It seems that as the family firm grows into a subsequent generation, it is prone to include less female family members (male family members are preferred heirs, so female members seek other carrier option). It probably uses more professional management style and therefore team management becomes too time consuming and ineffective. Planned approach for passing business to the children early on becomes more important. However, family issues must be addressed in parallel with business development needs, and with ownership systems needs, otherwise they become self centered and dysfunctional in economic rationale of the business. Successful dealing with the family issues is precondition for growth, however other systems must also evolve. Ignoring the business development needs, or ownership prospects, is potentially harmful for overall success of the family business.

## 7. CONCLUSION

A profile of family firms in Croatia indicate that the family businesses in Croatia are young, small sized (by number of employees), production oriented; and predominantly sole proprietorship controlled, and probably due to short tradition of the market system, quite homogeneous according to these descriptive variables. Small and medium sized family firms worldwide are often oriented on retaining strong family influence over the business and ownership issue, as well as in Croatia. Strict economic criteria are not always adhered to, and growth of the business is often jeopardized by family priorities. The study of Croatian sample provides evidence of the intergenerational differences along the family system development stages. However, too much focus on the family issues can be potentially harmful due to the constrained attention and resource pool deployment:

- Heavy reliance on family members for most managerial matters reduces access to the pool of talents and new ideas.
- Preferential treatment for family members is dysfunctional, and economically unjustified.
- Most members of the family firms loose motivation because the narrow career choice that result from neglecting the ownership and business developmental needs.

Therefore family issues must be addressed in parallel with business development needs, and with ownership systems needs.

The study supports profiling the family business advisors, or policy measures using the generational categorization. Categorization based on the number of generations, is meaningful and more comprehensive for manager/owners too, when searching for operative or strategic decision. The managers can easily recognize their business as first generation business instead mature or fast growing business. Therefore, the managerial attention can be more effectively directed on the key challenges of the development stage in the family, business or ownership system. Those who research and those who assist family firms need to know that it is valuable to differentiate between generational categories within the total population of such firms. Significant differences can be approached more effectively for the first generation versus the second generation versus third generation family firms.

This research is only preliminary, and exploratory. Current findings indicate more maturity in family system developmental stages, than in business or ownership system development. This prompts more extensive investigation on business and ownership system of the family businesses.

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## **BUSINESS INCUBATORS AS ELEMENTS OF BUSINESS SERVICES INSTITUTIONS**

### **INTRODUCTION**

Promoting entrepreneurship has a vital role to play in improving competitiveness of small businesses and improving Europe's employment situation.

In the early years of transition, in many countries the activity of the Governments focused primarily on privatization and restructuring of large state enterprises, while SME supporting programmes were mainly initiated by international donors. By now the importance of SME national policy is clearly recognized both by Governments and entrepreneurs. However, the SME support infrastructure is rather weak. Information and consulting services have low efficiency. Existing SME support institutions have low business experiences. Several business support institutions do not exist in many transition economies yet.

International expertise shows that among the many solutions proposed, business incubation seems to be one of the most effective means for assisting entrepreneurs in starting a new business, nurturing young enterprises, and helping them survive during the vulnerable start-up period.

### **INTEGRATED APPROACH OF SME DEVELOPMENT – THE SME DEVELOPMENT PYRAMID**

The development of the SME sector in the countries in transition is most effective when activities and assistance are integrated and aimed at three distinct levels:<sup>15 16</sup>

- (i) **Strategic level** (*policy making*);
- (ii) **Institutional level** (*support institutions*);
- (iii) **Enterprise level** (*entrepreneurs and business entities*).

The above-mentioned levels create an **SME Development Pyramid structure** in which the strategic level is considered as the highest priority and is "located" at the tip of the pyramid. The institutional level is located in the middle and is interlinked with both the SME policy-makers at the top and the entrepreneurs at the bottom for whom they are created and to whom their services are offered. The third level is the base of the whole structure: they are the actors of the SME sector whose performance, behaviour, efficiency and inefficiency are reflected in the mirror of economic transformation. The whole building is sound only when there is mutual development, acceptance by each other and operative cooperation.

The philosophy of the Integrated Approach of SME Development see in Annex 1.

The United Nations Economic Commission for Europe (UNECE) launched its industry and enterprise development programme in the late 1990s to provide a supportive forum where Governments could exchange experiences and learn from each other how to structure public - private sector dialogues in cost-effective ways. The UNECE's **Working Party on Industry and Enterprise Development** (WP.8) has initiated a number of programmes to expand the cooperation of the member States regarding entrepreneurship and defining the practices and institutions which seem most cost-effective in stimulating an entrepreneurial environment.

## THE ROLE OF BUSINESS SERVICES INSTITUTIONS

At the macro level the major constraints to SME development lie with:

- (i) Knowledge concerning business development and environment (registration, licensing, establishment of a company, etc.)
- (ii) Deficiencies in the quality of support services, as opposed to their quantity, as it is commonly perceived;
- (iii) SME financing, especially ability to repay loans;
- (iv) Access to financing, the banking system and contract enforcement; and
- (v) The role of Government, e.g., the need for state delegation of the provision of services to the lowest possible level.

At the micro level the following requirements are identified for **business services institutions**<sup>17</sup> (BSIs):

- demand-side orientation,
- collective approach, cost recovery and sustainability,
- cross-subsidization, and
- monitoring/evaluation

The business environment presents obstacles to both SMEs and business services institutions. This statement is especially relevant for countries in transition where the major preoccupation lies with improving the legal and regulatory framework for business support services. Therefore, it can be concluded that associated countries and countries in transition are at different stages in the provision of business advisory, counselling and information services, with more sophisticated business support services being offered in the associated countries.

There are essentially two types of services provided by BSIs:

<sup>15</sup> Antal Szabó, "The role of small and medium-sized enterprises in countries in transition and how to promote them", ECE Advisory Workshop on Industrial Restructuring, Geneva, 8-9 June 1995.

<sup>16</sup> <http://www.unece.org/indust/sme/sme-role.htm>

<sup>17</sup> Business services institutions, business services providers or business services organizations are interchangeable in meaning and are hereafter referred to as business services institutions (BSIs).

(i) Basic services, called “introductory consultations” or “information and general advisory services,” are usually provided free of charge. These include one-stop-shop services, which are service packages required by national or foreign entrepreneurs and offered under one roof. One-stop-shops are considered to be time efficient and to discourage corruption.

(ii) Specialist advisory services or consultancy services consist of specialist advice in a particular area, e.g., general management, marketing and sales, production management, human resource management, etc. There is a general agreement that they should be offered in exchange for a fee.

BSIs can be state organizations, regional authorities, public/private partnerships, subsidized private agencies and companies, etc. In light of the rich BSI typology in circulation, BSIs can be divided into the following categories:

- Entities providing services to SMEs;
- Entrepreneur organizations;
- NGOs focused on SMEs;
- Research institutes and academic units.

Entities providing services to SMEs are usually non-profit organizations specializing in the provision of advisory, information and training services to SMEs or start-ups. They can be:

- (i) Business Support Centres;
- (ii) Business Information Centres;
- (iii) Business Incubators, Science/Technology parks;
- (iv) Innovation, Research and Technology Centres;
- (v) Non-profit financial institutions, financial intermediaries; and
- (vi) Regional Development Agencies.

It is generally recognized that start-ups should get at least one free consultation. Services are usually delivered by people with commercial/business backgrounds. They are tailored to company’s needs and stage of development, e.g., start-ups, established and growth companies would require different services. Services vary, with training, advice, information, and technical assistance, being more prominent than providing finance directly. Other services include one-stop-shop facilities, technological and innovation think-tanks, promotion tools for international trade, advice on public-sector contracts, electronic commerce, marketing management, financial management, internal and external feasibility study, adult education/training, etc.

The provision of business advisory, counselling and information services in the advanced market economies are based on the following principles:

- (i) Subsidiarity, i.e., delegating the provision of services as close to the clients as possible; thus, their needs can be met in the most effective way;
- (ii) Close contact with entrepreneurs, including regular visits;
- (iii) Personalized service, which in Italy is based on the lifecycle of an enterprise and includes an interview to identify a project and computerized tests to assess entrepreneurship and risk;
- (iv) Partnership with local, regional, national and European actors; and
- (v) Entrepreneurs’ ability to voice their views through the BSIs and to influence local or national decisions.

Business incubator provides entrepreneurs with a supportive environment to help “incubate” their business ideas. It provides services on a “one-stop” basis and reduces overhead costs by sharing facilities, so thus significantly improve the survival and growth prospects of start-ups at an early stage of development.

The number of business incubators is growing rapidly over the world, from 200 at the beginning of the 1990s to around 4,000 today. For example, there are currently about 1,000 incubators operating in North America, and around 50 incubators in Australia. In developed European countries like Finland there are 30, and some 200 incubator-type institutions in France. Over 100 incubator schemes of different sorts operate throughout the United Kingdom. In Germany, more than 360 business incubators are working with over 4,000 SMEs. Business incubations and start-ups were strongly linked to local need. The European Business Innovation Network has created a network of some 120 Business Innovation Centres throughout the European Union, the majority of which also perform a business incubation function. [1] Recently, the World Bank provided loan to Turkey introducing a performance based financing model aiming at job creation. For the time being 7 incubators have been established

The number of business incubators in the emerging market economies as well as in the countries in transition is growing every year with 65 business incubators registered today in Russia, 12 in Kazakhstan, 23 in Uzbekistan, 34 in Hungary, and 56 in Poland. At the end of 1998, there were 23 science and technology parks in operation and 14 in preparation in the Czech Republic. In Belarus 5 business support centres, 6 incubators and 2 technoparks have been established so far. Brazil has about 160 incubators and 40 locations have been selected additionally for support. Some 140 incubators exist in China, located in every province, autonomous region and major city.

## 1. DEFINITIONS

In generic term a Business Incubator is often used to describe a wide range of organization that in one way or other help entrepreneurs to prove their ideas and assist them to develop these into marketable products or services.

There is no standardized and internationally accepted consistent definition on this term. However, there are best practices collected and discussed by international organizations and associations like the UNECE, SPICA (Science Park and Innovation Centre Association), National Business Incubator Association in the US, Business Incubation Association in Germany and others.

In fact, instead of speaking about “business incubators” emphasis should be put on the term “**business incubation**” - an interactive development process aiming at encouraging people to start their own businesses and supporting start-up companies in the development of innovative products. Incubation also means the development of a supportive and stimulating environment for entrepreneurship

**Incubators are “start-up ventures whose purpose is the development of other start-up companies”**

Rice and Matthews.

**Business incubators are businesses, which aim is create and develop businesses**

Antal Szabó

A **Business Incubation Program** is an economic and social development process designed to advise potential start-up companies and, through a comprehensive business assistance program, help them establish and accelerate their growth and success.

**The main goal is to produce successful businesses** that will leave the program, in a timely manner, financially viable and freestanding. These graduates create jobs, revitalize communities, commercialize new technologies and create wealth for local and national economies.

**Critical to the success** of a Business Incubation Program is:

**Management** that develops and orchestrates business, marketing and management resources and relationships tailored to the needs of the business clients;

**Shared services**, training, technology support and equipment;

**Selection of clients** and an acceleration process by which businesses become more independent and progress to graduation;

**Assistance** in obtaining the financing necessary for business growth

Business Incubation Programs gain added value by providing access to **appropriate rental space and flexible leases** in an incubator facility.

Definition by the Summit of Business Incubation Associations in 2003

The **10th International Summit of Business Incubation Associations** (Global Summit of the Global Network on Business Incubation) held on 20 October 2004 in New Delhi (India) agreed to revise and simplify the current global definition of business incubation as following.

**Business incubation** is a public and/or private, entrepreneurial, economic and social development process designated to nurture business ideas and start-up companies, and through a comprehensive business support programme, help them establish and accelerate their growth and success.

The **Business incubator** is a physical space or facility that accommodate a business incubation process.

Definition by the Global Summit of the Global Network on Business Incubation in 2004

**Business support centres (BSC), business incubators, science/technology parks** (sometimes calls this as technoparks) all try to provide new small and medium-sized enterprises (SMEs) with the resources necessary to improve their chances of success. Different entities emphasize different mixes of space, training, capital, human and computer networking, consulting, etc. Several definitions have been proposed, but definitions have to be flexible to fit current usage. To cover all of these various entities, the term “Local Business Assistance Centres” (LBAC) has been suggested. Generally, business support centres emphasize soft resources such as training, while technoparks emphasize physical resources such as space. The best business incubators try to provide all the resources for small businesses’ survival and growth. While technoparks often focus on space and business support centres on consulting, but incubators identify the bottlenecks and try to overcome them. Depending on the environment, the bottleneck could be space, training, access to capital or markets, infrastructure such as computer networks, and many others.

The **main types of institutions** that offer, among others, business incubation services are as follows:

- o **Classical business incubators** could be a nursery and start-up unit; a community or enterprise workshop. They provide small start-up firms with premises, infrastructure, and a range of services that can improve their ability to initiate and run their operations during the early development period;
- o **Industrial estates** offer a dynamic approach to regional economic development, local municipalities and regional development agencies;
- o **Export processing zones** can be very useful for the development of export and foreign trade potential and, in general, have a better linkage with the international community, although they have shown little potential to strengthen the local economy. However, through facilitating business services, providing access to infrastructure and providing tax incentives, they aim at attracting foreign direct investment. They also generate employment and contribute to improving the balance of payments;
- o **Science (technology) parks** provide a creative environment for attracting and promoting research commercialization, and technology-based enterprises;
- o **Virtual business incubators** make services available in cyberspace. They connect companies with one another, customers, suppliers, partners, as well as the operating management of the virtual incubator through the Internet, electronic data interchange, videoconference capabilities, etc.;
- o **New economic incubators** are usually funded by venture capital companies or set up by large multinationals. There are involved in development B2B, B2C sector, e-commerce, m-commerce (using mobile phone technique). They focus mainly on high-tech internet-related activities and they are rather a profit drives venture instead of having a job creation aims.
- o **Clustering and networking.** During the 1990s clusters and networking have been increasingly important for the development of SMEs. Through clusters and networks, SMEs can access skilled and highly educated labour and pooled business services including business incubation services.

**Clusters** are an agglomeration of SMEs, working in geographic proximity to one another and in the same sector where appropriate clustering of complementary businesses is more efficient and sustainable than business incubators with different single businesses. These opportunities permit specialization, build technological capability, adaptability, innovation, and competitiveness.

### Classification of the business incubator generations

Business incubation was started in the US in the late 1950s. The first documented incubator was the Batavia Industrial Centre, which opened in 1959 in Batavia, New York, in an old Massey-Ferguson farm implement manufacturing plant

The **First generation incubators** started in the 1980s when traditional industries collapsed and it was a need to regenerate crisis sectors, regions and communities. Switch from top-down approach to a bottom-up approach aimed at mobilizing indigenous potential for economic development. This period was characterized by offering space and sharing facilities and selecting special groups of entrepreneurs.

From the 1990s have been started the **Second generation incubators**, which supplemented the working space with counselling, improving entrepreneurial skills, providing access to professional support tools and seed capital.

At the end of 1990s, the **Third generation incubators** have been emerged mobilizing information and communication technologies and creating a network of enterprise support services. These BSIs called also incubators without walls or new model incubators. There is a new term called hybrid **Business E-incubator** without walls, which can not just think, but act outside its box and provide effective IT-enabled business e-coaching, match-making, and project management services to thousands of its semi-virtual and virtual tenants - start-up companies.

## 2. GUIDING PRINCIPLES

The practical experience of different economies in the UNECE region shows that the following principles have significance while nurturing start-ups:

- o One of the frequent issues of debate in an incubator is how long the incubation period should last. Should it be limited, and if so, what would be the optimal duration of the incubation? Many local business advisory centres receive start-up support for a few years and are then expected to sustain themselves indefinitely. The start-up support should probably go on for at least three to five years for optimal sustainability;
- o When developing entrepreneurship both in advanced market economies and countries in transition it is necessary to build on the experience of incubators to encourage new enterprises. There is now sufficient experience with business incubators and how they fit into the process of economic development, and what their core services are. A decision to start a business incubator thus requires careful planning and preparation and should be based on a thorough and objective analysis;
- o The members of the management team should represent both the local Government, local private business organizations, community organizations and local educational institutions. This team generally consists of up to 10 people. One person should be designated as the leader;
- o The management team has to determine the purpose of the incubator. Business incubators may have a multitude of purposes, among which the following are possibly the most important:
  - job creation;
  - establishment of start-up companies;
  - modernization, transfer of technology, use of new scientific discoveries;

- business incubators can also be created for specific purposes, such as helping women, immigrants, or minorities.
- o Some further aims can be identified:
  - the economic growth of a region;
  - the diversification of the region's industry;
  - the multiplication of the sponsor's investment;
  - the increase of the region's economic activity.
- o The team will determine the types of tenants the incubator will house and the conditions for entry.
- o For SMEs the conditions for entry to a business incubator could be the following:
  - the entrepreneur should have a conception about his/her future business;
  - the entrepreneur should have a business plan;
  - the entrepreneur has to be a beginner in his/her business.
- o The team has to possess information regarding the employers in the region, the types of business located in the community, general income and earnings, local taxation, the availability of reasonably priced office space, leasing, infrastructure and the transportation system. To know what type of services and programmes are available can be very useful to small start-up firms in the local community;
- o Based on an analysis of the information the team has to design the future business incubator. It has to finally determine the purpose and the tasks of the incubator, the type of tenant it will house, and the type and location of the incubator. The team has also to make a business plan for the incubator;
- o The team will need to define the resources available to start the incubator and must also find a site. The incubator building has to be large enough to produce rent revenue to generate cash flow, and break even or cover losses by other revenues. Donation funds and sponsors may also need to be identified, too;
- o Considerable care should be taken in selecting the management. The manager or director has a key role in the success of the incubator. The success or failure of an incubator may depend on the qualities and performance of its director and also the amount of time he or she is able to spend with client businesses. An incubator director should be chosen especially for his or her ability to work with entrepreneurs and to help them grow their companies. The director should in particular be fully familiar with entrepreneurship and business development. Usually a business incubator also needs a secretary, a part-time custodian, bookkeepers, lawyers, an insurance agent, and a banker;
- o Creating a business incubator takes from one to two years. Once the business incubator is operating, the revenue from the tenants should cover the running costs. Some services and training can be offered to entrepreneurs outside the incubator, thereby generating additional revenue. Any surplus earned should be reinvested in the centre;
- o The criteria of sustainability can be divided into two categories: the management of the premises (real estate) and the support to tenants and reaching of maturity;
- o The management of the premises is a commercial matter and an undertaking in itself. An incubator has to be operated in such a way that the common expenses are recovered through rent and other service charges. Since most business incubators are established for the development of local areas, it is crucial to gain financial, moral and public support from local municipalities and communities;

- o The estimation of capital and operating costs should be based on a realistic assumption of expenses and revenue to enable the business incubator to break even after the initial start-up period. From a financial point of view, practice shows that it takes from three to five years for a business incubator to become self-sustainable. It appears that best practice in business incubators occurs when start-up enterprises and existing companies are mixed. This encourages mutual learning and provides a stimulating environment for beginning enterprises;
- o The effectiveness of business incubators should be evaluated based on the number of successful companies that reach maturity and continue doing business outside the nurturing premises. The success of emerging companies creates a positive view of entrepreneurship and contributes to the creation of a new enterprise culture. Thereby, business incubators aspire to have a positive impact on their community's economic health.

## CONCLUSION

The efforts to build capacity to encourage enterprise development take many forms, and the process is still evolving. One should learn from the “Best practice” concept, which is not a static concept – there is still much need for improvement. Defining benchmarking is important, if we know how to use it. In Europe we have diversity of BSIs. No definitive models yet exist which provide convincing templates for institution building. But just as each national culture varies, so, too, do the responses to the challenges of creating conditions favourable to market economies and entrepreneurship.

**To incubate or not to incubate?** In which situation is a business incubator a good solution in SME support infrastructure? The answer is very simple: As long as there are visionary managers, incubation programmes will create enterprises, new jobs and will catalyse and promote the local economic development.

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## INTEGRATED DEVELOPMENT OF SMEs

The Integrated Development of SMEs in countries in transition and developing countries requires action at three levels:

### Strategic Level (hierarchy 1)

At the strategic level, there is a need for the development of a sustainable environment. This requires -

- Government policy and commitment to promote the creation and growth of entrepreneurship and the private SMEs-sector by, *inter alia*, elaborating policy measures
  - legal instruments on entrepreneurship and possibility of convening business;
  - Government SME support programme;
  - Allocation of financial means within the framework of the state budget;
- Commitment of the business community to facilitate the access of SMEs to market, technological and financial resources and stimulate investment;
- Creation of a political climate in the society favourable to accept private business undertaking.

Some of the stakeholders responsible at this level include: Parliamentarians, legislative and government administrative bodies with delegated tasks of planning and implementing SME promotion programs.

### Istitutional Level (hierarchy 2)

At this level, there is a need for the establishment and strengthening of infrastructure (independent institutions and mechanisms) to promote SMEs by providing effective business support services, including -

- information on how to start up a business ;
- information on how to prepare business plans ;
- simple registration procedure including basic approvals and permits;
- information on how to get partners and marketing information;
- access to financial resources and credit guarantees;
- access to infrastructure and human resources;
- inexpensive real estate;
- development of a market-oriented way of thinking;
- support for innovation and facilitating cooperation among SMEs

Some of the stakeholders responsible at this level include:

1. Government and local government institutions;
2. Chambers of commerce;
3. Professional and social associations;
4. Training institutions;
5. National and regional development boards and agencies;
6. Banks and financial intermediaries; and
7. Non-governmental organizations.

### Enterprise Level (hierarchy 3)

At the enterprise level, there is a need for the development of entrepreneurship and supporting SMEs within an integrated programme approach and subsectoral systems. This can be achieved by -

- strengthening entrepreneurial and managerial skills;
- providing direct consulting services;
- establishing business information centres;
- establishing business incubators, technoparks and industrial estates;
- promoting access to technology and technology transfer;
- developing quality awareness and promoting ISO quality assurance and economy management systems with third party certification;
- developing awareness for consumer protection;
- developing awareness for intellectual property right;
- promoting linkages and supply programme to large enterprises and TNCs;
- assisting SMEs to understand the role of the ITC and promote access to this technique and means;
- internationalization of SMEs.

Some of the stakeholders responsible at this level include: Small and medium-sized enterprises, entrepreneurs, universities, testing institutions, certification bodies, consumer protection body, consulting companies.

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## **THE ROLE OF THE PROJECTS IN THE ACHIEVEMENTS OF ORGANIZATIONAL OBJECTIVES**

### **1. Introduction**

On May 1, 2004, the EU expanded its membership from 15 to 25. Between the new members were eight ex-communist states with economies still in transition and infrastructures lagging those of present member states in many respects.

It's known that till that date most of the prospective member states entered the EU by one's, two's and three's exerting relatively little economic strain on already member states. Most of them had already developed economies with western democratic parliamentary systems.

Romania slated for accession in 2007 (EUROPARL, 2003, [14]). Joining the EU is expected to promote Romania's economic growth, provide access to western technology, increase employment and attract foreign investments.

The Commission of the European Communities strongly suggested that Romania create a viable, deregulated, information and telecommunications industry securing “financial investment to ensure adequate administrative capacity for the regulatory authority,” and institute structural reforms in the industry (Commission, 2002a, [1]).

Romania must have a functioning market economy, the capacity to cope with competitive pressures within the Union, and the capability of incorporating community law into its own body of legislation. In addition Romania must enforce environmental legislation and have a codified legal system backed by a judiciary, and an open national financial system. Furthermore, EU requirements extend to services, transportation, mobility of labor, agricultural practices, fisheries, tax policies, and the military and security.

Complying with such a broad set of requirements is a difficult task indeed and expensive to say the least, requiring generous increases in foreign investments (Commission, 2002b, [2]).

The European Parliament is willing to offer some aid. For the period 2000-2006 new members will receive between 75 and 90 Billion USD (€70 to €80 Billion) over those seven years, or roughly 1 to 1.3 Billion USD (€0.9 to €1.2 Billion) per country per year, depending on their size and need [1]. Aid is also distributed via three programs, PHARE, ISPA, and SAPARD. Among the three programs this amounts to an additional €300 Million per year per country.

In Romania, on national scale, the projects and the project management have been met on debut level. Therefore, international assistance programs, having priority directions, the problem of encouraging the country to join the EU and make the national structures compatible with the European ones, are in situation that the allocated funds can't be used integrally.

This paper will be limited to examining generally the EU sponsored projects in Romania and particularly presents a comparative study for ISPA Program between Romania, Bulgaria and the eight newest members of EU, all ex-communist countries. Using measurable success criteria to determine the success on projects we analyze in which measure the projects were successfully, we study some correlation between the success criteria and particular types of project and we study the reasons of the fail.

### **2. Criteria for measuring success on projects**

The purpose of modern project management is to conduct a successful project. As we can read in Max Wideman article [3], the success is more than just “on time, on budget and conformance to requirements”. Success means advantage, superiority, victory, accomplishment, achievement, and added value.

The problem of the “success” has been studied by a number of project management authors over the years such as Gemunden et al. (1991), [4], Gorog (1996), [5], Wateridge (1997), [6], Atkinson (1999), [7], Baccarini (1999), [8], Cooke-Davies (2002), [9] and the others.

Historically, at the beginning, only the three *basic factors: time, cost and quality* was deemed the mark of success. In present the literature is rife with examples of projects that were either completed late or finished over budget, and were still considered successful (see for example Webb, 1994, pp. 262, [10], Hormozi and Dube [11]). Thus the old conception of on time, on budget and conformance to requirements can't be considered satisfactory success criteria.

Later the “project success” has developed by the project management authors due to the conception that project success is seen as a strategic management concept where project efforts must be aligned with the strategic long-term goals of the organization. Wateridge, [6], based on large database empirical research work, determined the following most important success criteria: the project impact on the customer, the customer satisfaction, the measure of realization of the project objectives and naturally the three basic factors.

Atkinson [7] consider that for the success an important role present the project managers and define four criteria which contains the basic factors (time, quality and cost), favorable impact on customer, the finality will assist in developing new technology and satisfaction for all customers.

Baccarini [8] suggested the treatment of the success from two different point of views: the success of the project manager and the success of the project finality.

The project manager should make every effort to develop a quantitative full-scale project-scope definition of the desired project out-turn. Elaborating the associated time and cost constraints in the same manner is also beneficial. Shenhar (1994) from a large and detailed database (data collected on 127 projects) have developed a universal framework for the assessment of project success. Thirteen success criteria were identified. These included: functional performance, meeting technical specifications, meeting schedule goal, meeting budget, fulfilling customer needs, solving a customers problem, the extent to which the customer is using the product, customer satisfaction, commercial success, creating a larger market share, creating a new market, creating a new product line and developing a new technology.

In the study were determined Pearson correlation coefficients between all measures. It was obtained high correlation between the measure of total success and customer satisfaction. The factor analysis in the study gave the possibility of distinct success dimensions by which managers perceived project success.

The following four principal success category were determined:

- (1) *Internal project objectives* (pre-completion) with the following measurable success criteria – meeting schedule, within budget, other resource constraints met;
- (2) *Benefit to Customer* (short term) with the measurable success criteria - meeting functional performance, meeting technical specifications and standards, favorable impact on customer, customer's gain, fulfilling customer's needs, solving a customer's problem, customer is using product, customer expresses satisfaction;
- (3) *Direct Contribution* (long term) with the measurable success criteria - immediate business and/or commercial success, immediate revenue and profits enhanced, larger market share generated;
- (4) *Future Opportunity* (long term) with the measurable success criteria - will create new opportunities for future, will position customer competitively, will create new market, will assist in developing new technology, has, or will, add capabilities and competencies.

For a given project, its perception of success may change with time. Some project could have its principal focus on creating future opportunity. Such a project is not been considered as successful until such time as those opportunities have actually materialized.

When we analyze the success criteria of the projects it's useful to make an overlook on failures criteria too. Cooke - Davis [9] draw the attention on the connection between the success and failures criteria. Based on their experience Pinto and Kharbanda [16], formulate 12 failures criteria which if appear the project certainly fail.

The literature, based on research using empirical data, confirms that project success is a multi-dimensional concept. A project may provide an efficient solution to the customers requirements, yet be considered a failure by the performing organization in terms of business success or some projects seem successful in the short-term, but may turn out to be less-successful in the longer run. In some cases, a long time must pass before the original expectations can really be met and success evaluated.

### 3. EU sponsored projects in Romania

Romania aspires to European Union ascension in 2007. The country is currently working with the International Monetary Fund (IMF) and other international donor institutions to bolster its economy. Romania struggles with high inflation (15,3% in 2003) and structural reform. Romania has posted solid gross domestic product (GDP) growth rates recent years, reaching 4,6% in 2003, [12]. Romania hopes to be dubbed a “functioning market economy” in 2004 by the IMF.

From 2000 onwards, the EU pre-accession aid to Romania is provided by three main instruments: - **PHARE Program**, providing funding for institution-building and investment in support of EU accession preparations;

- **ISPA** the pre-accession instrument providing investments in transport and for environmental infrastructure;
- **SAPARD** the financial instrument supporting agriculture and rural development.

The total volume of pre-accession assistance available to Romania is substantial (around EURO 700 million per year from PHARE, ISPA and SAPARD). This represents a very important financial resource for Romania equal to around 1.4% of GDP, 4.4% of consolidated budget revenues, or 36% of investment expenditure from the national budget. The EU Grant aid to Romania in 2003 is divided between the three main instruments in the following way: 37% from ISPA, 23% from SAPARD and 40% from PHARE, [13].

PHARE has an annual budget of €1.5 Billion, and is used to boost the administrative capacity of the central and eastern European countries.

The program allocated commitments of EURO 2 billion to Romania during 1992-2002, with commitments of 265,5 million in 2002. Romania benefits from PHARE funded multi-country and horizontal programs such as TAIEX (technical assistance on the approximation of EU legislation) and SIGMA (support for improvement in governance and management).

ISPA (Instrument for Structural Policies for Pre-Accession) is an aid program providing one billion Euro per year for investment in the environment and transportation. Romania's share in the overall budget 23%, the total allocation in 2000-2006 period is EURO 1,600 million. We can remark that Romania is one of the most advanced beneficiary countries.

In 2002, a total commitment of EURO 256.5 million was made for Romania. ISPA finance only up to 70% of project cost. Currently the main co-financing sources are the state budget (mainly for transport projects), local budget, EIB, EB for Reconstruction and Development, bilateral donors. The project size is between EURO 10 to 75 million for environmental projects and between EURO 90 to 300 million for transport projects.

The national ISPA strategy for transport is: widening national roads, building by-pass ways, building motorways, rehabilitation and construction of railways and improving the navigation conditions on Danube. The ISPA strategy for the environment is: wastewater treatment, drinking water supply, solid waste management and air pollution prevention.

SAPARD (Special Accession Program for Agriculture and Rural Development) program supplies around 500 Million Euro each year to agricultural and rural development. The Commission approved the Romanian SAPARD program in November 2000 and the following four main themes of intervention have been identified: improving the competitiveness food processing, rural infrastructure, development and diversification of the rural economy and the development of human resources. Since August 2003 the SAPARD agency approved 518 projects involving 389,2 million of public support from which 75% was contribution from EU.

The other EU institution that actively involved is the European Investment Bank (EIB) which provides large-scale loans to projects aimed at helping the transition to a market-based economy. The EIB action is coordinated with the PHARE program, with the EU Members States' financing institutions and with the European Bank for Reconstruction and development. Since 1990, the EIB has granted loans to the value of EURO 3 billion. 75% of this funding has been for investments in the transport sector.

We mention here that the Copenhagen European Council decided in December 2002 to increase EU assistance to Romania by 20% (over 2003 levels) in 2004, 30% in 2005 and 40% in 2006. Therefore the number of contracted projects must be increase and for this reason is most important to study the reason of the fail for the refused projects between 2000-2002 to use integrally the allocated funds.

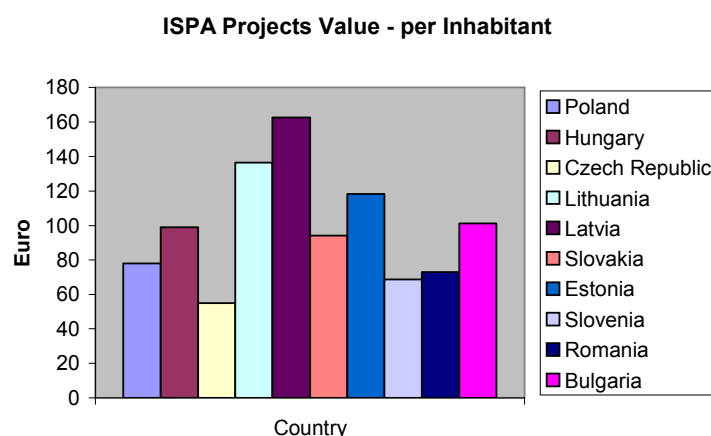
#### 4. Success on EU Sponsored Projects –ISPA Program

We used publicly available databases published as Annual report 2003 on the European Community's development policy and the implementation of external assistance in 2002, [14], web sites related to ISPA, PHARE and SAPARD 2004, Regional indicators: EU 2004, Communication from the Commission of the European Communities 2004, World Bank.

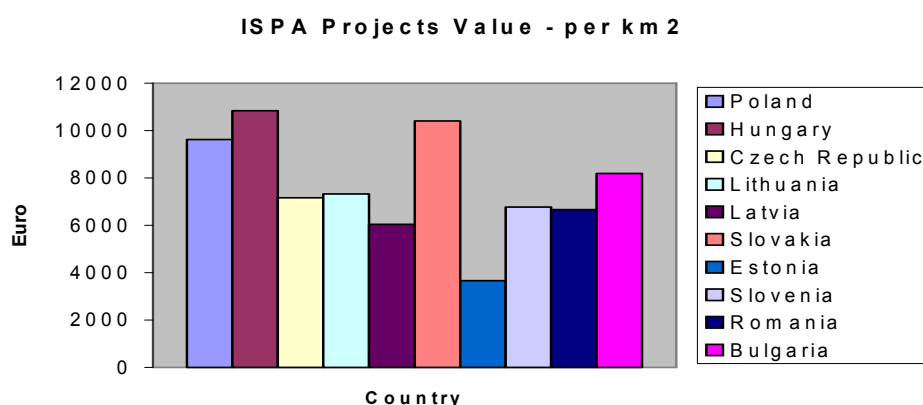
We analyzed the ISPA projects signed in 10 country. Eight of them are ex-communist country, the newest members of EU, and Romania, Bulgaria. The strategic objectives in the field of transport in Romania are intended to eliminate the serious weakness in the network of railways and are focused on the modernization of the trans-European corridors crossing the country. Other most important necessity is the problem of developing the use of waterways. In the environment sector, Romania has acute problems concerning air, water and soil pollution. All of these require large-scale investments from public and private sector. The poor quality of the water results from discharge of untreated or partially treated wastewater.

In the period 2000-2002 the European Commission signed 249 projects in 11 sectors. The estimated total eligible value was 8.753.596.374 Euro from which the estimated ISPA contribution is 5.648.327.743 Euro. The obtained results we can see on the following diagrams.

At first we analyze the value distribution in comparison with the population. We remark that Poland has 38, 6 million inhabitants and the smallest is Slovenia with 2 million.

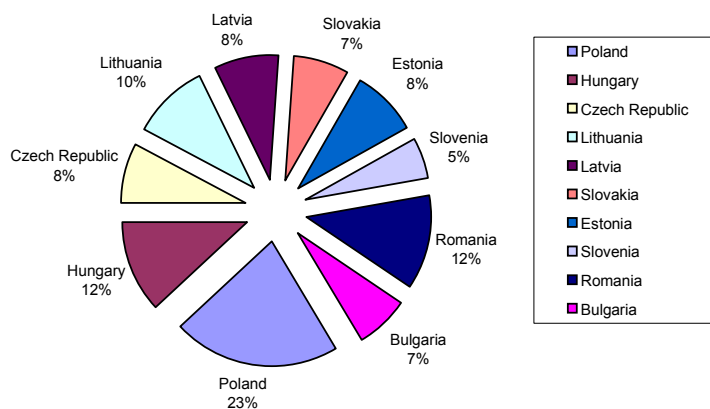


Next figure shows the distribution of the ISPA project value in comparison with the size of each country. We remark that Poland is the biggest with 312685 km<sup>2</sup> and the smallest country is Slovenia with 20273 km<sup>2</sup>.



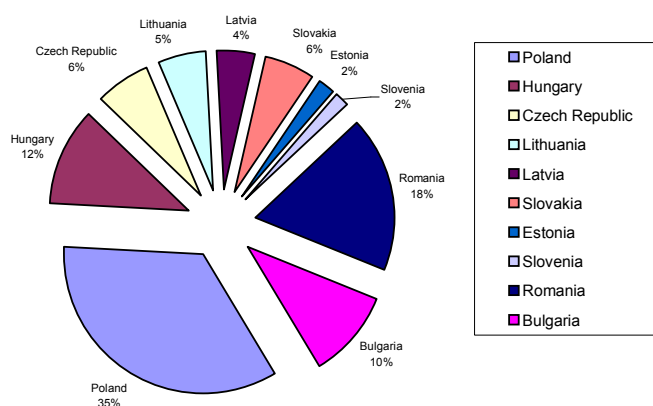
We can observe that the distribution is different as in the first case. We are interested in the following on the connection between the number of signed projects and the considered countries. The result we can see on next figure.

**ISPA Projects Distribution (numbers)**

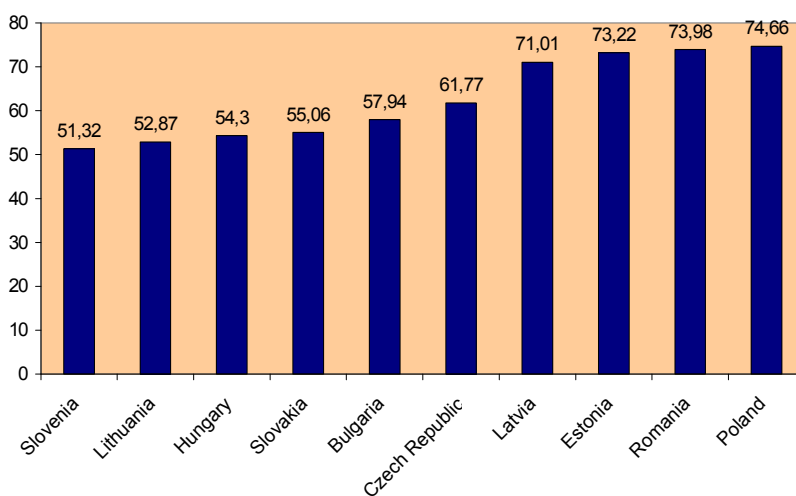


In the following we have the distribution of the ISPA projects concerning on amount and the ISPA contribution in each country.

**ISPA Projects Distribution (amount)**



**ISPA Contribution (% of all)**



## 5. Conclusions

In the Annual report 2002 on the European Community's development policy and the implementation of external assistance in 2001 we got information about the results of the monitoring in the regions.

In the assessments of the EU projects five main criteria was considered as are very important: *relevance, efficiency, effectiveness, impact and sustainability*. Generally the EU projects are relevant but the design often presents a major weakness. Successful projects were characterized by their clear reference to the national context. Poor performance was associated with lack of a proper identification study. The efficiency of the project it's main criteria for the success. Projects must respond to changing needs and situations. Successful projects employed high quality management staff and the poor performances lacked the necessary qualified and stable management capacities. The analysis of the effectiveness shows that good beneficiary involvement, participation and communication characterized successful projects. The fail appears due to the poor communication and contact with beneficiaries. The impact was low if potential linkages to the other projects were neglected. The sustainability is weak if governments do not provide sufficient policy support as well as local capacities and resources.

When we analyze the evaluation grid of the projects we can observe that one of the applied selection criteria for the projects are intended to help evaluate the applicants' financial and operational capacity. It's important to ensure that they have stable and sufficient sources of finance to maintain their activity throughout the period during which the action is being carried out and, where appropriate, to participate in its funding. The professional competencies of the applicant and partners and qualification required to successfully realizing the proposed action it's a very important criteria in evaluation. Nevertheless if we take an overlook on the total amounts obtained from EU projects in Central region of Romania, mainly in Mures county (Table 1), we can observe a disproportion on the allocated sums between commercial companies, NGO-s and public institutions.

**Table 1**

Year	Commercial Companies and NGOs		Public Institutions		
	EUR	ROL	EUR	USD	ROL
2000	1.225.725,35	-	1.404.759,72	-	-
2001	-	-	-	-	-
2002	1.677.602,00	-	6.717.758,30	10.812.407,00	-
2003	366.968,82	5.703.702.500,00	32.932.818,98	1.254.057,00	13.756.328.507,00
<b>TOTAL</b>	<b>3.270.298,17</b>	<b>5.703.702.500,00</b>	<b>41.055.337,00</b>	<b>12.066.464,00</b>	<b>13.756.328.507,00</b>

The EU partner (generally in the case of ISPA and SAPARD contribution projects) from precaution chooses as partner public institutions. These institutions generally didn't have specialists in project management and it fails to implement the action as undertaken and agreed in the contract and not all the projects have success finality.

In the case of the SAPARD program only 33% from the allocated amounts have been used. The main reason is that the projects initiated at villages couldn't obtain co-financing sources. The relative importance of the different categories of success, presented in Section 2, varied with technological uncertainty, the project type.

The study of the success of the projects in same field but in different countries and region must make with caution. Exist various factors that may contribute to differences in observed performance between groups of projects. For example some projects have been designed earlier than in other country, when experience in project planning and implementation was more limited. It's important to observe the specific portfolio of projects and programs allocated to each country. On the other hand the sector distribution of projects may also lead to differences in performance in the countries comparison.

If we consider the ISPA programs in 2000-2002 period we can see that the total number of projects for solid waste collection system was 1 in Bulgaria, 3 in Latvia, 6 in Lithuania, 11 in Hungary. In the studied countries only for Bulgaria was accepted 1 project for airport and for the technical assistance improvement of navigation condition only Romania had 1 project. For technical assistance for the rail sector for Estonia was submitted 1, for Poland 11, for Hungary 7 and for Romania 2.

When in comparison the success is analyzed it's not possible to isolate the influences of individual factors, country specific factors, such as local project administration, the existing human resources, and the infrastructure for project planning the orientation in government administration.

In methodological terms the success of the EU projects can be measured from global goals such as in the results benefiting the society and from project objectives such as for example in concrete improvements in the lives of people.

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## SLOVAK TRADE FLOW – PROSPECTS FOR HIGHER COMPETITIVENESS

### Abstract

The aim of this article is to present Slovak International Trade Flow as to current Specialisation rate indicating future bias and export potentials for SMEs. The prefatory notes start with a brief outlines of main scientific postulates as to Theory of Competitiveness. For the sake of a complex analysis of Slovak Trade Intensity a short genesis of Slovak Foreign Trade will help to reveal the past course of entrepreneurial environment, commodity and territorial orientation. Further parts of this paper cope with Specialisation of Slovakia as being achieved by comparative and competitive advantages of Slovak Business Environment. For the empirical analysis RCA index was applied.

**Key words:** International Trade, Competitiveness, Commodity Classification, Commodity Clusters, Revealed Comparative Advantage.

### Introduction

Liberalisation of foreign markets, consolidation, global competition, deregulation, and diversification has in general significantly influenced national production, factors of production, flow of goods and services, thus the entire economic growth and competitiveness respectively. From this point of view, present production is much more based upon exploitation of competitive advantages rather than comparative ones. All these facts are taken into consideration already when defining company's strategy and its mission, aim of its economic activity. On macro and micro level, new or alternative sources of production, and usage of more effective means of a communication mix prevail in decision making processes when evaluating company's or country's economic performance. National Economic Performance is under the influence of many indicators, among others also that of Foreign Trade Intensity and Competitiveness. A complex analysis of Competitiveness in Trade Flow requires a short introduction into the International Trade Theory.

Comparative and Absolute Advantages laid the foundations of Theory of Competitiveness. Competitive advantages can influence the trade flow of internationally competitive goods. Comparative advantages are fixed of nature, for at least a given time, and are determined by a surplus of some factors such as labour or natural resources and are more easily identified than competitive advantages [5]. Competitive advantages can modify their appearance more frequently and easily. Hence if a country's trade output is relative to comparative advantages, than, special conditions or factors of production are associated with that output. Competitive advantages on the contrary, enable any country or any company to produce given output. With respect to the present production, it is united with competitive rather than with comparative advantages. Then in principle, each country should specialise in the production of those goods and services, that it may produce at a lower price than other countries and then exchange its surplus production with that of other countries. This process allows for the international division of labour and other production factors [5]. The Theory of Competitiveness and Specialisation is scientifically presented in e.g. [1], [2], [3], [4], [5], [6], [7], [8], [9], [10], [11], [12], [13], [14], [15].

Michael Porter [11] points out in his book *The Competitive Advantage of Nations* that four factors may promote or hamper a country's specialisation in a particular industry. These are: availability of the productive factors needed by a particular industry, the characteristics of the internal demand for the goods or services produced by a particular industry, the existence of internationally competitive industries related to this sector, and the institutional framework within which a country's enterprises are created and organised and the level of internal competition existing within a particular industry.

Diagnosis of Competitiveness (Comparative and Competitive Advantages) is a substantial part of internationally recognised indicators of countries' trade performance. The International Trade Centre developed the Trade Performance Index (TPI) with the aim of assessing and monitoring the multi-faced

dimensions of export performance and competitiveness by sector and country [4]. Already the trade performance of individual countries tends to be a good indicator of economic performance since well performing countries tend to record higher rates of GDP growth (for more details see table 1). A question (coming from the classical theory of international trade) which sectors should a country specialise in to maximise the economic wellbeing derived from specialisation and trade is the main issue of this paper titled *Slovak Trade Flow – Prospects for higher Competitiveness*. It copes with metamorphosis of comparative advantages of Slovak position in the world market as Slovakia is nowadays one of the 20 most reformed economies providing for the best business environment.

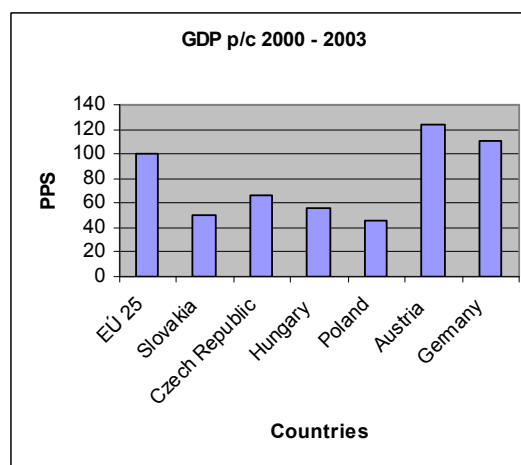
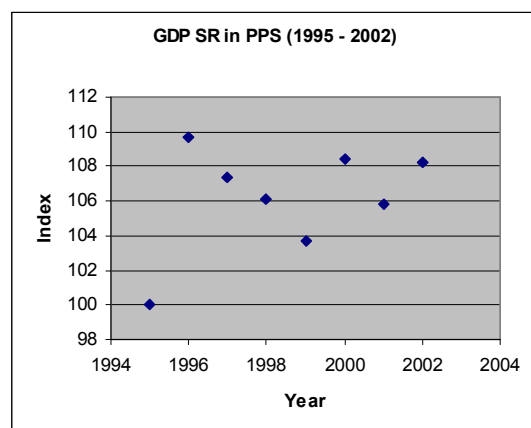
### ***Slovak Entrepreneurial Environment – past and future***

According to the Law No. 119/1948, all foreign trade including foreign forwarding have been nationalised, thus creating a state monopoly of foreign trade. Only selected entities appointed by the state were permitted to provide export and import transactions. Because of the state monopoly of foreign trade, production as well as domestic trade were separated from the needs of foreign consumers. The second half of the 60s was marked by transformation process of some business organisations into stock companies with a significant part of producers. Such companies like e.g. Škodaexport, Jablonex, Chemopol, Koospol, and Centrotex were established. The Law No. 113/1990 abolished the state monopoly in foreign trade. Thus became Slovakia an open economy.

The 1990s have been a decade of major economic and social transformation in Slovakia. The transition to a market economy has been completed in the corporate sector, and private enterprise now accounts for around 80 % of GDP. Privatisation of state enterprises and the emergence of many new SMEs resulted with this transformation process. The economy has been opened to international trade with prevailing market forces (about 80 % of Importing/GDP and about 70 % of Exporting to GDP).

The Slovak economy and the entire society have made remarkable progress during the last several years. Reforms have strengthened the economic performance of the country to that of a standard market economy. Reforms have also made the business environment simple and transparent [13]. All of this effort was crowned by the country's admission to the EU. Slovakia is also fully integrated into other international organisations including WTO, IMF, EBRD and NATO, OECD.

Reforms undertaken so far have lead to an increased stability of the economic environment and a sustainability of economic growth. For a comparison purposes see Table 2. Many reforms have a pioneering character in Europe (retirement and social reforms, introduction of the flat income tax and VAT) and therefore have significantly increased the attractiveness of the Slovak business environment [13]. (Remarks: State Budget Deficit about 3 % of GDP, Economic Growth about 5 %. 19% Flat Tax on Individual and Corporate Income amounts at 19% as of 1 January 2004).



**Table 1**

**Table 2**

The reforms strengthened the position of Slovakia in the Central European region and increased its investment attractiveness. Now Slovakia achieves in GDP p/c nearly half of the average of EU 25.

The Government will therefore strive to create such business environment all over Slovakia, which will promote new investment, productivity growth, innovations and the creation of new jobs. Main priorities with respect to the business environment are the following [8]:

- high degree of enforcement of laws and contracts,
- high-quality physical infrastructure and services in network industries,
- public institutions as a partner and not as a burden,
- effective access to capital market for all companies.

*Note:* Data from Statistical Office of the Slovak Republic

A significant improvement of the access of SMEs to capital market and to non-banking financial resources generally is an essential pre-requisite of a long-term development of the economy, especially of innovative small and medium enterprises. The government policy must therefore create favourable conditions for the venture capital and easy access of Slovak enterprises to the commercial paper market. With respect to the small size of the Slovak economy and its high level of integration in the European market, there is no point in focusing on the development of a national commercial paper market, which would be located at the domestic stock exchange. Instead, it is necessary to integrate the Slovak commercial paper market into the European commercial paper market and particularly to create a regional Central-European commercial paper market [8].

### ***Diagnosis of Comparative and Competitive Advantages of Slovak Trade Exchange***

Country's performance can be diagnosed by different indicators. As it is e.g. a share of national exporting to total world exporting, or aggregated bilateral trade flows (share of one national exporting to total importing of a trade partner) and the share of exporting of each of these partners in world exporting trade<sup>3</sup>. However, majority of academical publications when specifying country's specialisation apply for indicators measuring comparative advantages. In 1965 Bela Balassa introduced the concept of "revealed comparative advantages" [2] as a measure for country's specialisation. Experts for international trade as well as academicians use this indicator in majority as a standard for measuring country's engagement in international trade. In this article, the diagnosis of Slovak Competitiveness will issue from the index – Revealed Comparative Advantages (RCA) applied for SITC (version 3) commodity classification.

$$RCA = (X_{ij} - M_{ij}) / (X_{ij} + M_{ij}) \quad (1)$$

where  $X_{ij}$  – country  $i$  export of product  $j$ ,  $M_{ij}$  – country  $i$  import in product  $j$

Following graphs indicate metamorphosis of comparative advantages to competitive ones over a certain period. For the sake of a better transparency, only selected clusters of SITC commodity groupings are presented in this article. They sufficiently depict a shift in Slovak trade flow specialisation under observed period.

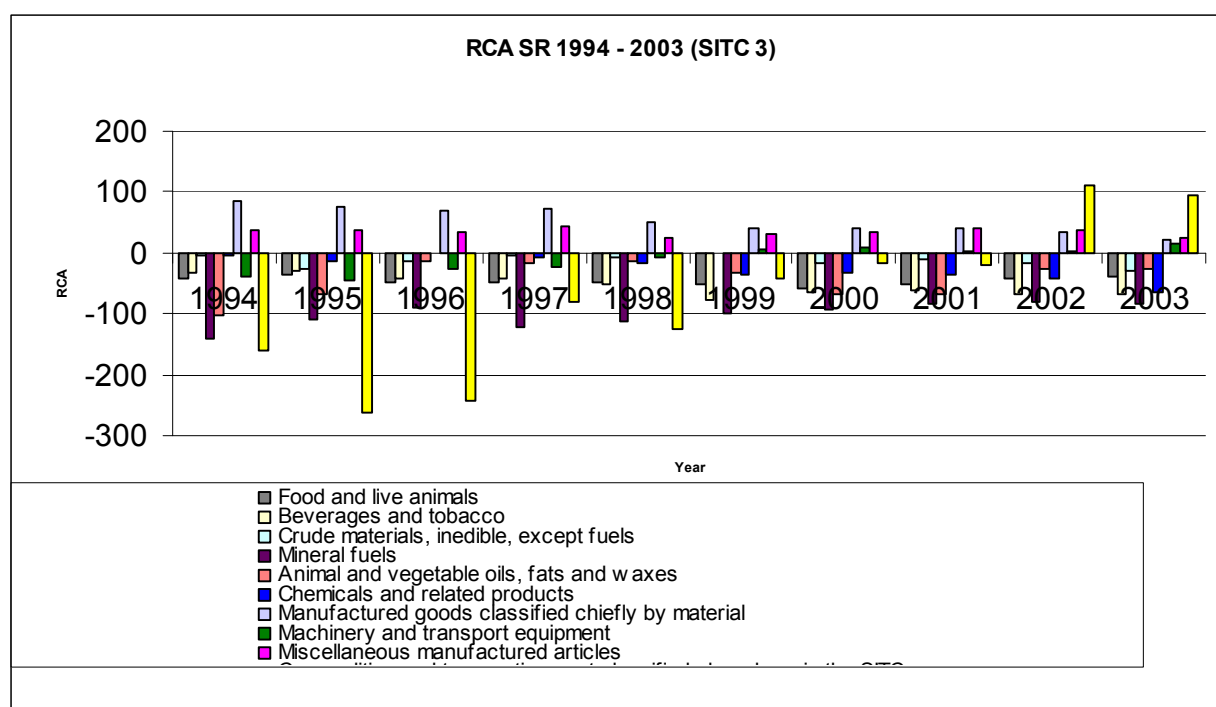
$$PM_i^t = \frac{X_{ijk}^t}{X_{...}^t} = \left[ \frac{X_{ijk}^t}{X_{.jk}^t} \times \frac{X_{.jk}^t}{X_{...}^t} \right], \text{ where } PM_i^t - \text{market share of country } i \text{ at year } t, X_{ijk}^t - \text{country } i \text{ exports of product}$$

$k$  to country  $j$  at year  $t$ ,  $X_{.jk}^t$  - total exports of product  $k$  to country  $j$  at year  $t$ ,  $X_{...}^t$  - world exports of all products at year

$t$ ,  $\frac{X_{ijk}^t}{X_{.jk}^t}$  - the market share of country  $i$  in country  $j$  for the product  $k$  at year  $t$ ,  $\frac{X_{.jk}^t}{X_{...}^t}$  - the weight of the importing market in

world imports.

**Graph 1**  
**Specialisation of Slovakia in Commodity Trade**

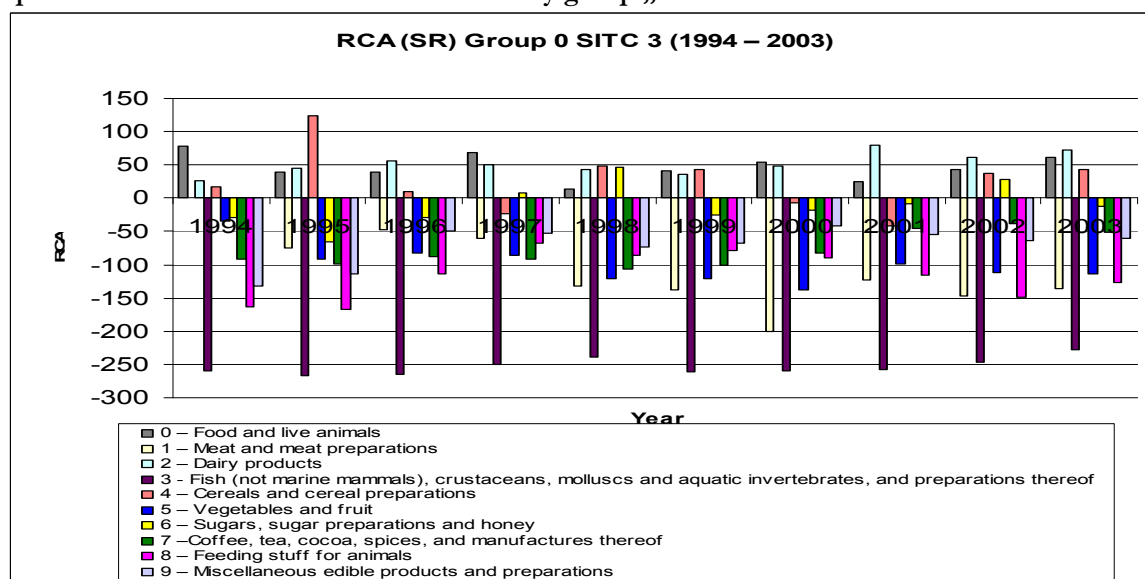


*Note:* Data from Statistical Office of the Slovak Republic

Values greater than zero indicate comparative advantage (specialisation) of a country in a given commodity cluster. It is evident, that since 1999 Slovakia has been achieving its position on the world market in exporting of machinery and transport equipment. As values are showing, tradition in production of these commodities has been renewed mainly due to the automobile business company located in Bratislava with a steady high rate on Slovak trade flow – further on followed by another two automobile plants one in Zilina and another in Trnava. Crude materials and chemicals are also potentials for successful exporting clusters in the future. In the following graphs some clusters will be put to a more detailed analysis.

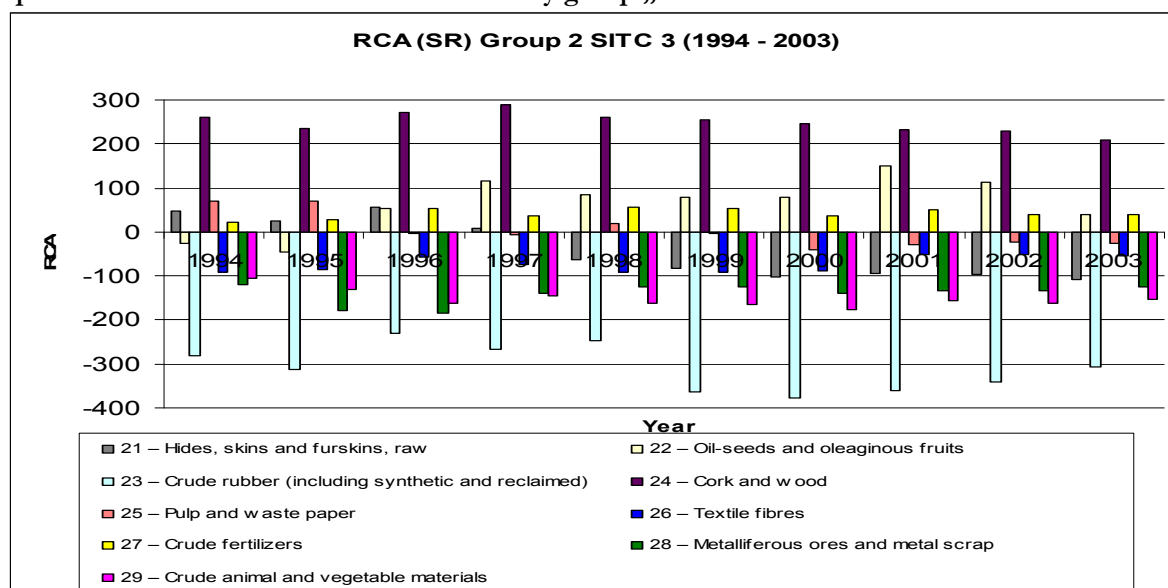
Cereals (Graph 2) e.g. could hold their predominance as it was the main arable crop during the transition period. Dairy products confirm the strong position of producers on domestic market with a tendency to reinforce their position worldwide. There is a majority of dairies located in Slovakia that are pleased to have many foreign consumers of common and special milk products. This graph clearly points out a high Slovak dependency on importing fish, coffee, tea, cocoa. Also sugar plays important role in Slovak trade exchange as it has a long tradition (*first sugar factories were established on our territory already in 18th and 19th century*). However, figures on the graph indicate, that domestic production meets a strong foreign competition.

**Graph 2**  
Specialisation of Slovakia within a commodity group „0“ of SITC 3



Note: Data from Statistical Office of the Slovak Republic

**Graph 3**  
Specialisation of Slovakia within a commodity group „2“ of SITC 3



Note: Data from Statistical Office of the Slovak Republic

From all subgroups (Graph 3), there is mainly wood industry with a high export potential according to the values achieved and thus it has indications for further specialisation tendencies. E.g. Slovak Furniture Industry with its most successful parts like armchairs, chairs and furniture do their bit to these recorded figures. Although wood industry is not a leading industry in Slovakia, environment and large forest tracks in Slovakia predetermine its future export orientation without any import requirements. In addition to this, a majority of business companies operating in Slovakia in this field are SMEs. However, a sudden weather conditions may alter or substantially devastate the environment and hitherto the comparative advantages (a case of Slovakia in November 2004). Although Slovakia is facing competitive advantages in wood, it is losing in some extent its comparative advantages in favour of competitive ones.

### Competitive Advantages of Slovakia

- **Strategic Position**
- **Availability of highly skilled Low Cost Labour** (about 88 % of the Slovak Population receives higher or secondary education).
- **Low Taxes**
- **State Investment Support**
- **Industrial Tradition (Automobile industry, Chemical industry, Metallurgy, Wood processing industry, Glass industry, Footwear industry),**
- **Attractive Nature environment**

### Final word

Slovakia made significant changes in territorial and commodity structure of its foreign trade. At present, the main trading partners are Germany, and the Czech Republic. The highest values of Slovak total trade are recorded within EU countries. Slovakia's trade is at present generated with a higher extending by competitive advantages. Some of comparative advantages (natural resources, fuel resources) of Slovakia are not sufficient to meet domestic demand, as e.g. the Slovak Republic has minor oil resources and has to rely on oil imports. Domestic extraction of crude oil covers only about 1.5% of domestic consumption.

However, for the future economic growth generated by foreign consumption the Electro-technology, automotive, engineering and wood processing industry, which at the same time represent well-developed sectors with industrial heritage, are playing a crucial role. Recently is Slovakia offering new investment possibilities in information technology. Also the dynamic growth of the automobile industry in Slovakia has created conditions to facilitate development of other machinery industry sub-sectors, like delivers of components. Since producers strictly keep to quality criteria, they create friendly conditions for access to world market. Although comparative advantages play a decisive role which sector is to be developed or supported according to the endowments of productive factors, they alone cannot sufficiently stimulate the development of a particular industry. Other key factors are of great importance e.g. natural resources, skilled labor, capital, physical infrastructure, and scientific and technical know-how, state support, etc. A case of Slovak trade flow confirmed this statement.

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## ETHICS OF SMALL ENTERPRISES IN THE ERA OF GLOBALIZATION

### Abstract

The small enterprises are decisive players in business life; consequently the area of research of corporate ethics also has to be extended to cover this facet of enterprises. In the future the honest and responsible attitude may increasingly appear as a competitive edge and in many cases even as the minimum criterion of staying on the global market.

In the age of globalization in the course of the decision making of small enterprises ethical questions arise mainly in connection with the social responsibility of the enterprise, with the consideration of those affected in the enterprise and with the management of the enterprise. The stressing of these sets of themes is justified by the peculiar situation of the small enterprises.

In this study the best solution of the practical problems of ethics and of globalization is illustrated by the examples of Dutch, Hungarian and German small enterprise.

### Introduction

The practice of developed market economies increasingly shows that the material and moral interests of a democratic society cannot be set against each other in the long run. The globalization process does not only have economic and cultural effects, but also moral implications. The moral questions of globalization get into the foreground primarily in connection with the large corporations. At the same time ethical problems can also be observed among small enterprises and it is necessary to interpret in a special manner those questions of corporate ethics that pertain to the corporate sector.

#### 1. The interpretation of the ethics of small enterprises

*Ethics* means morals, the study of morals and the system of moral principles. Morals are a characteristic of human actions. It comprises the customs, modes of activity appearing in practice and the rules and norms directing them as well as the values constituting their foundation (*De George*, 1998). These are present in everyday life irrespective of the fact whether they are good or bad, consciously or not.

The actions of man are not only regulated by morals, but also the law and other customary or universal systems of regulations (for instance rules of behavior and corporate regulations).

The *ethics of the economy* examines in the widest interpretation the interactions of the economy and of morals (*Homann*, 1993). It deals with the question how moral norms can prevail among the conditions of the modern economy. The ethics of the economy essentially is: applied ethics of interdisciplinary character that is characterized by a critical attitude. Corporate ethics is part of the ethics of the economy.

The *corporate ethics* is the embodiment of the appearance of moral dimension within the enterprise. The capitalist economic system ensuring the long-term survival and growth of the enterprise serves as its framework and it does not have the goal of criticizing the system. On the basis of this it comprises the study of the following *principal themes* (*Szegedi*, 2001):

- The social responsibility of the enterprises
- The role of enterprises in society
- The enterprise as a moral agent
- The compatibility of moral responsibility and the drive to realize profits
- The consideration of the interests of the groups that are relevant (the affected parties) from a corporate point of view
- The mapping of the possible moral problems within the enterprise
- Working out morally legitimate strategies
- The ethical aspects of enterprise sub-systems

- The institutionalization of ethics within the enterprise
- The forming of an ethical enterprise culture
- The role of individual values in the enterprise decision making process, with a special view to the values of managers
- The problem of conflicts of roles within the enterprise
- The investigation of global enterprises from an ethical viewpoint

Beyond the exploration of the theoretical correlations of these areas the empirical study of them also makes up part of enterprise ethics.

The interpretation of *small enterprise ethics* is built on the concept of enterprise ethics formulated in general above as well as on its areas of investigation. In the course of decision making and behavior of small enterprises moral aspects and values arise mainly in connection with the social responsibility of the enterprise, with taking into consideration the interests of those affected in the enterprise and with the management of the enterprise. The emphasis on these sets of themes is justified by the *peculiar situation of small enterprises*, which can be characterized by the following.

The small enterprises have to function among environmental factors that differ from those of large companies. Small enterprises often face *lack of resources*, which makes them vulnerable to the market forces. This leads to a situation that in the course of the struggle to stay on the market and survive the ethical aspects becomes less important.

Another peculiarity is that in a number of small enterprises the owner and the manager are the same person; therefore the *entrepreneur plays a key role* in the development of the enterprise, *in the formation of its system of values*.

Another specific finding is the fact that the small enterprise owners and managers become organically integrated into the local communities. Consequently the *enterprises depend a great deal more on the stability and well being of the local communities*, in which they are active, as most of their customers and the majority of their employees are also from the vicinity.

After learning about some ethically important operating characteristics of small enterprises, we may pose the question: in reality what does *ethical small enterprise business management* mean? The answer has been summed up in the following:

- The creation of jobs,
- The support of local communities,
- Environmental protection,
- Well-being, just and decent treatment for the employees,
- Opportunities for continuing education and personality development,
- Healthy and safe conditions of work,
- The production of safe and good quality products/services,
- Fair prices and correct advertising,
- Fair market competition,
- Jointly accepted systems of values,
- A value-guided system,
- Communication with the employees and their involvement into the decision-making.

The ethical small enterprise business management *can facilitate* the higher performance of the organization, can have a positive influence on the reputation of the enterprise, may open up new market opportunities for the enterprise, and ultimately it contributes to the development of a stable and more moral entrepreneurial society.

## 2. The ethical problems of globalization

Globalization is a long, complex, worldwide process whose economical, cultural, moral and other ramifications is advisable to examine separately too.

Among the most striking forms of *economic globalization* such general phenomena can be mentioned, as for example the widening choice of products, the rapid technological progress, the significant increase of efficiency and the dynamic increase of foreign investments (Fülöp, 2001).

*The intertwining of the cultures of the world* is a slower, but well perceptible process, in the course of which the importance of the similarities and differences in this area has increased. The international effects transcending borders are accorded a prominent role in the development of individual societies.

It is perhaps the most difficult to conceive the *moral side* of globalization. It is important to underscore that in parallel with economic and cultural globalization the demand for ensuring social and human rights are increasing. Simultaneously with the increase of prosperity the desire for the creation of social security is becoming strong.

The critics of globalization first of all stress the following points:

- The majority of multinational/global enterprises pay very little taxes after their income. They achieve this by declaring taxable income only in the country where the tax rate is very low. In this way the tax receipts of the state that could be used for providing public functions are decreasing. In a number of cases it has also resulted in legal action that the enterprises used too high transfer prices in countries with high tax rates for the sake of tax evasion.  
The establishment of offshore companies is a widely used method. By means of the tax havens the multinational companies also take advantage of such legal and economically rational opportunities that could be questioned from an ethical point of view, as they contribute to a lesser degree to the establishment of public welfare.
- In the world economy a significant amount of differentiation of wealth has taken place. The richest 20% of all states have control over 85% of the gross national product of the whole world.
- In the welfare societies the rate of unemployment is increasing and the real incomes are decreasing, a fact which creates the uncertainty of existence of the middle class. It is a general goal to increase the efficiency of the operation of the enterprise. To achieve this it is a trend that the enterprises carry out organizational restructuring, they merge and the result in most cases is the elimination of jobs.
- In the developing countries it poses a problem that the multinational enterprises in some cases employ people for starvation wages under inhuman conditions. Environmental pollution can be observed too, as ecologically sustainable development is not ensured. In these countries the selfish interests of multinational companies that is not always progressive also exerts significant influence on the development of democracy.
- Globalization destroys traditional values and leads to the homogenization of cultures, to their Americanization. It makes international the phenomena of terrorism, the mafia economy and drug use. All these have contributed to the fact that demonstrations against globalization have been on the rise.

Various proposals have been advanced concerning the solution of the ethical problems of globalization. The proposals against radical globalization are directed at the *recapture of our political and economical living space*, as well as at the *transformation of the global system into local systems*. The basis of the recapturing of political living space is pushing such enterprises out of politics, which primarily means the ending of subsidies and exemptions, lobbying and charity for these companies. In the economic area it is recommended to eliminate the state subsidy for these enterprises, to levy the *Tobin tax* on financial transactions, to tax activities harming the environment or society and the equitable distribution of employment. The global system can be imagined as using the local resources, local production and by the acceleration of the cooperation between local communities (Korten, 1998).

According to other views the key to the solution is that *there is need not for less but more globalization*, moreover for *ethical globalization*. The brakes do not have to be put on free trade and cooperation, but rather they have to be put into a moral framework striving for the prevention of conflict and international cooperation (Verhofstadt, 2001).

The approach emphasizing *the role and responsibility of enterprises* offers an alternative solution. The business sphere and the enterprises are today the most influential and powerful forces of society, therefore they cannot shirk their responsibility in the solution of social problems and they also have the appropriate tools for this (Pataki-Radácsi, 2000). This goes beyond the conventional concept of the enterprise and regards the enterprise as a “semipublic institution” operating as an integral part of society (Ulrich, 1995).

### 3. The responses of small enterprises

In general the role of big enterprises is emphasized in the solution of the ethical problems sketched and the importance of small enterprises – in contrast to their economical and social weight - is neglected both in the professional literature and in the area of practical solutions. In our opinion the small enterprises can contribute to the solution of ethical problems mainly through the assumption of social responsibility, ethical company management and ethical institutions.

### ***The social responsibility of small enterprises***

*Goodpaster* and *Matthews* project the concept of responsibility to the enterprises within the framework of the so-called „*responsible enterprise concept*” as follows: „Those companies that pay close attention to their employment practices, the effect that their production processes and their products exert on the environment and human health, bear witness to such a rationality and respect as morally responsible persons” (*Goodpaster-Matthews*, 1982).

According to the most recent definition of the *World Business Council for Sustainable Development* the firms embracing the principles of responsible business behavior in the course of their operation „bear witness to an ethical behavior and contribute to economic development in such a manner that they improve the quality of life of workers and their family members as well as of the local community and society”.

In the professional literature the views are split with regard to the assumption of responsibility of small enterprises. In the view of some experts the small enterprises have neither the influence nor material resources for exerting an influence on social changes, rather their task lies in avoiding “*irresponsible*” behavior (*Van Auken-Ireland*, 1982). On the other hand, *Jones* argues that the probability of the occurrence of a stakeholder management is higher in the case of small enterprises. According to him in the case of large enterprises the external, financial pressure and the internal, bureaucratic management prevent their assumption of social responsibility. In contrast to this the small enterprises, even though may be struggling with shortage of resources, the individual values of owners may lead the firm to a positive direction, to the direction of assuming social responsibility (*Jones*, 1999).

According to the survey of *Chrisman* and *Fry* the small enterprises have a great deal of consciousness of social responsibility. In several areas, for example in more effective utilization of resources, the importance of equal application opportunity, or innovation, they have shown more sensitivity than those working in the non-business sphere (*Chrisman-Fry*, 1982).

According to an investigation encompassing 275 small business managers and 300 persons working in the non-business sphere the social responsibility of small enterprises is the greatest vis-à-vis the customers, the expression of which is seen most in the assurance of product quality. Neither the enterprises, nor the private persons regard the creation of jobs an important area from the point of view of social responsibility of enterprises. An essential difference presented itself in two areas in the opinion of the enterprises and the non-business sphere: the enterprises considered it less important to ensure fair advertising and equal opportunity (*Chrisman-Archer*, 1984).

*Fülöp*, *Hisrich* and *Szegedi* (1998) investigated the social responsibility of small enterprises (in the context of comparing those to large companies) among the first ones in Hungary. The most important findings of their research were summed up as follows.

In reference to *social responsibility* among Hungarian enterprises in addition to the responsibility related to customers the responsibility for employees, competitors, the natural environment as well as need for earning appropriate profits have often been voiced.

The differing assessment of the *social responsibility of small and medium-sized enterprises* is traced back to the much larger economic, social and environmental effect of the activities of the large enterprises.

Both enterprise groups judge similarly *the importance of the areas of social responsibility*. The only difference presented itself only with relation to innovation, survival, growth and the conditions of work. No significant relationship could be shown between the economic and social performance of the enterprises. A comparison of industrial branches revealed that the efficient use of resources was considered important especially in the energy and processing industry, innovation in chemical and machinery industry enterprises and decent salaries in the energy and the construction industry and commerce.

In connection with *meeting social requirements* it may be emphasized that none of the study groups cast their vote of great confidence for the enterprise sector, the large enterprises significantly undervalue the

performance of small enterprises, and those outside the business sphere judge the social performance of enterprises in a very negative light. In order to attain improvement in this area, it is not enough to make people aware about the social responsibility of enterprises, but ensuring appropriate conditions is also indispensable.

### ***The ethical management of a small enterprise***

Behind the decisions and activities within the enterprise and those related to external affected parties there are managers with individual, common and institutionalized value system. The individual values develop on the basis of personal experiences, individually selected logical models, the activities of self-interpretation and self-justification as well as the expressions and behavioral patterns characteristic of the individual. In addition to the directly observable surface phenomena and the so-called "core" representing the highest values and life philosophy, the moral values also constitute part of the value system of the individual (Nagy, 1999).

In order to have *ethical decisions made in an enterprise* it is indispensable that „ethical people should be employed in the firm who are capable of making value judgments, they also know how to do it and they do not shrink back from it" (Cavanagh, 1984). The ethical management assumes responsibility for the effect of the operation of the enterprise exerted on others. Treating the affected people not as a tool, but as a goal it is endeavoring on a firm ethical basis to achieve corporate success. In the course of its managerial activity it pays attention not only to the adherence to the legal regulations, but for it the law means the ethical minimum. Even if ethics and social responsibility is a complex problem for the owners of *small enterprises*, the key for the realization of *ethical management* is the value system of the owner-manager. The owner only has the opportunity to make prevalent honesty, irreproachability and justice in all the key decisions. The behavior of the owner is a model to be followed for all employees.

The ethical impact of the owner is stronger in small enterprises than in large enterprises because the leading role of the manager does not prevail divided among different levels of management. In small enterprises the employees can easily identify the owner and in general they even steadily keep an eye on him. Therefore the owners of the small enterprises have a major opportunity to ensure the prevalence of high-level ethical norms in every business decision. In spite of this business life brings to the surface day after day problems that can be traced back to unethical management behavior. According to the classification of *Bounds and Lamb* (1988) the main *ethical sources of problems*:

- The conflict of interest (for example between the small enterprise and the employee in the case of dismissal),
- The dishonest behavior (for example intentional forwarding of false pieces of information),
- Injustice (partiality, not equal treatment in personal matters).

The treatment of a situation of conflict deriving from unethical behavior is not easy. In a substantial part of the cases the ethical questions cannot be simplified to the separation of yes and no, good and bad. The managers have to be competent not only from a professional but also ethical point of view for the sake of proper handling of such situations.

The small enterprise owner (manager) striving for *ethical and responsible behavior* has to fulfill at least a *four-level requirement*:

- The minimum condition is the meeting of the basic goal of the small enterprise, effective business management;
- Effective business management must be realized in such a way that it should comply with legal regulations;
- During decision making the usual social ethical norms have to prevail;
- In certain cases it even has to go beyond these norms without the violation of the previous criteria.

Therefore in summary the owners of small enterprises have to be aware that their own personal irreproachable conduct and ethical example setting will be the key to the ethical performance of the enterprise. Their values may permeate and characterize the management. This uniquely advantageous situation is the one that places the small enterprise owners into the role of an ethical manager.

The empirical surveys conducted on this theme tend to show rather a negative than positive image about the system of values of the managers. Six of ten *American* managers approach the problems in a

pragmatic and result-oriented manner, and only three ask themselves the question “whether is it ethical”? The values that really count in managerial work are the efficiency, the talent, the effectiveness and the high level of work performance. Such values as patience, equality, compassion, trust, loyalty and honesty play a role with much less chance in the managerial decisions (Frederick, 1988).

According to a survey comprising 530 managers in Germany clearly the opportunistic basic attitude is typical of the younger managers, while the positive moral orientation could be observed only in a few cases. This opportunistic behavioral pattern gains expression in 4 things that taken together make it clear that among the managers interviewed the moral orientation towards common norms was completely pushed into the background in favor of the egoistic preferences (Kaufmann, Kerber-Zulebner, 1986).

According to an earlier survey concerning the values of Hungarian managers „Among the players in business there are a lot of such participants whose primary goal is to get rich quick at any price and not the ethical behavior” (Csurgó – Hajdú, 1994).

In the course of the joint research project of the University of Miskolc and the Case Western Reserve University an interview was conducted by questionnaire of 152 small business entrepreneurs-owners in Northern Hungary. The main findings of the survey are (Fülöp-Hisrich-Solymosy-Szegedi, 1997):

- It is a peculiarity of small business entrepreneurs-owners that can also be observed in international research projects that they consider themselves more decent than the managers of large companies.
- The transgressions committed against the owner and employees fall under strict moral judgment in connection with those affected. The approach of the entrepreneurs towards the environment is also positive. In connection with the competitors according to the predominant majority of the opinions all means are allowed. In relation to the customers in situations of decision with the potential of big profits the moral considerations unequivocally are pushed into the background.

### ***The institutionalization of ethics in the case of small enterprises***

All organizations have at their disposal some kind of ethical program. With the majority of them this does not present itself in an explicit form, but they are hidden in the corporate culture, systems and the organizational processes.

The most important implicit aspects are the corporate culture, the incentive system, the managerial attitude, the promotion policy and the evaluation of performance (Brenner, 1992).

According to the managers participating in an American empirical survey the effect of the implicit forms of ethical institutionalization on the ethical behavior within the enterprise is much more significant than the effect of the explicit institutions. The role of the corporate culture and of the ethical managerial behavior is underscored in particular (Jose-Thibodeaux, 1999).

The formalized integration of ethics in corporate practice has been accorded a great deal of emphasis from the beginning in the United States where practical orientation is predominant and the institutionalization of ethics has also begun in the Western European countries. The tools of integration are the formalized ethical institutions whose creation may facilitate the consideration of the ethical aspects of decision processes, the corporate behavior with an ethical foundation.

Future views, the mission statements and corporate philosophies also appear in the small enterprises from among the ethical institutions. The ethical institution playing the most important role is the ethical code. In addition to the code the training programs as well as auditing play major roles.

The *corporate future view, the mission and the corporate philosophy* may incorporate the most important corporate values as well as the voluntary assumption of commitment and responsibility associated with the internal and external affected parties.

The *ethical code* means the written recording of basic corporate ethical principles and behavioral rules. It contributes to the clarification of what is considered legitimate and responsible in the daily business life of the enterprise. It has to serve as a standard for the facilitation of the ethical decision making of the managers and employees. Although its creation may improve the image of the enterprise, it is not a PR publication. The voluntary assumption of commitment formulated in the ethical code will only be effective if concrete steps also follow the declaration of the intent.

According to the view of certain authors it is less the written result than the process itself is the challenge of the ethical code (Radácsi, 1997, Szegedi, 2001).

The ethical training programs may lend assistance to the solution of complex corporate ethical problems.

The goal of the ethical training sessions is (*Gandz-Hayes, 1988; Driscoll-Hoffmann, 1998*):

- Familiarization of the corporate values and the strengthening of the ethical consciousness of the employees
- The raising of problems of ethical character
- The presentation of behavioral models facilitating ethical decision making

During the development of the training program it is also advisable to involve external consultants and corporate employees. It is important that not only the managers of the enterprise, but also the co-workers should be involved in the training thereby making possible the communication.

Ethical audit "is the process of analysis and measurement of corporate activities associated with ethically sensitive areas" (*Hoffmann, 1995*). Ethical auditing may be internal auditing as well as auditing carried out with the involvement of external experts, the goal of both of them is the evaluation of realization of the goals of the enterprise associated with those affected. The ethical auditing performed by outsiders increases the effectiveness and credibility of the efforts of ethical character of the enterprise.

Several initiatives exist for the development of ethical certification system. For example such is the AA 1000 standard that has been developed by the British *Institute of Social and Ethical AccountAbility*. This standard is built on a four-step model whose elements are: planning, realization, control and reporting; it encompasses all those affected, and it can be applied to an enterprise of any size.

Another significant initiative is the SA 8000 (*Social Accountability 8000*) standard that has been developed by the *Council on Economic Priorities* of New York, a big American consumer organization together with other organizations, enterprises and certification firms. It pertains to an only corporate affected party, to the employees, its main criteria are the prohibition of child labor, the consideration of the need for a safe and healthy workplace environment, the freedom of association and assembly, the prohibition of racial, sex, religious and political discrimination, the limiting of working hours and the stipulation pertaining to the minimum wage. Although the SA 8000 typically is the standard of big multinational/global enterprises, it can also affect an increasing number of small enterprises by means of the supplier networks.

**The expected direction of the development of ethical auditing is the creation of an internationally accepted, new ISO standard embracing all corporate affected persons pertaining to business behavior and corporate social responsibility.**

The international empirical research efforts conducted in this theme show that the institutionalization of ethics within the enterprise is the most advanced in the USA. The surveys conducted by the *Center for Business Ethics* in this area are significant (1986, 1992). In Europe the number of applied ethical institutions is a lot lower and so is the number of surveys bearing witness to this. In *Switzerland Staffelbach* carried out such an investigation in 1991 (*Staffelbach, 1991*), then a similar survey was conducted among the biggest German and Swiss companies (*Ulrich-Lunau-Weber, 1996*). According to the results of these surveys in Europe a slow trend of increase can be observed.

The level of ethical institutionalization in Hungarian enterprises is low. Approximately 11% of big enterprises have an ethical code, 3% has an ethical committee and 14% has held ethical training in the company. With reference to the small enterprises a detailed in-country survey has not been published, but it can be assumed that the ethical institutionalization is minimal.

This article ends with the theoretical and philosophical interpretation. The second part coming in the next ERENET will present case study highlighting the practical issue of the business ethics and social responsibility.

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## CONFERENCE PAPERS

### YES for EUROPE

THE EUROPEAN CONFEDERATION OF YOUNG ENTREPRENEURS

#### REDISCOVERING EUROPE'S ENTREPRENEURIAL SPIRIT: EntrepreneurShip – The Winds for Change

**YES for Europe** is the main association of young entrepreneurs in Europe (representing around 35.000 young entrepreneurs under 40 years old) and aims at improving the economic and social performance of European entrepreneurship. Its members include the major national associations of young entrepreneurs in the field of industry, trade and service from 10 countries. YES for Europe organises every year a Summit aimed at creating a direct dialogue between young entrepreneurs and EU decision makers on items of main interest. This year, YES for Europe focused on "EntrepreneurShip - The Winds of Change". *Dr. Antal Szabó*, UNECE Consultant, ERENET Scientific Director participated at the YES 15<sup>th</sup> Annual Summit held on 6 December 2005 at the European Parliament. His Statement you will find at the ERENET home-page at <http://www.erenet.org>.

*Marco Pezzini*, Secretary General of the YES emphasizes that

*Entrepreneurship is the key to European competitiveness.*

„Being entrepreneurial today means reviewing all the established strategies and tools, and being continuously reactive to an ever-changing environment. This obviously requires a favourable political framework, which makes things easier for entrepreneurs and does not raise new obstacles. The European Young Entrepreneurs wish to involve all the stakeholders in the debate, asking to European and national politicians what they are doing for competitiveness and stimulating representatives of the trade unionists and of the young farmers to share a more entrepreneurial attitude.“



*José Manuel BARROSO*, President of the European Commission, addressed the Summit highlighting that entrepreneurship is the backbone of the European economy. Europe needs new entrepreneurs. The entrepreneurial spirit not exploded so far. Promoting the implementation of the Lisbon Strategy remains top priority for the EU and it is the time to implement it at the national level. For several reasons, the achieved results are so far insufficient. *Barroso* emphasised the need for entrepreneurial values. Taking-risk is important and making failure should be accepted. The EC should not stay with 25 mini-market.

**The Concept Paper of the YES for Europe is available at the ERENET Secretariat and should be sent to interested persons by sending a requested by Email giving the full name, title, place of work and e-mail address. ERENET Members will get the copy automatically.**

## INSTITUTIONAL PROFILE

### UNIVERSITY OF LJUBLJANA

File: <http://miha.ef.uni-lj.si/english/>



Univerza v Ljubljani

The **Faculty of Economics at the University of Ljubljana (FELU)** was founded in 1946, 27 years after the University of Ljubljana was established. Today, it is the University's largest faculty and occupies part of a spacious campus on the outskirts of the city. The FELU has a long tradition in research and education. Development and

modernisation of teaching and research work have been priorities at the Faculty from its very beginning. At present and in the future, the Faculty is endeavouring to become known for its quality and achievements in education and research. At the threshold of the 21st century, the Faculty faces new challenges and opportunities.

In order to promote and motivate research, the FELU and the Union of Economists of Slovenia have started to issue a research-oriented journal called [THE ECONOMIC AND BUSINESS REVIEW FOR CENTRAL AND SOUTH-EASTERN EUROPE](http://miha.ef.uni-lj.si/ebr/). (See at <http://miha.ef.uni-lj.si/ebr/>). The Review seeks to embrace the disciplines of economics, organisation and business with a particular emphasis on the conditions and prospects of Central and South-eastern European countries. By adopting a multi-disciplinary approach, the Review wishes to attract writers from all parts of the world whose research and policy interests involve this geographical area. Both theoretical and empirical contributions from these areas, especially those with lessons for the economics policies of these countries, are most welcome. The Review is published four times a year. It is indexed in the ECONLIT database and has a JEL classification.

## UNDERGRADUATE STUDY PROGRAMMES

At the undergraduate level, the Faculty offers two different study programmes. The first is the University Study Programme in Economics and Business. The latter is the Business School Study Programme at college level. Both study programmes are offered with full-time and part-time options.

### 1. *The University Study Programme in Economics and Business*

**The University Study Programme in Economics and Business** is the core programme at the Faculty. This university degree programme is science-based, offering a thorough theoretical background combined with practical orientation. It is designed to give students a broad-based business and economic background, a thorough education in one business or economic field, an in-depth international understanding, and good language skills.

The main admission requirement for the University Study Programme in Economics and Business is 'matura' (exam taken after full completion of secondary education, which corresponds to a Baccalaureate, Abitur or International Baccalaureate). Upon successful completion of studies, students receive a university undergraduate degree that enables them to start work or to continue their studies at the postgraduate level.

The programme is targeted at the very best Slovenian students. The Faculty's main objective is to prepare them for challenging managerial careers in national and international business or for expert jobs in the private or public sector. In addition, the Faculty's aim and national responsibility is to educate researchers and decision-makers in the fields of business and economics.

The University Study Programme in Economics and Business is divided into an economics department and a business department. The economics department offers the following areas of specialisation:

- National Economy
- International Economics and Business
- Finance and Banking

Areas of specialisation offered to business department students:

- Marketing
- Finance
- Accounting
- Management and Organisation
- Information Management

### 2. *The Business School Study Programme*

**The Business School Study Programme** is a professional study programme that instructs students on practical and intuitive use of their knowledge, analytical procedures and business techniques, and is closely connected to the problems of business practice. Not only does the programme help develop analytical abilities, but it expressly

develops negotiating and decision-making skills and the realisation of decisions taken in various types of economic or other organisations.

The admission requirement for the Business School Study Programme is either a 'matura' (exam taken after full completion of secondary education, which corresponds to a Baccalaureate, Abitur or International Baccalaureate) or final exam. Upon the successful completion of studies, students receive a Business School undergraduate degree. After graduation, students should possess 'ready-to-use' knowledge for medium-level managerial and professional positions. They can upgrade their knowledge by attending specialist degree programmes run by the FELU and other institutions.

Areas of specialisation within the Business School Study Programme:

- Management
- Tourism
- Entrepreneurship
- International Business
- Business Finance
- The Insurance Industry
- Banking
- Accounting
- Business Information Systems

### 3. *Distance Education at the Faculty*

The Faculty started trial implementation of the distance education (DE) study mode in October 1995 for the first year of the Business School Study Programme. Today, the DE Business School Study Programme is an accredited and self-sustaining DE degree programme in Slovenia.

The main aim of the DE study mode is to provide broader access to education and to promote innovation in and improve the quality of learning. Its objective is, therefore, to grant equal opportunities and to guarantee lifelong learning opportunities to all whom, at whatever stage of life, want to learn in order to acquire or upgrade their skills.



## SABANCI UNIVERSITY

File: <http://www.sabanciuniv.edu/eng/>



Under the direction of one of Turkey's leading family-run foundations, the **Hacı Ömer Foundation (VAKSA)**, the Sabancı Group established Sabancı University in July 1994. More than fifty academicians from 22 different countries, students, and individuals from the private sector participated in the conference in August 1995. At the end of the conference, based on the knowledge and experience of the participants, the key philosophy of a "world university" emerged: "creating and developing together." This conference was followed by design committees which worked under the guidance of a "Student Tendency Survey" and other academic program design activities. The groundbreaking ceremony for the Sabancı University campus took place on July 31, 1997. The University began its first academic year on October 20, 1999.

As of March 2005, there are 235 Faculty Members and Instructors in Sabancı University. Full time academicians constitute the majority of this number. As Sabancı University fulfills its goal of becoming a "world university," the value of internationally educated and employed staff in realizing this goal is immeasurable.

Sabancı University offers diploma programmes at the following faculties:

- Engineering and Natural Sciences
- Arts and Social Sciences and
- Management

The Sabanci Management Program focuses on developing young professionals who possess a global vision with well-developed analytical and managerial skills to lead Turkish and global organizations in mastering 21st century challenges.

Our Member **Dilek Cetindamar**, Associated Professor at the Graduate School of Management is working at the Faculty of Management. Her main research and teaching areas are in the field of Technology Management and Entrepreneurship. Technology management consists of both firm and national level technological planning, development and application issues that are important in reaching strategic goals of a country or an organization. Thus, its topics range from technology planning, research & development management to technology acquisition. My research is focused mainly on technology and innovation development by examining practices of different sectors. My particular interest is the development and diffusion of biotechnology and environmental technologies in Turkey. Her vision on entrepreneurship is the following: *“Entrepreneurship is an innovative process whereby entrepreneurs take risk and pursue opportunities. It covers not only starting up a new venture but also innovation activities of a firm. My research focuses in understanding the problems of entrepreneurs by studying the infrastructure of entrepreneurship in Turkey, particularly the financial markets. In addition, I teach entrepreneurship course at the university and organize a certificate program for entrepreneurs.”*



## UZHGOROD NATIONAL UNIVERSITY



**Uzhgorod National University** was founded on 18 October 1945.

At present it has 15 [Departments](#). Teaching process is provided by 84 chairs. Uzhgorod National University has also [Scientific Departments](#). The University also disposes of the botanical gardens, zoological museum, scientific biological base, cryogenic station, publishing office. The specialists are trained in 37 specialties, the total number of students amounts to 10000.

Skilled scientific and pedagogic personnel are also prepared at the post-graduate courses of the University. At the University 4 specialized Scientific Boards are functioning. The University is staffed by 2000 members: professors and assistant professors - about 800; scientific workers - about 200.

The training and research processes are located in 12 buildings covering the area of 100000 square meters. More than 1.5 million samples of books are available at the [Scientific Library](#) of the University.



## CALLS

### Call for International PhD Students

In participation with European Corporate Governance Training Program, the Sabanci University is seeking an international PhD student interested in corporate governance research. An EU fellowship, including mobility allowance, will be awarded to the successful candidate. For details and eligibility criteria see at <http://www.sabanciuniv.edu/ybf/eng/PrgPhd/CalIECGTN.pdf>

## EVENTS

The **United Nations Economic Commission for Europe** is organizing a **Forum on Risk Financing for SMEs** at the Palais des Nations in Geneva in 2006. The date of the event will be announced following the UNECE Annual Session.

Financing of all types of SMEs is one of the major burdens of entrepreneurship development, both advanced market economies as well as in transition economies. Early stage risk financing of non-innovative and innovative entrepreneurs SMEs is a major problem of entrepreneurship in many developed and developing economies. Among the major problems for SMEs is securing the initial capital so that potential entrepreneurs can start their operations. In general, European SMEs are heavily reliant on bank credit as external finance. Small enterprises often face difficulties when they approach finance providers for both investment and working capital as banks often perceive microcredit as a high risk and low return activity and the high handling cost for micro-loans. Access to finance is more business constrain for small firms rather than medium-sized enterprises. Business “Angels” and networks often do not exist or constrained by laws and regulations, so making access to risk capital is difficult for entrepreneurs. Venture capital in many economies is either limited or non-existent.

To efficiently promote entrepreneurship in the UNECE region, especially in the developed and transition economies, national and regional public sector actions should be focusing on the following areas of SME finance:

- (i) improving the legislation and framework conditions
- (ii) focusing on start-up financing, in particular microfinancing, guarantee schemes and angel financing; and
- (iii) increasing venture capital and equity funding.

The Forum will review the best practices in access to finance of SMEs and overviews selected recent national actions of SMEs in the UNECE region in order to give an impetus to the further development of their financial systems.

## NEWS

- ❖ *Dr. Laszlo A. Pook*, Metropolitan State College of Denver, Colorado (U.S.A.), and *Dr. Zsuzsanna Szabo*, Petru Maior University, Tg. Mures (Romania) examine Romania’s national information and telecommunications technology infrastructures (NII) in the country’s bid for EU accession, its investment needs in order to improve the NII, expected payoffs from NII improvements, and potential sources of investment funds for the project. The authors propose possible solutions in order to update the country’s NII. Full article appeared in *Journal of East-West Business*, Vol. 10, No. 2, 2004.

- ❖ The **Foundation for Scientific and Industrial Research at the Norwegian Institute of Technology (NTH)**, SINTEF, has been delegated the implementation of a **Project on Benchmarking of Business Incubation in Selected Transition Economies**.

The SINTEF Group is the largest independent research organisation in Scandinavia. Every year, SINTEF supports the development of 2000 or so Norwegian and overseas companies via our research and development activity. SINTEF's goal is to contribute to wealth creation and to the sound and sustainable development of society. We generate new knowledge and solutions for our customers, based on research and development in technology, the natural sciences, medicine and the social sciences



The Project Concept of the Benchmarking of Business Incubation was elaborated jointly by *Mr. Gunnar Due-Gundersen*, Chief of Operation, SINTEF, and *Dr. Antal Szabó*, ERENET Scientific Director. National experts have been selected from CEE – Croatia, Hungary, Poland, Republic of Serbia, Romania, Slovakia and Slovenia -, from CIS – Armenia, Georgia, Republic of Moldova and Ukraine – and from Turkey. The outline of the Project concept is available at the ERENET web-site.

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**Remarks:** Please note, that this publication was prepared without formal editing. The views expressed in the publication are of the authors and not necessary of the ERENET Secretariat.