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SUMMER MESSAGE OF THE SCIENTIFIC DIRECTOR

Distinguished ERENET Members and Friends,

The summer season came to an end without eliminating the EURO crisis. The views of the new French President have come no closer to those of the German Chancellor, while it appears that Greece has not refunded a single cent to its debtors. Policy makers took shorter or longer holidays and Parliamentary PMs may have spent more time with their families or pursued their hobbies. It is hard to tell. The situation in the Middle East, especially in Syria, is frightening.

The only positive event worth mentioning has been the 2012 London Summer Olympic Games with over 10,000 athletes participating. Construction in preparation for the Games included considerable redeployment aiming towards a better urban environment. Despite the huge amount of money spent (about GBP 9.3 billion), the citizens of Great Britain, especially those who live in London and its suburbs, will benefit from the excellent infrastructure, facilities and the clean air of the Olympic Park. It has been constructed on the former ugly and run-down site in East London.

The Members of the ERENET have also spent their summer holidays and enjoyed the live coverage from the London Olympic Games. As the new school year is nearly here, teachers recharged with sunshine are starting to address the curriculum. Only the warning signs of climate change are casting a shadow over all our future. In the Artic usually warm weather has meant that frozen territory six times greater that Hungary has been detached from the normal ice bound area: In Northern Hungarian mountain lakes, Mediterranean jellyfishes have appeared and on the Hungarian Great Plain unwary visitors have to avoid scorpions. They were never previously native to the area. The 1.3 billion cattle – half of them supplying McDonald with Big Mac and other junk-food – emit methane gas while ruminating. It is roughly equivalent to the same pollution as that provided by gases from the exhaust of the average car. Where are you going mankind? Will you destroy our Earth? What about the inheritance of our grandchildren? Some difficult questions need urgent answers.

This ERENET PROFILE is a unique publication. The first three papers are devoted the development of family businesses in Hungary, Slovenia and Turkey. These are followed by SME-related papers, which highlights the SME sector in Serbia and summarizes the FDI in Albania.

Dr. Szabó Antal
Scientific Director of ERENET
FAMILY BUSINESSES IN EU and HUNGARY

ABSTRACT

The importance of a family can not be substituted by anything else, the family in the society is indispensable. Family businesses exist since many centuries. They are core of the US and the EU economies. However, there is no official definition of family businesses or related term in Hungary. After the WW II the former flourishing family businesses were simply beheaded; the former owners were deported, event false charged, strew into jail or forced to emigrate. The paper presents the history of family businesses in nutshell, present definition of family business by the European Commission, highlights the story of the oldest family business: the Zwack co. in Hungary. It summarizes the process of creation of the private businesses in Hungary including the family ones. It presents the dilemmas in succession the business. Last but not least it presents a few positive family businesses as role models.

Keywords: family businesses, success factors for family businesses, business transfer and succession.

JEL Classification: D0, L26, M10, N10

Motto:

“If the family is in good shape, then the company picks up. If the company is in good shape, then the family picks up. So it’s like two wheels going together.”

William O’Hara

“If a family business works well, it is better to any other company. if it works wrong, it is worst for everyone.”

Tamás Kürti

HISTORY IN NUTSHELL

“Before the multinational corporation, there was family business,” writes William O’Hara in Centuries of Success. “Before the Industrial Revolution, there was family business. Before the enlightenment of Greece and the empire of Rome, there was family business.” In case you’re wondering. The oldest currently functioning, continuously family-owned firm is Osaka Japan’s Kongo Gumi, founded in 578 A.D. and now in its 40th generation! 1

The case is about the Osaka, Japan-based construction company Kongo Gumi Co. (Kongo Gumi), which was regarded as the world’s oldest continuously operating family-owned business till the end of 2005. In January 2006, the company was liquidated and became a wholly-owned subsidiary of Takamatsu Construction Group Co Ltd. Kongo Gumi, which was run by the Kongo family and was believed to have been operating continuously since 578, had been engaged in the construction of Buddhist temples since its inception. In more recent times, it had diversified into general construction works as well. As of early 2009, Kongo Gumi operated as a wholly-owned subsidiary of Takamatsu and the new management had brought it back into

1 The author made a presentation on the Hungarian family businesses at the invitation of the Cracow University of Economy for Polish businessman and –women in May 2012. Similar paper was presented at the MEB2012 Conference held on 1-2 June 2012 in Budapest.
profits. The company had reported a profit of ¥20 million in its first year of operation under the new management.³

Hoshi Ryokan is the oldest hot water spring and hotel according to the Guinness record. It was founded in 718 and today it is managed by the 46th generation.⁴ According to legend, the god of Mount Hakusan visited Taicho Daishi, a Buddhist priest, telling him to uncover an underground hot spring in a nearby Awazu village. The hot spring was found, and the priest requested that his disciple, a woodcutter’s son named Ganpo Seskiri, build and run a spa on the site. His family, known as Hoshi, have run a hotel in Komatsu ever since; the current structure houses 450 people in 100 rooms. Zengoro Hoshi is the current patriarch.

In Europe among the many hundred reputable firms I would like to mention the Antinori family, wine-makers based in Tuscany and Umbria who stand out from the countless Italian wine-makers for two reasons.⁵ First, the family has been making great Chianti and Orvieto wines for 26 generations, dating back to 1385. Second, for the first time in the company’s history, the people who are poised to take over the family business are women. Since the current owner: Marchese Piero Antinori, had no sons, his three daughters took over this incredible family business.⁶

In 1790, the first Zwack, Royal Physicians offered to Joseph II, the Habsburg emperor a dark brown bittersweet liquor distilled by nearly 40 different herbs. "Das is ein Unikum!" shouted the emperor according to family legend, giving its name to one of the most popular drink in Hungary synonymous to the Barack Pálinka - eau-de-vie of apricot from countryside of Kecskemét. That was one of the best marketing tricks in the word, when an emperor gave a name to a product. In 1840, József Zwack, the descendent of the royal physician in his age of 20 years established the first factory in the Morocco playground in Pest named Zwack J. and Partner. The first trademark call "My Treasure liqueur" was registered in 1881. The name Unicum was registered in 1883 and that time it has a characteristic globe with red cross on white basis.⁷ Probably the most famous advertisement for the Unicum, is the poster of a wet haired man swimming in deep water who cheers up by the sight of the floating traditional ball-shaped bottle. By 1890 the territory of the factory became to small and it moved to the Danube-side of the Ferencváros called Soroksári road, which are the Zwack premises up to now. In 1894, in the heat of preparation for the Millennium comes the tragic news on the dead of voluntary hermit, Lajos Kossuth from Turin. The factory from this moment switches over to the dark green globe bottle.

In 1915, József’s son, Lajos, took over the factory and left it to his two sons, Béla and János, upon his death. In this year, Sándor Bortnyik has created one of the most famous and popular poster for Zwack Unicum: a shipwrecked guy happy to find a bottle of Zwack Unicum in the stormy sea. Lajos was a leading capitalist in the years of Hungary's Belle Époque, a real philanthropist.

During the WW II the factory was hit by a bomb, however the distillery equipment remained intact, those the production could continued following the war. In 1946, the new democratic Government introduced the new Hungarian currency called Forint, and in the popular satirical journal Ludas Matyi the wet haired man splashed in the water holding the coin of the new Forint in his hand. However, in 1948, the newly instated Communist Government confiscated the factory possessed with no compensation and the Zwack family was forced to escape to foreign parts. Jáns Zwack fled to Vienna sitting on his shooting stick under an upturned barrel with the Unicum recipe in this breast pocket, having bribed a Russian driver to take him across the border. Péter Zwack took a train to the Yugoslav border. Béla Zwack decided to remain in Hungary, however, he was deported, together with thousand of other "class enemies", to follow the Hungarian nightmare on the Great Hungarian Plain.⁸ In the era of socialism the production of the Zwack Unicum was launched based on a false recipe.

⁴ http://www.ho-shi.co.jp/jiten/Houshi_E/home.htm
⁵ http://www.antinori.it/eng/index.php
In 1958, János Zwack took legal action against the Hungarian Government and in consequence of the US verdict of guilty it was prohibited to export the false Unicum to West. In 1970, Péter Zwack returned to Europe. By this time the Unicum was already successfully marketed and distributed in Italy. Due to the change of political situation in Eastern-Europe, Péter started to receive overtures from Hungary inviting him to return and take over the running of his old family factory. In 1987 - two years prior the collapse of the Soviet block - he took the risk and returned home together with his family. At beginning he entered a Joint Venture with the Hungarian State. In 1991, within the framework of the Hungarian privatization program the Péter Zwack & Consorten AG purchased the Budapest Liqueur State-owned property incorporating thirteen factories 1,300 employees. In 1992, the company transformed into a shareholding one and he became up to now its President. 9

Péter Zwack has seven children, of whom two - as representing the sixth generation - are actively involved in company. Sándor Zwack, born in 1974, is on the Board of Directors and is responsible for the top premium imported brands and for the prize-winning Zwack Nemes - nobel - Palinkas produced at the distillery in Kecskemét. Izabella Zwack is in charge of the newly created wine division at Zwack Unicum, which distribute leading Hungarian wines as well as importing wine from all over the word. She own a winery in Tokay, the legendary wine-making region in Northern-East Hungary. In 2008, Péter Zwack transferred the baton to his son: Sándor appointing him as President of the Board of Directors. Péter remains as eternal honorable Chairman.

Péter Zwack died on 6 August 2012 in Italy at the age of 85.

SUCCESS FACTORS IN THE ZWACK FAMILY BUSINESS 10

1. Family motto: the past obliges to the present". We have lived through the past as hard times. We always wanted to be better that those who lived before us. However the things are rooted in the past, which provide the keys of the future"

2. A family business can only work well if the family works well, when the family and business interests meet. Generally speaking, family businesses are agile, thanks to their internal drive motor, such as passion, responsibility, trust, and not least the long-term thinking.

3. A man easier finds purpose in life, working in a family business on a contrast with the multinational companies, where everything depends on whether it could reach a few percent increase in performance in the given year. A family business is also much to survive, because the goal is not only about the money. What is important is that people believe in something, be proud of, especially when even the name it bears. The intrinsic motivation starting from the boss for all employees means plus value.

4. An important virtue of the family business is that it is deeply integrated into the environment in which they operate, and because it depends on it, is in their interests to do something for him too.

5. A family business should always wear two hats: one for survival, the other one for the future. The question for me is not that where I'll be five years from now, but where I will be in 50 or 100 years.

Izabella Zwack became the Member of the Board of Director with her brother in 2008. She represents the 6th generation of the Zwack family.

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COMPARISON OF US AND EU FAMILY BUSINESSES

In 1991, the Small Business Administration published a report prepared by Prof. Nancy Bowman-Upton, Director of the Institute for Family Business at the Hankamer School of Business. In this report there is a very strong statement, that 90% of all American businesses are family-owned ones. One third of the Fortune 500 firms are also family-based businesses. It is estimated, that half of the Gross National Product - GNP - and half of the total wages paid is generated by the family businesses.\(^\text{11}\)

According to the Laird Norton Tyee "family business in the heart and soul of the American Dream". Their Family Business Survey 2007 is a unique challenges presenting the role of the family businesses paid in the whole US economy. Nearly 800 senior leaders of family-owned businesses throughout the country provided views about the current state of their businesses, the unique challenges created by owning a family enterprise, and their outlook for the future. Family-owned businesses generate approximately 64% of America’s GNP. Nearly 60% of majority shareowners in family businesses are 55 or older. Nearly 30% are 65 or older. Succession of leadership will be a pivotal point in these companies’ futures, yet less than 30% of our respondents have succession plans, and fewer than 40% have a successor in line and preparing for the transition.\(^\text{12}\)

According to European Family Businesses- GEEF- family businesses in Europe represent:

- Over 1 trillion euros in aggregated turnover
- 2.9% of the European Union’s GDP and
- More than 5 million jobs.\(^\text{14}\)

If we compare this number with the 130 million people employed by the SME-sector in the EU-27, that this number is externally low. However, the European Commission states, that 20-60% of all European companies are considered as family businesses.

Family businesses in Europe cover a vast range of firms in different sectors and of different sizes. Specialised literature clearly shows that “there is not a single definition of “family business” which is exclusively applied to every conceivable area, such as to public and policy discussions, to legal regulations, as an eligibility criterion for support services, believes that a definition of a “family business” needs to be adopted and introduced at the European and to the provision of statistical data and academic research”.\(^\text{15}\)

Experts level in order to facilitate collection of data and development of policies related to the specific characteristics and needs of this type of enterprises. It was mentioned in the recent EU Expert Group Report on Family Businesses too.\(^\text{16}\)

There is general agreement on taking into consideration three essential elements: the family, the business, and ownership. After having analysed existing definitions, the expert group proposes the following definition:\(^\text{17}\)

A firm, of any size, is a family business, if:

1. The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children’s direct heirs.

\(^\text{12}\) Founded in 1855, Laird Norton Company (LNC) was founded in 1855. It is a seventh generation, family-owned business with Headquarters in Seattle, Washington
\(^\text{14}\) European Family Businesses - GEEF - Who we are? Leaflet, 2010, Brüsszel
\(^\text{15}\) KMU Forschung Austria: Overview of family business relevant issues, Vienna, 2008
\(^\text{16}\) European Commission: Overview of family-business-relevant issues: research, networks, policy measures and existing studies, November 2009, Brussels
\(^\text{17}\) ibid
2) The majority of decision-making rights are indirect or direct.

3) At least one representative of the family or kin is formally involved in the governance of the firm.

4) Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 percent of the decision-making rights mandated by their share capital.

The group recommends exploring opportunities to introduce this definition at national level. National Governments should consider adopting measures to create a more favourable environment for family businesses, including the ease the taxation, simplification the company law and improve the education system. It is advisable to establish a specific family business contact point in national administration.

The European Commission estimates that during the next decated every third company owner will retreat from his business. According to the report "Markets for Business Transfers" of the EU (May 2006), more than 700,000 SMEs providing more than 3 million jobs will have to be transferred to a new owner every year. Thousands of enterprises are at stake if the Commission does not prepare these transitions with the right approach. This is why the Commission should consider as an important issue the legal framework of the succession, the simplification of the inheritance tax, and introduction of tax allowances and support measures for the new owners. SMEs are not in a position to cope alone with all problems of inheritance and difficulties in connection with these.

The table below compares the main characteristics of the family businesses with non-family ones based on the research in the Netherlands by Thomsen (2007)

<table>
<thead>
<tr>
<th>Family businesses</th>
<th>Non-family Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>The purpose is continuity</td>
<td>The purpose is maximizing near-term share price</td>
</tr>
<tr>
<td>The goal is to preserve the assets and reputation of the firm</td>
<td>The goal is to meet institutional investor expectation</td>
</tr>
<tr>
<td>The fundamental belief is that the first priority is to protect downside risk</td>
<td>The fundamental belief is that more risk promises more return</td>
</tr>
<tr>
<td>The strategic orientation is adaptation</td>
<td>The strategic orientation is constant growth</td>
</tr>
<tr>
<td>The most important stakeholders are customers and employees</td>
<td>The most important stakeholders are shareholders and management</td>
</tr>
<tr>
<td>The management focus is continuous incremental improvement</td>
<td>The management focus is innovation</td>
</tr>
<tr>
<td>The business is seen as a social institution</td>
<td>The business is seen as a disposable asset</td>
</tr>
<tr>
<td>Leadership is stewardship</td>
<td>Leadership is personal charisma</td>
</tr>
</tbody>
</table>

FAMILY BUSINESSES IN HUNGARY

In Hungary - due to the specific historical development - the creation of the private entrepreneurship became possible only after the change of political and economic regime. Following the WW II, in the era of Soviet influence, the companies were nationalized - in 1948 all enterprises with employees over 100 and in December the remaining small companies with employees more than 10 people -, the former owners were deported, event false charged, strew into jail or forced to emigrate. The former flourishing family businesses were simply beheaded.

The main features of the private businesses during the socialism were that they depended on the bureaucracy, its individual and discreetional decisions, and operated only according to the actual ideology. The fundament of the basic ideology was to avoid the capitalization, capital accumulation and creation of property. During the socialism only a small number of private businesses could operated basically in the service sector, like hairdressers, cosmetics, pedicures, plumbers, and similar entrepreneurs. Since 1977 started the era of economic liberalization allowing changing the institutions of the civil legal society. This ended in the adaptation of the Law No. VI on Economic Companies in 1988. In 1980, three mathematicians without
individual permission process created a private business for trade of softwares developed by themselves. This launched an avalanche in the country. By 1985, more that 30,000 private enterprises were established.  

By 1988-89, the Central-European socialist economic system collapsed and in 1991, the Soviet union has been disintegrated.

In Hungary, the newly elected Parliament and the winning parties started to break down the state property at a rapid pace and launched the privatization of the state property. New competition has been born similar to the socialist brigade movement: “Privatize more today than yesterday!” The often ill-advised denationalization induced enormous tensions and in the consequence of the liquidation of state-owned companies thousands of people were dismissed. Although, once the political risks of creation of private enterprises have ceased to, instead of economic growth the markets started a narrowing and the multinational capital strangled the majority of the well-functioning indigeneous enterprises. Following the political and economic changes in 1989, the number of business start-ups significantly increased. It was the consequence of three main factors:

First - increased unemployment rate due to liquidated and closed down state-owned enterprises;
Second - streamlining the labour force at privatized enterprises; and
Third - appearance ambition of the Government demonstrating the wish to creation of a market oriented environment.

In result of the three consequences the only way out was the creation of the necessity/forced entrepreneurship including the establishment of family businesses. The apperance of entrepreneurship and self-employment was encouraged by the fact that very slowly built up the institutional system for job seekers. In 1998, the year of the change of the regime the number of the private enterprises grows up to 29,000 and the number of the catering enterprises amounted at 10,000.

However, in the early years of the transition appeared also the wild capitalism taking illicit profit. Those, for example the socialist economic leaders and former secretaries of the communist party, who became the enthusiastic torchbearers of the capitalism.

There is no official definition of family businesses or related term in Hungary. In generally individual - one-person - enterprises and sole proprietors usually with family members can be considered as family businesses, however according to statistics there is no such kind of grouping. From the legal forms of partnerships the limited liability company and limited partnership are the most preferred by family businesses. So far in Hungary we do not have any official report about the role and economic weight of the family business sector. The research of this sector is difficult to paraphrase and still does no independent research target. In 2008, the SEED Foundation for Small Enterprise development and the Central Statistical Office analysed the stucture of the existing 1,233,704 domestic enterprises with the following result:

531,109 enterprises are collective ones, and
702,595 enterprises are individual ones.

In the research and statistical analyses no questions was raised concerning family businesses. According to the estimation half of the collective enterprises and 20-30 percent of the individual entrepreneurs can be considered as family businesses. That means there are 400,000 family businesses in Hungary employing nearly 1 million people.  

“Without family businesses Hungary can not be either economically or socially successful” -stated Deputy Prime Minister Zsolt Semjén in April 2011, at the Family Business Bridges Conference held in Budapest. The importance of a family can not be substituted by anything else, the family in the society is indispensable. “If we want to build a normal society, for this the basis is to support the family.” One of our major problems is the creation

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of fictitious businesses, which have no emotive affection and commitment to the owner of the enterprise in case, they only suck out the money and decide to take them bankrupt. Family businesses could provide guarantee against such criminal phenomenon, where the achievements of generations and prestige have been accumulated, current fiscal, political or other interest will those not risk or transfer the headquarters of the enterprise into an other geographycal place of the word. The family businesses and enterprises have a greater guarantee for honesty and sustainability than any other ones.\(^2\)

The main advantages and disadvantages of the Hungarian family businesses are similar to the features mentioned in the international literature.\(^3\) However, due to the fact that majority of them was not consiously established, they showed also several drawbacks not mentioned in the literature. Such as

- the work and private life becomes confused and blurred;
- often lacks the organizational stucture;
- business problems sleep into the family life;
- due to overwoad of the parents the undertaking are not becoming attractive for their children; and
- in the business administration the division of labour is unfair.

Family businesses are ready to employ others, because they work much, they are overloaded and they would need relieve from the load. They fill that because they become entrepreneurs due to their disadvantage situation, they are willing to help other, because they are sensitive to inequality of opportunity of others. However, they do not act in such manner, because they lack of managerial capabilities and knowledges, afraid of bureaucracy and sever labour legal proceedings. They afraid that they are not able to produce the high public taxes and could not contribute to the public incidents.\(^2\)

Often the members of the family businesses think only on making their own private labour force more racional, becase they not intent to employ unknown persons in their businesses. In these cases those businesses are missing the capability of creation of an organization based on sharing the works and responsibilities. If the undertaking is only within the family, sooner or laters it can lead to the obstacle of growth, because the business becomes the prisoner of the family.

According to European statistics family businesses are producing nearly 60 percent of the Gross National Products (GDP). Presumable the family businesses construct the backbone of the Hungarian enterprises too. László Rudás, President of the Public Utility Association of Responsible Family Businesses in Hungary (FBN-H), foder of the Rudas Holding and President of the Istenhegyi Public Clinic in Budapest estimates that the Hungarian family businesses and enterprises are producing 40-50 percent of the GDP.\(^2\)

**Dilemma of the Hungarian family businesses: issue of the succession**

Majority of the Hungarian entrepreneurs started their undertaking at the age of 30-40. This generation is today 50-60 years old and in the next decade we are facing a boom of inheritance. The half of the management of the Hungarian agrarian enterprises has turned 50-65 years and 20 percent already is in pension. The successful entrepreneurs created their businesses from nothing. In the meantime they could not deal with preparation of the successors. If they have children, they organized good schooling, however, the overwhelming majority not intent to continue the activity of their parents. There are only a few companies like the Master Good Kft group of companies with headquarters in Kisvárda operated in Northern-East Hungary,

\(^{20}\) Semjén: családi vállalkozások nélkül nem lehet sikeres Magyarország. (Hungary can not be successful without family businesses), Privatbankar.hu, http://privatbankar.hu/kkv/semjen_a_csaladi_vallalkozasokat_vedeni_kell-235834, Doenloaded on 07.03.2012.


\(^{22}\) SEED ibid. Downloaded on 05.03.2012.

\(^{23}\) [origo] vállalkozói negyed: Készülnek a nagy generációváltásra a családi cégek (Family businesses are preparing to the big transfer of generation). 10 April 2011 http://vallalkozoinegyed.hu/vnegyed/20110408-nagyongeneraciosváltásra-cesszaládi-cégek.html. Downloaded on 06.03.2012.
which produces fodder of integration, raises and hatches poultry, processes and fattens boiler. The group of company is owned by the Bárány family. The successor continued his education abroad and in the meanwhile he continuously mastered the processes within the company and for him it was no question to follow in the footsteps of his father. In many family businesses the possible successor is bigheaded and despises his father's business or it keep to beneath and prefer to work abroad as an employee. This is why the succession may have a large explosion if the company without an appropriate successor can not continue its activities in the future. This would be a huge loss both for the economy as well as for the employment.

The generational transfer occurring in family businesses even in developed countries leads to serious crises. According the EU statistics half to two-third of family businesses bleeds to death. At best the companies will take over by outsiders, which in case of bad management could lead to the total liquidation of the enterprise. In such cases the traditions and values which served the basis for family businesses are lost and in many cases the qualified staff is just gone. This is why the ownership and management transfer should be one of the stressed issue and task, especially in the current European economic crises.

The preparation of the company inheritance is not only the task of the owner. In advanced market economies the company transfer has a serious past. Specialised consulting companies and organizations help in preparation of the transfer, the education of the possible successors and support the transfer process. In Central- and Eastern-Europe such kind of consulting companies are missing. In Hungary recently the Family Business Academy (Családi Vállalati Akadémia) was established (see below in details).

Taking into account that in advanced market economies family businesses are the backbone of the economy, the succession is exempted to pay inheritance tax or imposed the lowest tax fee.24

Dr. Péter Gelléri, one of the most prominent experts in family businesses summarizes the problems in connection with company succession as following 25

- the Founder is not able to delegate the tasks;
- the prospective successors are not able to take over the delegated tasks;
- the successor neither in knowledge and skills, not in mentality are not prepared to take over the company management;
- bad relationship or no relationship at all with the possible successors (while running the business the owner had no time spent with the family to discussed the future);
- the Founder did not think to retire not at all; and
- the prospective successor has to cope not only with the task, but also with the family.

Public Utility Association of Responsible Family Businesses in Hungary (FBN-H)

The Family Business Network Hungary (FBN-H) is a non-profit organization which was founded by responsible and successful Hungarian family businesses in November 2009. 26 The Association aims at helping enterprises to start and operate their businesses. In connection with this it collect information and materials supporting development of family businesses and create national culture in this field.

24 In 2003, the Dutch Chamber of Commerce already developed a Business Transfer Toolkit. In 2005, the Dutch Ministry of Economy sent a letter sent a letter to entrepreneurs of 55 years and older to ask their attention for timely business transfer and indicated that they could order and information package. In total 32,000 packages were sent to entrepreneurs. The Dutch package had a speciality: it was suggested that business owner should take a rest every Friday and delegate the managerial task for the selected successor. Overview of Family Business Relevant Issues: Country Fiche Netherlands. http://ec.europa.eu/enterprise/policies/sme/files/craft/family_business/doc/familybusines_country_fiche_netherlands_en.pdf. Downloaded on 07.03.2012.


26 http://www.fbn-h.eu/?page_id=6. Downloaded on 06.03.2012.
The goals of the Association

• support and promotion of responsible family businesses and their operation in order to contribution to the wealth of families, enterprises and national culture by the materials and immaterials values accumulated by these companies and keeping the accumulated saving in Hungary in form of active capitals;

• the Association provides professional, integralational, educational and research support for creation of responsible family businesses, and promotes the cooperation, exchange of experiences and practices of responsible family businesses and enforncing their interests;

• the Association supports, promotes and integrates such kind of responsible family businesses, which aiming at strenghtening the social responsibility, provide and maintain new jobs, support development of social integration, introduce family business model, maintain these and develop them for the future generation;

• the Association mediates and channelles foreign experiences and knowledges towards Hungary and participates in the activities of the The Family Business Network with headquarters in Lausanne and similar other international organizations.

Nearly 50 members of the Association provide a total domestic sale of more than HUF 150 billion. The members of the Association employ more than 10,000 people and they are family-owned Hungarian enterprises with long track records and appropriate references. Kürt Co and high IT security provider, the Lipóti Bakery, the Master Good Group, the Zwack group, the Béres co the market leader in the production and distribution of health protection products, Symbol Budapest gastronomic, entertainment and cultural centre, the Szamos Marcipán the leading chocolade, marzipan and pastries producing and trading company, and the ThalesNano technology incentive company specialized and providing microscale flow instruments for chemistry - are members beside the other ones. These family businesses 80 percent of their profit invest back into their business.

The Association differentiates the family businesses in two categories:

• Hungary Family Businesses - Top 100
Companies with employees more than 50 persons with generated value added more than HUF 1 billion and with ownership from one family. In the enterprise management beside the owner at least one further family member has to participate.

• Hungary Family Businesses - Hot 500
Companies with employees between 15 to 49 with generated value added between HUF 300 and 999 million with ownership from one family only. In the enterprise management beside the owner at least one further family member has to participate.

We distinguish family businesses consisting of enterprises with different profile. The basic feature is the family ownership. Every group of such enterprise has a flagship basically holding the name of the founder. Such companies are e.g. the Béres Co., the Zwack Co., the Petrányi Car Ltd or the Jülich Glas Co.

It is not sure that the largest companies are the most well-known in Hungary. However, probably everybody knows Marcipan Company, Ilcsi Beautiful Herbs Ltd. and Kürt Co.

POSITIVE ROLE MODELS

Szamos Marcipan

The young Serbian boy Mladen Szavits - who inherited the tradition towards oriental sweets - grow up without a father in Széntendre in poverty was a confectionery student in the confectioner shop of József E. August in the Krisztina Boulvard. At the early 1930s, one day a Danish confectioner came to the

27 See http://www.fbn-i.org/fbn/web.nsf
28 FBN-H: A legnagyobb családi vállalkozások Magyarországon (The bigget family enterprises in Hungary) http://www.fbn-h.eu/?cat=7 Downloaded on 06.03.2012.
company and showed how to prepare the marzipan pretty roses by appropriate manual skills from sugared almond mass. The apprentice learnt the lesson. Since than hundreds of hours, days and many years many hundreds of thousands marzipan roses were sold. He met a woman - of course in the confectionery -, they had beautiful children and for today even their grandchildren are grows-ups, a decent son-in-law came to the house and learnt how to make roses. The Szamos marzipan company today employs more than 200 people in Pilisvörösvár and came into leaf by the Middle of the 1990s from that rose.

Ilcsi beautiful Herbs Ltd

This fantastic career was called to life since 1958 by the lack of cosmetics in the fifties and the professional ambition of Aunt Ilcsi. During the long and hard years in the beginning Aunt Ilcsi was helped by her love of nature and the knowledge of four foreign languages, as well as reading foreign professional press constantly, visiting unique international conferences and participating in many courses and professional sessions in Hungary and abroad. In 1984, backed by legal and economic changes the time had come to found Ilcsi Beautifying Herbs Ltd. as a family endeavour with Aunt Ilcsi and her son, Ferenc Molnár. Even today they work together with unbroken swing and so they managed to expand from the 28 products in the beginning to the 140 we have today. In 2005, the company introduced the MSZ EN ISO 9001:2001 quality management system for production and product development and in 2008 the Biokontroll Hungaria Non-Profit Co received the HU-ÖKO-01 organic plantation certification.

KÜRT Co

The KÜRT family business started data recovery in the year 1989. A data storage unit fell on the floor in the Public Prosecutor's office. The incident brought severe headaches to all involved, except for suspects. We worked for 40 days, and eventually managed to restore data structure, and headaches returned to the suspects where they belonged. To solve the problem, at least half a dozen six individual professions had to be applied. Experts of precision mechanics, surgery, electronics, analogous data transfer technology, and from the world of software, connoisseurs of operating systems and applications had to work together to attain the goal. KÜRT has become internationally recognized and one of the leading companies in the field of data recovery. KÜRT’s information security services are regularly sought after by principal organizations of the European economy.

There are many marketleaders family background of them even the partners do not know. Such businesses are:

- The Master Good started with 5 persons in 1994 and today producing 100,000 boiler chiken per day and owning 25 percent of the country total market share.

- The Renaissance Ltd which has more than 60 years of history in quarrying, carving and installing stones. In 2008, Renaissance was awarded "the best stone company in Central-Europe" on the Verona Stone Fair. Today the company is a major construction firm in reconstruction of protected historical buildings like the Parliament, the St. Stephen's Basilica and the Matthias Church in Budapest.

- The Electro Profi Ltd has a history of 20 years; it was founded in 1988 as a private company. At the inception we were only hoping that with starting our business we have created the basis for a group of companies with the potential of expanding dynamically on the long term and having a dominant market share. This family business is owned by two business ladies.

- The Oázis Garden Centre was established in 1987 by István Boros and his wife, Hedvig with a start-up capital of HUF 5,000 only. In 1988, they opened the first retail shop on 350m2 in Budapest. In 1992, the Oázis Gardener Ltd was founded. By 2008 the nationwide network has been formed with ten garden centers, ensuring absolute first place for Oázis in the Hungarian ornamental plant market. The first foreign Oázis Gardens were opened in Slovakia, but we are planning Romanian, Croatian and Serbian expansion. The founder of the franchise system, Oázis is planning to open more own property stores, mainly in the capital. Today the company sales of return amouts at HUF 1.5 billion
already.

Family Business Academy (Családi Vállalati Akadémia) 29

The Family Business Academy (CSVA) is the first Hungarian consulting company dealing with research and education of family businesses and offering services for them. This institution was created a few years ago aiming at promotion of Hungarian and Central-European family businesses in challenges facing in succession following two decades after the transition. The President of the Academy is Dr. Péter Gellér, Presidential Counsellor of the Association FBN-H, founder of the Information and Knowledge-Management department at the Budapest Technical University and founder of other knowledge-based undertakings.

The Mission of the Academy can be summarized as following:

- family businesses as soon as possible have to know themselves;
- exploring and raising awareness towards succession by exploring the possible support means;
- establishing a professional culture - in university education by training experts in family businesses and launching family business oriented research - providing assistance in solving problems originating in operation of family businesses; and
- during the succession processes could provide effective counselling services. 30

Services offered by the Family Business Academy are the following:

- Relationship management - Program for transfer of the practice in relations and its renewal,
- Succession monitoring - Monitoring the transfer of the managerial role and inheritance of the assets;
- Decision planning - Program for the transfer of knowledge and methods for development of decision capabilities;
- Council of actions - Focused discussion of pressing problems with specialist in various fields.

SUGGESTIONS FOR SUCCESSION

1. Carefully look at the situation of the company including its perspective in the long-run, the up-to-dateness of the produced products or offered services compared with the competitors, analyze the technological capabilities and financial circumstances and strengths.
2. Write up the possible potential candidates for succession, look at their capabilities and their track records.
3. Start conversations with possible candidates; get acquainted with their ideas for the future.
4. Discuss the outline of the succession with the family members.
5. If someone of our childrens are picked up for running the business in the future, and the person is motivated in this, we should planning organizing the schooling in domestic and foreign institutions including the possibility for obtaining practical skills too.
6. It is advisable to bring the possible candidate into the business to learn the company operation and the employees, to get acquainted with the company set of values and later to get a managerial task in the part or filial of the family business.
7. If necessary, involve and external expert to assist in designing the circumstances and the transfer of the succession.
8. Think about what you want to do after the transfer of the relay stick in order to avoid the problems within the family.
9. Prepare the agenda for our own retirement.

29 Családi Vállalati Akadémia - Utódlásban az első (First in succession). http://www.csava.hu/ Downloaded on 07.03. 2012.
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OVERVIEW OF FAMILY-OWNED BUSINESSES: A RESEARCH FROM TURKEY

ABSTRACT

Family businesses are the most common form of business system around the world. They have important role both in economic and social life. Family-owned businesses are approximately 85% in worldwide. Although most of them are small proprietorships, there are quite undeniable successful businesses in the world. In Europe, small or medium-sized firms are mostly family-owned businesses. In Asia, family firms are the dominant companies except China. In Latin America, family businesses are mostly operating, especially in industrial sector. Therefore, family-owned businesses are all around us from local to international. This study considers family business profile with the aim of understanding from the perspective of its characteristics and the issues of family business in Turkey. The dynamics of the family business are also determined. This study focuses on the top family-owned businesses in Turkey and hence draws a general picture of Turkey’s companies. Planning for institutionalization, good management and decisions, continuity, development, loyalty, innovations and integrating strategies are among the most important issues that have to be considered for the future of their business. The presence of the family business are based on these relations.

Keywords: Family-owned Business, Business Success, Family Control, Management

JEL Classification: G33, L21, L22, L26

INTRODUCTION

Family business has different meanings for every individual. In deed, they come in many forms like sole proprietorships, partnerships, limited liability companies, holding companies, family-controlled and/or family involved companies. A family business is a combination of ownership control by two or more members of a family and strategic influence by family members on the management of that business as well. There are so many definitions for family businesses. Due to Handler (1991), it is an organization where decisions are made by owners and management are determined by a family members who can influence through their participation in the business. According to Günver (2002) the family business is an entreprise which is operated and the distribution of profit is controlled by a family members. On the other hand, for Chua et all (1997), family business is managed to shape the formal vision of the business by the same members of the family. Anderson and Reeb (2003) stated that family firms with a family CEO show better performance than non-family firms by using profitability-based measurements for firm’s performance. O’hara (2004) defines the family businesses like an enterprise that is in control of a single family joined by blood and/or marriage whether private or public as long as family members continue to have controlling input in the operations of future of the business. Another definition is focusing on the majority of the ownership which is under control of a family or a family business which is like any business (Bowman-Upton, 2009). A recent paper by Basco and Rodríguez (2009) explains that many of Authors have categorized family business into four key areas as strategic process, management, human resources and success. However, from academic point of view, family and business concepts are defined in terms of opposition in many of the family business literature. The term of family business separates from the concepts of business and home as the family and business are inevitably intertwined (Fournier and Lightfoot, 1996). McCollom (1988) stated that there is a strong relationship between the dynamics of the family and the workplace. The definitions of family business can be classified according to the literature below.
Table 1: Definitions of Family Business

<table>
<thead>
<tr>
<th>Author</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Astrachan, 1994</td>
<td>It is a company owned or controlled by a family and in which one or</td>
</tr>
<tr>
<td>Barry, 1975</td>
<td>It is an enterprise which is controlled by the members of a single family</td>
</tr>
<tr>
<td>Carlock &amp; Ward, 2001</td>
<td>It is a business owned and operated by a family members</td>
</tr>
<tr>
<td>Donckels and Frohlich, 1991</td>
<td>If family members own at least 60 % of the equity</td>
</tr>
<tr>
<td>Donnelly, 1964</td>
<td>It is owned by one or two families</td>
</tr>
<tr>
<td>Dyer, 1986</td>
<td>It is a company where management is influenced by family members</td>
</tr>
<tr>
<td>Fiegener et al., 1994</td>
<td>It is a firm which is either family-owned or managed</td>
</tr>
<tr>
<td>Hollander &amp; Elman, 1998</td>
<td>It is a kind of small business started by one or a few individuals who wanted to develop it</td>
</tr>
<tr>
<td>Kepner, 1991</td>
<td>It is a company which was founded to conserve the wealth of the family</td>
</tr>
<tr>
<td>Koçel, 2006</td>
<td>It is founded by family members and managed by them.</td>
</tr>
<tr>
<td>Kuratko et al., 1993</td>
<td>It is an enterprise that planning is passing through to the next generation</td>
</tr>
<tr>
<td>Lansberg et al., 1998</td>
<td>It is a business in which family members have the control over operations</td>
</tr>
<tr>
<td>Potobsky, 1992</td>
<td>They are enterprises in which family members are working in decision controlling</td>
</tr>
<tr>
<td>Sharma et al., 2000</td>
<td>It is a company where management control is transferred from one generation to another</td>
</tr>
<tr>
<td>Ward, 1990</td>
<td>It is a business in which there are two or more family members maintaining the company</td>
</tr>
</tbody>
</table>

Therefore, family business is a family-founded business and established by an entrepreneur from a family or family members which has its own culture family leader, control over its management, raises the wealth in the family and gives precedence to the family members for decision making. As a result, family business consists elements of family, decision making, management, culture and priority inside.

Table 2: Family Businesses of Countries in World Economies

<table>
<thead>
<tr>
<th>Country</th>
<th>2011 The shares of Family Businesses in Active Businesses</th>
<th>Their shares to GNP (%)</th>
<th>Its Ratio in Labor Force (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>73</td>
<td>60</td>
<td>55</td>
</tr>
<tr>
<td>USA</td>
<td>96</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>Estonia</td>
<td>90</td>
<td>65</td>
<td>50</td>
</tr>
<tr>
<td>Germany</td>
<td>84</td>
<td>45</td>
<td>50</td>
</tr>
<tr>
<td>Japan</td>
<td>97</td>
<td>42</td>
<td>75</td>
</tr>
<tr>
<td>Norway</td>
<td>66</td>
<td>50</td>
<td>40</td>
</tr>
<tr>
<td>Mexico</td>
<td>95</td>
<td>46</td>
<td>60</td>
</tr>
<tr>
<td>India</td>
<td>95</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>Sweden</td>
<td>79</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>Australia</td>
<td>67</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>Ireland</td>
<td>50</td>
<td>30</td>
<td>39</td>
</tr>
<tr>
<td>Slovenia</td>
<td>80</td>
<td>60</td>
<td>26</td>
</tr>
<tr>
<td>Chile</td>
<td>65</td>
<td>50</td>
<td>45</td>
</tr>
<tr>
<td>France</td>
<td>83</td>
<td>68</td>
<td>50</td>
</tr>
<tr>
<td>Spain</td>
<td>75</td>
<td>65</td>
<td>50</td>
</tr>
<tr>
<td>England</td>
<td>65</td>
<td>55</td>
<td>42</td>
</tr>
<tr>
<td>Turkey</td>
<td>90</td>
<td>60</td>
<td>45</td>
</tr>
</tbody>
</table>

The studies show that almost in all countries of the world the number of family businesses operating in a country is relatively higher than the ratio of the total businesses. In some countries, the shares of the family business in all active businesses, these shares to GDP and labor force can be seen in the table below. According to the table, 99% of the companies operating in Italy, 71% of the companies operating in Spain and 90% of the companies in Turkey have the structure of family businesses.

The family businesses in Turkey have history of 100-200 years. The companies which are older than 200 years old are Çagaloglu Hamamı (1471), Ali Muhuddin Hacı Bekir (1777) and Çukurova Gıda Sanayi (1783). The companies older than 100 years are Abdullah Efendi Lokantası (1888), Güllüoğlu (1885), Hacı Şakir (1887), Iskender Kebapçı (1867), Kornili (1878), Konyali (1897), Kuru Kahveci Mehmet Efendi Marnüleri (1871), Pera Palas (1888), Tuzcuoğlu (1893), Vefa Bozacısı (1876), Hacı Bekir Lokum ve Akide Şekerleri (1877), Çögenler Helvacılık (1883), Teksima Tekstil (1893). Some of the biggest companies in Turkey that are family businesses do not have more than 100 years old history. These companies started as a small enterprise. There are 3 family businesses which leads the Turkish economy now and are in the world's biggest companies. Sabancı Holding, Koç Group, Eczacibaşı Holding and Doğuş Group are the most known ones (Erdogmuş; 2007).

The non-governmental business structure is generally family-owned firm in Turkey. Not only the large holding companies, but also small companies are family-owned and the directors are family members. The survey done by Istanbul Stock Exchange showed that families directly or indirectly own more than 75% of all companies and preserve the majority control in the company (Yurtoglu, 2000). There was a survey done by PwC in Turkey about the family businesses and 300 companies were asked to participate in the survey. But only 50 of them responded to the survey (PwC Family business survey; 2007-08). The report determines the corporate difficulties, problems in ownership and planning, wishes of family businesses members and priorities they want to have. The results of the survey states that Turkey shows very similar issues with emerging markets. Most of the family businesses are in the first generation and preparing to give the control of the management to the next generation.

Table 3: Family Businesses in Turkey and Their Foundation Years

<table>
<thead>
<tr>
<th>Name of the Company</th>
<th>Foundation Year</th>
<th>Generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vefa Boza</td>
<td>1870</td>
<td>4</td>
</tr>
<tr>
<td>Hacı Bekir Turkish Delight and Sugar Candy</td>
<td>1877</td>
<td>4</td>
</tr>
<tr>
<td>Çögenler Halvah</td>
<td>1883</td>
<td>4</td>
</tr>
<tr>
<td>Teksima Textile</td>
<td>1893</td>
<td>4</td>
</tr>
<tr>
<td>Ördekçioğlu Kitchen Utensil</td>
<td>1919</td>
<td>2</td>
</tr>
<tr>
<td>Kamil Koç Buses</td>
<td>1923</td>
<td>3</td>
</tr>
<tr>
<td>Eyüp Sabri Tuncer Cologne</td>
<td>1923</td>
<td>3</td>
</tr>
<tr>
<td>Doluca Wines</td>
<td>1926</td>
<td>3</td>
</tr>
<tr>
<td>Tatko</td>
<td>1926</td>
<td>3</td>
</tr>
<tr>
<td>Koç Holding</td>
<td>1926</td>
<td>3</td>
</tr>
<tr>
<td>Kent Food</td>
<td>1927</td>
<td>3</td>
</tr>
<tr>
<td>Uzel Machines</td>
<td>1940</td>
<td>2</td>
</tr>
<tr>
<td>Nuh Construction and Cement</td>
<td>1942</td>
<td>3</td>
</tr>
<tr>
<td>Eczacibaşı Holding</td>
<td>1942</td>
<td>2</td>
</tr>
<tr>
<td>Sabancı Holding</td>
<td>1946</td>
<td>3</td>
</tr>
<tr>
<td>Yeni Karamürsel Merchandising</td>
<td>1950</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Karpuzoğlu, 2002.

When the progress of the Turkish family businesses is analyzed through the years, companies show a developing progress and reach their position after passing some stages as the other companies did in the
Institutionalization is one of the most popular concepts of business life after 1980s. So the institutionalization became also popular in Turkey around 1990’s with globalisation.

Characteristics of Family Businesses

To understand family-owned businesses better, the characteristics should be comprehended. The differences of family-owned businesses are changing from one to another. Such as family businesses are organizations established by family members and recognized by other family members. Due to their specific and different characteristics, there are some advantages or disadvantages compared with non-family businesses like financial, managerial, form, structural and cultural.

Some of the advantages of family businesses are worker’s loyalty, flexible working hours, encouraging personal responsibility, management union, ability to make long term plans, social responsibility, ownership, decision controlling and increasing family relations. According to survey done by US News and World Report in 1986 in USA, based upon the Doe Jones index, 31 out of 47 family companies showed better performance compared to other companies. Nearly all of entreprenis is described as the perfect businesses are family-owned businesses (Jaffe, 1990). The relationship between family members is an important element in business life. They know their abilities and weaknesses. Because of the hierarchy in the family, family members know how to behave, how to share the duties according to their status and capabilities, how to make the relationship better and increase the synergy in the company. All of these segments provide effective business environment which yields superiority and competitiveness over other businesses. Also family businesses make more perceptions for long term decisions which gives more success and long term investment come up to be more profitable in the business (Karpuzoglu; 2004). On the other hand, family businesses give the decisions faster and motivation to get success, can develop the business easily and give the management to the next generations which gives priority to them compared with non-family owned businesses (Findikçi; 2005). This is giving great importance to the developing countries like Turkey where there is insufficient capital. Major problems in developing countries is to meet the needs of the capital markets. To secure financial resources for providing capital is easier for family businesses by obtaining those resources from family funds. With the advantage of having large proportion of capital, family firms can apply for new methods and investment opportunities and give decisions for technical and administrative issues in a shorter time.

If the organizational structure of the company is uncertain and the access to capital is limited, than the disadvantages of family-owned businesses are generally psychological instead of structural. the most known ones are mismatches between the leadership styles of the managers and development stages of the company, the conflict that family members face in any issue of the company. However, confusion of roles, inadequate education of the managers, problem in success, conservatism, insufficient resources and financial problems are other important issues that family-owned businesses face (Günver; 2002). Another important problem is the process of having success within the family members. The choice of the manager can lead to collapses of the businesses. The predecessor who manage the firm for a long time scares from taking risks and affect the decisions they are giving which yields to act as conservative (Karpuzoglu; 2004). Due to Hubler (1999) there are 10 obstacles in the way of success for family-owned businesses. First obstacle is the lack of appreciation, recognition and respect whilst others are lack of forgiveness, controlling, history of the family, scarcity of financial issues, indirect communication, authorization, insufficient capital and not expressing and toughs.

Table 4: The strengths and weaknesses of family-owned businesses

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term aspects</td>
<td>Limited access to Capital Markets</td>
</tr>
<tr>
<td>No risk for losing the company</td>
<td>Mixed Business structure</td>
</tr>
<tr>
<td>Liberality in the business</td>
<td>Uncertain distribution of duty</td>
</tr>
<tr>
<td>Stability</td>
<td>Giving tolerance to incapable members</td>
</tr>
<tr>
<td>Continuity in leadership</td>
<td>Unequal promotion system</td>
</tr>
<tr>
<td>Flexibility in difficult times</td>
<td>Making decisions fastly</td>
</tr>
<tr>
<td>Willingness to convert profit to investment</td>
<td>Patriarchal rules</td>
</tr>
<tr>
<td>Limited bureaucracy</td>
<td>Privacy in members</td>
</tr>
</tbody>
</table>
Financial benefits | Conflict in decision making
Possibility of gaining success | Unwillingness to changes
Business knowledge | Financial problems
Using family culture | Imbalance between contribution and earning
Patience and loyalty | Asset protection
Providing career opportunities | Possibility of failure in success

Source: Kets de Vries, 1993

CHARACTERISTICS OF FAMILY BUSINESS IN TURKEY

There are some stages in family businesses which show different characteristics in every level (Gersick et al, 1997). In the first level, the manager or the founder of the business has a superior effect on decision making and controlling the company by using his/her priority. According to Karpuzoğlu (2004), the stages can be classified as the first generation family businesses, growing family businesses, complex family businesses, continuous family businesses. The four stages of the family-owned business are classified below.

Table 5: Basic characteristics of the family businesses

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Growing and Developing</th>
<th>Complex Family</th>
<th>Family Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>Owner</td>
<td>Siblings</td>
<td>Family</td>
</tr>
<tr>
<td>Organization Structure</td>
<td>Simple/centralized</td>
<td>Simple/semi-centralized</td>
<td>Complex</td>
</tr>
<tr>
<td>Decision Making</td>
<td>Owner</td>
<td>Siblings</td>
<td>Professional Managers and Family Members</td>
</tr>
<tr>
<td>Communication</td>
<td>Horizontal</td>
<td>Horizontal-Vertical</td>
<td>Horizontal-Vertical</td>
</tr>
<tr>
<td>Values</td>
<td>Family values</td>
<td>Entrepreneur values</td>
<td>Business values</td>
</tr>
</tbody>
</table>


Each phase has different features and each family-owned business have to focus on these differences. Because in Turkey, companies can not pass over the first three-phase and collapse in any problem they face. That is the reason of being only regional or small enterprises. There are four types of family businesses in Turkey:

1. Limited-family business called as boss company. All decisions are made by the boss.
2. Shareholders of the business are siblings and the management is shared between the siblings.
3. Complex family businesses that the different family members are shareholders of the business.
4. Settled family companies where business is directed by professional managers. Generally this type of the family-owned business wants to institutionalize.

According to the research study held by Ankara Chamber of Industry in 2005 in Turkey, 57.8% of the firms have 2-5 branch offices, 32.4% has one central office and 5% of them have more than 10 branch offices in the country. However, 44.1% of them were active just in one geographical region. Most of the family businesses were performing their business in their home city, but it has to be taken into account that there are many companies conducting businesses in Europe, Russia and the Middle East.

In Turkey, 49% of family-owned firms receive consulting services during giving important decisions about the business, however 51% of family firms think it is unnecessary. Hiring a consultant is usually made...
by the board of directors with a percentage of 50%. In family-owned businesses, senior managers (44%) pay attention to personal development trainee where middle managers (36%) and junior managers (21%) can benefit from those training opportunities. 64% of the board of directors are meeting regularly whilst 34% of them do not. 45% of the members of the business are men and 29% of the members are men outside the family. 23% of the members of the business are women while 4% of the members are women outside the family. The most important criteria for family-owned business in Turkey is to work with skilled labour and one of the family members has to be in the management team to control the decisions and people.

Due to statistical data about the family-owned businesses for the sectors they are operating in Turkey, most of the companies are in production sector (56%). Construction (14%) and consumption sector (12%) are following. There is no family business directly conducted with public sector in Turkey as seen in figure 1 below. Figure 2 shows the number of family members work as a manager in the companies. Generally it is limited to 1-3 people. Only 2% of the companies have more than 10 people in the management team as managers.

Figure 1: Which sectors family-owned businesses are operated?

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism</td>
<td>2</td>
</tr>
<tr>
<td>Production</td>
<td>56</td>
</tr>
<tr>
<td>Consumption</td>
<td>12</td>
</tr>
<tr>
<td>Media and Communication</td>
<td>2</td>
</tr>
<tr>
<td>Health Sector</td>
<td>2</td>
</tr>
<tr>
<td>Public Sector</td>
<td>0</td>
</tr>
<tr>
<td>Construction</td>
<td>14</td>
</tr>
<tr>
<td>Transportation Service</td>
<td>2</td>
</tr>
<tr>
<td>Financial Sector</td>
<td>4</td>
</tr>
<tr>
<td>Energy and Natural Resources</td>
<td>6</td>
</tr>
</tbody>
</table>

Figure 2: How many family members are in management team as a manager?

The main motivation of today's family-owned businesses is to pass through the company to the next generations they have created. However, with an increase in acquisitions, the way of success for business people is to find new alternatives for this aim. That is the reason of successful environment is the most
popular option for business people. Career options is the last situation they are thinking of.

Figure 3: What is valued most about the family business?

![Bar chart showing the values that family businesses are most valued for.]

When the problems that family businesses faced are examined, in short run employing skilled labour is the most specified one whilst continuity of growth is chosen in the long run. In short run competition, finding new markets and cost of business are the main difficulties that family businesses face while transportation cost, adaptation to laws and using technology are not considered so important by businesses.

Figure 4: The problems company will face both in short-run and long-run

![Bar chart showing the problems that companies face in short and long run.]

MOST KNOWN TURKISH FAMILY-OWNED BUSINESSES

There are three most known Turkish companies in the world’s top 100 family businesses. Sabancı Holding is 83rd with its $5.9 billion corporate income and 31,380 employees. The 91st company is Doğuş Turkey Banking, Construction, Automotive, Media with $5.1 billion corporate income and 20,000 employees. 94th is Koç Turkey Holding with $4.9 billion corporate income and 45,626 employees.

While discussing the family businesses in Turkey, these three has to be mentioned. What they are doing and which sectors they are operating? More information can be given about these companies and what they have done to Turkey so far. It could be started with Koç Holding which is the Turkey’s largest industrial group in terms of its revenues, exports and share in Istanbul Stock Exchange. It was established in 1926 by Vehbi Koç and now in third generation. Vehbi Koç left the company to his son Rahmi Koç in 1984 and Rahmi Koç left in 2003 to his son. Vehbi Koç as an entrepreneur, after starting his business, he decided to
establish a large enterprise. The primary reason of this action was to pass over the company to next generations. The group makes 9% of the Turkey’s national revenue, 11% of the export, and pays 15% of the taxes in Turkey (Dünya Gazetesi; 22-04-08). Instead of continuing only in industrial sector, company decided to institutionalize. The first enforcement was establishing Turkish Education Foundation to provide donations for educational purposes and to support activities in health and culture. To help family health problems people faced, the company established Turkish Family Health and Planning Foundation. It pays special attention to health care. Therefore; American Hospital, Italian Hospital, MedAmerikan Polyclinic, Nurse Fund, the Semahat Arsel Nurse Education and Research Center (SANERC), and Koç University’s Higher Education for Health are one of the health areas that it has invested. However, it has supported many students through scholarships and donations. The Foundation of the company built 13 primary schools around the country and transferred them to the Ministry of National Education. It is also the founder of Koç Private Primary School, High School and University. Not only it provides funds for people who need assistance, but also it creates job opportunities in more than 113 companies, 14,000 dealers and agencies in the country. The fields it is operating are automotive, food and financial sector, energy, tourism, construction, international trade and durable goods (http://www.koc.com.tr).

_Sabancı Holding_ was established in 1966 by Hacı Ömer Sabancı and now in third generation. But the history of Holding is slightly different. In 1932, he invested the money he had saved to a cotton gin. With its profit, he established a vegetable oil factory in 1946 under the name of Toroslar trading company. That was the cornerstone of the Sabancı Empire. It started to add textile, financial sector, chemicals, retailing, insurance companies, tourism, construction, Cement, manufacturing, tire sector and more others in its structure. Now its sales are almost $6 billion per year. It includes 75 companies including 13 publicly listed companies with a wide range of industries and operates in 18 countries across Europe, the Middle East, Asia, North Africa and North and South America. Many of its companies are in joint-venture with large foreign firms as Aviva, Bridgestone, Carrefour, Citigroup, Dia, Heidelberg Cement, International Paper and Philip Morris around the world which includes “sa”- the initial letters of the word Sabancı’s name. Sabancı Foundation was established in 1974 which helped Turkish Third Sector Foundation (TÜSEV), the European Consortium of Foundations on Human Rights and Disability; a Governing Council member of the European Foundation Center (EFC) and a member of the Council on Foundations (COF) by being a member. More than 36,000 students have obtained scholarships through this programs. It also supports Ankara International Music Festival, the Metropolis Antique City excavation in Izmir and the Turkish National Youth Philharmonic Orchestra. On the other hand, Sabancı University was established in 1994 as a world university with a unique educational system (http://www.sabanci.com.tr/en).

_Dogus Holding_ is one of the top three largest family-owned business in Turkey with 32 companies including one of Turkey’s largest banks- Garanti Bank; Porsche, Audi, and Volkswagen dealerships, retailing, food stores, media, energy, construction, and tourism. It was founded in 1951 by Ayhan Şahenk with investments in the construction sector. After being a leading builder of Turkish roads, ports and hospitals, it started to add tourism, banking and media to its structure. It has used customer-focused and productivity-centered management style in its business and provides workforce to over 30,000 people. It also gives importance to social responsibility and sponsorship projects and focuses on child development, education, environment, culture and sports (http://www.dogusgrubu.com.tr/en).

**CONCLUSION**

In the literature, there is very limited number of researches about family business in Turkey. So it is inevitable that studies of family-owned businesses need more attention. In order to be existing with today’s management approach and the global competition in the market, companies have to make changes. If companies can not understand the importance of protecting their existance in that competitive environment, than it is impossible for them to stay in the market. Changes are required for all entreprises in the environment. That is even more important for family businesses. Whatever the size or the development stages of the family business, they show more difficulties in changes. Beliefs, values, culture, non-family employees and less confidence in management are the disadvantages for them.

In Turkey, important part of small and medium enterprises are family-owned businesses and has an impact on Turkish economy. Either in Turkey or in other countries, the number of family business transferred
to 3rd generation is very low. Although it is difficult to provide continuity for these firms, it is not impossible. To increase sustainability and continuity of the firm, managers have to make plans in regards to strategies. Family members sometimes have to make radical decisions in attitudes and behaviours of the business. As the companies grow, the structural and managerial requirements increase. With intensified competition, expanding market, distribution channels and increasing products, companies need managers that can take strategic decisions for the business. Therefore, the biggest problem of family-owned businesses in Turkey is having problems in performing difficulties in managerial changes. On the other hand, families values especially culture are another important element that affects the structure of the company. The dimensions of family values are like ongoing habits and they affect the family business by influencing their cohesion with other companies. That affects the longevity of the company as well. The reason is that family business structure is quite different from other companies by embracing values, emotions, beliefs and cultural differences. It is important to be aware of planning development, progressive, continuity, loyalty and liberality to be successful not only now but also in the future. These are one of the strategies that biggest family businesses are following and why 3rd generation is operating the companies like Koç, Sabancı and Doğuş holdings. As a result, family-owned businesses have to decide whether to transfer the company to the next generations or to change hands.

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SUCCESSION AND INNOVATIVENESS IN SMALLER FAMILY FIRMS: CASE OF SLOVENIA

ABSTRACT

The main goal of our research was to examine succession and innovativeness especially in connection with transferring tacit and experiential knowledge from founders to the next family generation in smaller family firms. In this paper we concentrate on presentation of preliminary results of analysis of 3 in-depth case studies, including face-to-face structured interviews with 3 founders of smaller family firms and their successors. The research was carried out in Slovenia, which still belongs to transition economies as it has not achieved transition from routine to innovative economy and society yet. According to our opinion innovativeness of the next family generation owners and/or managers is crucial for transition of Slovenia to innovative economy and society.

Keywords: Smaller Family Firms, innovativeness, succession, Slovenia.

JEL Classification: DO, L25, L26, O31

1. INTRODUCTION

Most of national economies are dominated by family firms [21]. Mandl [23] estimates, that there are 70-80% in EU and that they employ 40-50% of all employed. One of the major problems family businesses face is the transfer of ownership and management to the next family generation [31]. Transfer of company to the next generation is often a critical event in a life time of a firm [24] and it should mean promotion of innovation ability (so-called invention-innovation diffusion-processes: IIDP) in smaller, so-called micro, small and medium sized family firms (smaller family firms: SFF), not only substitution of entrepreneurial resources [16]. While recently family firms and succession have often been subject of research and since the nineties in former century the interest is constantly growing [2], the question of SFF ability for IIDP remains relatively unexplored [5].

The main research question addressed herein is: How does the transfer of founder’s tacit and experiential knowledge influence the successor’s innovativeness in SFF?

Cabrera-Suarez et al. [3] determine that one of the main problems in the process of succession is the need of the next generation to obtain founder’s knowledge of the business, in order to maintain and improve firm’s operations, as this knowledge can be source of firm’s competitive advantage [1]. Specific family techniques and knowledge have to be transferred to the next generation, which makes customers believe in a high level of products and services [7] and accelerates IIDP [29]. Knowledge contains information, technology, know-how and skills [18], which are explicit or implicit (tacit knowledge: according to opinion of [25] includes mental schemes, opinions, understanding, which are crucial for understanding, perception and definition of environment, as well as abilities, knowledge and skills for performing tasks), therefore personal. It is difficult to replicate them [1]. Individuals gain knowledge and store tacit knowledge [6], transfer of which to the next generation is very important. As a research by Campbell and Heriot [4] has shown, a chance to maintain a family business in hands of founder's family is bigger in families where a family culture is inclined towards intergenerational altruism. Knowledge of a source (founder) becomes visible in ability of the receiver (next generation), to understand and captures nuances, connected with this tacit knowledge. Often a receiver unconsciously assimilates peculiar/unique characteristics of knowledge and its context. This aspect is especially important in SFF at training founder’s children, sons or daughters: in generation transfer it is of key importance to maintain bundle of familiarity, which is a basis for competitive differentiation of a firm [32].
Cabrera-Suarez, De Saa-Perez, Garcia-Almeida [3] used a RBV and knowledge based approach in order to identify option of specific characteristics of family firm, especially of tacit knowledge of the founder and its transfer, which can become a competitive advantage. Strategic importance of knowledge transfer in a family firm can support a discussion on succession problem and training of the next generation – key processes in development and protection of this knowledge, and which provide the continuity of a family firm. A RBV has been developed on a field of strategic management as a new framework for studying competitive advantages of a firm. As theorist of RBV, like e.g. Penrose [28] use to say, a RBV requests, that a firm is not looked at through activities on the products’ market, but it should be viewed as a unique bundle of sources, which are complex, intangible and dynamic. As family firms are described as unusually complex, dynamic, rich in intangible assets, a RBV is an appropriate method for researchers on the field of family firms to analyze them [19].

**Innovation** enables that organization or a firm maintains its competitive advantage. Combining different knowledge and extensive and active search of opportunities creates new options [34]. Innovations are a key competitive activity of a knowledge based global economy [16]. Development of new products, introduction of improvements are very important for survival in a global world of competitiveness. More than production and ability to produce at the lowest costs it is important that the next generations of entrepreneurs in SFF have entrepreneurial education and enough knowledge for IIDP. As well a relationship between the next generation and innovation in a family firm is very interesting [16].

Innovativeness is one of key aspects of SFF success. But it is a question how SFF can remain innovative while facing lack of resources and having small market impact [38]. Innovative companies which are able to use innovation for differentiation of its products or services, are on average twice as profitable as the others [33]. One of SFF characteristics is a relatively high ability to respond to changing environment and needs (if they do not have specialized equipment, note of author). Less bureaucracy, more clan structure and culture [13], characteristic of SFF, can improve inter-organizational confidence, communication and cooperation ability, which contributes to innovativeness [27]. On the other side, there are other characteristics which indicate that SFF have difficulties in adjusting to changes on economical, technological and competitive markets [8]. Managers of SFF often do not have education and training, connected with innovativeness / IIDP [30], and innovativeness in SFF is positively correlated with employment of managers with relevant external training and formal education. SFF are a closed type of firms, often they employ on the basis of family connections and not the ones with the best abilities for a certain field of work, which is a negative factor for introduction of new management practices and IIDP of products, which could as well affect efficiency and profitability of firms [20]. In SFF power and decision making are concentrated in owner / manager [14]. Innovative processes should be included in companies’ philosophy, culture, policy, and strategy. SFF should form creative environment and introduce many methods for creative thinking and decision making [41]. For innovativeness we can conclude, it is the innovativeness of the owner/manager and not of the firm [37].

2. **SMALLER FAMILY FIRMS IN SLOVENIA**

Innovative family entrepreneurship is especially important in Slovenia. It is reasonable and necessary to deepen knowledge on SFF in Slovenia, a former socialist country, one of the most developed European transition economies: it is facing specific conditions of transition from a socialist to a market economy, a tradition of family businesses has existed in Slovenia mostly in the craft sector [10], as well before the first and the second world war; social and economic changes have after independence enabled rebirth of entrepreneurship and development of family businesses [15]; the legal base for development of private SFF is nowadays in Law on Companies (2009) and in the Law of Craft (2004).

The share of SFF employing up to 249 employees in Slovenia in 2008, according to the Statistical office of Slovenia, was in the structure of all companies 99.75%; 93.27% of all companies were micro companies with up to 9 employees; SFF employed in 2008 66.79% of all employed and created 65.02% of all revenues [42].

In a high share of micro and smaller companies in Slovenia it is also a high share of SFF in ownership
of generation of founders, mostly in ownership of one owner, who also manages the company [12]. According to Glas [17] and Vadnjal [35] the share of SFF at a 95% confidence interval is 50-60%, they employ 26% of active adult population, their share in total value added of the Slovenian economy is 22% [35], and they contribute 30% of GDP [36].

As most of SFF in Slovenia are still in hands (ownership and management) of the first generation, founders, there is lack of experience on the field of transferring companies to the next generation [13].

Results of the research [11] reveal, that less than 60% of owners / managers of SFF, 51 years of age or older, actually plan transfer of the company to the generation of successors in the next five years, considering that preparation and planning of transferring the company to successors takes five to ten years. Thus over one third of the Slovenian SFF will be unprepared to face problems of succession considering age of founders/ managers. Lovšin - Kozina [22] says that only 20% of founders above 50 years of age believe that planning succession is not necessary.

2. METHODOLOGY AND SAMPLING

In our research we used a case study research methodology, which we found as a suitable research approach due to the explanatory nature of our research [39].

Our research was not limited to small and medium sized family firms (from 10 to 249 employees) only, as we suppose that numerous micro family firms from zero to nine employees face the problem of transferring ownership and management to the next generation as well. This is why we talk SFF. Limitation for the sample is that founder of the firm is employed in a firm or still owns a firm and that next generation is involved in a firm. Research is geographically limited to Slovenia. Most of family firms in Slovenia are SFF, thus large firms are not included.

Three interviews were conducted by individual researcher. It has been estimated that voice- or videotaping may not be appropriate and would lead the respondents to aversion from revealing all the information and may distort other communication. Only handwritten minutes were taken and the story was transcribed immediately after the interview. In all cases interviews took place at the premises of the company. The interviews took place at various times of the day, during the working days. It is believed the timing and place of the interview did not influence on the readiness and openness to reveal data and information.

We involved more interviewees from a SFF and the first question was, “do you consider your firm as a family firm?” Using this approach, applied by Sharma, Chrisman, Chua [31], we avoid threat, that answers would not be representative, as they include answers of different interest groups from a SFF.

The three SFF involved are privately owned, are limited liability companies; one is a medium size company, two are small companies. In one case the company’s ownership has been already transferred to the next generation, while the founder is still involved in management; in one case the founder transferred management to the next generation, but not ownership and in one case management and ownership are still in hands of the founder, while the next generation is actively involved in management and day to day activities of the company.

The research questions were addressed to the founder and one of the successors, based on the subjective assumptions of the researchers and literature search presented in the previous chapter:

- The main research questions for founders: demographic data about the company; foundation of the company, with family or non-family members; does the company sell products or services being result of their own know-how; have you developed new to the world products or services; or improvements of existing products and services; have you adopted new to the firm products or services; number of patents; development of new products, services, processes in the recent 5 years; do you transfer your know-how and experience to your family members, to whom; how; do you plan succession in the company, when, to whom, problems; why did you /if / choose a specific successor; do you have any problems with succession in the company; would you pass succession to a non-family member or rather sell a company.

- The main research questions for successors: a relationship with the founder; are you involved in the company, since when and how; your role and responsibility in the company; are you selected as your parent’s successor; do you see yourself as a successor; do you have any work experience from other companies; have you been involved in internal training in the company; has your parent mentored or
couched you; are you actively involved in development of new products, services, processes in a company; is any of the products result of your own know-how, development or result of team work with your parent; do you see yourself as a manager or entrepreneur; have you taken risk for tasks, you haven't been prepared for; if you would have your own idea, would you rather establish your own company.

4. CASE STUDIES

4.1 Introduction of case studies

Three Slovenian SFF from the fields of transport, logistics, service and trade; trade and service of car spare parts; service and trade of car glass were involved in this phase of research.

**Table 1: Demographic data**

<table>
<thead>
<tr>
<th>Case</th>
<th>Activity</th>
<th>Location</th>
<th>Age of founder</th>
<th>Education of founders</th>
<th>Foundation</th>
<th>Number of employed/family members</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1</td>
<td>Transport, logistics, service, trade</td>
<td>Brezovica</td>
<td>Over 60</td>
<td>Bachelor in economics</td>
<td>1989</td>
<td>120/11</td>
</tr>
<tr>
<td>C2</td>
<td>Trade and service with car spare parts</td>
<td>Novo Mesto</td>
<td>Over 60</td>
<td>Master on the field of car batteries</td>
<td>1974</td>
<td>20/1+1</td>
</tr>
<tr>
<td>C3</td>
<td>Car glass service and trade</td>
<td>Ljubljana</td>
<td>Over 40</td>
<td>Car mechanic</td>
<td>1995</td>
<td>10/3</td>
</tr>
</tbody>
</table>

Source: Own research 2012.

C1 was established in 1989 by the founder and his wife as a limited liability company. The owners declare the company as a family business. The company is located in the central Slovenian region and is active on the field of transport, traffic, logistics, service and trade, trade being the strongest activity of the company. Today the company is in the hands of the wife and 3 of the children (out of four, the fourth child is still in primary school) as the founder transferred three years ago his share on two sons (each has 30%) and to one of the daughters (10%), while the wife keeps the share of 30%. The company is in a 100% ownership of the family. In a case, that one of the owners would like to exit, he / she has to offer his / her share to the other owners and to avoid financial exhaustion of the company, he / she would get payment within 5 years. The founder has not retired and he is actively involved in management of the company, holding the position of the general manager. There are 120 people employed, 11 of them are family members. All adult children are actively involved in the family business, being employed and having responsibility for certain sectors of company’s activities.

C2 was established in 1974 by the founder as a craft workshop selling and repairing car batteries and later the company transferred its legal form to the limited liability company. The founder declared the company as a family business. The company is located in Dolenjska region and is active in the field of trade and service of / with car spare parts and garden program. The company is still in ownership of the founder, who retired, but is actively involved in day to day management and operations of the company on contractual basis. Also founder’s wife is active in the company, but not employed. There are 20 people employed and one of them is the successor, the only son of the founder, who stepped in the father’s shoes and is a general manager of the company.

C3 was established in 1995 by the founder and his wife as a limited liability company. The founders declare the company as a family business. The company is located in the central Slovenian region and is active in the field of trade and service with / of car glass. The company is still in ownership of both founders. Two
sons are actively involved in SFF; one of them is already employed and manages service and the store, while the other son is still a student, being actively involved in day to day operations. The third child, daughter, is too young. The company is a micro company, employing 10 people. Three of them are family members.

4.2. Results of responds to research questions

In our research we interviewed three founders of Slovenian SFF and three successors. Following are results of these personal interviews, presented according to the questions.

The transfer of a firm (ownership and partly management) to the next generation (3 children) was already done in one firm (33.3%) in 2008. In the second firm the founder transferred management (and retired in 2011), but not ownership to his successor. He plans transfer of ownership in two years. In the third firm, the founders plan formal succession in management, but do not plan transfer of ownership yet. When we asked their children, all of them are chosen as a successor or one of the successors of their parents in SFF and also see themselves as successors. Reason for choosing a particular child as a successor is that it is the only child, the oldest or the most competent child, being involved in firm's operations since childhood, thus having knowledge and some experience.

Only one of the founders explicitly said that he would rather sell a firm then leave it to a non-family member in case of a problem with succession. But in all three cases there is no problem with succession, and ownership of the firm will remain entirely in hands of families.

Regarding founder's education (background) and successor's education, their work experience and experience from other firms, we can say, that founders are on average less educated then their successors, successors (with one exception) are mostly holding a high degree (bachelor) in economics, most of them in entrepreneurship. All successors, with no exception, are actively involved in their family firms from their early childhood and took over more serious tasks since finishing high school or the beginning of study. All successors have only little experience with working in other companies, when, then mostly from companies abroad (Erasmus placement, partner companies). Regarding their functions in firms, one is already general director, one is procurist and executive director of one sector of activity, and one is a department manager.

Although all founders report constant development of new products, services, processes, in order to remain competitive in their industry, they have not protected products, services or processes neither have they a patent. Only one founder and his successor are currently working on innovation which will be patented. Successors all report constant development activities, all of them said that they develop mostly services, processes together with their parent or in one case also alone, improvements of existing services and processes, simplifications, which lead to cost reduction. One of the successors assesses himself as entrepreneur, one believes he is more a manager, and one believes he is a combination of both – manager and entrepreneur. Only one of the successors, as he is one of three successors, would eventually start a new business as he could better express and develop his creativity, but not, if this would endanger their SFF. Regarding willingness to take risk and face challenge all of successors are ready to do it all the time.

Founders usually transfer their tacit knowledge (which is result of their work and experiences) to their family members - children, and not always or limited to one child only. In all three cases the transfer of knowledge is done by internal or individual training, or learning by problem solving and coaching. Mostly children were involved into meetings with business partners very early, even before they became employed in a firm. In all cases children have been involved in a family business already since childhood, they could observe parents at work, parents served as a good »example«, and started mostly to do summer jobs or weekend job since primary school.

Successors reported that in two cases they were coached and in one more mentored then coached. One successor was additionally mentored by a professional consultant. All successors explicitly distinguish between internal and external training and do not understand it as transfer of founders knowledge. All of the founders believe that academic knowledge is important for competitiveness of the firm as it opens horizons, but they also believe that this knowledge should be combined with work experience, joy for work, feeling for trade.

The responses given upon the research questions are outlined in the table 2.

Table 2: Synthesis of the three cases
<table>
<thead>
<tr>
<th>Case</th>
<th>Transfer of ownership / management</th>
<th>No. of successors</th>
<th>Successors in managerial role</th>
<th>Transfer of tacit knowledge</th>
<th>Number of patents</th>
<th>Constant development</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1</td>
<td>Yes / partly</td>
<td>3 + 1</td>
<td>3</td>
<td>Couching, observing at work, problem solving, internal training, individual consultant</td>
<td>One in process</td>
<td>Products, processes and services</td>
</tr>
<tr>
<td>C2</td>
<td>No / yes</td>
<td>1</td>
<td>1</td>
<td>Mentoring, observing at work, problem solving, involvement into business meetings</td>
<td>None</td>
<td>Processes and services</td>
</tr>
<tr>
<td>C3</td>
<td>No / partly</td>
<td>2 + 1</td>
<td>1</td>
<td>Couching, observing at work, problem solving and internal mentoring</td>
<td>none</td>
<td>Processes and services</td>
</tr>
</tbody>
</table>

Source: Own research, 2012.

5. CONCLUSIONS

The results of our preliminary research show that the transfer of tacit and experiential knowledge positively influences the innovativeness of successors in SFF. The founders are well aware how crucial it is to transfer their experience and knowledge to the younger generation in order to assure competitiveness and sustainability of a family firm. They believe that it is very good to let successors observe them at work, get involved in daily operations, into meetings and negotiations with partners and to let them find solutions by themselves and also take responsibility for decisions. They believe that studying and getting academic knowledge, as well as work experience in other firms is important for the development of firm’s products, services and processes. However, they find especially important the experience and early involvement in firm’s operations which enables younger generation to start breathing with a firm. Most founders have no problem with delegating their managerial role, but rather postpone transfer of ownership beyond their retirement age.

Innovativeness of founders was higher at the beginning of their entrepreneurial careers, while younger generation is sparkling with new ideas, which mostly result in introduction of improvements or new processes in a firm, many of them leading to rationalization of business processes. All of the successors in our three cases see themselves as successors, one is more entrepreneur, one more a manager and one a combination of both. They are all actively and constantly involved in development of new products, services, processes and improvement of the existing ones. This is a result of a strong and dynamic relationship with their parent/founder, a high level of confidence and their willingness to learn.

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SMALL AND INNOVATIVE COMPANIES SUCCESSFULLY ADJUSTED TO CRISIS CIRCUMSTANCES, ONLY

ABSTRACT

During the late transition process SME in Serbia had fast development due to established encouraging business environment and supportive policies. They became important economic agent taking into account their share in GDP formation and total employment. Facing the Global economic crisis Serbian economy went into recession, but from the end of 2009 modest recovery started. Unfortunately, from the mid 2011 sings of the repeat recession became clear, mainly related to recession and public sector problems in EU. In difficult circumstances some of Serbian SME succeeded to reorient themselves, especially small companies. Those fast growing companies and gazelles also found solution for development. At the same time medium scale enterprises could not adopt on worsening business environment and due to this fact for the first time during transition period the business demography for both companies and shops was negative in 2011. It seems that supportive policy for SME development now has to combine selective supportive measures for fast growing companies and gazelles and at the same time measures of quantitative sort – aiming to increase number of new companies and shops, as much as possible.

Keywords: SMEE, SME sector, GEDI, SBI indicators, Serbia

JEL Classification: L22, L26, L88, M13, O11

INTRODUCTION

Serbia has started market reforms in 2000, as the last among the countries of Central and Eastern Europe. During this period small and medium enterprises development got momentum due to improving overall business climate and due to supportive measures introduced on different level, from Republican to local one. Small and medium scale companies became important economic agent and their share in total GDP formation increased considerably and total employment, as well. However, it is important to note that considering qualitative economic indicators those companies were neither efficient nor competitive on the global market.

First sign of the global economic crisis negatively influenced Serbian economy from the end of 2008. The recession was inevitable, although some measures were introduced by National Bank of Serbia and by the Government in order to safe liquidity of the banking sector, to make credit exposure of the banks’ clients stable, to increase overall demand by subsidizing credits for liquidity of companies, credit for investments and credits for citizens. Those measures were in right direction, but unfortunately too weak to help economy considerably. Facing more difficult problems than expected firstly, the solution for overcome crisis was seen in stand - by arrangement with IMF. Due to recovery in EU, which is the main economic partner of Serbia, the increase in GDP started in late 2009 and continued in 2010. However, from the mid 2011 there are clear signs of so - called W effect – repeat recession. In 2012 one can expect very modest increase in GDP of 0.5%, only.

Facing the crisis SME suffered like other companies. During the recession the main impact of worsening business environment one can see in decreasing number of new established companies and shops and decreasing number of employees, as well. Small companies was severely affected, but in the short period

31 This paper was presented at the MEB20121 Conference held on 1-2 June 2012 in Budapest.
of time have started to recover, due to their flexibility and successful reorientation to different sort of business. At the same time medium scale companies, as less flexible, could not reorient them so fast and still are suffering. As they are dominant part of SME sector this impact was the most important to the results of the SME business demography. During the last several years in crisis circumstances SME sector is facing decreasing number of new established companies and shops and at the same time increasing number of closed companies and shops. In 2010 for the first time during the transition period more shops were closed then new opened. In 2011 not only shops, but for the first time more companies were closed than new established.

Considering worsening business conditions it is important to note that measures supportive for SME development in the future have to be in two directions: first, to support fast growing companies and gazelles in order to increase overall efficiency and competitiveness of the national economy and second, to help newcomers to start and develop business, like during the first phase of transition, with an aim to increase number of SME and employment, as well, as much as possible.

The aim of the paper is twofold: firstly, to analyze the current stage of SME development, especially considering negative influences of the repeat recession, and secondly, to try to find solutions for SME recovery and policy advice.

1. BUSINESS DEMOGRAPHY OF SME OVERALL NEGATIVE RESULT

The Statistical data on business demography are structural indicators which are used for evaluation of improvement in entrepreneurship development, dynamic of new established economic subjects, and SME development. From 2008 on, as outcome of the economic crisis and worsening business conditions, the number of new established companies and shops is decreasing, while numbers of economic subjects which are closed are increasing. Until the crisis started the business demography – as net effect - was positive and usually new companies and shops were established during the first quart of the year. From 2009 on this seasonal characteristic disappeared.

During the last two years (2010 and 2011) the trend of decreasing number of new established firms and shops, on the one side, and increasing number of those closed, on the other side, got momentum. The trends became negative and concerned. In 2010 for the first time during the transition period the net effect (discrepancy) of business demography – number of new opened less number of these closed shops – was negative. In 2011 net effect was negative not only for shops, but for companies, as well.

Table 1: Number of new established and closed SME

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of companies</th>
<th>Number of shops</th>
<th>Net effect</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Established</td>
<td>Closed</td>
<td>Established</td>
</tr>
<tr>
<td>2008.</td>
<td>11.248</td>
<td>3.068</td>
<td>43.375</td>
</tr>
<tr>
<td>2009.</td>
<td>10.014</td>
<td>3.597</td>
<td>39.365</td>
</tr>
<tr>
<td>2010.</td>
<td>9.461</td>
<td>9.325</td>
<td>35.036</td>
</tr>
<tr>
<td>2011.</td>
<td>8.465</td>
<td>13.494</td>
<td>32.009</td>
</tr>
<tr>
<td>Jan. 2011.</td>
<td>582</td>
<td>1.227</td>
<td>2.231</td>
</tr>
<tr>
<td>Jan. 2012.</td>
<td>617</td>
<td>671</td>
<td>2.068</td>
</tr>
</tbody>
</table>

Source: Business Registry, calculation Ministry of Finance RS

In January 2012 the number of companies was increasing in comparison to the year earlier for 6%, while number of those closed was decreasing by 46%. As the result the net effect was improved, although still negative. At the same time the negative trend for shops is continuing. In January 2012 number of new established shops was 7% less than year before, while number of closed shops was higher for 25%. The net effect for the shops is still worsening.

Table 2: Rate of growth and closing companies and shops
Looking at rate of growth and rate of closing companies and shops one can see decreasing rate of growth companies/shops (number of new established companies/shops as percentage of total number of active companies/shops) and at the same time increasing rate of closing companies/shops (number of closed companies/shops as percentage of total number of active companies/shops). In the period between 2007 and 2011 rate of growth of SME was dropped from 21% to 13%, while rate of closing SME increased from 12% to 15%.

**Source:** Statistical office RS, calculation Ministry of Finance RS

In 2011 on average 44.6 SMES were operated on each thousand citizens (43.7 in 2010) and 5.7 of those were new established (6.3 in 2010). If one look at active population from 15 to 64 years of age 65.7 SME are operating on each 1000 citizens, and 8.4 are new established. According to the density Serbia is around the level of EU, as the EU average is 41.6 SMES on each thousands citizens. Within EU member countries the highest density was envisaged in Czech Republic (86.4), and the least in Romania (20.5).

**Source:** Business Registry RS, calculation Ministry of Finance RS

<table>
<thead>
<tr>
<th>Year</th>
<th>Companies</th>
<th>Shops</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rate of growth</td>
<td>Rate of closing</td>
<td>Rate of growth</td>
</tr>
<tr>
<td>2007</td>
<td>16.2</td>
<td>5.0</td>
<td>22.6</td>
</tr>
<tr>
<td>2008</td>
<td>12.8</td>
<td>6.4</td>
<td>20.2</td>
</tr>
<tr>
<td>2009</td>
<td>11.3</td>
<td>4.1</td>
<td>17.4</td>
</tr>
<tr>
<td>2010</td>
<td>10.7</td>
<td>10.5</td>
<td>15.6</td>
</tr>
<tr>
<td>2011</td>
<td>9.4</td>
<td>14.9</td>
<td>14.0</td>
</tr>
</tbody>
</table>

**Source:** Statistical office RS, calculation Ministry of Finance RS

For SME critical period is three to five years after start, as great deal of them in meantime have to be
closed due to different business problems. The rate of survival of companies is the measure which point number of companies established in the year „n” and survive in the period of “n+2” years. After that one can assume that the company could adjust well to market circumstances and find its own market position. On the basis of data for 2007 and 2010 one can find out:

a) Slightly more than 61% of new established SMES could survive first two years and continue to operate;
b) The rate of survival of companies in 2010 was far lower than in 2007, before the crisis came;
c) The rate of survival of companies was higher than for shops (90.6% and 54.1% respectively).

Table 4 Serbia - Growth/fall of business indicators 2009-2010

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Comp.</td>
<td>Micro</td>
</tr>
<tr>
<td>Number companies</td>
<td>226.241</td>
<td>76.243</td>
</tr>
<tr>
<td>Number Employees</td>
<td>259.383</td>
<td>153.074</td>
</tr>
<tr>
<td>Turnover (mill RSD)</td>
<td>924.491</td>
<td>935.282</td>
</tr>
<tr>
<td>GVA(mill RSD)</td>
<td>193.688</td>
<td>119.187</td>
</tr>
<tr>
<td>Export (mill RSD)</td>
<td>6.037</td>
<td>60.090</td>
</tr>
<tr>
<td>Number exporters</td>
<td>1.955</td>
<td>6.166</td>
</tr>
<tr>
<td>Import (mill RSD)</td>
<td>6.450</td>
<td>155.321</td>
</tr>
<tr>
<td>Number importers</td>
<td>2.556</td>
<td>12.040</td>
</tr>
<tr>
<td>Investments (mill RSD)</td>
<td>50.231</td>
<td>40.374</td>
</tr>
</tbody>
</table>

Source: Statistical Office of RS processing by Republican Development Bureau

From the data above one can see that micro and small companies somewhat recovered their activities and refocused to less risky business, but medium scale companies in 2010 fully suffered, because they are less adaptive to worsen conditions. So, it mainly influenced difficult recovery of overall SME sector.

According to sort of industry in which operate, majority of newly established SMES were in service industry and this tendency continued during the crisis. In 2010 the most often business started in industries as follows: gross and retail trade (12,397 or 27% of total), process manufacturing (7,831 or 17%), and tourism (5,192 or 11%). However, those three industries at the same time had the highest number of closed companies and shops (35%, 17% and 10% respectively).

Data related to rate of growth of SME according to sector proved general findings. Net effect of newly established companies and shops in 2010 are lower than to the year before. In 2009 10 economic entities were closed on each 13 newly established and in 2010 numbers of new and closed were equal. In financial services this negative net effect was especially sharp (13.9 in 2009 and 1.4 in 2010).

The rate of survival in first two years of operating was the highest in governmental services, compulsory social security (100%), supply of energy and gas (78%), and mining (77%).

Regional economic discrepancies in Serbia are unfortunately very high and, more important, they were widening further during the
transition period. SME sector and its development is not an exception. More developed regions, like Belgrade city and Vojvodina, have obviously greater potentials for business start-up and its development later on. According to business demography Belgrade has the highest potentials, as 13,363 new companies were established there or 29% of total. South Backa region in Vojvodina is following with 4,660 new SME or 10% of total. It is important to note that within those regions there are more chances for survival, which can be proved with lower rate of closing (67% and 63% respectively). On the contrary in Pirot region, on the south of Serbia, 367 new SME were established in 2010 or 0.8% of total, only, while at the same time 483 economic entities were closed.

Generally speaking the tendencies in business demography of SME which are not favorable can be seen as an outcome of two sorts of factors: firstly, clear impact of prolonged economic crisis, which caused fear of potential entrepreneurs to start business and active businessman to see potential for growth. Secondly, market reforms lost momentum in Serbia, partially because of increasing number of those who lost job and those who needs social aid. In other words, during the economic expansion until 2008 the main interest of the Government was oriented toward entrepreneurs, those who are creating job, but not anymore. During the period before the election, and especially during the election year (2012) rhetoric and measures of the Government became more populist and less entrepreneurial. To be precise: market reforms are continuing slowly and can not offset worsening of overall business climate as outcome of the crisis.

This outcome – negative business demography - is alarming. It generated firstly, decreasing number of working places, with increasing unemployment, which reached more than 23%32 of total labor force. Secondly, it limits development potential, as SME is considered as the basis for future healthy and advanced economy. It also asks for quick and massive governmental response. In order to stop negative tendency and reorient slowdown into growth the Government has to re-launch SME supportive measures of a quantitative sort. The most important goal now is to open as much as possible new economic entities.

2. THE STAGE OF DEVELOPMENT OF BUSINESS INFRASTRUCTURE

According to the recently published analysis on business infrastructure in Serbia33 the institutional network responsible for support of entrepreneurship and SME development is improving, but still is modest. The development of the infrastructure started in 2005 with first registered clusters and business incubators. Today there are: 23 business incubators, 85 cluster initiatives, 92 industrial zones, 2 industrial – technological parks, and 4 free zones.

The analysis found out that the institutions were not geographically balanced, but concentrated like economy, prevailing in regions of Belgrade and Vojvodina and considering towns, as follows: Belgrade, Novi Sad, Nis, Subotica, and Kragujevac. The main reason for the concentration of institutions is in line with development of regional and SME agencies and at the same time orientation of donor's programs in the same direction, as follows: Norwegian ENTRANS, EU projects SECEP, RSEDP2, MISP, German WFB project, Danish program LEDIB, Austrian project BBI, and USAID project „Competitiveness“. Governmental institutions were also supportive for business infrastructure development, like Governmental program for cluster development and National Investment plan.

3. INDICATORS OF SMALL BUSINESS ACT IMPLEMENTATION

Small Business Act – SBA - is the document giving the official framework for development policy for SME in EU. SBA is established on 10 principles as the basis for policy definition and its realization on EU level and

32 Figure for 2011 Republican Statistical Office.
level of the member countries. From 2009 on SBA is the referent framework for the countries of Western Balkan, as well.

Figure 2: Serbian and EU Profile

![Figure 2: Serbian and EU Profile](image)

Source: SBA Report 2010-2011

The last Report found out that in Serbia there are potential for further improvement of development policy for SMEE support. Although the Government formulated and realized measures in all 10 fields data are available for 5 principles: entrepreneurship, second chance, patient administration, skills and innovations and internationalization. Serbian indicators for entrepreneurship are on the EU level (average), while for others principles (second chance, patient administration, financials, skills and innovations, and Internationalization) are well below.

Table 4: Indicators of Small Business Act Implementation

<table>
<thead>
<tr>
<th></th>
<th>EU</th>
<th>Serbia</th>
<th>Bulgaria</th>
<th>Czech</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
<th>Slovenia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurship</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TEA Index</td>
<td>5,85</td>
<td>7,59</td>
<td>-</td>
<td>7,90</td>
<td>6,61</td>
<td>-</td>
<td>3,98</td>
<td>6,40</td>
</tr>
<tr>
<td>Ratio chance / need</td>
<td>6,24</td>
<td>1,85</td>
<td>-</td>
<td>2,26</td>
<td>2,37</td>
<td>-</td>
<td>1,55</td>
<td>7,31</td>
</tr>
<tr>
<td>Second chance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost to close a business</td>
<td>10,72</td>
<td>23,00</td>
<td>9,00</td>
<td>17,00</td>
<td>15,00</td>
<td>20,00</td>
<td>11,00</td>
<td>4,00</td>
</tr>
<tr>
<td>Time to close a business (in years)</td>
<td>1,98</td>
<td>2,70</td>
<td>3,30</td>
<td>3,20</td>
<td>2,00</td>
<td>3,00</td>
<td>3,30</td>
<td>2,00</td>
</tr>
<tr>
<td>Think Small First</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Burden of government regulation</td>
<td>3,12</td>
<td>2,30</td>
<td>3,20</td>
<td>2,70</td>
<td>2,20</td>
<td>2,70</td>
<td>2,90</td>
<td>3,50</td>
</tr>
<tr>
<td>Responsive Administration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time to start a business (calendar days)</td>
<td>14,26</td>
<td>13</td>
<td>18</td>
<td>20</td>
<td>4</td>
<td>32</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Cost required to start a business (% of income per capita)</td>
<td>5,47</td>
<td>7,90</td>
<td>1,60</td>
<td>9,30</td>
<td>8,20</td>
<td>17,50</td>
<td>2,60</td>
<td>0,00</td>
</tr>
<tr>
<td>Paid in minimum capital (% of income per capita)</td>
<td>18,76</td>
<td>6,00</td>
<td>0,00</td>
<td>30,90</td>
<td>10,20</td>
<td>14,70</td>
<td>0,90</td>
<td>45,00</td>
</tr>
<tr>
<td>Time required to transfer property (calendar days)</td>
<td>33,96</td>
<td>91</td>
<td>15</td>
<td>43</td>
<td>17</td>
<td>152</td>
<td>48</td>
<td>113</td>
</tr>
<tr>
<td>Cost required to transfer property (% of property value)</td>
<td>4,68</td>
<td>2,70</td>
<td>3,00</td>
<td>3,00</td>
<td>5,00</td>
<td>0,40</td>
<td>1,30</td>
<td>2,10</td>
</tr>
<tr>
<td>Number of tax payments per year</td>
<td>16,94</td>
<td>66,00</td>
<td>17,00</td>
<td>12,00</td>
<td>14,00</td>
<td>29,00</td>
<td>113,00</td>
<td>22,00</td>
</tr>
<tr>
<td>Time required to comply with major taxes (hours per year)</td>
<td>218</td>
<td>279</td>
<td>616</td>
<td>557</td>
<td>277</td>
<td>525</td>
<td>222</td>
<td>260</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost to enforce contracts (% of claim)</th>
<th>20.84</th>
<th>28.90</th>
<th>23.80</th>
<th>33.00</th>
<th>15.00</th>
<th>12.00</th>
<th>28.90</th>
<th>12.70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to finance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strength of legal rights (0-10)</td>
<td>6.81</td>
<td>8</td>
<td>8</td>
<td>6</td>
<td>7</td>
<td>9</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Depth of credit information (0-6)</td>
<td>4.47</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Skills and innovation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SMEs introducing product or process innovations (% of SMEs)</td>
<td>34.18</td>
<td>18.32</td>
<td>20.72</td>
<td>34.86</td>
<td>16.82</td>
<td>17.55</td>
<td>18.03</td>
<td>31.02</td>
</tr>
<tr>
<td>SMEs introducing marketing or organizational innovations (% of SMEs)</td>
<td>39.09</td>
<td>18.05</td>
<td>17.35</td>
<td>45.88</td>
<td>20.52</td>
<td>18.65</td>
<td>25.81</td>
<td>39.38</td>
</tr>
<tr>
<td>SMEs innovating in-house (% of SMEs)</td>
<td>30.25</td>
<td>27.83</td>
<td>17.09</td>
<td>29.58</td>
<td>12.60</td>
<td>13.76</td>
<td>16.66</td>
<td>-</td>
</tr>
<tr>
<td>Innovative SMEs collaborating with others (% of SMEs)</td>
<td>11.16</td>
<td>3.50</td>
<td>3.50</td>
<td>11.28</td>
<td>7.15</td>
<td>6.40</td>
<td>2.27</td>
<td>14.24</td>
</tr>
<tr>
<td>Sales of new to market and new to firm innovations (% of turnover)</td>
<td>13.26</td>
<td>10.01</td>
<td>14.20</td>
<td>18.67</td>
<td>16.44</td>
<td>9.84</td>
<td>14.87</td>
<td>16.31</td>
</tr>
<tr>
<td>SMEs participating in EU funded research (number per 100,000 SMEs)</td>
<td>20.95</td>
<td>3.70</td>
<td>5.25</td>
<td>3.12</td>
<td>10.33</td>
<td>3.26</td>
<td>5.68</td>
<td>27.52</td>
</tr>
<tr>
<td>SMEs selling online (% of SMEs)</td>
<td>13</td>
<td>12</td>
<td>4</td>
<td>19</td>
<td>7</td>
<td>7</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>SMEs purchasing online (% of SMEs)</td>
<td>28</td>
<td>14</td>
<td>4</td>
<td>32</td>
<td>17</td>
<td>11</td>
<td>7</td>
<td>16</td>
</tr>
<tr>
<td>Internationalization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost required to import (in USD)</td>
<td>1098</td>
<td>1559</td>
<td>1666</td>
<td>1165</td>
<td>1215</td>
<td>884</td>
<td>1175</td>
<td>765</td>
</tr>
<tr>
<td>Time required to import (in days)</td>
<td>12.35</td>
<td>14.00</td>
<td>21.00</td>
<td>20.00</td>
<td>17.00</td>
<td>25.00</td>
<td>13.00</td>
<td>17.00</td>
</tr>
<tr>
<td>Number of documents required to import</td>
<td>5.35</td>
<td>6</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>5</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Cost required to export (in USD)</td>
<td>1044</td>
<td>1398</td>
<td>1551</td>
<td>1060</td>
<td>1225</td>
<td>1043</td>
<td>1275</td>
<td>710</td>
</tr>
<tr>
<td>Time required to export (in days)</td>
<td>11.71</td>
<td>12.00</td>
<td>23.00</td>
<td>17.00</td>
<td>18.00</td>
<td>17.00</td>
<td>12.00</td>
<td>19.00</td>
</tr>
<tr>
<td>Number of documents required to export</td>
<td>4.5</td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>


In comparison to results of previous years the Report found out that Serbia made improvement in majority of policies supportive to SME development. Within the broad context of development policies of SME the example of good practice is new Law on bankruptcy from January 2010. The Law stipulated that debtor can initiate bankruptcy procedure because of in debt and news is bankruptcy procedure with reorganizational program, as well. New procedure ought to be less expensive, shorter and simpler than before. The aim is not to close economic subject.

4. GLOBAL ENTREPRENEURSHIP DEVELOPMENT INDEX (GEDI)

Global Entrepreneurship Development Index - GEDI is the indicator of entrepreneurship quality, particularly related to effects of entrepreneurship and innovations, which are caused by individual and institutional factors. It covers three different dimensions of entrepreneurship, as follows: a) entrepreneurial attitude (ATT) - mirrors citizens’ attitude to SME; b) entrepreneurial activity (ACT) – measures entrepreneurial activity with potential of fast development; c) Entrepreneurial intentions (ASP) – it measures new products and innovations implementation35.

General GEDI value for Serbia36 is 0.18 with the rank of 62, which is four times less than for Denmark (0.76) with highest value of GEDI, and two times less than average value of all countries covered (0.37). In the group of countries which development is pushed by efficiency37 Serbia is the last. The first is Malezia (0.36), and Ecuador is the last (0.17). In comparison to

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36 Z.Acs, L.Szerb – “Global Entrepreneurship and The United States”, SBA, 2010
the economic level achieved, GEDI level and all three sub-indicators (ATT, ACT and ASP) in Serbia are not encouraging, and level below the trend line is not good sign, as well.

Figure 3: GEDI Index

In comparison to overall development level Serbia has a comparative advantage in the skills possessed by beginners in business, while weakness is related to a fewer chances for start up of new firms, human sources quality, new products and technology implementation, and low level of SMEE internationalization.

The main recommendation for improvement in SMEE development level is the switch to the new model of economic growth, which is based on export demand, employment increase, investments increase, public spending decreasing, industrial sector strengthening. In line with existed measures and activities for SMEE support the development of dynamic companies has the main role.

Table 5: Global Index of Development (GEDI)

<table>
<thead>
<tr>
<th>Subindex A: Entrepreneurial attitude</th>
<th>Serbia</th>
<th>B&amp;H</th>
<th>FIROM</th>
<th>Croatia</th>
<th>Romania</th>
<th>Hungary</th>
</tr>
</thead>
<tbody>
<tr>
<td>G</td>
<td>P</td>
<td>G</td>
<td>P</td>
<td>G</td>
<td>P</td>
<td>G</td>
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<tr>
<td>----------</td>
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<td>-------</td>
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<td>---------</td>
</tr>
<tr>
<td>GEDI</td>
<td>0.18</td>
<td>0.62</td>
<td>0.18</td>
<td>0.64</td>
<td>0.24</td>
<td>0.49</td>
</tr>
<tr>
<td>1 pillar: Opportunity perception</td>
<td>0.29</td>
<td>0.51</td>
<td>0.21</td>
<td>0.63</td>
<td>0.25</td>
<td>0.56</td>
</tr>
<tr>
<td>2 pillar: Start up skills</td>
<td>0.31</td>
<td>0.19</td>
<td>0.27</td>
<td>0.17</td>
<td>0.38</td>
<td>0.43</td>
</tr>
<tr>
<td>3 pillar: Nonfear</td>
<td>0.57</td>
<td>0.37</td>
<td>0.38</td>
<td>0.43</td>
<td>0.18</td>
<td>0.43</td>
</tr>
<tr>
<td>4 pillar: Networking</td>
<td>0.21</td>
<td>0.24</td>
<td>0.14</td>
<td>0.41</td>
<td>0.31</td>
<td>0.26</td>
</tr>
<tr>
<td>5 pillar: Cultural support</td>
<td>0.23</td>
<td>0.25</td>
<td>0.3</td>
<td>0.26</td>
<td>0.23</td>
<td>0.31</td>
</tr>
<tr>
<td>Subindex B: Entrepreneurial activity</td>
<td>0.13</td>
<td>0.68</td>
<td>0.11</td>
<td>0.69</td>
<td>0.21</td>
<td>0.54</td>
</tr>
<tr>
<td>6 pillar: Opportunity start up</td>
<td>0.04</td>
<td>0.06</td>
<td>0.13</td>
<td>0.1</td>
<td>0.1</td>
<td>0.28</td>
</tr>
<tr>
<td>7 pillar: Technology sector</td>
<td>0.19</td>
<td>0.09</td>
<td>0.26</td>
<td>0.33</td>
<td>0.14</td>
<td>0.3</td>
</tr>
<tr>
<td>8 pillar: Quality of HR</td>
<td>0.13</td>
<td>0.1</td>
<td>0.24</td>
<td>0.16</td>
<td>0.16</td>
<td>0.69</td>
</tr>
<tr>
<td>9 pillar: Competition</td>
<td>0.19</td>
<td>0.18</td>
<td>0.21</td>
<td>0.33</td>
<td>0.19</td>
<td>0.13</td>
</tr>
<tr>
<td>Subindex C: Entrepreneurial</td>
<td>0.12</td>
<td>0.63</td>
<td>0.22</td>
<td>0.42</td>
<td>0.27</td>
<td>0.34</td>
</tr>
</tbody>
</table>
attitude

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Score 1</th>
<th>Score 2</th>
<th>Score 3</th>
<th>Score 4</th>
<th>Score 5</th>
<th>Score 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 pillar: New products</td>
<td>0.03</td>
<td>0</td>
<td>0.03</td>
<td>0.12</td>
<td>0.08</td>
<td>0.12</td>
</tr>
<tr>
<td>11 pillar: New technologies</td>
<td>0.11</td>
<td>0.09</td>
<td>0.19</td>
<td>0.36</td>
<td>0</td>
<td>0.29</td>
</tr>
<tr>
<td>12 pillar: High growth</td>
<td>0.24</td>
<td>0.21</td>
<td>0.28</td>
<td>0.37</td>
<td>0.32</td>
<td>0.17</td>
</tr>
<tr>
<td>13 pillar: Internationalization</td>
<td>0.15</td>
<td>0.51</td>
<td>0.48</td>
<td>0.7</td>
<td>0.69</td>
<td>0.5</td>
</tr>
<tr>
<td>14 pillar: Venture capital</td>
<td>0.12</td>
<td>0.47</td>
<td>0.64</td>
<td>0.19</td>
<td>0.02</td>
<td>0.01</td>
</tr>
</tbody>
</table>

Note: G – GEDI Index, P – GDP p.c.ppp
Source: Global Entrepreneurship and the United States SBA

Other recommendations are as follows:

a) SMEE Supportive framework should be finished including help to companies in growth and development;
b) Shift from broad policy supportive to all SME to policy supportive to dynamic companies and gazelles;
c) Shift in existed financial support (public sources, different sorts of donation, subsidies and soft credit lines) to combination of public and private sources, to credits for Research & Development and donation for innovations, business angels kind of support and securities, as well;
d) The change in structure of services offered by non financial support from basic advices for business start up, business planning and operations to the advice based on experience on venture capital, strategic planning, support for joining business chains, internationalization and development;
e) Advantage in financial sources access to the most dynamic companies;
f) Legal framework reform oriented not only to dismantling of limits for start ups, but for dynamic companies establishment, as well.

5. INNOVATIVE COMPANIES ARE BETTER ADAPTED TO WORSENED BUSINESS CONDITIONS

For the first time Serbian SME were subject of investigation, precisely innovative companies, fast growing companies and gazelles, in broad EU environment. Those companies from EU countries were analyzed comparing the current state in 2009 and in 2011. One third of SME (33%) in the EU stated that they have introduced a new or significantly improved products or services to the market. This was the most likely innovative activity among SME in EU. Over a half of SME in Malta, Montenegro, Serbia (53%) and Latvia said that they have introduced a new or significantly improved products or service in the last 12 months, much higher than in EU. The spread of activity is somewhat more pronounced with regard to introducing a new or significantly improved production processes or methods. Malta had significant increase, on the one hand, and decrease was noted in Romania, on the other hand. Serbia (53%) again, together with Montenegro and FIROM, was above EU average (32%). Regarding introduction of new organization of management during the last 12 months EU average is slightly above 1/5 of SME, while Serbia (35%) together with Czech Republic and Montenegro were pretty higher with organizational innovation introduced in SME. During the last year around two fifths of SME in Ireland and Malta have introduced a new way of selling goods or services, ahead of Romanian and Greece, while Serbia was on the level as Malta (40%).

When asked how much their firm had grown on average per year over the last 3 years in terms of number of employees, the largest proportion of SME in EU (39%) said they have experienced “no growth”. At the same time over ¼ (26%) said that their business did see growth of up to 20%, a further 11% said that their business grew over 20% per year (so - called gazelles) and finally, nearly ¼ (23%) said that their business “got smaller”. The proportion for Serbia measuring employment growth was as follows: 11% (got smaller), 28% (no growth), 45% (growth up to 20%) and 17% (over 20% of growth). Those results are not surprise as Serbia was in the first phase of SME development, when fast employment growth can be expected. In terms of turnover EU-27 proportion (for 2011) is: 15% (over 20% per year), 37% (les then 20%), 20% (no growth) and 26%.

38 EC – SMEs’ Access to Finance Survey, EC, December 2011
39 Although data for Serbia (and other countries of Western Balkan) were given for 2011 only and can be questioned regarding quality and objectivity, as it was investigation on the basis of questionnaire fulfilled by SME managers, results are interesting and useful.
(got smaller), while Serbian proportion is: 19%, 16%, 43% and 22%. Unfortunately, majority of Serbian SME are facing severe problems and fewer chances then before. The investigation also covered gazelles, as high growth companies with average growth over 20% per year, and included both SME and LSE. According to the investigation in EU-27 2% of all companies can be labeled as gazelles and in Serbia 1% only - not surprisingly. It is interesting to note that the analysis proved that innovative companies increased faster than non-innovative. The proportion for growth of turnover for innovative companies EU-27 was: 18:37:18:25 and non-innovative: 12:36:23:27.

CONCLUSION

During the transition period in Serbia SMES sector became important economic agent with high share in GDP formation and overall employment. Facing the global economic crisis SME were suffering like other economic subjects. It is important to note that some SME – micro and small companies - successfully adopted to worsen economic environment and found their own market place due to reorientation of their activities. Medium scale companies, as less adaptive, could not do it easily. Due to their high share in overall SME sector the data for business demography for SME are negative and alarming. It asks for urgent reaction of the Government and introduction of measures for general support of SME, like during the first phase of SME development, which can the decreasing number of SME return into growth, and more important open new working places. Several reports prepared by international organizations found out that like micro and small companies, which found way to survive and develop their business, innovative companies and gazelles are during the crisis better adapted to worsening business environment. This finding emphasized need for stronger governmental support of those companies.

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FDI IN ALBANIA IN THE FRAMEWORK OF AN UNSTABLE INSTITUTIONAL ENVIRONMENT

ABSTRACT

Foreign direct investment (FDI) flows in Albania have grown significantly over the last six years, increasing 3 times from EURO 258 million in 2006 to EURO 827 million in 2010. The FDI inflow trend kept increasing even during the financial and economic world crisis until 2010 when it recorded an increase of 17%. As per the latest data for year 2011 a slight decline of 4% in FDI flow is recorded (EURO 793million in 2011). The FDI stock as a percentage of GDP increased from 15% of GDP in 2006 to 29% of GDP in 2009; however it is still the lowest in the South East European region. According to Investment Reforms Index, IRI 2010 Albania is assessed with the lowest score in the SEE countries with 2.9 score out of 5.

The aim of this paper is to analyse FDI in Albania during the years and compare them to other SEE countries. The analysis is also extended on the impact of the structural reforms and on the influence of an unstable institutional environment. The paper is based on direct interview of policymakers in different institution in Albania and also on foreign companies’ survey. The results show that the quality of the institutional framework in Albania affects the attractions of the transnational corporations as well as increasing the competitiveness in order to expect significant FDI flow on long term.

Key words: Foreign Direct Investments (FDI)

JEL classification: O24, F2

INTRODUCTION

Albanian economy has registered a steady economic growth since 1992. During years 2000-2008 such growth has recorded levels between 6-7.9% resulting as one of the highest among European countries. During 2009-2011 such economic growth is reduced to 3.3%, 3.9% and 3.1%, although faced with a global economic crisis. The private sector plays the most important role in the Albanian economy and its contribution is estimated at over 82% of GDP and employment level. GNI per capita in Albania reached 3,960 USD in 2010 and becoming an upper middle income country. The strong economic growth was supported by high level of remittances, increasing level of FDI, increasing availability of credit and high private savings which all contributed to high level of investment. Total gross investment has increased from 24.6% of GDP in 2000 to 29.5% in 2009, and private investment from 18% to 21.4% over the same period.

Macroeconomic indicators have been stable in recent years. FDI inflows have increased from 6.2% of GDP in 2007 reached 9.3% of GDP in 2010, but the stock of inward FDI still remains the lowest in the region with only 5.7% of the stock of inward FDI in SEE. FDI are even more important since they are associated with technology transfer, increase of exports, increase of productivity and increase of economic competitiveness. The growth of FDI in Albania takes a great importance for country's economy considering the significant decline in the remittances level. In 2010 remittances reached a level of EUR 690 million and in 2011 a level of EUR 475 million decreasing by 50% as compared to year 2007 which was the year with the

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40 GNI per capita is the Gross National Income converted to US Dollars, using World Bank Atlas Method
41 WB (2010). Albania the new growth Agenda, p.i. According to Atlas Method the bound between low middle income and upper middle income is by 3975 USD, so in the reality Albania is near the Upper Middle Income bound.
highest level of remittances. Remittances are reduced from 12.2% of GDP in 2007 to 7.8% of GDP in 2010 and even lower in 2011.

In the light of the actual unfavourable global economic situation a big question rises. How can Albania maintaining such high rates of economic growth in the upcoming years? Furthermore taking in consideration the regional integration process, Albanian economy will face with increasing competitiveness of other countries.

According to World Bank Report, Doing Business 2012, Albania is ranked among the first 16 countries in the world for protecting investors, a ranking very high compared to the average of SEE 6 (60) as well as the average of EU countries 27, (69). However, notwithstanding such significant progress, there is room and need for further improvement in institutional environment in various areas of implementation of critical laws and regulations in line with the requirements for EU accession, which also count for attracting foreign investment.

1. SOME EVIDENCES FROM SOUTH EAST EUROPE, SEE, COUNTRIES FOCUSING IN ALBANIA

Foreign Direct Investment inflows in Albania in 2010 reached €827 million, increasing three times compared to 2006. However a slight decrease with 4% is recorded in year 2011 amounting to EUR 793 million. Even though the FDI inflows in Albania have increased rapidly during the past few years (figure 1), still Albania has the lowest FDI inwards stock (in 2010) in the SEE region by only 5.7% of SEE inwards stock, compared to Croatia by 45% and Montenegro by 27%. Also Albania has the lowest FDI stock relative to GDP among the countries of SEE (table 1).

<table>
<thead>
<tr>
<th>Table 1. Inward FDI stock as a percentage of GDP in Albania and other SEE countries, 2004-2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Country</strong></td>
</tr>
<tr>
<td>--------------------</td>
</tr>
<tr>
<td>Albania</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
</tr>
<tr>
<td>Croatia</td>
</tr>
<tr>
<td>Montenegro</td>
</tr>
<tr>
<td>Serbia</td>
</tr>
<tr>
<td>The former Yugoslav Republic of Macedonia</td>
</tr>
</tbody>
</table>

Source: UNCTAD/WIR10, Annex Table

Outward Flows (figure 2) have started in 2004 and makes 6% of the total FDI flows. Almost all of FDI outflows are in neighboring economies; Kosovo, Macedonia and mainly banking and insurance sector.

Foreign and joint venture enterprises in Albania represent 2.9% of the total number of active enterprises in the country. Referring to the structure of foreign and joint enterprises by the size in 2010: micro enterprises with 1 to 9 employees constitute 78% of the total number of enterprises, small enterprises with 10 to 49 employees occupy 14%, followed by medium enterprises with 50 to 249 employees occupy 6% and only 2% are represented by large enterprises with over 250 employees. (Table 2)

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43 Data are acquired from UNCTAD, WIR 11 and % are calculated by authors

44 INSTAT 2011. *Business register 2010*
Figure 1. Inward FDI in Albania, 2004-2009

Figure 2. Outward FDI flows 2004-2009

Source: Bank of Albania.

Table 2. Distribution of foreign companies according the size.

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>01-09</th>
<th>10-49</th>
<th>50-249</th>
<th>250+</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2,924</td>
<td>2,309</td>
<td>395</td>
<td>170</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: INSTAT, Business Register 2010

Foreign companies play an important role in the Albanian economy. According to INSTAT’s survey\textsuperscript{45} data for 2009 indicate that foreign companies counted for 39\% of total value added, 27\% of total turnover, 16\% of total employment and 41\% of total investment, even though the number of the foreign companies is only 2\% of total number of active enterprises in 2009\textsuperscript{46}. (Figure 3).

Figure 3. The contribution of foreign companies in Albanian economy in %

Source: Data from INSTAT: ASN 2009 and Business Register 2009 and calculated by author.

By country of origin, the ranking of FDI stock investors are: Greece 41\%, Turkey 14\%, USA 12\%, Austria 9\%, Italy 8\% Germany & Cyprus 3\% etc.

In the figure 4 is presented the contribution of privatization of the strategic-sector enterprises in FDI inflows during years. During the period 2007-2009 approximately 23\% of the total FDI came as a result of privatizations.

\textsuperscript{45} INSTAT 2011. \textit{ASN 2009}

\textsuperscript{46} INSTAT 2010. \textit{Business register 2009}
The main sectors of attracting FDI inflow during 2010 are: the manufacturing sector is in the first place by 40%, followed by the construction sector by 16% which is ranked second. The financial intermediation activities almost as important as transport, storage and communication accounted for 15% of the FDI inflow mainly due to FDI in fixed-line and mobile telephone services. Services account share of FDI inflow count for 13% of the total inflow in 2010. The electricity & gas activities still count for a low share of FDI inflow with only 1% during year 2010, but as per unofficial data there is a significant increase during year 2011.

3. THE INVESTMENT CLIMATE IN SEE COUNTRIES

According to OECD/Investment Compact in 2010, the progress in reforms for improving the investment climate in the Southeast European countries is measured by the Investment Reform Index (IRI). Assessment is made in seven dimensions (table 3):

| Table 3. Index of reforms in Investment in Western Balkans Countries, IRI 2010 |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 1 Investment Policy & Promotion | ALB 3.5   | BIH 3.3   | HRV 3.8   | MKD 3.7   | MNE 3.8   | SRB 2.5   | UNK 3.65  | Average 3.65 |
| 2 Human Capital                 | ALB 2.68  | BIH 2.17  | HRV 3.03  | MKD 3.5   | MNE 2.91  | SRB 2.83  | UNK 2.28  | Average 2.775 |
| 3 Trade Policy & Facility      | ALB 3.8   | BIH 3.2   | HRV 4.2   | MKD 3.6   | MNE 3.7   | SRB 2.5   | UNK 3.75  | Average 3.75 |
| 4 Access to Finance             | ALB 2.2   | BIH 2.5   | HRV 3.5   | MKD 2.6   | MNE 2.5   | SRB 3.2   | UNK 1.6   | Average 2.7 |
| 5 Regulatory Impact Analyses & Parliamentary | ALB 2.8 | BIH 2.7 | HRV 3.0 | MKD 3.6 | MNE 2.6 | SRB 3.5 | UNK 2.7 | Average 3.15 |
| 6 Tax Policy                    | ALB 2.5   | BIH 3.5   | HRV 2.8   | MKD 2.4   | MNE 2.5   | SRB 2.2   | UNK 2.8   | Average 2.35 |
| 2010 Average IRI                | ALB 2.9   | BIH 2.9   | HRV 3.4   | MKD 3.2   | MNE 3.0   | SRB 3.2   | UNK 2.4   | Average 3.1 |

Source: OECD
Remark: Country codes according to ISO 3166-1

47 OECD (2010). Investment Reform Index 2010. “Monitoring Policies and Institutions for Direct Investment in South-East Europe”. Each policy dimension is rated on a scale of 1 to 5 (weaker to stronger). The indicators for the dimensions are weighted, with a range from 1 (least important) to 3 (most important). Infrastructure dimension is not score.
Albania ranks slightly below the average. Albania is estimated by a score of 2.9 in total, or 0.2 less than the average of the Region (3.1). The country has made a very little progress compared to the year 2006 with the score 2.8 (IRI 2006\textsuperscript{48}) and it is in the same level with Bosnja & Herzegovina (2.9). Kosova is the last in the region. Albania, in the trade policy and tax policy is the higher than average of the SEE region and for 5 other dimensions is below the average. Albania is estimated poor in the human development (2.68) and the access to finance (2.2). Croatia is estimated by 3.4 score and is in the top of the SEE countries. It is performing well in all the dimensions. FYR of Macedonia (3.2) and Serbia (3.2) are performing above the average of the region.

According to “Doing Business 2012\textsuperscript{49}”, Albania has significantly improved its position regarding the facilities in doing business. It is ranked 82 out of 183 from 136 that was the ranking in 2008, rising with 54 places.

During the 2007-2011 several reforms on reduction of administrative barriers in business and improving the investment climate were undertaken in Albania as below presented:

- **Reforms on business registration.** Since September 2007 business registration within one day, at NRC which functions as a one stop shop where businesses are registered within one day, with a minimal cost of 100 ALL (0.81 EUR). This has brought the reduction of time registration of a business to 1 day from 28 days that is was in 2007 in the Court.
- **The reduction time and cost for starting a new business.** Now it is needed 5 steps to open a new business compare 10 steps in 2007 and only 5 days compare 36 days in the 2007, which is also connected with the cost reduction to open a business.
- **Reforms on simplification of procedures of licensing.** During 2007-2008, from about 170 existing licenses are abolished 104 of them. Since June 2009 start the function National Licensing Centre, NLC which act as a one stop shop, which can provide licenses in 2-4 for days and maximum 10-30 days (not included the construction permits).
- **Reforms in the field of legislation of companies.** According Doing Business in 2012 on investors protection, Albania is ranked 16 from 168 that is was in 2007. This important improvement has come as a result of reforms in the field of trade legislation, approved by Law no. 9901, dated 14.04.2008 "On Company Law", which provides a contemporary, simple, clear and updated legal framework for companies.
- **Reform on taxation system.** In the field of reduction of fiscal burden for businesses:
  - From 1 January 2008 has entered into force the flat tax to 10% for corporate tax (from 20% that it was till the end of 2007) and personal income tax.
  - The reduction of fiscal burden on tax for social insurance for the employer with 9 points percentage (from 29 to 20). Fiscal burden of employer will be reduced further to 15% starting from 1 May 2009.
  - A comprehensive reform is being made in Tax Administration, with the purpose of improving efficiency and on line payments.
- **Online procurements.** Since January 2009 all kinds of public procurements are online.
- **Reforms on custom system.** During 2008, it is undertaken an important reform for the computerization of all customs, significantly improving the service toward business, reducing the time of completing the documents and goods’ control.

\textsuperscript{48} OECD 2007, Investment Reform Index 2006. “Progress in policy reforms to improve the investment climate in South East Europe”.

\textsuperscript{49} WB (2011) “Doing Business 2012” presents quantitative indicators across 183 countries on 10 areas: starting a business, dealing with licenses, Getting Electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business.
4. MAIN OBSTACLES WHICH HANDICAP THE FDI BOOST IN ALBANIA IN TERMS OF AN UNSTABLE INSTITUTIONAL ENVIRONMENT.

4.1. Democracy.

EC Progress Report for Albania in 2011 finds that Albania's political scene is dominated by the persistence of political impasse and partial boycott of parliament by the opposition. Violent incidents of 21 January 2011, which led to the deaths of four demonstrators, amplified not only the climate of distrust between political forces, but also state institutions. The political struggle between the two main political parties was the main factor for not fulfilling the 12 CE recommendations and as a result Albania did not take the EU candidate status for two consecutive years.

4.2.1 Identification and analysis of obstacles in the most important economic sectors in Albania is presented below.

The power sector has become more reliable in latest years by upgrading generation capacities and expanding market structures. During the period 2008-2010 are signed about 200 concession contracts (agreements) for the construction of hydropower stations and most of them are signed with foreign investors, but only about 10% started the construction. The investors faced considerable difficulties in obtaining licenses and permits from various central and local government institutions. To avoid these difficulties the government approved a new decree on June 2010 that National Licenses Center, NLC, should treat also the construction of hydropower licenses, but no license was given by the end of December 2011.

Infrastructure investment in Albania has the lowest prevalence of the Internet and the second lowest for fixed telephony. On the other hand in road transport, the density and road network is in second place in the region. While the railway network is lower than the density of the region as well as the annual costs for maintenance of railways. Regarding the air transport, it should be emphasized that its cost for a ton load is above the regional average. Finally the time to have electrical connection is the second highest in the region with 162 days. (IRI 2010)

The transport sector recorded progress in rebuilding of road networks although the sector requires further investment. The completion of the Durres-Kukes highway has created new transit opportunities for regional exports. This potential could be increased through further upgrades of the road networks and modernisation of seaports, especially through public-private partnerships (PPPs).

The financial sector was developed strongly in the recent years and adequate regulation and timely monetary interventions helped to limit the impact of the global financial crisis. However, improving access to finance – especially for micro, small and medium-sized enterprises (SMEs) – remains a serious challenge.

Informal economy. The informal economy continues to be in a high level and INSTAT, which is responsible for its measurement, has not published any data for the Non Observed Economy (NOE) toward GVA since 2008. Based on the latest update from INSTAT the Non Observed Economy (NOE) toward GVA is reduced from 29% in 2006 to 27.2% in 2008.

4.3 Identification of institutional and organizational obstacles.

Corruption continues to be devastating for Albania. According to the Corruption Perception Index (CPI) 2011 Albania is ranked in place 95 out of 183 countries, with 3.1 score. Albania is ranked 8 places below that in 2010’s classification. Albania is ranked the last in the region, leaving behind only the new state of Kosovo.

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52 Gross Value Added  
53 INSTAT (2009), GDP Buletin 2004-2008  
This index showed the failure of many governments to protect citizens from corruption, either through abuse of public resources, bribes or secret decision-making. Transparency International considers 2011 as the year of crisis in governance, stressing that the worldwide protests were indicative of anger toward the corruption in politics and public sector, driven by economic instability and perceptions of citizens on the apparent lack of transparency of the leaders of their public institutions. The corruption has also been amplified by the lack of reform in the judicial system.

**Institutions to support foreign investors.** There have been frequent changes of specialized institutions to support foreign investors. During 1996-2011 the FDI agencies have changed many times; in 1997 the Economic Development Agency was in place; in 1999 the FDI Development Agency replaced the previous one; in 2005 Albanian Investment Agency Albinvest came up as a merge of three previous agencies: Albanian Investment Agency, SME Agency and Export Promotion Agency. According to the foreign investor survey in 2010, 60-70% of investors are not familiar with the services of the investment promotion agency Albinvest, and most of the firms do not use them. On July 2010 the government closed Albinvest (maybe due to insufficiency) and created the new agency, Albanian Investment Development Agency, AIDA. AIDA will be a business service provider as a one-stop-shop focal point for foreign investors, but up to the end of 2011 they have only recruited new staff.

**Free economic zones and industrial parks.** The Albanian Government has approved several legal and sublegal acts, with a view to providing the legal and institutional basis for the establishment of free economic zones and industrial parks for the establishment of activities by enterprises. During the period 2007-2010 the Government has approved nine economic areas. Eight of them have the status of industrial parks and one the status of a free economic area, but none of them has started the construction yet due to problems with land ownership, difficulties in obtaining permits etc.

**Property rights protection.** The most sensitive issue for foreign investors related to property rights is clear legal files on land ownership. Unresolved ownership problems have increased the number of conflicts and uncertainty for investors. In Albania, 70% of rural properties in cadastral maps are registered While 37 out of 138 cadastral areas in Urban Areas are completed and the restitution of properties process is still ongoing. It should also be mentioned that other sensitive issues are intellectual property rights, exclusivity rights, patents etc.

4.4 Other obstacles identified in the foreign affiliates survey.

**Potential changes in the taxation system.** The recent statements for changing the taxation policy from actual 10% flat tax to the progressive tax in case of political changes in the elections of 2013 may significantly impact the FDI inflow and may cancel the privatization of some strategic companies.

**Administrative court failure.** The lack of consensus from the opposition for the establishment of administrative court increased uncertainty to foreign investors.

**Lack of qualified human resources.** More than 50% of foreign investors struggle to find employees with the adequate skills. Labour offices are considered helpless by most of the foreign companies.

**Deficiencies on law execution.** Foreign investors emphasize the need for improving the correct law execution, tax collection, VAT reimbursement and reduction of bureaucracy.

5. CONCLUSION AND RECOMMENDATIONS

SEE is now the most attractive region for foreign investors to establish factories and other production units. Low labour cost, good geographical position and high level of unexploited natural resources are some of the main comparative advantages of this region. Albania ought to undertake the necessary institutional environment reforms that stimulate economic development and contribute to long-term competitiveness. Specific activities to be undertaken include:

- **Ensure political stability** as one of the main promoters of FDI absorption. Investors see political instability as the single and most important barrier to increased FDI flows. The SEE countries need to expand cooperation, enhance pace and prosperity in the region.

- **Ensure a free economy and fair competition** by adopting the necessary laws and regulations, by preventing the unfair competition and by completely removing the state interventions in the private sector. The Competition Authority Agency in Albania ought to strengthen and to be more active.

- **One Stop Shop for foreign investors.** Albania will need to focus on improving services to investors in both the pre and post-establishment phase. The IRI 2010 report recommends the agency to function as a one stop shop for foreign investors to ensure fast and efficient services, but also to facilitate coordination among different government institutions. The basic idea is that an investor would only have to be in contact with one single entity to obtain all the necessary paperwork in one streamlined and coordinated process, rather than having to go through a labyrinth of different government bodies. So, the new agency AIDA ought to transform into one stop shop for the foreign investors.

- **Anti-corruption** battle must continue to be on the agenda of governance as a fundamental condition for EU integration processes. No tolerance to any kind of corruption. Endemic corruption, a weak judicial system and unresolved property claims are additional hurdles for foreign investors. The fight against corruption ought to be focused in different fields as opening a business, getting licenses, in juridical system etc. The culture of impunity must be fought with every tool and a major help in this regard would be the removal of immunity for senior officials, MPs, ministers, prosecutors and judges that will put virtually all equal before the law.

- **Transparency promotion.** The transparency and predictability of the FDI procedures sends an important message to potential investors about the overall attractiveness of the investment environment.

- **Reduction the informal economy.** In the framework of the reduction of the informal economy, ought to undertake important measures, aiming mainly the improvement of the identification and measurement of the non observed economy and the decreasing of the cost of legal business and reduction of the cash economy. The fight against corruption, tax evasion and informality is the real challenge, which is facing tax administrations today that has intensified efforts in all components of its constituent primary and support activities, aiming to modernize the basic functions and legislative improvements.

- **Establishment of economic zones.** (Industrial parks and free zones). Based on public and private partnership, the establishment of economic zones in Albania will attract foreign investors and increase business competitiveness and their active participation in international trade, the growth of manufacturing level, exports, employment services, encouraging investments and advanced technology transfer.

- **Grant incentives to attract FDI in a non-discriminatory, open and transparent manner.** FDI incentives can take the form of fiscal incentives (e.g., reduced direct corporate tax), financial incentives (e.g., infrastructure or job training subsidies) and regulatory incentives.

- **Human Capital.** An increasing focus on analytical and management tools should be in place to instigate pro-active policies that promote human capital development and research and innovation. In this regard, education and skills, despite positive developments, remain a strong challenge for Albania. There is a huge gap between the need of private business and highly educated graduates mostly regarding engineers and technical qualified staff. The Ministry of Labor has not enough capacity to make long-term analysis of the necessary skills and the work force has not been systematically surveyed. (IRI 2010)

- **Protection of property rights.** Huge efforts should be made for improving, implementing and applying an effective legislation for the protection of property rights. Such as land ownership rights, titling legislation & cadastre, intellectual property rights, exclusivity rights, patents etc. Investors need to be

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58 OECD (2009) South East Europe Investment Committee, Fourth Meeting, 7 April 2009, Brussels
confident that their ownership or the right to use a property is legally recognized and protected. Online services for the property certificate through the mortgage offices in Albania.

- **The SEE country's infrastructure** especially in Albania, while improving, remains poor and transportation networks, electricity supply, water delivery and sewage treatment are not up to international standards. So, it is very important to improve infrastructure conditions of the roads, telecommunications and energy network.

- **Administrative court.** The court is expected to speed up the administrative process. The aim is to speed up procedures related to appeals by business and strengthen arrangements for the fulfillment of contracts.

- **Veterinary legislation.** Albania should improve implementation of the veterinary legislation, training and qualification of veterinary and phytosanitary inspections, to have access to European markets for food products. Efficiency should be improved phytosanitary laboratories and make greater efforts in order to adapt the protective measures and animal welfare. (RI 2010)

- **An improved institutional, administrative and technical framework for FDI,** proper targeting and government support are necessary in order to keep the FDI inflow at the 2008-2009 level or higher in the coming years.

- Finally the effectiveness of government policy responses at both the national and international levels in addressing the financial crisis and its economic aftermath to the right course and it will play a crucial role for creating favourable conditions for a new pickup in FDI. The challenge is to restore the credibility and stability of the international financial system, to provide stimulus to economic growth in order to prevent the risk of a spiralling depression, to renew a pragmatic commitment to an open economy, potentially put at risk by rising protectionist tensions and to encourage investment and innovation.

**REFERENCES**


CONFERENCE PAPERS

OPATIJA DECLARATION 2012
on
Partnership for Entrepreneurship - P4E

Opatija – 15-17.03.2012

First International Seminar
on
Educational programs for entrepreneurship in the educational system of the Republic of Croatia – Entrepreneurship and Europe

organized by
Association of the Institutions for adults’ education

with partners of the
UMIS-SMEA/ ESBA – Small and Medium Entrepreneur's Association / European Small Business Alliance
OECD – Organisation for Economic Collaboration and Development
EESC – European Economic - Social Committee
EFQM – European Foundation for Quality Management
in the framework of
The 9th European Day of the Entrepreneur & GEC/GEW – Global Entrepreneurship Congress
Liverpool and GEW week

The overall goal of the Partnership for Entrepreneurship

To link all interested stakeholders from Croatia and the region to encourage entrepreneurship.
The partnership for entrepreneurship consists of the representatives of science / education, enterprises, local communities, NGO's, interested individuals and experts.

The four principles for the promotion of entrepreneurship

(1) Changing the perception of entrepreneurship: entrepreneurs as heroes
(2) Improving the broader business environment to support entrepreneurship
(3) Introducing entrepreneurial learning in primary school and improving lifelong entrepreneurial development
(4) Encouraging innovation through Triple Helix partnership between science, industry and local government

For further information please contact: Ms. Katarina Jagic, katarinaj@hump-crosbu.hr
MEB 2012
10th INTERNATIONAL CONFERENCE
on
MANAGEMENT, ENTERPRISE AND BENCHMARKING

The Management, Enterprise and Benchmarking - MEB - is an international conference to provide a forum for presentations and discussions of scientific, economic and business areas. The 10th jubilee conference was held on 1-2 June 2012. It was organized and sponsored by the Keleti Faculty of Business and Management of the Óbuda University (Budapest) at the premises of the university. The event was held in cooperation with the EREN Network.

György Kadocsa, General Chair in his welcoming address highlighted that "The growing international competition in the economical arena has created a demand to establish a forum in order to improve quality and education efficiency on the field of management, enterprise and benchmarking. The aim of the conference is to provide researchers and practitioners from higher education, academia and industry with a platform to report on recent developments in the area of economy.

I want to thank a large number of volunteers who have contributed tremendous time and effort to bring the conference to you. Especially, I want to acknowledge the effort of the committee chairs, and committee members, and all those persons responsible for the background activities from local arrangements to conference secretariat.

I hope that all attendance at the conference will find this event intellectually stimulating and professionally rewarding."

Out of 29 presentations 6 were conducted by ERENET Members. The main papers are available at the web-site at http://kgk.uni-obuda.hu/meb2012.

Future orientation

Preliminary discussions were carried out with the Faculty management, that ERENET will support the MEB 2013 event to be held early June 2013 in Budapest. We shall investigate the possibility weather we can organize the next ERENET Annual Meeting in conjunction with this
GENFEST
31 August – 2 September 2012 - Budapest

THE INTERNATIONAL YOUTH CONFERENCE GENFEST held in Budapest was organized between 31 August and 2 September 2012. More than 12,000 young people from 85 countries, different ethnic groups, cultures and religions attended this event organized by the FOKOLARE Movement. The aim of the Conference was to demonstrate that it is possible to build a more united and integrated World based on joining forces and cooperation.

The first GENFEST event was organized in 1973 near Florence and further ones in various Italian places. The last event was held in 2000. This event was the first one held in a Central-and Eastern-European country, and after the death of Chiara Lubich, Founder of the FOKOLARE. The Focolare Movement began in Trent in 1943. The Movement is present in 194 countries and is composed of individuals of different faiths, cultures and social backgrounds. Its charisma is unity: in order to fulfill that project of universal fraternity which Jesus himself brought to the world: “May they all be one”, and by being committed to this goal in every sector of society: economic, political and cultural.

The Budapest GENFEST was its 10th edition, and this year is entitled LET'S BRIDGE, signifying the commitment of the Youth for a United World in concretely building bridges of brotherhood and dialogue at the global level.

Let's bridge is also the final stage of the project "A united Europe for a united world -young ideas change Europe", promoted by New Humanity in conjunction with a network of 16 European associations. The project, funded by the program "Europe for citizens" was launched at Castel Gandolfo (Italy) last December.

The patrons of the GENFEST was the Primate Cardinal Péter Erdő, archbishop of Esztergom-Budapest, Reformed Bishop József Steinbach, President of the Ecumenical Council of Churches in Hungary, and István Tarlós, the Mayor of Budapest. Zsolt Semjén, Deputy Prime Minister greeted the participants at the opening ceremony.

Cardinal Péter Erdő in his statement highlighted that bridge building requests solid foundation and we have to know how big is the cleft we have to span. It is necessity to know the two sides of the bridge, in other words those cultures which we intend to bridge. „It would be important that Europe and people of the World become aquainted with their histories and culture. It is not a true bridge-building where one culture suppresses the other one. The motto of the current youth event is to build bridges, even
to be converted into bridges.” The Cardinal expressed his view, that „does it no matter that the occurrences of the globalization are sweeping us away merely as technical and economic processes without human, ethical and belief reflection, or keeping eye on human values and wish of the Lord.” „We have to became acquainted with the feeling of incomprehension, intolerance, historical affront and revenge and their reality in order to be able surpass these with heroic love and patience. The opposites and hatred not only separate people from each other, but set free vicious thoughts in the heart of the individual and the community.” He added that „not the create World is evil in itself, but the viciousness and hatred present, whereas we have to show the present of the heroic, helping and fraternal love.”

János Martonyi, Hungarian Minister for Foreign Affairs pointed out that „Budapest is the city of bridges. Hungary is a recipient country, where the joining the nations, civilizations and cultures all these enriched the culture, the civilization and the whole life of the country.” In connection with this he quoted from the Admonitions of Saint Stephen I, Apostolic King of Hungary to his son Emeric, that „a monolingual and monohabit country is week and fallible.”

The UNESCO has granted its patronage through a letter addressed to the President of New Humanity by Mme Irina Bokova- General Director of the United Nations Educational, Scientific and Cultural Organization. "This meeting, which aims to make young people artisans of peace and dialogue among peoples, is perfectly in line with the objectives of UNESCO, which aim is to stimulate the young people to be active in promoting the development and in building a culture of peace.” In the same letter, Mme Bokova also announced that the event in Budapest has been included in the "Jeunesse de l’UNESCO" section of its official website.

Another important acknowledgment has come from the European Commission, who already supported the project through its program “Europe for Citizens” and granted to the event the patronage of Viviane Reding, Vice- President of the European Commission, responsible for Justice, Fundamental Rights and Citizenship.

The event was also awarded a special medal by the President of the Italian Republic, which also decided to give its patronage.

http://www.magyarkurir.hu/node/41766
Photos © from https://www.google.com/search?q=Genfest+photos&hl=hu&client=gmail&rls=gm&prmd=imvns&tbm=isch&tbo=u&source=univ&sa=X&ei=1qFFUOu_HcvCswaAI4EY&ved=0CCEQsAQ&biw=1024&bih=480
INSTITUTIONAL PROFILE

CROATIAN SMALL BUSINESS UNION
HUMP

http://hump-crosbu.hr/

The Croatian Small Business Union in legal form as an Association was founded to promote, connect, educate and protect the interests of self-employed entrepreneurs, small and medium-sized companies with special emphasis on micro-enterprises.

Croatian Small Business Union operates on the territory of Republic of Croatia. In order to achieve the objectives of the association shall perform the following activities:

- promoting self-employment and small and medium enterprises
- providing information to members on entrepreneurial topics and members interconnection
- advising and educating members
- assist members in project creation for tenders in Croatia and abroad (particularly the EU tenders), which are related with members’ entrepreneurial activities
- business connections in the country and abroad
- a topic research related to small and medium business and their development
- preparing, organizing and conducting seminars, lectures and educational courses
- publishing and sale of books, manuals, training materials, leaflets and pamphlets in connection with small and medium enterprises
- co-operation with related organizations, partner institutions and relevant government bodies and initiating legislative proposals
- connection / association with international associations / institutions / organizations to improve the association’s operations and to achieve goals
- performing other duties that are necessary for achieving the goals and tasks of the association

Membership

Member of the association can become any business citizen, a citizen of the Republic of Croatia and the legal person established in the Republic of Croatia, who accepts the statute of association and sign the members’ application.

Annual membership:
1. For companies from 1 to 10 employees and individuals 365 kuna (its symbol: kn).
2. For companies from 11 to 50 employees 800 kn.

(institutions/organizations engaged in encouraging the development of entrepreneurship)
Persons without business capacity or with limited business capacity may be members of the association and participate in the work of association without voting rights.

Under the same conditions specified in statute a member of the association can become foreign citizen and foreign legal entity (legal person with headquarters abroad) as well.

Contact: HUMP – CROSBU
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Phone/Fax: +385 1 5531 786        PhoneMob1: +385 99 5606 617        PhoneMob2: +385 98 1852 470
E-mail: katarinaj@hump-crosbu.hr and zeljkac@hump-crosbu.hr
WORLD COMPETITION IN SPAGHETTI BRIDGE BUILDING

http://reccs.uni-obuda.hu/en

Build a bridge from spaghetti? Is it a game, or a serious task? Well, the answer is definite. Irrespective of its material, to build a strong and fine looking bridge is a serious engineering task. The spaghetti bridges building competitions have been a tradition spanning through several decades. Such competitions are organized by a number of engineering faculties across Europe and Overseas.

In Hungary, the Ybl Miklós College (Now a faculty of Szent István University) was the first to organize a spaghetti bridge building contest. The students of architectural engineering faculty have been organizing such competitions for nearly twenty years. Students of Bánki Donát College (Now a faculty of Obuda University) were the first to join their program in 2002. (See http://reccs.uni-obuda.hu/en/node/76)

The most ranked spaghetti bridge competition in that time was the contest organized in Canada by Okanagan University College. In last eight years, Hungarian students won the most challenging heavyweight category of this championship for six times. Most of the wins were world records as well. A good bridge has more than 1200 parts. The design is assisted by computer programs, the experiments, and the manufacturing take several hundred hours.

In 2010, on the occasion of Széchenyi memorial year, the program of RECCS 2010 was extended by the “Chain bridge” category. Here competitors had to build the scaled model of Budapest’s Chain Bridge from spaghetti. The bridges were evaluated on the basis of their aesthetics and quality of design. The best bridges were awarded with valuable prizes!

The high standards of the “RECCS 2011” competition are indicated by the fact that the load bearing capacity of 16 structures exceeded 200 kg. Szilárd Attila Márkos, student at the Faculty of Mechanical and Safety Engineering of Obuda University, achieved an incredible world record. His spaghetti structure weighing a bit less than 1 kg collapsed only at a load of 578.2 kg. He tried to set a new world record on the Bridge of Sciences with the same success, accompanied by great interest: the new world record is 611.8kg!

On basis of the results from the seven competitions until now, we can claim that RECCS is the competition with the highest standard. This year on the 25th of May the Obuda University will organize the RECCS 2012- World Championship in Spaghetti Bridge Building. Students from ALL OVER THE WORLD were invited to compete.

Competition is announced in two categories: bridges and supports. The contest is open to universities and colleges from all over the world. Each institute can apply at most by three bridges and supports respectively. The teams can have three members at most.

Winners are determined by the maximum load carrying capacity of their bridge, determined by a breakdown test. Beside place winner prizes many other awards will be bestowed by the university and sponsors of RECCS 2012. These include the most beautiful and most innovative constructions as well.
CALLS □ EVENTS □ NEWS

Spirituality and Sustainability:  
A New Path for Entrepreneurship  
Annual Conference of the European SPES Forum  
September 21-23, 2012, Visegrad, Hungary

September 20 (Friday)

13.30-14.00  Registration
14.00 –14.15  Welcome addresses
14.15 - 15.00  Keynote lecture: Let the Rivers be Free  
               Janos Vargha (Alternative Nobel Prize winner environmentalist, Danube Circle)

15.30-17.00  Parallell Sessions

Session (A)  Sustainability and Paradigm Change (Chair: Francois Lépineux)
Jean-Paul Close (STIR Foundation, AiREAS and STIR Academy, The Netherlands): The Global Paradigm Shift: Positioning Spirituality and Sustainable Progress
Mária Csutora and Ágnes Zsóka (Corvinus University of Budapest, Hungary): Relation of spirituality to happiness, life satisfaction and sustainable lifestyles

Session (B)  Alternative Businesses (Chair: Alpar Lonsoncz)
Lisette Peulen  (business consultant, The Netherlands): Creating Connected Companies
Ine van Emmerik  (Belieforama, The Netherlands): Working in whitespace; adult education, spirituality and development of social entrepreneurship
Zsuzsanna Győri (KÖVET, Budapest) and András Ócsai (Corvinus University of Budapest Hungary): Ecologically-oriented Enterprises in Hungary

17.15-18.45  Parallell Sessions

Session (A)  Agriculture and Nature-oriented Entrepreneurship (Chair: Zsolt Boda)
Arundhati Virmani  (EHESS-CNRS, Marseille, France) and François Lépineux (ESC Rennes School of Business, France): Sustainable Agriculture as Spiritual-Based Entrepreneurship
György Ernyei and László Podmaniczky (St. Stephan University Gödöllő, Hungary): Public-goods oriented agricultural business models with higher awareness
Nel Hofstra (Erasmus University Rotterdam, The Netherlands): Entrepreneurship Inspired by Nature

Session (B) **Spiritualitual Orientation to Nature** (Chair: Rita Guesquire)
Knut Ims (Norwegian School of Economics Bergen, Norway): Personal Responsibility, Ecosophy and Deep Ecology
Gábor Kovács (Corvinus University of Budapest, Hungary): Spiritual orientation to nature in Buddhism
Imre Lázár (Semmelweis University of Medicine and Károli Gáspár University of Reformed Church, Hungary): Reanimation of Nature

**September 21 (Saturday)**

8.50 - 9.00 Spirit Moment
9.00-10.00 Keynote Lecture: *Arting for Sustainability*
   **Paul Srivastava** (David O'Brien Distinguished Professor of Sustainable Enterprise, and Director, David O'Brien Center for Sustainable Enterprise, John Molson School of Business, Concordia University, Montreal, Canada)

10.30-12.00 Paralell Sessions

Session (A) **Judaism, Chistianity and Islam** (Chair: Aloy Soppe)
Hendrik Opdebeeck (University of Antwerp, Belgium): The Islamic & Jewisch tradition: Source of wisdom for the bridge between sustainability management and spirituality
András László (Eurovisioning, Belgium): The Forgotten Half of Sustainability & Leadership: The Inner Dimension/Perspective – the Sufi Approach
Jozef R. Raco and Revi M.H.Tanod (De La Salle Catholic University of Manado, Indonesia): Spirituallity of Catholic Entrepreneurs in a Muslim Majority Society

Session (B) **Catholic Social Thought** (Chair: Luk Bouckaert)
Antal Szabó (ERENET Hungary): New Economic and Social Order and Doing Business Based on Christian Set of Values
Sarolta Baritcz (Sapientia Theology College Hungary): The Three Dimensioned Economy: Alternative Approach to the Mainstream Economic Theory
Katalin Botos (Pazmany Péter Catholic University, Hungary): Christian business ethics and sustainability

12.00-13.00 Keynote lecture: *Market Disclosing of Being: A Heideggerian Approach to Business*
   **Laszlo Zsolnai** (Professor and Director, Business Ethics Center, Corvinus University of Budapest)

14.30-16.45 Paralell Sessions

Session (A) **Lessons from the Crisis** (Chair: Imre Ungari-Zrinyi)
Alpar Losoncz (University of Novi Sad, Serbia): Are there non-trivial lessons from the crisis for the business as „non-usual“?
Aloy Soppe (Erasmus University of Rotterdam, The Netherlands): Financial Ethics after the Crisis
Tomasz Dołęgowski (Warsaw School of Economics, Poland): Modern Catholic Social Teaching and Philosophy – Implications for the Future of Competitiveness Theory and Practice
Session (B) **Leadership and Management** (Chair: Knut Ims)

Ove Jacobsen  (Bodo Graduate School of Business, Norway): Perspectives on Value Based Leadership

Roland Szilas  (Corvinus University of Budapest and Sapientia Theology College, Hungary): Serving Organization and Management for Human Development

Marián Bednár  (Pavol Jozef Šafárik University, Košice, Slovakia): Franciscan Values for Spiritual Leadership in Business

17.00-18.00  **European SPES Forum Annual Assembly** (Luk Bouckaert, K.U. Leuven & European SPES Forum)

**September 22 (Sunday)**

8.50 - 9.00  Spirit Moment

9.00-10.30  Plenary Session: *Nature and Art*  (Chair: Paul Srivastava)

**Sustainability and Wisdom: The Power of the Fable**  (Rita Ghesquiere, Catholic University of Leuven, Belgium)

**Our Common Light**  (Corinne Boureau, artist, The Netherlands)

**Art as a means for increasing sensibility to spirituality and sustainability**  (Lidmilla Nemcova, Czech Society for Ethics in Economics, The Czech Republic)

11.00-12.30  Parallel Sessions

Session (A) **Organizations** (Chair: Nel Hofstra)

Vincent Gouwy  (Osteopath DO, Belgium): The Importance of Self-knowledge and the Questioning of Creating During a Realization Process

Peter Gere  (Detecon International, Bonn, Germany): Aikido in Management: Martial Arts for Achieving Harmony and Collaboration

E.C. van den Dool  (Ede Christian University for Applied Sciences, The Netherlands): From experiencing ‘hunger’ to mystagogy in organizations

Session (B) **Ethics in Economics and Business** (Chair: Hendrick Opdebeeck)

Gergely Toth  (KÖVET, Hungary): From Moral Economics to Biomania

Imre Ungvári-Zrínyi  (Babes-Bolyai University, Cluj, Romania): Spirituality as motivation and perspective

Sophie Smit  (Erasmus University of Rotterdam, The Netherlands): Trends in Corporate Giving

12.30 - 13.00  **Closing remarks**

Further information on Visegrád can be gained by visiting the visiting the web-site of the city at http://www.visegrad.hu/en
The 2nd HIGH LEVEL ROUND TABLE
DUBROVNIK
4-5 October 2012

In the framework of the 9th EDE CROATIA - the 10th Week and Cities - the EU Year 2012
50 participants from companies from and abroad will share their visions and Partnership for Entrepreneurship in Europe.

TASKS
(1) Raise awareness in communities of impact of small collaboration.
(2) Inspire self
(3) Inform about new policies and strategies in of 
(4) Connect SMEs
(5) Initiate
(6) Promote

For further information please contact
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EUROPE INNOVA 2012 CONFERENCE - STRESS TEST OF EUROPEAN INNOVATION POLICY

Øksnehallen
Halmtorvet 11 - 1700 Copenhagen - (Denmark)

The Danish Ministry of Science, Innovation and Higher Education wishes to contribute to the discussion on how we can further develop and strengthen triple helix interaction, business research collaboration, and innovation policies throughout Europe. We will do this in close collaboration with the European Commission’s DG Enterprise and Industry and other Director Generals of the European Commission. We will develop stress test tools with the European Commission and VDI/VDE-IT.

Europe INNOVA 2012 will stress test innovation policy in three areas:

- SME innovation support schemes
- Commercial exploitation of knowledge, IP and new inventions
- Networks and cluster policies

Europe INNOVA 2012 will provide you with:

- The latest knowledge and the hottest discussions going on in the innovation policy society
- New knowledge on how you can improve your performance as policy maker and programme owner
- New knowledge on the best innovation policies as well as the most embarrassing failures you should avoid
- Access to likeminded people who can support you as policy maker and programme owner
- New ideas and new energy to meet the challenges of the future.

Interactive Innovation Gallery and stress test laboratories

At the conference we will have a large Innovation Gallery and stress test laboratories where you can test your own programmes and policies. A set of new “self-assessment tools” will be available and demonstrated. You will have the possibility to test your own SMV programmes, cluster programmes, innovation system, etc. You can also learn more about stress testing cluster organisations.
The conference is based on a completely new innovative concept:

**TEN DOGMA RULES FOR CONFERENCES**

1. No opening speeches from VIPs – important people will be those who really know what will be the future innovation policy in Europe
2. No time wasted on long presentation of speakers – the programme and webpage has all the information you need on speakers
3. No keynote speakers – but we can offer you access to brand new knowledge on innovation policy
4. No PowerPoint presentations – the speakers will be interviewed on stage by a professional moderator
5. No reports will be presented – you will get access to reports before the conference. On stage we will focus on discussion and dilemmas
6. No parallel sessions – you will get access to all the wisdom of the conference.
7. No quotations – participants should contribute with their own thinking, own ideas and original thoughts
8. No best practice without a critical angle – all cases presented will be submitted to a stress test
9. No one is allowed to be bored – minimum one good laugh per hour
10. Lots of breaks – you will get the best opportunities to make contacts, dating and networking

There are a limited number of seats – so don’t miss your opportunity. You will join 500 policy makers, programme owners and innovation policy experts from all over the world.

For registration and more information please visit the web-site at:

http://www.conferencemanager.dk/EuropeINNOVA2012-Copenhagen

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Dr. Meltem Ince (left), Prof. Aleksander Surdej (right) and Dr. Antal Szabó (middle) at the Pre-Conference on Entrepreneurship, Family Business and Economic Development of Krakow Region held on 26 April 2012

Photo © by Antal Szabó
The address of the ERENET Secretary see below:

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