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AUTUMN MESSAGE OF THE SCIENTIFIC DIRECTOR

Distinguished Readers and Friends,

We are at the end of Autumn. The First Sunday of Advent was accompanied by lighting of the first candle of the Advent wreath. Christmas is coming and we have to prepare ourself to make account on the achievements and deficiencies in our life as well as our nation.

And the stunts are appearing on the EU scene as well. Recently four of the European Union’s most senior posts were decided, and ambitious politicians are manoeuvring for places at the EU’s top table. For the most part they are current or former prime ministers, foreign ministers or European commissioners. As head of the EU executives, the Presidency of the Commission Jean-Claude Juncker, the former Prime Minister of Luxembourg was nominated. He already has warned that Europe has yet to beat the Eurozone crises.

Nobody is missing the outgoing President, the Portuguese José Manuel Barroso. During his presidency the economic crises was not solved, he did not contributed to reduction neither the unemployment, not the poverty in Europe, and the world did not became safer. In my opinion, the current political crises in Ukraine and worsening the relationship with Russia is partially his fault too.

As far as ERENET is concerned, we successfully run the International Scientific Conference on "International Entrepreneurship and Internationalization of Firms in Visegrád Countries V4" held in Krakow (Poland) on 3 April 2014. The Conference was supported by the International Visegrad Fund. The other event was the 12th International Conference on Management, Enterprise and Benchmarking - MEB2014 - was held on 30-31 May 2014 organized by the Keleti Faculty of Business and Management at the Óbuda University (Budapest) in cooperation with the ERENET. The ERENET Members out of the 55 participants attended this event. During this Conference a Cooperation Agreement was concluded between the International Non-profit organisation International Investment Centre and ERENET.

ERENET assisted in organizing the 45th BSEC-KAS Workshop on Microfinance for SMEs held on 12-15 November 2014 in Bucharest, where more than 10 ERENET Members participated and made presentation. More detailed summary see in our ERENET PROFILE in 2015.

In the summer the ERENET Secretariat with the assistance of our newly appointed Info Director, Prof. Zsuzsanna Szabó (Petru Maior University in Romania) we concluded Online-Distribution License Agreement with a Frankfurt am Main database Operator to include future ERENET article to the CEEOL database. It will upgrade ERENET PROFILE to a widely spread international recognition with impact factor classification. We look forward to receiving papers from our Members as well as supporters and experts dealing with entrepreneurship education and research.

For the coming seasons holidays I wish everybody Merry Christmas and a Happy and Prosperous New Year!

Dr. Antal Szabó
Scientific Director of ERENET

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FAMILY BUSINESSES IN BULGARIA

ABSTRACT

Although family businesses represent a significant part of the Bulgarian economy, there are few research studies and statistical data on the characteristics and problems of this sector is also missing. This paper describes the history, economic importance, definition, characteristics, unique qualities and challenges of succession in Bulgarian family firms. The paper also presents the institutional actors, support policies and initiatives supporting the family business sector in Bulgarian Finally it makes recommendations for policy actions.

Keywords: family business, characteristics, succession, institutional framework, Government regulation and policy, Bulgaria

JEL Classification: M10, L5

1. HISTORY OF FAMILY BUSINESSES IN BULGARIA

In the ex-communist countries in Central and Eastern Europe including Bulgaria, entrepreneurship was not always a legal activity (Tkachev and Kolvereid, 1999). Until recently, the economies of these countries were based on large state-owned industrial enterprises using mass production methods and relatively inflexible production processes, producing for geographically restricted markets (McMillan and Woodruff, 2002; Tkachev and Kolvereid, 1999; Smallbone et al., 2001). Private business was practically eliminated in these countries (Manolova et al., 2007) and when existent was part of the grey economy (Smallbone and Welter, 2001). The unprecedented reforms aimed at the democratization of the society and the liberalization of the economy resulted in the legalization of the private ownership (Tkachev and Kolvereid, 1999) and prompted the emergence of small privately-owned firms in transition economies. During the transition period, entrepreneurship became an important factor for the transition from centrally-planned to market economy (McMillan and Woodruff, 2002).

The Bulgarian family firms have appeared as separate legal entities as a result of the profound political and socio-economic changes that began after 1989. Due to those specific historical circumstances, they differ in some aspects such as age, growth plans and involvement in international business operation from family businesses in other countries (Yordanova, 2013). At the same time, in many aspects such as size distribution, industry sector, and reluctance to share control with external investors they are very similar to family businesses in other countries (Yordanova, 2013). In 2007 the Association of the Family Business in Bulgaria was established as an open civil structure for new members sharing the philosophy and principles of family business. The Association aims to collaborate and coordinate its activities with the governmental and municipal authorities, as well as with the public institutions with the purpose of development of the family business in Bulgaria. Although the Association has attracted 51 members, mainly representatives of the large business in Bulgaria, it still plays a minor role in influencing government policy and actions regarding the family business in Bulgaria.

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1 This paper was presented at the BSEC-KAS Workshop on Family Businesses and SMEs in the BSEC Region held on 7-9 October 2013 in Istanbul
2. DEFINITION OF FAMILY BUSINESSES IN BULGARIA

There is no official definition of family business in any legal regulations in Bulgaria. The family business is not a policy issue in the National Strategy for SME Development. Until recently, the annual reports of the Bulgarian Small and Medium Enterprises Promotion Agency also did not focus on family business issues and did not differentiate family from non-family SMEs. The first Operational Program “Competitiveness” does not include any family business issues in its objectives, priorities and measures.

In 2007 the European Commission created the Expert Group on Family Business, which is comprised by experts nominated by the Member States and some experts from the field. The purpose of the group is to discuss the main problems for family firms, to identify existing family business related research, good practices in the area of family business and family business organizations, and to give their input to the Commission on family business relevant issues. The Expert Group adopted a common European definition, according to which 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.
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 per cent of the decision-making rights mandated by their share capital.

The Association of Family Businesses in Bulgaria, which is a non-profit organization supporting the establishment and development of family businesses, accepted several extremely narrow criteria for membership:

- The company applicant should be entirely built in accordance with the idea, registered and established as activity, on a particular family member’s initiative.
- The family company should have reached at least second generation of continuity, i.e. at least one more generation of children or parents or relatives on direct line of descent from different generations should have been working or preparing for work. This new generation has to participate as an owner, manager or participant.
- It is advisable that the company’s name coincides with the family’s name.
- Clear origin of the company’s starting activity and crediting.
- The company would have been existing at least for 5 years.
- During the period of its existence, the company should have good references and good name regarding the quality and responsibility of implementing its economic activity.
- The company should have clearly written objectives and strategies of development of its economic activity, according to the principle of “family business”.

In 2010 the National Statistical Institute conducted a survey on family business in Bulgaria, which was initiated by the Association of the Family Business. The survey adopted the common European definition of family businesses. In 2012 the Bulgarian Small and Medium Enterprises Promotion Agency presented a special chapter dealing with the issue of family business succession in its annual report on the situation and factors for development of SMEs in Bulgaria.

3. IMPORTANCE OF FAMILY BUSINESSES IN THE BULGARIAN ECONOMY

Until recently there was no any official statistical information about the number of Bulgarian family businesses and their contribution to the economy. Family businesses were not mentioned in the regular statistical observations by the National Statistical Institute. The first survey on family business in Bulgaria

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conducted in 2010 by the National Statistical Institute and initiated by the Association of the Family Business reveals that family businesses represent more than 42% of all enterprises (Table 1). They employ 28.3% of the workforce in the private sector (Table 1). More than 43% of the Bulgarian family businesses operate in the trade sector and employ 34% of the total workforce in family businesses. More than 37% of the Bulgarian family businesses operate in the service sector and employ more than 28% of the total workforce in family businesses. Only 9% of the Bulgarian family businesses are involved in manufacturing, but they provide employment to almost 25% of the total workforce in family businesses. Other sectors with family businesses are construction, agriculture, and the financial sector.

Table 1: The role of family businesses in the Bulgarian economy.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of enterprises in your country</td>
<td>366,929</td>
</tr>
<tr>
<td>out of them family businesses</td>
<td>156,000</td>
</tr>
<tr>
<td>out of them SMEs</td>
<td>na</td>
</tr>
<tr>
<td>individuals - solo proprietors acting as FB</td>
<td>na</td>
</tr>
<tr>
<td>Number of employees in your country</td>
<td>2,242,607</td>
</tr>
<tr>
<td>out them in FB</td>
<td>474,544</td>
</tr>
<tr>
<td>out them is SMEs only</td>
<td>na</td>
</tr>
<tr>
<td>individuals - solo proprietors acting as FB</td>
<td>na</td>
</tr>
<tr>
<td>Share of contribution of the FB to GDP in %</td>
<td>na</td>
</tr>
</tbody>
</table>

Source: The National Statistical Institute, the Association of the Family Business.

Several trends in the distribution of family businesses in terms of size and sector of economic activity can be outlined. Sole traders, which can be regarded as family businesses if the owner is married, are concentrated in trade and service sectors (Todorov, 2011). In the agricultural sector there are many small family farms, which represent the main source of income for the population in the rural areas. Medium-sized and large family firms operate predominantly in the manufacturing, import of equipment, construction and real estate, and tourism and hospitality sectors (Todorov, 2011). Few medium-sized and large family firms can be found in manufacturing of machinery and equipment, building of ships and boats, import and trade with construction equipment, import and trade with boats, security services, manufacture of wine, insurance, etc. (Todorov, 2011).

The turnover of family businesses is about 20% of total turnover of Bulgarian enterprises, while the amount of investments in fixed assets of family businesses are 16% of all investments in the country. Family businesses provide more than 17% of the total amount of products and services produced by the Bulgarian enterprises. Most family businesses have to transfer the ownership and management control to the next generation in the next 5 years because they were founded in the period 1990-1995. Table 1 summarizes the contribution of the Bulgarian family businesses to economy.

4. CHARACTERISTICS AND UNIQUE QUALITY OF FAMILY BUSINESSES

Although entrepreneurship in transition economies in Central and Eastern Europe has attracted some research attention, the role of family business is largely neglected (Pistrui et al. 1997). In Bulgaria few empirical studies investigate family businesses (Davidkov and Yordanova, 2013; Yordanova, 2012; Todorov, 2011; Yordanova and Davidkov, 2011; Yordanova, 2011, 2010; Pelov, 2005; University for National and World Economics, 2006).
Empirical investigation of 284 Bulgarian family Businesses (University for National and World Economics, 2006) reveals that the main reasons for creation of family businesses are the desire for economic independence, willingness to test personal knowledge and skills, threat of unemployment, and lack of alternative sources of income. The main start up problems mentioned by the studied firms are related to acquiring qualified personnel, accessing markets and establishing relations with clients, and getting permissions, licenses etc. These companies prefer to operate in service or trade sector and most of them function as sole proprietors. Most of these businesses are micro enterprises and only 40% of them are able to fully guarantee the subsistance of the controlling family. Almost one third of the sample firms have no staff and more than half of the sample firms dispose with only one shop, store house or workshop. They are also aware that their personnel needs training.

The surveyed family businesses have low access to external financing. Family savings and loans from friends and relatives are the main sources of start up capital, while undistributed profit and bank credits and loans given by friends or relatives are the main sources of working capital. The pursued business strategies involve maintaining low prices and large turnover or increasing constant clients. The great majority of the studied family businesses demonstrate high stability as they have not changed their area of economic activity since their start up. The diversification of business activities is perceived as a bigger opportunity for growth than investment in property. The most important success factors highlighted by these firms include management experience and skills, risk taking, communication skills, useful personnel contacts, and good education. The sale of goods is not integrated with other activities in the majority of studied family businesses. Their relationships with clients are underdeveloped. Family businesses usually do not have marketing databases, do not know what information about their customers they need, and do not use any systems for management of their customers. These companies do not recognize the opportunities related to cooperation with other firms and most of them do not participate in any form of cooperation.

A more recent empirical study comparing Bulgarian family and non-family businesses describes the following profile of surveyed family businesses (Yordanova, 2013). The studies Bulgarian family businesses tend to be relatively younger than family businesses in other countries. The great majority of family businesses in Bulgaria are younger than 20 years. As family businesses in European countries, Bulgarian family businesses are dominated by small and medium-sized enterprises (SMEs). Family businesses seem to be reluctant to share control with external investors and tend to keep the ownership within the family. Only in 9.1% of the family businesses included in the sample the controlling family has admitted foreign legal entities or individuals to acquire ownership in the family business. A significant part of the family businesses in the study (39.8%) assess their access to financial resources as unsatisfactory and declare that their low access to financial resources is detrimental for the development of the business. Similarly to family businesses in some other European countries (Austrian Institute for SME Research, 2008), the family businesses included in the sample are more prevalent in labour intensive sectors such as services and trade.

As the majority of private businesses in Bulgaria (Davidkov, 2005), the majority of family businesses in this study have growth plans. The findings contradict to previous findings in other countries revealing that growth may be a less important business objective for family businesses in those countries than sustainability of the enterprise and its maintenance for future generations (Austrian Institute for SME Research, 2008). This study indicates that in the context of the Bulgarian economy, family businesses may try to achieve a long-term sustainability through growth.

The majority of the studied family businesses are focused on national, regional or local markets. The local business focus is also typical for European family businesses (Austrian Institute for SME Research, 2008). However, in comparison with family businesses in other countries (PriceWaterhouseCoopers, 2010), a smaller proportion of the studied family businesses have internationalized their business. Most family businesses included in the study are located in the capital of the country. In comparison with companies located in other Bulgarian towns or villages, family businesses situated in the capital enjoy specific advantages

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5 The sample of the study is composed of 147 non-family businesses and 88 family businesses.

6 In 2007 a survey of more than 1450 family businesses in 28 countries finds that more than 90% of the firms have been trading for more than 10 years, while 50% have been operating for at least 50 years (PriceWaterhouseCoopers, 2007). In 2010 a similar survey of more than 1600 family businesses in 35 countries finds that 82% of the firms have been operating for more than 20 years, while 42% have been trading for at least 50 years (PriceWaterhouseCoopers, 2010).
of the location. These advantages are related to access to foreign investments, well developed transport, high
skilled employees, research and development institutions, and large tertiary sector including representative
sites of financial institutions, businesses, and legislative, executive and judiciary authorities\(^7\).

The chief executive officers in the studied family business are relatively old. The average age of the
chief executive officers of the sample family firms is 41 years. More than 51\% of them are older than 44 years.
In relation to their age the chief executive officers in family businesses are similar to their counterparts in
Bulgarian private businesses in general (Davidkov, 2005)\(^8\).

The results of the study reinforce the findings from previous research in Central and Eastern Europe
that women become involved in entrepreneurship and top management of existing enterprises significantly
less often than men despite their good levels of education and high labour force participation (UNECE, 2002;
that the share of female owner-managers in the studied family businesses is less than 30\%. The lower
involvement of women in entrepreneurship in Bulgaria than men may be explained with the fact that that they
have less favourable attitudes about entrepreneurship and perceive less favourable subjective norms about
entrepreneurial behaviour and lower ability to perform such behaviour than men (Yordanova and Tarrazon,
2010).

In the great majority (67\%) of the studied family businesses the chief executive officers are also
owners in the company they manage. The great majority of the chief executive officers in the studied
companies possess high formal qualifications, which is a significant advantage for their companies. At the
same time most of the chief executive officers in family businesses in the study lack previous management
experience. This finding can be explained with the fact that family businesses tend to exhibit nepotism i.e. the
employment of family members regardless of qualifications (Austrian Institute for SME Research, 2008;
Lansberg, 1983). The lack of previous management experience of top managers may be a serious disadvantage
for the studied family businesses because empirical research has demonstrated that previous management
experience of entrepreneurs and top managers is important for firm performance, survival and growth (Brush
and Chaganti, 1998; Stuart and Abetti, 1990; Manolova et al., 2007). European family businesses are aware of
the importance of management expertise as they tend to establish qualification requirements for managers
(Austrian Institute for SME Research, 2008). The majority of the chief executive officers in the family
businesses included in the sample manage the company since its creation. This finding is not surprising
because in family businesses members of the controlling family often are appointed on the position of a chief
executive officer and tend to keep this position until their retirement.

Yordanova (2013) identifies both similarities and differences between family and non-family
businesses. Despite the paternlistic management style prevalent in family businesses (Austrian Institute for
SME Research, 2008), Bulgarian family businesses are not less likely to appoint female chief executive officers
than non-family businesses\(^9\). The chief executive officers in the studied family and non-family businesses do
not differ with regard to age. The reasons for not detecting differences in the age of executives in family and
non-family firms in the sample may be that the great majority of Bulgarian family and non-family businesses
have been established in the past 15 years. Perhaps this period of time is not long enough for the preferences
of the founders of family businesses to stay longer on their positions to become visible. The chief executive
officers in the studied family and non-family businesses are very similar in terms education level. The great
majority of the chief executive officers in both family and non-family businesses have acquired a university
degree. In contrast to these findings, empirical research in other countries has demonstrated that family

\(^7\) Plan for development of Sofia Municipality 2008-2013. Available at
http://www.sofia.bg/strategii.asp?title=%D1%F2%F0%E0%F2%E5%E3%E8%E8%20%E8%20%EF%F0%EE%E3
%F0%E0%EC%E8%A0&sub_open=14476. Accessed on 2 September 2012.

\(^8\) Davidkov (2005) reports that Bulgarian private business owner-managers are on average 44 years old in 2004. The
author comments that since 1991 their average age is increasing steadily.

\(^9\) Three large-scale representative surveys of Bulgarian private enterprises demonstrate that the share of female
entrepreneurs in Bulgaria is increasing steadily since 1991 (Davidkov, 2005). However, in 2004 women still account
for only 40\% of all entrepreneurs (Davidkov, 2005).

\(^10\) Academic literature on family business management has been preoccupied with the importance of gender for the
transfer of power in family businesses (Chrisman et al., 1998) despite the fact that empirical findings demonstrate
that gender is significantly less important than other attributes such as competence, personality traits, relationships,
and involvement in the business (Yordanova, 2010; Chrisman et al., 1998).
business managers possessed generally lower formal qualification than non-family business managers, which is attributed to the little formal training of older generations that have established family businesses (Austrian Institute for SME Research, 2008). The chief executive officers in non-family firms have significantly shorter tenure than chief executive officers in family firms. These finding reinforce previous findings from other countries that in comparison with non-family business executives, family business executives tend to remain in their positions significantly longer.

The central role of the family members in both family business ownership and management and the reluctance to share control with external managers who are not acquainted with family business principles and values (Austrian Institute for SME Research, 2008) can explain the finding that the chief executive officers in the family business are more likely to have ownership in the company they manage than the chief executive officers in the non-family businesses in the sample. Family business executives report that they have entrepreneurial role models more often than non-family business executives in the sample. This finding could be attributed to the fact that family business executives in second generation or older family companies, who usually belong to the family, tend to be socialized with family business culture from their early childhood. Non-family business executives, who do not descend from entrepreneurial families, may be less likely to have been exposed to entrepreneurial role models. Several generations of Bulgarian entrepreneurs were exposed to only negative entrepreneurial role models due to the communist past of the country. Our empirical data reveals that non-family business executives are more likely to have previous management experience than family business executives. In this case personal relationship seems to be a more important selection criterion than the possession of previous management experience.

The family firms are significantly more likely to be SMEs than the non-family firms. These differences in firm size between family and non-family businesses may be explained with differences in strategic focus, risk behaviour and firm resources. The family businesses are significantly older than the non-family businesses in the sample, which could be attributed to role of the controlling family in family firms, which is usually strongly motivated to continue the business. The family and non-family businesses do not differ significantly in their perceptions of the access to financial resources. It should be noted that a significant proportion of both groups of businesses (40% of the family businesses and 44% of the non-family businesses) declare that their access to financial resources is unsatisfactory, which is detrimental for the development of their business. The studied family and non-family businesses are equally likely to have growth plans. Non-family firms are more likely to have internationalized their business than family firms in this study. The reluctance of family businesses to internationalize their business is due to their local business focus and proximity to the markets they act on (Austrian Institute for SME Research, 2008). Family businesses are significantly less likely to have foreign individuals or legal entities among owners than non-family businesses. This finding is related to the fundamental difference between family and non-family businesses in ownership structure. The family is the controlling owner in family businesses and it aims to keep ownership control for the next generations. Bulgarian family businesses may be less visible and attractive to foreign investors because of their local business focus and small scale.

Family and non-family enterprises are equally likely to exhibit high learning orientation. Family and non-family enterprises in the sample exhibit similar performance. The analysis of the level of environmental dynamism reveals that non-family businesses are significantly more likely to be confronted with high environmental dynamism than family businesses in the sample. As family businesses in other European countries (Austrian Institute for SME Research, 2008), family firms in the study tend to be concentrated in more traditional sectors where the changes in technologies, the number of product and process innovations, the level of research and development, and growth opportunities are lower than in other sectors and thus may be confronted with lower environmental dynamism.

Family firms are less likely to exhibit high entrepreneurial orientation than non-family firms in the sample. The great majority of family businesses has a long-term vision and therefore tend to avoid high risk strategies associated with business growth and external financing (Todorov, 2011). Family and non-family businesses in the present study do not differ significantly in the choice of trade, service or manufacturing sector. Both the family and non-family businesses included in the sample are more likely to be concentrated in labour intensive business sectors such as services and trade. According to these results, family ownership and management is not an important factor for the choice of sector of business activity.
5. INSTITUTIONAL ACTORS, SUPPORT POLICIES AND INITIATIVES.

It is difficult to identify institutional actors in support of family businesses in Bulgaria with well defined goals and sufficient resources (Todorov, 2001).

The Association of the Family Business, established in 2007, is a non-profit organization, which has declared the following purposes:

• to assist the families into the business to understand and to cope with the challenges both at regional and global level, and to support the success of the family business, as well as to encourage them to ensure the recognition of their business;
• to ensure comprehensive access to the most significant sources of information about the family business through associations, meetings, conferences, equal networks of all kinds, as well as to establish and maintain contact with another information carriers, including scientists and counselors.
• to support the families into the business and to serve as a connection between the separate persons and organizations included in the system of the family business;
• to work for the development and recognition of the family business in Bulgaria;
• to develop and implement projects regarding the realization of the family business in the Bulgarian economic background;
• to realize exchange of information, ideas, knowledge and experience;
• to collaborate and coordinate its activities with the governmental and municipal authorities, as well as with the public institutions with the purpose of the development of the family business in Bulgaria;
• to cooperate for the enrichment of the human resources involved into the activities of the family business in Bulgaria;
• to encourage and facilitate the interaction and participation of interested representatives of the family business in Bulgaria in the creation of a good climate for the development of the family business in the Bulgarian economic reality.

At a general meeting of the Board of Managers of the European organization – European Group of Family Enterprises /European Group of Family Enterprises (GEEF) held in 2007, the Association Of The Family Business - Bulgaria was approved as a regular member. The Association has few members, mainly large family businesses, and has not been able to influence significantly government policy and actions regarding the family business in Bulgaria.

The project “The Knowledgeable Family Enterprise” is funded by the Operational Programme Human Resources Development. The project is implemented by the Znanie Association and the Maltese Association for Family Business. The target group of the project are small, medium and large family companies and enterprises; non-governmental organizations which represent this business line. The main objective of the project is to help the transfer of a model and good practices for offering services in the field of training and consultation of family companies and enterprises from Malta to Bulgaria. The aim is research, approbation, adaptation and introduction of sustainable practices for adaptation of employees on every level, including owners, to the particularities and characteristics of the family as business environment and to the changing conditions at work and the use of new technologies in the small, medium and big companies.

Several organizations provide financing for family firms in Bulgaria. The Municipal Guarantee Fund for Small and Medium Enterprises (MGFSME) is established in 2002 by decision of the Sofia Municipal Council (SMC). The Fund’s objective is to implement the policy of Sofia Municipality for supporting the small and medium business on its territory by guaranteeing a part of credit risk on loans, extended by financial institutions to small and medium enterprises, registered or developing their activity in the territory of the Sofia Municipality. The Municipal Guarantee Fund, in compliance with all requirements, assigns a priority to projects of small family businesses. Mikrofond AD is sustainable microfinance institution with 10 branches in the country, suppying alternative funding for start-up, micro and small businesses, which do not have access to bank funding. The institution provides micro loans for micro and small family businesses. The financing is provided under the “European Progress Microfinance Facility” established by the European Union. The largest Bulgarian bank UniCredit Bulbank provodes mortgage loan for hotels and restaurants aimed at financing family business initiatives related to building, furnishing and exploitation of small hotels and restaurants in tourist settlements. The cooperation “Nachala” is founded in 1997 and functions with the financial support of USAID. The purpose of the cooperation is to support the development of small family
business, to create new jobs, and to create opportunities for income generation.

The Bulgarian Small and Medium Enterprises Promotion Agency (BSMEPA) was established in 2004 with the Ministry of Economy and Energy of Republic of Bulgaria. BSMEPA is a Government institution and its main functions are focused on the implementation of the Bulgarian Government’s policy for small and medium enterprises (SME). In this respect the Agency provides to Bulgarian SMEs information and consulting services, organizes training courses and implements promotion activities in supporting the increase of SMEs’ competitiveness and strengthening their international positions. The main BSMEPA functions are realized through the activities of two directorates:

- Projects and Programmes Directorate implements the innovation policy of the Bulgarian Government. It administrates and monitors programmes, projects and initiatives related to the innovative activity and technological development of Bulgarian companies.
- SME Development and Internationalization Directorate supports the Internationalization of the Bulgarian SMEs through providing services and implementing instruments for strengthening the international positions of the SMEs.

The Agency has no specific policies or initiatives for supporting family SMEs. In 2012 the annual report of the Agency focused on the preparedness of Bulgarian family SMEs for the transfer of ownership and management leadership to a successor and the challenges of succession process in Bulgarian family SMEs.

The Bulgarian Association for Management Development and Entrepreneurship (BAMDE) is a national, non-governmental, non-profit organization in the field of management training and development in Bulgaria, established in 1997 under the Phare Management Training Programme in Bulgaria. BAMDE unites several Bulgarian training institutions, promotes and guards the quality of trainers and training programmes and acts as a platform for professional management development in Bulgaria with relations to international management development organisations. Its founding members are leading organisations in the sphere of economics and management training. The Association offers a training and consulting for incumbents and successors in family firms.

Some Bulgarian universities have demonstrated research interests in the topic of family business management. Several investigations on issues related to family businesses have been conducted during the last decade (Davidkov and Yordanova, 2013; Yordanova, 2012; Todorov, 2011; Yordanova and Davidkov, 2011; Yordanova, 2011, 2010; Pelov, 2005; University for National and World Economics, 2006).

6. CHALLENGES OF SUCCESSION.

In one of the first studies on family business in the Balkans, Poutziouris et al. (1997, p. 244) note that family business activity in Bulgaria is in the foundation phase and transition from generation to generation is a rare phenomenon. More than 15 years after the Poutziouris et al.’s (1997) research, many family businesses in Bulgaria may be involved in a process of passing the ownership and management to a successor. Yordanova (2010) explores succession planning in 51 Bulgarian family businesses with different size, firm age and belonging to different sectors. The results indicate that owner-managers of the studied firms do face the fact that they would not be able to manage the business forever, but leave important aspects of the succession process to chance. The great majority of the sample firms have considered some aspects of the succession process. However, sample firms have placed significantly less attention on some stages of succession process such as hand off/ transition process/ installation that on other stages. Almost half of the companies even report having an unwritten succession plan. The succession planning is essentially informal as the majority of the firms have failed to establish written succession plan, formal plan regarding the roles and responsibilities of the outgoing president, and explicit decisions about ownership distribution after the succession. Sample companies have not considered seriously important succession issues including explicit succession criteria and a list of potential successors. Despite the generally informal nature of succession planning, the vast majority of studied firms have made explicit efforts to train potential successors for their future role in the business and have given explicit attention to familiarize the potential successors with the business and its employees prior to the succession. Most sample firms tend to combine internal and external nurturing/ development activities and consider important wide variety of attributes of potential successors related to their education, skills, experience, and commitment to business.

Empirical survey of the succession process in Bulgarian family firms reveals that these firms experience diverse problems related to the succession (Todorov, 2011). The lack of appropriate training of
successors is the major problem for 40% of the studied family firms. Next in importance are the distribution of power and distribution of ownership among successors. Other problems are related to the choice of successor, family conflicts, reluctance of the incumbent to retire, etc. Todorov (2011) emphasizes that Bulgarian family firms have delayed the start of the succession process. They lack resources and are not prepared sufficiently to meet the challenges of succession.

The issue of sustainability of the SME sector, more specifically the issue of family business succession, is a central topic of the annual report on the situation and factors for development of SMEs in Bulgaria presented by the the Bulgarian Small and Medium Enterprises Promotion Agency in 2012. The report provides information about the challenges of succession in Bulgarian family SMEs. The great majority of the studied family SMEs are managed by their founder, while in only 12% of the family SMEs succession has already occurred. Almost 20% of the owner-managers in family SMEs plan to transfer ownership and management control to a successor in the next 5 years. About 12% of the owner-managers plan succession to occur in the next 6-10 years. Although more than 30% of the family SMEs report that they plan a business transfer to occur within the next 10 years, almost half of them have not developed any formal of informal succession plan. The majority of the studied family SMEs have not made any explicit efforts to prepare potential successors for their future role in the business. The report outlines the following reasons for the weakness of succession planning in Bulgarian family SMEs:

- owners and managers are not aware of the importance of the succession planning for the survival and continuity of the family business;
- owners and managers do not possess enough knowledge and skills for managing succession process effectively;
- lack of an official definition of family firm and public policies and measures for supporting family firms;
- lack of consulting services in the field of family business management and succession;
- education and training in the field of family business management is rarely provided by Bulgarian educational institutions.

Bulgarian family SMEs use a variety of approaches for training and development of potential successors. Over half of businesses rely on the experience acquired in the company to facilitate the development of potential successors. Nearly 48% of businesses have provided support for the higher education of their potential successors, and over 41 percent have supported various training of potential successors. Acquisition of professional expertise of potential successors is a fact in only 30.4% of firms. The acquisition of expertise in other organizations is practiced by 26.1% of the businesses. Only 23% of the studied family SMEs analyze the capabilities of potential successors in terms of requirements to be the successor of the company.

6. RECOMMENDATIONS FOR POLICY ACTIONS

Specific policy actions aimed at supporting the development of family businesses in Bulgaria are necessary in the following areas:

- Accepting a legal definition of family business
  The government should accept a legal definition of family business, which refers to the three major pillars of family business (the family, the business and the ownership).
- Fostering research on family business sector
  There is a lack of systematic and detailed statistical data about the characteristics and specific challenges and needs of family business sector in Bulgaria. The available empirical research relies on small convenient samples and the empirical findings may not be applicable to the whole population of family businesses. Future research should outline also the specific characteristics and problems of significant groups within the Bulgarian family business sector such as family SMEs, rural family businesses, first-generation family businesses etc. The information from this research should be used by policy makers for developing and implementing appropriate policies and measures in support of the Bulgarian family business sector. Policies and measures that do not rely on comprehensive statistical data could be highly inefficient.
- Supporting the creation of representative structures of the Bulgarian family businesses
  Only one organization lobbying for the interest of Bulgarian family businesses operates in Bulgaria and its members are representatives of the large family business. There is a great necessity of establishing
representative structures dedicated to supporting family SMEs, which may operate either as independent organizations or within existing structures (associations, chambers of commerce, etc.). Family businesses and existing business associations, chambers of commerce and other representative organizations should play a leading role in establishing such representative structures, while the national and local authorities should foster and support the process.

- **Supporting networking**
  There is an evidence that Bulgarian family firms do not recognize the opportunities related to cooperation with other firms and most of them do not participate in any form of cooperation (University for National and World Economics, 2006). The national government in cooperation with family business representative organizations should foster and support the establishment of family business networks as well as the cooperation of family businesses with other companies, universities, research organizations, consultants, etc. The participation of family businesses in local and regional clusters may increase their competitiveness and therefore the government and local authorities should foster the development of local and regional clusters especially by providing cross fertilization.

- **Revising regulations according to family business sector’s characteristics and needs**
  The government should include family business development into the SME policy development. The impact of existing legal regulations on family business sector should be carefully assessed in relation to specific characteristics, problems and challenges to the family business sector as a whole as well as significant groups within the family business sector such as family SMEs. Legal regulations that hamper the development of Bulgarian family businesses should be revised.

- **Supporting family business transfer**
  The Bulgarian owners and managers are not aware of the importance of the succession planning for the survival and continuity of the family business. Furthermore, they do not possess enough knowledge and skills for managing succession process effectively. There is a need for awareness rising measures of the importance and challenges of the succession planning for the successful transfer of ownership and management. The government should foster and support the provision of information, practical guidelines, specific training as well as consulting services to family business owners, managers, and employees in the field of succession planning.

- **Fostering education and training and consulting in family business management**
  The management and entrepreneurship education and training provided by universities, consulting firms, and other organizations should include aspects that are relevant for family businesses. The government should foster and support the provision of free training courses and consulting services in business planning, accountancy, marketing, management and use of information and communication technologies to family business owners, managers and employees.

- **Improving the image and promoting the values of family businesses**
  Media, public institutions, representative organizations and civil society should work to improve the image and promote the values of family businesses.

7. **CONCLUSIONS**

The family business sector represents an important part of the Bulgarian economy. Most of the Bulgarian family businesses operate in traditional sectors such as trade and services. The great majority of the family businesses are SMEs. There are also large Bulgarian companies, which are family businesses. There is no commonly accepted definition of family business in Bulgaria. There is a lack of reliable statistics on family business and comprehensive research on the characteristics, specific challenges and needs of family business sector in Bulgaria. The available empirical evidence reveals that the relationships between the family dimension, ownership dimension and business dimension determine the specific characteristics and unique qualities of the family businesses related to family business management, strategy and organizational behaviour. Although family business succession is a challenge for the survival and development of family businesses, Bulgarian family firms do not plan for important aspects of succession process, lack resources and are not prepared sufficiently to meet the challenges of succession.

REFERENCES


ERENET SPEAKERS AT THE INTERNATIONAL SCIENTIFIC CONFERENCE ON ENTREPRENEURSHIP AND INTERNATIONALIZATION OF FIRMS IN VISEGRAD COUNTRIES V4

Opening Panel

Chrisztof Wach and Andrea Gubik

Zsuzsanna Szabó

Jörg Freiling

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FAMILY BUSINESSES IN ROMANIA

ABSTRACT

This study presents a general overview of the Romanian family businesses. In Romania, an exhaustive, officially accepted definition of family businesses is missing, but they can be identified in a large number, under various types of activities with different resources, strategies and turnover. Family businesses can be found among both SMEs and large enterprises; however they are not treated distinctive. They are not tracked, analyzed nor included in official statistics provided by NIS. In the legislation, the term “family enterprises” can be found, but it refers only to the form of organization, without legal entity, created by an entrepreneur, a natural person and his family. Nevertheless, this year, Romania became member of FBN, which is an important step towards the clarification of the situation of family businesses in our country.

Keywords: family business, SMEs, employment, economic development, Government regulation and policy, Romania,

JEL Classification: O52, E24, F63, G28

1. HISTORY OF FAMILY BUSINESSES (FB) IN THE COUNTRY.

Family businesses (FB) have hundreds of years of international history and many of them long outlive their founders.

Family businesses in Romania before 1990

In Romania, in the interwar period, the family businesses faced a striking development. This phenomenon got magnified by the communism period, which followed right after the war and the centralized economic planning stopped the entrepreneurial activities. One example can be considered the case of Gaban leather shoes, started by one entrepreneur in 1935 and becoming an entreprise with 475 employee, but, in 1952, it was nationalized. Nowadays, it is functioning with aproximatively 100 employee.

However, there are regions, where family businesses on a small scale (for example in manufacturing, pottery) survived this period and achieved remarkable performances after 1990, and present a best practice for the problem of succesion. Thus, regions with tradition of family businesses in Romania exist.

In Romania, family businesses have gained momentum in the interwar period, but discontinued their entrepreneurial mission too early to develop a tradition in this respect. Today family businesses represents a large portion of private companies in Romania” (Bogdan Ion, Country managing Partner, Ernst&Young Romania)

Family businesses in Romania after 1990

Official data do not exist in this respect but many businesses were set up and act as FB. The roots of the family businesses can be found sporadically, but generally we can say that the businesses in Romania (including family businesses) have no more than 20 years of activity. The situation, the tendency in post-communist Romania shows that a tradition in this sense, doesn’t exists. According to Family Business Network Romania, over 50% of the private sector is made up of family businesses, although most of them are

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11 This paper was presented at the BSEC-KAS Workshop on Family Businsses and SMEs in the BSEC Region held on 7-9 October 2013 in Istanbul
still in their first generation. The second generation of entrepreneurs has to take over the family businesses created during the last 20 years by their successors. The transfer of businesses take place from a generation of entrepreneurs born and educated before the '90s to a generation that has evolved in a fundamentally different environment.

It is necessary, and important to know the role of SMEs in the national economy to determine the role of FB in national economy, because family businesses form a significant percent of SMEs. Generally micro-enterprises (over 90% of SMEs) can be considered family businesses with 0 to 9 employees, and also a considerable number of the small and medium sized enterprises are also family businesses.

**General overview of SME sector and its role in national economy**

In 1990, in Romania, after 40 years of centralized planning, the transition to the market economy has started. This transition was more difficult than in other central and Eastern European countries. Romania, couldn’t take advantage of an initial, natural and challenging model, because the nationalized and centralized system of the communist economies reduced to zero the entrepreneurial capacities of today’s adult persons. They ought to be successful models of nowadays’ youngsters. The transition to a market economy permitted the creation of a large number of SMEs. This phenomenon meant not only an increasing process in their number but also the diversification of their activities. FB can be distinguished from the total established businesses only at the ONRC office (The National Trade Register Office) where the documents are submitted to start a business.

In the last 20 years the legislation framework was created and harmonized with the EU’s, policies were formulated and governmental respectively nongovernmental interest groups were created to encourage the development of the SME sector. (Table 1)

<table>
<thead>
<tr>
<th>Size</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>377,499</td>
<td>417,366</td>
<td>358,787</td>
<td>386,561</td>
<td>410,763</td>
<td>431,029</td>
<td>602,711</td>
</tr>
<tr>
<td>Small</td>
<td>302,312</td>
<td>33,856</td>
<td>39,128</td>
<td>43,419</td>
<td>47,022</td>
<td>49,560</td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>7,761</td>
<td>8,147</td>
<td>9,121</td>
<td>9,158</td>
<td>9,322</td>
<td>9,577</td>
<td>9,753</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>415,491</strong></td>
<td><strong>459,369</strong></td>
<td><strong>404,300</strong></td>
<td><strong>434,847</strong></td>
<td><strong>463,504</strong></td>
<td><strong>487,628</strong></td>
<td><strong>662,024</strong></td>
</tr>
</tbody>
</table>

*Source: INS, ONRC*

According to the estimates, over 90% of the SMEs feel the recession from 2008. Official data show that the business environment has deteriorated. In 2009, the decreasing tendency of the SMEs number was more accentuated (Table 2); 10 times more enterprises suspended their activities than in 2008 in the same period.

**Table 2 The situation of the SME sector after 2008, the impact of the crisis**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012 Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs</td>
<td>517,870</td>
<td>468,561</td>
<td>429,035</td>
<td>441,712</td>
</tr>
<tr>
<td>SMEs + large enterprises</td>
<td>519,441</td>
<td>470,080</td>
<td>430,608</td>
<td>443,517</td>
</tr>
</tbody>
</table>

*Source: Romania in cifre, 2013, NIS*

In Romania, more than 99% from the overall enterprises are micro, small and medium size enterprise. Based on the official data from the Romanian statistical Yearbook-Enterprise Activity 15, NIS 2010 and CNIPMMR, 2010, the structure of active enterprises in 2008 was the following: 90.7% micro, 7.4% small, 1.6% medium and only 0.3% large.

The structure of active enterprises in 2008 from trade and other services was: 92.3 % micro, 6.6% small 1% medium and 0.1% large, and the structure of active enterprises from industry and construction was divided as follows: 78.6% micro, 15.7% small, 4.7% medium and 1% is large.

Even if the situation is similar to the one in USA, Japan, and Western Europe, big differences can be
noticed started from the real fact that in advances economies, SMEs exist for many years while in transition countries, they are newcomers, embryos of a new economic order of the market economy.

The role of SMEs in the national economy is significant, the weight of turnover achieved by active SMEs shows an increasing tendency. This value reached 58.8% in 2006 and, over 60% in 2007. The weight of turnover achieved by private sector was 83.9% in 2004, and 89% in 2008 which is higher than the turnover achieved by the SME sector. Despite the unfavorable economic framework and the unpredictability which characterized the year of 2009, the private sector’s contribution to the creation of GDP remained at a level of 70.5% due to the prompt adjustments made by the private sector in the new context, in 2010 reached 78.8%. A brief analysis is presented in the annual report of SMEs (www.postprivatizare.ro, pp 31-37). The economic situation of SMEs will continue to deteriorate, restructuring plans and further market contractions lead to the bankruptcy of many enterprises. In Romania the companies concentrate their strategies on the reduced costs of the factors/ressources and not on the improvement of productivity. Doing business 2012 shows that the evolution worsens and Romania was ranked on the 72 position.

**Family businesses in Romania Today**

We can say that family businesses are represented by a number of private companies (SMEs and large enterprises) and a big number of non-juridical entities, named by law private entrepreneurs. Family businesses have confront challenges such as: the majority of those who run a family business do not have previous experience as business persons, but only as employees in state enterprises; their main concerns are to provide the everyday living, and not necessarily to develop themselves in the perspective of the business; they do not have extensive technical and material endowments; they have limited financial resources.

A high percentage of private entrepreneurs are preoccupied only with short term needs, to fulfill their basic needs; they do not think on long terms, their vision is missing in order to develop their businesses and to adapt their strategies, products or services to meet market changes. The majority of them were lead by necessity to create their own businesses.

The future evolution of family businesses depends mainly on the extent to which they manage to overcome competition on the Sole European Market; on their innovative capacities and performance and education (skills, abilities acquired). (Szabo, K. Z., Soltes, M. & Herman, E. Innovative Capacity&Performance of transition economies:Comparative study at the level of enterprises. E&M Economics and Management, 2013, pp 52-67; Hartescu, 2008) In Romania, the family businesses encounter the same difficulties as SMEs and large enterprises, and special policies to sustain FB do not exist.

Ease of Doing Business Rank, (World Bank-Doing Business: Smarter Regulations for SMEs, International Bank for Reconstruction and Development, 2013); Index of Economic Freedom, according to The Heritage Foundation, (Miller, T., Holmes, K. R., Feulner, E. J. Index of Economic Freedom. Promoting Economic Opportunity and prosperity, The Heritage Foundation and Dow Jones & Company, Inc; 2013), covering all aspects of economic environment, consisting in four pillars of economic freedom care and involving both individuals and governments (Rule of Law, Limited government, Regulatory efficiency, Open markets). Official data show as can be seen on Table 3 that in Romania the business environment is deteriorating.

<table>
<thead>
<tr>
<th>Countries</th>
<th>RO</th>
<th>HU</th>
<th>CZ</th>
<th>SK</th>
<th>PL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easy of DB /183</td>
<td>72</td>
<td>51</td>
<td>63</td>
<td>48</td>
<td>62</td>
</tr>
<tr>
<td>Economic Freedom Index /179</td>
<td>70</td>
<td>37</td>
<td>28</td>
<td>67</td>
<td>107</td>
</tr>
<tr>
<td>Global competitiveness index/ 142</td>
<td>77</td>
<td>48</td>
<td>36</td>
<td>69</td>
<td>41</td>
</tr>
</tbody>
</table>

Source: Ease of Doing Business Rank, Index of Economic Freedom

We studied the relationship between institutional environment and the competitiveness of companies.
We calculated the Pearson correlation coefficient, $\rho$, using data for EU countries. The obtained results show that a positive strong relationship between Ease of doing business and competitiveness exists, ($\rho = +0.742$) and that there is a positive strong relationship between economic freedom and competitiveness ($\rho = +0.727$).

Thus, Romania needs to improve the business environment and entrepreneurial activities performance to guarantee the positive evolution on long term on the Sole European Market.

2. DEFINITION OF FAMILY BUSINESSES IN YOUR COUNTRY.

In the Romanian legislation the term of family business appears only in the case of entrepreneurial activities performed by natural persons. For this case the legal definition of family businesses is stipulated by the Law 300/2004. Based on the law, entrepreneurs can operate activities as:

- natural persons or
- as family owned businesses (Family Association).

Natural persons can be either citizens of the Romanian state or citizens of any other European Member States. These persons can be authorized to sustain an independent activity, which will be registered with the National Trade Register Office. They do not have legal personality.

Family owned businesses (FA) are constituted by a natural person; members of the business being made up by the relatives of this person (wife, husband, children over 16 years old and other relatives up to the IV. Grade). Family owned businesses do not have legal personality.

According to GEO (Government Emergency Ordinance) 44/2008 the denominations of independent activities mentioned above have been reorganized as follows:

- authorized Natural Person (PFA);
- individual enterprises/ Sole proprietorship (II);
- family enterprises/ Family owned business (IF).

Thus, can be observed that, in Romania the term “family owned businesses” is used only in the case when it is constituted by a natural person. Businesses with legal personality (SMEs and large enterprises) are treated all in a same manner, without taken in consideration the ownership.

Final Report of the Expert Group „Overview of family businesses Relevant issues. Research Networks, Policy, Measures and existing studies” (2009) formulated that a firm of any sizes is FB if: „the majority of decision making rights is in the possession of the natural person(s) who established the firm or in possession of their family members; at least one representative of the family is involved in the governance of the firm or the person or their descendents possess 25 % of the decision making rights mandated by their share capital.”

Based on that can be realised that the regulation in Romania is not exhaustive. In Romania FB can’t be reduced only on entities without legal personality.

Next we will present all type of economic entities in Romania in order to identify the all entities which act as family businesses.

Family businesses can be identified, within all types and sizes of entreprises. In order to seek out all FB, as a whole sector, in concordance with the European definition) and based on national law we have to analyze the Romanian companies after both their ownership and type of entrepreneurial activities.

The entreperenural activities, the companies after the Romanian regulation form 4 cathegories and are enrolled in 2 different type, and all of these categohries includ family businesses as can be seen on Figure 1.

Official data on enterprises do not reflect the presence of the family businesses. The statistics presents a lack, the official data in this respect not reflect the real situation of family businesses in the national economy.
Figure 1. Entrepreneurial entities that can considered FB

Source: Own construction

3. IMPORTANCE OF FAMILY BUSINESSES IN THE NATIONAL ECONOMY.

Family businesses can’t be limited only to SMEs. The private entrepreneurs (individuals - solo proprietors) act also like FB. Because, official data is missing, the importance of FB will be evaluated based on own interpretation and own judgement.

In Romania the family businesses, defined by the law and named Family owned business (IF), mean self employment. The self-employed persons can have employees or can be own account workers. The self-employment can be considered family business because the „decision making rights are in the possession of the natural person(s) who established the firm or in possession of their family members”.

Self-employment and Private entrepreneurs

In Romania, the self employment is divided in the following two categories by NIS: workers in family, in other word agriculturalist and represents 12.6% from the occupied population and authorized natural persons which presents 18.9% of the occupied population (in this category are enrolled all private entrepreneurs according to GEO 44/2008). The percentage of employees or remunerated/salaried person from the occupied population is 67.3% (NIS 2012), and the percentage of patrons is 1.2%. In Romania, according to NIS (National Institute of Statistics), 31.5% of the occupied population is self-employed. According to Eurostat, the self-employment means only private entrepreneurs. Consequently, we can observe a significant difference between the national and european classification and data collection of self employment.

In Romania the self employment is on very high level. In 2012, Romania was ranked the 4th in EU 28 after Greece (31.4%), Italy (22.4%), Poland (18.4%) with a percentage of 18.1%. (Eurostat database, 2013. Retrieved november 10, 2013) Analyzing self-employment in Romania, longitudinal data show that it remains approximately at the same level, and comparativly with other transition economies, it represent a high percentage of the occupied population.

Private entrepreneurs setting up their own businesses creates subsistence both, them self and to their families. The increasing percent of population being self employed means the decrease of unemployment, and the increase of the level of occupation.

In Romania, there are differences between the developments regions concerning the type of entrepreneurial activity, as can be seen on Figure 2. Development regions with low level of urbanization have a low number of SMEs but in a same time, they have a high number of private entrepreneurs.
Next, we will present the private entrepreneurs’ activities in different branch of economy, the evolution of the independent activities according to GEO 44/2008. In the table below (Table 5), we compared the activities of family enterprises with the activities of natural authorized persons and individual enterprises named in the following by individuals.
Table 5.

<table>
<thead>
<tr>
<th></th>
<th>Industry</th>
<th>Trade</th>
<th>Hotel &amp;Rest.</th>
<th>Tourism</th>
<th>Transport</th>
<th>Other serv.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FE</td>
<td>2008</td>
<td>11,485</td>
<td>18,620</td>
<td>2,733</td>
<td>205</td>
<td>1,750</td>
<td>12,062</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>7,908</td>
<td>12,820</td>
<td>1,882</td>
<td>141</td>
<td>1,205</td>
<td>8,306</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>4,443</td>
<td>7,204</td>
<td>748</td>
<td>155</td>
<td>677</td>
<td>4,902</td>
</tr>
<tr>
<td>Individuals</td>
<td>2008</td>
<td>57,236</td>
<td>22,098</td>
<td>2,094</td>
<td>526</td>
<td>58,576</td>
<td>119,494</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>60,646</td>
<td>23,414</td>
<td>2,219</td>
<td>557</td>
<td>62,066</td>
<td>126,613</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>60,055</td>
<td>23,186</td>
<td>5,229</td>
<td>1,185</td>
<td>61,461</td>
<td>121,715</td>
</tr>
</tbody>
</table>

Source: Enterprise Activity 15, NIS

The low number of FE comparatively with the individuals can be explained by the disadvantages of these types of activities and it is presented in section 4.

Table 6. The share of family enterprises in total economic entities without legal personality

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family enterprises</td>
<td>39,433</td>
<td>46,855</td>
<td>32,262</td>
<td>18,129</td>
</tr>
<tr>
<td>ANP+IE</td>
<td>145,609</td>
<td>260,024</td>
<td>275,515</td>
<td>272,831</td>
</tr>
<tr>
<td>Total Private entrepreneurs</td>
<td>185,042</td>
<td>306,879</td>
<td>307,777</td>
<td>290,960</td>
</tr>
</tbody>
</table>

Source: Enterprise Activity 15, NIS

Table 7. The total number of registered economic entities

<table>
<thead>
<tr>
<th></th>
<th>Individuals/ Private entrepreneurs</th>
<th>Legal person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total registered 1990-2013 (June)</td>
<td>783,294</td>
<td>1,633,699</td>
</tr>
<tr>
<td>Active in 2013 August</td>
<td>341,072</td>
<td>711,601</td>
</tr>
</tbody>
</table>

Source: ONRC (Trade register), 30, June, 2013, nr. 259

Table 8.

| Number of active enterprises in Romania | 443,517 |
| out of them family businesses | na / own estimation 221,758 |
| out of them SMEs | 441,712 |
| individuals - solo proprietors acting as FB | 341,072 |
| Number of active population in Romania | 9,964,000 |
| Number of employees/ occupied person | 9,262,807 (and 701,000 unemployed) |
| Number of employees | 6,229,375 |
| out them in FB | n.a / own estimation 2,400,000 |
| out them in enterprises | 4,681,104 |
| SMEs only | 2,900,000 / own estimation |
| Number of non salaried person | 3,033,432 |
| individuals - solo proprietors acting as FB | 1,754,507 (18.9% private entrepreneurs, own workers) |
| employers | 1,167,202 (12.6% agriculturalist – working in family) |
| Share of contribution of the FB to GDP in % | 39% |

Source: Own calculations based on data provided by NIS, ONRC

4. CHARACTERISTICS AND UNIQUE QUALITY OF FAMILY BUSINESSES.

As we mentioned before, in Romania the term “family businesses” is used by the law only for
independent activities „family enterprises/ Family owned business (IF)”, entities without legal personality. Enterprises (SMEs and large enterprises) which are family businesses are treated without any distinction. These type of FB in official statistics are included just as enterprises and are functioning under national regulations valid for SMEs respectively large enterprises.

Thus, when we present the characteristics and unique quality of FB, we refer only to the category defined by law, to family enterprises (IF).

Advantages of family enterprises (IF) are:
- Tax rate is different (it's lower than in the case of commercial companies (SMEs, large enterprises));
- License fees are lower and fewer;
- Accounting system is simplified.

Concerning the taxes, the family enterprises have also rejoice facilitations such as:
- Family owned businesses are characterized by a single-entry bookkeeping system;
- The representatives of these kinds of activities maintain a record of transactions based on invoices, cash receipts, and accounts payable and receivable;
- Family owned businesses are obliged to keep records of inventory and registers of monthly expenses and revenues.

We can observe that family enterprises present a useful and helpful opportunity for self support, they are important for the family and their interest is not to create high value added. Family enterprises are not productive on venture level output measured by GDP/capita.

The disadvantages for entrepreneurs who choose these type of entities appear also from this point of view, the frame in which IF is functioning, doesn’t permit the development. As disadvantages we can consider the followings:
- Less possibilities of the development of the business;
- Less possibilities of finance and loans;
- Restrictions concerning the headquarter used;
- Expenses are limited to those realized in order to generate incomes, in accordance with the Tax Code.

According to GEO 44/2008 the denominations of independent activities are organized in three different forms II, IF, PFA as we shown before and next, we will present comparatively the advantages and disadvantages.

Based on Sole partnerships (II) can have more types of activities, while family owned businesses (IF) and natural person (PFA) can have only one authorized activity.

The advantages of a sole partnership (II) compared to a natural person (PFA) or family owned business (IF) is that in case of an eventual growth of the activity, they can hire a personal; family owned business (IF) can’t do employments.

5. INSTITUTIONAL ACTORS, SUPPORT POLICIES AND INITIATIVES.

In Romania, there are no institutional actors to sustain the family businesses, but to support and to encourage the entrepreneurial activities by law, bodies, public and private institutions, non-governmental organizations and business and consulting centres have been created. These structures act to create a steady coherent business environment favorable to the development of the private sector and to create a real market economy open towards the foreign markets and companies.

**Government structures** - The Ministry of Economy, through SMEs, business environment and Tourism act to sustain the entrepreneurial activities.

**Non-governmental structures**- Consultancy centres and support structures for business development: 8 Regional Development Agencies; The Post-Privatization Foundation; The Romanian Centre for SMEs; The Centre for Implementation of Performance Management; The Group of Applied Economics; The Romanian Centre for Economic Policies; The Network of SMEs Development Centres. Organizations and patronage confederations and representative professional associations (other representative institutions of the business environment): The National Union of Romanian Employers The General Union of Romanian Industrialists; The Employers’ Confederation of the Romanian Industry; The Employers’ Confederation of Industry, Services and Commerce of Romania; The Alliance of the Romanian Employers’ Confederations; Regional
Employers’ Confederations; The Foreign Investors Council of Romania; The Union of Free Professions in Romania (18 member organizations) Thus, some of them are: the National Agency for Small and Medium-Sized Enterprises and Cooperatives subordinated to the Government, its major task being the issue and implementation of programmes for the development of this category of enterprises (consultancy, informing, providing financial support); National Confederations and Patronage Associations that gather enterprises from different professional categories aiming to protect their members’ interests (the National Council of SMEs in Romania, the Romanian Association of Businessmen, the Romanian Patronage, the Alliance of Romanian Patronage Confederation, Business and consultancy centres; Institutions for financial support). The National Institute for SMEs - was founded in 1998 and promotes SMEs interests at national level, supports technology transfer activities for SMEs, supplies low price consultancy services to SMEs, present studies regarding the SME sector. (www.inimm.ro).

The Chamber of Commerce and Industry of Romania – was founded in 1990 is the coordinator and national representative of the business in Romania. Is member of Eurochambres. (www.ccir.ro) Is the most powerful association representing the Romanian business environment that holds together bilateral chambers of commerce, business associations and the entire network of 42 territorial chambers of commerce and industry. Is a non-governmental self-sustaining organization which supports the business community’s interests and mostly of its members in the dialogue with the national authorities and international organizations. Support the business community by providing business services, organizing economic missions, training programs, detecting business opportunities. Collaborating with the Chamber of Commerce and Industry of Romania, can be a benefit for any Romanian or foreign company who want to develop a business either on domestic or foreign markets, as well as to improve the skills of the staff or to get economical information from various sectors.

National Council of SMEs in Romania was set up in 1992 (http://www.cnipmmr.ro). The mission is promoting and protecting the economic, production, commercial, financial, juridical and any other nature interests of SMEs. Is member of the most important international organizations and co-operates with similar associations from abroad. Has branches all over the country (in all 41 counties). Craft Foundation Romania was established in 1997 and represents particularly craft enterprises, promote public recognition of Romanian crafts on national and international level. The foundation cooperate with other public and private organizations related this field. (www.crafts.ro)

Business organizations for social enterprises are: National Union of Consumption Cooperatives – incorporates business organizations, enterprises, entrepreneurs. (www.centrocoop.com) National Union of Handicraft and Production Cooperatives of Romania (Uniunea Nationala a Cooperatiilor de Mesteasagaresti). (www.ucecom.ro) Is the representative of the whole system of handicraft cooperatives organizations in relation to Romanian authorities, other internal or international bodies. Production and export (textile products, clothes and knittedwear, handmade carpets, knotted and woven, leather footwear and other leather goods, furniture and other wooden products, metal products, handicraft articles. Services provided to population and companies: body care; motor vehicle repairs; training, advertising and organizing of trade fairs and exhibitions, tourism and medical treatment. Commercial activities: sales, import - export, through the specialized companies. National Association of Romanian Credit Unions; The employers’ organization- Alianta Confederatiilor Patronale din Romania (ACPR)- was founded in 2004 and represents the collective interests of the business community. (www.confederatii.ro) Organizations which represent enterprises run by women entrepreneurs – Association For Women Entrepreneurship Development - ADAF was founded in 2001 (http://turing.cs.pub.ro/cece-wys/organizatien.html); Coalition of Women Business Associations- CAFA-was founded in 2004 (www.cafa.ro). Organizations which represent enterprises run by young entrepreneurs- The International Junior Chamber of Romania – was founded in 2002 in Romania in Timisoara, Constanta, Brasov, Cluj-Napoca, Iasi and in future in Targu Mures (http://jciromania.ro/).

Young Entrepreneurs Associations from Romania (http://ptir.ro) is the only employer organization in Romania that represents at national level the interests of Romanian young entrepreneurs aged between 18 and 40. At national level YEAR is member of (CNIPMMR) and at European level - of JEUNE – European Organization of Young Entrepreneurs. It has 6 regional structures: The Young Entrepreneurs Association from South West Oltenia region, from West region, from South-East, from South-Muntenia, from Centre Region and from North–West region. The main activities are: to represent the young entrepreneur’s interests in relation with national authorities, to provide consultancy and assistance to young entrepreneurs from Romania, to elaborate
and implement specific programs, to develop working reports and set-up networks between young Romanian
entrepreneurs, to organize entrepreneurial training programs.

After 6 years of expansion in eastern Europe, Family Business Network opens the Romanian branch. Its
first branch in this part of Europe was opened in Bulgaria in 2007. Since then, it has expanded in Ukraine,
Hungary and Poland. The FBN Chapter was founded in 2013 by well-known entrepreneurs: Mircea Tudor,
who heads MB Telecom, Sorin Preda, managing director of engineering firm Global Vision, Florin Madar,
who owns the distribution company Temad, and Gabriel Marin, chief executive of IT company Omnilogic.

6. CHALLENGES OF SUCCESSION.

This aspect represents the major vulnerability for Romanian family businesses. Generally, in the
family business two generations participate. „An effective communication among the two generations plays a
critical role in fostering a mutual engagement in the family business.” There is no tradition in this respect, the
involvement of the youth in the business fail very often. (Fotea I, Fotea S, Vaduva S & Pop, I,Fostering
entrepreneurial learning in family business through a community of practice approach-Case study of Romanian

In today's Romania a family business is often established and controlled by a single individual
entrepreneur or possibly two or three members of a family, usually with one dominating mind. Therefore, the
business relations, the reputation, the capacity to react and the entrepreneurship of such a business are tightly
linked to that very specific person. This can happen because, sometimes, business partners, banks, lenders,
providers lean more on the personal capability of such an entrepreneur - and not of somebody else - to solve
issues than on other factors.

On the other hand, if that specific individual becomes incapable to run the business, the trust may
disappear and any latent or until then potentially solvable problems of the business come to light and
sometimes may lead to insolvency.

"Obviously, such situations can be solved if succession is prepared, if the business is run by a
management team capable to efficiently replace the main entrepreneur. However, in the case of "first
generation" family businesses are controlled by a single individual entrepreneur and this aspect can become a
vulnerability or risk factor. There are several Romanian business cases which have reported considerable drops
in revenue or faced insolvency since their founders passed away. (the transport company Edy Spedition and
food company Aldis). (Dan Popa, adapt. V.O. HotNews.ro Joi, 30 august 2012, 15:11)

Thus, the high dependency of such a business on the individual entrepreneur can be an extremely
valuable asset from one point of view (when things go smoothly), but on the other hand can become a burden
if things don't go well and that individual is no longer available to solve problems.

Early participation in the day-to-day practice of the business develops a strong identification of
children with the business, a sense of ownership and a responsibility for the business preparing them not only
to be fit to run a certain type of business but also to be able to identify and capitalize on opportunities
(entrepreneurial learning).

7. SUGGESTIONS WHAT YOUR GOVERNMENT AND THE CIVIL SOCIETY SHOULD DO IN ORDER TO RECOGNIZE AND SUPPORT FAMILY BUSINESSES.

Analyzing the private sector, in concordance with the European definition of family businesses, it can
be stated that in Romania the presence of FB is significant. Gabriel Marin, founder of FBN in Romania,
founder and CEO of Omnilogic family businesses, declared that in Romania based on unofficial data over
65% of businesses are family businesses.

Because of the missing of official data, statistics can’t be made on the contribution of family
businesses to employment, to total turnover, to GDP. The role of FB in national economy can’t be
formulated.

The governmental measures must treat as a priority the problems regarding family businesses. At first,
it is a necessity to define nationally the family businesses; an exhaustive definition by law is needed.

Then, after having the definition, there is a need for official statistics, particularly for policy reasons. It
must be acknowledged that family businesses are different from SMEs, and to encourage and to sustain them
the legislative framework must be developed (succession, taxes and others).
8. CONCLUSION

In Romania, the object of activity is set conform to the Classification of National Economic Activities – CAEN Code. GD no. 656/1997 regarding the approval of the Classification of National Economic Activities, the Order of the NIS no. 337 on 20th April 2007 concerning the update of the Classification of the national Economic Activities: “an entrepreneur can develop, in the same legal form acknowledged by law, specific activities in various economic domains”. In 2007, 62 activities were defined. In 2008, the modified CAEN was adopted, thus NACE Code correspond with the Romanian CAEN cod from 2008.

In Romania the term “family businesses” is used by the law only for independent activities „family enterprises/ Family owned business (IF)”, entities without legal personality. Enterprises (SMEs and large enterprises) which are family businesses are treated without any distinction. FB with legal personality, in official statistics are included just as enterprises and are functioning under national regulations valid for SMEs respectively large enterprises. But in a same time, unofficial data shows that in Romania a significant number of FB exist.

The Family Business Survey 2012/2013 presented some large enterprises which act as FB: Transavia, Betty Ice, Electrogru, ModaTim, Kosarom and others. Analyzing the enterprises, many other SMEs and large enterprises can be identified as FB.

More than 18 000 family enterprises functioning (FE), reduced size entities without legal personality. The private entrepreneurs, self-employed, solo-proprietors also act as family businesses. All these show that it is a necessity to treat them officially and to recognize the FB role in national economy and to formulate policies to encourage and to sustain their development.

The problems faced by family businesses are the same as in other countries: family – because there is no clear distinction between the familial and professional relationship within the enterprises; ownership- fear of losing -often affect the business growth; the management- the organizational structure is not sufficiently evolved; succession and knowledge- obstacles in knowledge transmission.

The fact that FB are controlled by a single individual entrepreneur, presents a vulnerability or risk factor.

Most businesses, start-ups begin as family business. To promote an entrepreneurial spirit it means to foster the new generations of family entrepreneurs, thus entrepreneurship education must become part of the curricula in all type of study programmes. It is important to realize that entrepreneurship education is different from general business and economic studies: Its goal is to promote self-employment; creativity and innovation. Communism destroyed the entrepreneurial system the nationalized and centralized system of the communist economies reduced the entrepreneurial capacities of today's adult persons. The developed and implemented entrepreneurship is of the “crypto-communist” type where entrepreneurs took advantage of their positions and relations. Lack of entrepreneurship education in Romania is due to the fact that the number of entrepreneurship teaching staff is reduced.
ABSTRACT

The paper is structured as follows. After introduction, the second chapter addresses the problem of defining a family business and most famous theories of family businesses, while the third chapter provides an overview of SMEs sector and family businesses in Serbia, with institutional, innovation, education and financial support infrastructure and services. The paper concludes with a discussion of the applicability of theoretical approaches and proposals for future activities of the Serbian authorities in improving the legal and macro environment for family firms development. In the annex of the paper are given some interesting family businesses cases from Serbia.

Keywords: Family firms, SMEs, perspectives, entrepreneurial, business, theoretical, behavior. Serbia

JEL Classification: G32, G34, M13, M14, L20, O53

1. INTRODUCTION

Family businesses are an important part of the national economies of many countries (Mandl 2008), including Serbia (Grozdanic, 2006; Grozdanic, et al., 2009). This is not a new phenomenon in Serbia it has happened many times before but there is a major element of economic life which endures and often prospers through difficult events, Family Business.

Families in business have a self, some say a more enlightened, interest in the enterprise they own and infuse it with a controlling set of values. By their nature they think longer term and act and invest accordingly. The contribution and stability that family businesses bring to the society is now being adequately recognized and there is a positive curiosity about the features which make it a successful form of organization. It is Serbian Family Business’s mission to convince Government and policy makers to maintain a healthy environment in which family businesses can thrive by removing discriminatory measures against it promoting its best practices (Radovic-Markovic, et al., 2012).

There is growing recognition, however, that families often have portfolios of interconnected businesses that range from formal family business groups (Gedajlovic, et al., 2004) to family members helping each other out to set up individual businesses. Many families create teams of family members, which found and develop several businesses over time. We do not know the full extent of family entrepreneurial team (FET) starts, but studies in related fields suggest that they could represent a significant proportion of entrepreneurial activity. It is widely recognized that family firms represent the majority of businesses worldwide in most countries, over 60% of firms are believed to be family firms and in some countries, it could be 95%. Alongside increasing evidence that, throughout the world, teams of family members come together to develop portfolios of businesses, there is growing recognition of the importance of portfolio entrepreneurship. Many new firms are started by teams (Francis & Sandberg, 2000; Ucbasaran, Lockett, Wright, & Westhead, 2003), but the family influence on these is not understood. Given the extent of family business activities and evidence that entrepreneurial team starts perform better than ventures founded by individuals. The formation of FETs may be a more dynamic process than that for non-FETs as family members are often socialized into the business from a very early age and individual family members may join the businesses at varying points in time. FET formation may be motivated by very different drivers to other types of entrepreneurial teams. For example, it may be driven by altruism to provide opportunities for family...
members, or it may be a collective response to stewardship of the family's assets. In this paper, we highlight a commitment to stewardship that aims to grow and build the family's assets, which we term “entrepreneurial stewardship.” Theories that have previously been used to explain the formation of entrepreneurial teams may be less relevant within the family context. Similarly, there is a body of evidence about the employment and succession of family members within a family business, but very little is known about the membership dynamics of FETs. Families are a unique bounded network, and FETs who restrict membership to family members draw from a limited pool of talent. Studies indicate that membership of entrepreneurial teams is associated with the resources and human capital of individuals and their affinity with others (Forbes, Borchert, Zellmer-Bruhn, & Sapienza, 2006). Family members may bring trust, altruism, stewardship, common values, and shared understanding that provide a competitive advantage for the team (Barney & Hansen, 1994; Davis, et al., 1997).

Family companies are by many features particular types of business. Most family businesses are small and medium-sized companies, but the public usually does not know that there are also many large family-owned companies.

2. FAMILY BUSINESS IN SERBIA

The family businesses do have a great importance in contemporary market Serbian economy and this significance will be even higher in time. Family business is a very old type of business activity in Serbia, especially in certain parts of the country with long tradition and entrepreneurial spirit, which is historically related to farmers, guilds, craftsmen, local traders, textile and shoes production, legal, medical, pharmaceutical, repairing professional services etc. The level of connection between families and work is shown in the fact that before the industrial age families lived in the same space (buildings, farms, etc.) where they performed economic activity, and only with the industrialization and the increased number of paid workers who were not family members the family and work are separated.

SMEs sector in Serbia in 2012 has got 317,162 enterprises, making 99.8% of all enterprises in the country, 317,668. 95.0% are micro enterprises and solo traders, 62% private owned. There is no official data on family businesses and firms in Serbia, but according to the sporadic analysis it can be projected that they make around 60-70% percent of SMEs sector, mostly in professional businesses and services as solo traders or properties. Traditional family sectors are in processing industry, bred, drinks, fruit, and vegetables, milk production, than in textile and furniture production, chemical, pharmaceutics. The importance of the SMEs sector can be seen in the facts that they make 60% of GDP, 70% of employment, 65% of GVA and 52% of Serbian export.

<table>
<thead>
<tr>
<th>Enterprise type</th>
<th>SMEs</th>
<th>FB</th>
<th>Large FB</th>
<th>Total SMEs structure (%)</th>
<th>FB out of enterprises Structure (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise</td>
<td>91,030</td>
<td>506</td>
<td>91,536</td>
<td>28.8</td>
<td>20.0</td>
</tr>
<tr>
<td>Entrepreneur/solo trader</td>
<td>226,132</td>
<td>0</td>
<td>226,132</td>
<td>71.2</td>
<td>60.0</td>
</tr>
<tr>
<td>Total</td>
<td>317,162</td>
<td>506</td>
<td>317,668</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source*: Serbian Business Registers Agency, authors’ calculation

Family businesses most often start their business in further sectors: Trade (27.0%), Processing industry (13.7%), Accommodation and food services (12.1%).

In the sector of Processing industry dominate low technology level family companies, with the share of 50% with low profit margins, and those in high technology sector are less than 9.5%.
Table 2: Indicators of SMEs in processing industry (u %)

<table>
<thead>
<tr>
<th>Industry</th>
<th>No.of SMEs</th>
<th>FB out of SMEs Structure (%)</th>
<th>No of employees</th>
<th>Trade</th>
<th>GVA</th>
<th>Export</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs in Processing industry</td>
<td>100</td>
<td>20.0</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>Low technology</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food, drinks, tabacco, textile, furniture, paper production</td>
<td>62.8</td>
<td>80.0</td>
<td>58.5</td>
<td>54.4</td>
<td>51.4</td>
<td>49.6</td>
<td>37.2</td>
</tr>
<tr>
<td><strong>Medium technology sectors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low technology</td>
<td>27.8</td>
<td>10.0</td>
<td>25.2</td>
<td>25.4</td>
<td>26.8</td>
<td>28.7</td>
<td>29.6</td>
</tr>
<tr>
<td><strong>Medium-high technology sectors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemic, electro, moto, travel equipment and products production</td>
<td>6.5</td>
<td>6.0</td>
<td>12.7</td>
<td>14.3</td>
<td>16.7</td>
<td>18.6</td>
<td>21.8</td>
</tr>
<tr>
<td><strong>High technology sectors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pharmacy, optics, computers and electro products production</td>
<td>2.9</td>
<td>4.0</td>
<td>3.5</td>
<td>5.9</td>
<td>5.1</td>
<td>3.2</td>
<td>11.5</td>
</tr>
</tbody>
</table>

*Source: Serbian Business Registers Agency, authors’ calculation*

In 2012, 10.672 SMEs of Processing industry and 10.096 from trade have realized 788,1 bill. RSD in export, making 45.9% of total export of non-financial sector, and 89.8% of the total SMEs export.

- 29.5% of all start-ups are initiated by existing family firms.
- 16.9% of new firms are related to existing family firms.
- 17.8% of established entrepreneurial firms are related to another family firm.
- 29.5% of start-ups expect family ownership.

2.1 Advantages of Family Firms in Serbia

In Serbia, although there is no formal statistical data on family businesses, this unique category of companies plays a vital role for the economy:

- Family businesses account for an important part (on average 40 - 60% of all jobs) of Serbian private employment.
- Family businesses reinvest profits responsibly preferring equity as opposed to debt financing.
- Act as responsible owners because of their long-term strategy towards stakeholder interests, including employees, customers, shareholders, local communities.
- Transmission of family values with a high sense of social responsibility.
- Special concern for the local or regional base.
- Natural incubators of an entrepreneurial culture, they foster the next generation of Serbian entrepreneurs.
- Stewards of social and economic capital from one generation to the next, although are not supported by any specific legal framework for such a reinvestment.

The FF have: flexible time, work and money. They work hard on innovation issues, are workaholic, accumulating a great knowledge and experience through generations. They are thinking long term; make decision quickly with an stable culture, credible, moral and proud business. Advantages to the individual are before all in:

- Putting someone in control of your own destiny,
- An acute sense of achievement as a family
- An incentive to keep going
- Provides a certain level of freedom
- An opportunity of employment
- Can keep the family together
- Creates wealth
- Offers security
- Installs a sense of pride and belonging.

Further benefits of the family business component in Serbia can be seen through:

- Loyalty. Family members in business tend to demonstrate a greater sense of loyalty to each other and to the business. They also tend to be more committed to the business’ success and are more passionate about what the business stands for.

- Labour pool. Multigenerational family businesses have access to a labour pool of family members who tend to be more loyal and committed to the business. Family members also tend to be more flexible in taking on different job functions and filling in for others.

- Key employees. Non-family employees appreciate and enjoy the unique work environment created by a family in business. The workplace tends to be less formal, and more hands-on and personable. Many key employees are treated like extended family and develop a strong bond with the family and business.

- Patience. Family businesses tend to be less driven by short-term financial results and are prepared to sacrifice short-term gains for the achievement of longer-term goals. This allows the business to align the deployment of resources with their strategic objectives. This long-term approach to investing is often referred to as “patient capital”.

- Values. Family business owners have the opportunity to teach and pass along their business and personal values to the next generation. Family members take pride in upholding these family values and build them into their day-to-day work and personal activities. The work culture is often a reflection of these family values.

- Career opportunities. Family business owners pride themselves on being able to provide family members with career opportunities in the business. The family business can be a great training ground for family members who aspire to pursue business careers elsewhere or within the family business. Family members are also afforded the opportunity to become managers and owners of the business.

- Relationships. The opportunity to work with family members to pursue common business goals can be a very rewarding experience. Years of bonding among family members can create a strong sense of belonging and interdependency. Effectively managing these relationships will go a long way in ensuring long-term family and business harmony.

- Financial rewards. Successful family businesses are able to provide financial rewards to both active and non-active family members. It is not uncommon for family businesses to reward family members more than they could obtain elsewhere. This is often viewed as one of the privileges of being family.

- Succession. As well as providing career opportunities, family businesses also favor passing the business along to the next generation of family members. The opportunity to be an owner of the business can be both motivating and rewarding.

- Community and philanthropy. Most family businesses are active in their communities. These communities benefit from both the family members as volunteers/supporters, and from the business providing financial support and employment opportunities. This commitment to the community
tends to permeate the generations and provide family members with the opportunity and rewards that stem from this ongoing community support.

2.2 Disadvantages of Family firms in SERBIA

However, there is no agreement in Serbia about how one should define a family business, as well as legal definition of the family firms. Family firms can demonstrate also a certain rigidness, business challenges skepticism with an myopia for new capital involvement. They have problems also with management modernization and styles, opened communication and intergeneration, leadership and transition issues. The ways FF solve conflicts in their work are often with or without pressing:

- Agreement acceptance, or spin-off or closing the firm on the Court decision;
- Buying the shares, Company selling or LLC quarreling destroying, out of money and function.

It’s the interlocking nature of the family, the management, and the ownership of the business, and the way they interact that creates challenges, as well as unique opportunities within the family business. Because of very dominant patriarchate leading style of the FF firms, often choice (according to some field researches) of the future manager of the FF depends often of future criteria:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>20</td>
<td>13</td>
</tr>
<tr>
<td>Oldest</td>
<td>20</td>
<td>13</td>
</tr>
<tr>
<td>Second</td>
<td>20</td>
<td>2</td>
</tr>
<tr>
<td>Youngest</td>
<td>20</td>
<td>22</td>
</tr>
<tr>
<td>Capability</td>
<td>22</td>
<td>2</td>
</tr>
<tr>
<td>Son</td>
<td>22</td>
<td>2</td>
</tr>
<tr>
<td>Youngest</td>
<td>22</td>
<td>2</td>
</tr>
<tr>
<td>Youngest</td>
<td>22</td>
<td>2</td>
</tr>
<tr>
<td>Decision making</td>
<td>95</td>
<td>53</td>
</tr>
<tr>
<td>Studying for the FF</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Dismissed uninterested</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Experience in the FF</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Experience somewhere else</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

Although the potential for relationship conflict among entrepreneurial teams consisting of unrelated individuals is high, having a team composed of family members does not ensure tranquility. On the Disadvantages of being part of a Family Business in Serbia and being a member of a family business can be a double-edged sword:

a. Disadvantages to the individual and to the business:
   - Feeling trapped, preventing from doing what you really want, need to be better than non-family peers, the weight of family, peer and employee responsibility, can be difficult to raise liquidity, can tear the family apart, if not properly managed.

b. Disadvantages to the business:
   - Family businesses can be regarded as amateurish. Non-family members may not join because they cannot reach the top, it can be difficult to raise capital, senior family members may see themselves as having a job for life, decisions may be too emotional, and there may be a deep seated aversion to change. It can be a struggle to continue the spirit of entrepreneurial flair.

The concept of stewardship for future generations comes naturally to many family owned businesses. But these companies also face their share of sustainability challenges

3. THE POLICIES AND ACTORS OF INSTITUTIONAL SUPPORT

The Private Sector Development policies and actors try to focus their activities on the mobilization of private sector resources in the country, with a particular emphasis on small & medium sized enterprises (SME). Private companies, most of them being small and medium sized family businesses create jobs, introduce new technologies, help broaden the tax base, and play a key role in the process of economic integration of Serbia in EU and at the global and regional level through commercial flows. Operationally, the
work is organized around three main pillars of intervention, which are highly complementary:

1. Strengthen the business environment for the private sector
2. Financial sector deepening and facilitate FF access to finance
3. Support SMEs and financial intermediaries through capacity building and advisory services

3.1 The business environment for the private sector

Main characteristics of Serbia in 2013 are that it is: upper middle income country, part of the Europe & Central Asia with the population (m) 7.2. GNI per capita in 2013 is (US$) 5,280. Serbia has got a big problem with high unemployment rate (According to the Serbian Statistics Office, unemployment rate for the age group 15-64 stood at 25% at the end of April 2013 (total unemployment was 24.1%), young as well as those who lost the job because of privatization process, insolvency or redundancy in the industry sector losing more than 300 thousand employees. The Macroeconomic ambient for Family businesses in Serbia is further characterized by set of indicators of doing business and competitiveness, what is illustrated below.

a. General rank of comparable working ambient for family firms is ease of doing business is 93, out of 189 economies.

<table>
<thead>
<tr>
<th>Starting a business</th>
<th>Dealing with construction permits</th>
<th>Protecting investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Getting credit</td>
<td>(rank) 45</td>
<td>(rank) 182</td>
</tr>
<tr>
<td>Paying taxes</td>
<td>(rank) 161</td>
<td>(number) 4</td>
</tr>
<tr>
<td>Total tax rate</td>
<td>(% of profit) 36.8</td>
<td>(rank) 103</td>
</tr>
<tr>
<td>Documents to import</td>
<td>(number) 7</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Table 3: Easy of doing business for SMEs and FF in Serbia, 2013

| Source: Doing Business, World Bank 2013 |

b. According the Competitiveness Index, Serbia has been at 101th position in 2013 and 2014 out of 145 countries.


The most problematic factors for Family firms (FF) according to field research realized in 2013 by
Employers Association are: very high corruption in the country (13.8), inefficient government bureaucracy (13.1), access to financing (11.1), government instability coups (10.9), inadequate supply of infrastructure (7.3), poor work ethic in national labor force (3.3), inadequate educated workforce (3.1), etc.

3.2 The Family business support infrastructure

Through business support infrastructure is often mentioned in specialized literature and the official documents of different levels of authorities, there is no unique definition of this term. The term “business support infrastructure” includes a network of institutions and organizations providing services to potential entrepreneurs, entrepreneurs or small- and medium-sized enterprises for the development of their business capacity (human, organizational, marketing, etc.) or providing physical facilities for business operations. In terms of capacity, structure and purpose, business support infrastructure should be in accordance with local and regional development potential, as well as market demands. The primary goal of business support infrastructure development is the overall economic development at local, regional and national level, with a special emphasis on polycentric development. Business support infrastructure operations are often geographically limited, mostly to municipalities and cities, but sometimes also to broader geographical units, such as districts and regions. Business support infrastructure rarely provides services across the whole territory of a country, which is also the case in the Republic of Serbia.

The business support infrastructure mostly includes business incubators, clusters, industrial zones and technology parks, active on different territorial levels and spread throughout the Republic Development of business support infrastructure in Serbia is in line with the processes of economic transformation towards a market-oriented economy. The pioneering steps in business support infrastructure development were initiated through the project interventions of numerous international organizations, and later on continued through the activities of the line ministry, the National Agency for Regional Development and many development agencies and associations active at a national, provincial/regional or local level. In many cases business infrastructure was developed without receiving support from the public institutions, based on the initiative of private agencies, nongovernmental organizations, or as individual initiatives by people who wanted to put their personal effort into the promotion of economic development in their communities.

Strengthening of business infrastructure is part of many strategic and programme documents of the Government of the Republic of Serbia, the Government of the Autonomous Province of Vojvodina, and local governments. Business infrastructure development has mostly been recognized through its contribution to the competitiveness of small and medium-sized enterprises and entrepreneurship, and family businesses inside of it, and is consequently mentioned in official documents and programmes in that context. However, it should be emphasized that there is no unique document focused only on business infrastructure development, and this field is divided between several strategic documents and programmes. One of the first documents dealing with business support infrastructure development is the National Economic Development Strategy of the Republic of Serbia for the period 2006 –2012, as the first development document consistently and comprehensively defining the basic development priorities of the country and the ways to achieve them in the following years.


The Strategy for Development of Competitive and Innovative Small and Medium-sized Enterprises for the period 2008 - 2013 also supports the implementation of programmes for the development of business incubators and clusters and emphasizes the necessity to improve institutional support for the development of entrepreneurship and small- and medium-sized enterprises. The Regional Development Strategy of the Republic of Serbia for the period 2007 – 2012 is the first strategic development document focused on regional
development in Serbia, with the goal to improve polycentric regional development of Serbia through entrepreneurship and SME development policies in Serbia, in order to reduce differences in regional development through better economic links among regions (cluster associations and connections between enterprises, establishment of business and technology incubators in local municipalities and science and technology parks in university centres. The recently adopted Strategy of Industrial Development of the Republic of Serbia 2011 – 2020 also considers the necessity to develop business support infrastructure in its section focusing on regional development. According to this Strategy, the term “business support infrastructure” includes mapping, constructing and equipping industrial zones, industrial parks, business incubators, clusters, logistic and business centres and tourist infrastructure. It is important to underline that this Strategy provides the first map of business support infrastructure in the Republic of Serbia.

The need for business support infrastructure development is also recognized by those EU institutions that have, in different ways, supported numerous project initiatives throughout the Republic of Serbia. In addition to that, business support infrastructure is recognized as one of the measures for the development of competitiveness within the Economic Development Operational Programme 2012 - 2013 of IPA component III. Business support infrastructure development has been significantly contributed to by many bilateral organizations, funded by the Government of the Kingdom of Norway, that initiated the development of business incubators and clusters in Serbia, as well USAID who have been active in this field for several years through several projects, the Government of the Kingdom of Denmark through the LEDIB programme, implemented in the territory of Nišava District, and finally the Austrian Development Agency, active in business incubator development in Vojvodina. Development of business support infrastructure was also supported by several other donor programmes, EU projects including SECEP, RSEDP 2 and MISP, GIZ Private Sector Development Projects WBF (later ACCESS), LEDIB project funded by the Danish Government, BBI project funded by the Austrian Government and the USAID project “Competitiveness”.

In order to increase competitiveness of SMEs and family businesses as their part, it is necessary to target specific regions, and through development and transformation of business infrastructure and by establishing industrial and technology parks and industrial zones, to identify independent, private companies, specialized in a certain field, and linked through joint technology and knowledge. The concentration of similar and/or complementary business activities in an area, with mutual synergy effects and joint strategic approaches, enables a dynamic development of those activities, through competitive products. When selecting the basic direction of economic development, an advantage is given to those activities where available resources, market conditions and technical advancements provide for a faster development. This analysis identified 23 business incubators, 85 cluster initiatives, 92 industrial zones, 2 existing and 4 planned industrial and technology parks, 4 existing and 4 planned free zones and 66 brownfield locations in Serbia.

3.3 Financial support

Entrepreneurs mostly rely on their own sources of finance. Around 70% of SMEs are financed from their own sources, both in case of working capital (73%), or investments (69%). It could be indicated a decreasing trend of entrepreneurs taking loans to implement investment plans. External sources of finance are used by 26% of SMEs which is 18% less than in 2013, or 10% less than in 2010.
Medium-sized (39%) and small enterprises (33%) use external sources more to finance investments, as well as working capital. On the regional level, entrepreneurs from South and East Serbia take least loans both for working capital and for investments.

Of external sources of revenues, commercial banks’ loans are used the most (48%), followed by, but significantly less, loans from state funds (14%) and foreign loans (10%). Loans from banks are followed by loans from relatives and friends (8%). Loans from commercial banks are mostly used by medium-sized (64%) and small enterprises (58%), whereas sole traders mostly rely on relatives and family. Foreign loans are largely used by business entities in Belgrade Region (17%) and Sumadija and West Serbia (19%).

More than half of SMEs do not have loans, of which the least debtors are among micro enterprises and sole traders (58%) and in Belgrade Region (56%). Small and medium-sized enterprises with loans mostly successfully pay it off, and medium-sized enterprises have more delays in annuity payments. Entrepreneurs in Vojvodina and West Serbia and Sumadija have the most difficulties with paying off debts. More than 80% of surveyed enterprises do not plan to take loans in the following year. The main reasons are high interest rates and bank costs, as well as long procedures for loan approval. In the Vojvodina Region, lack of plans for loans in the following year is more substantial than in other regions.

Loan payment periods, and short deadlines to fulfill obligations still present some of the most frequent financial problems in business operations, especially for smaller business entities. More than a half (53%) of entrepreneurs fulfill their obligations towards suppliers within less than 30 days, and only 32% manage to collect their payments in the same period of time.

SMEs are interested in state support programmes (58.6%), primarily those of financial nature (54.5%). The biggest interest for support is in medium-sized enterprises, and the smallest in micro enterprises and sole traders. Small enterprises show more interest in consulting and training compared to other types of surveyed business entities. Subsidies for improved business operations are the most favorable state support programmes for two thirds of entrepreneurs, and mostly in West Serbia and Sumadija (72%). They are followed by subsidies for job creation, which have the most interest from small enterprises (42%). Loans with favorable interest rates are very much needed in the Vojvodina Region (36%) and Sumadija and West Serbia (33%), and business links in the country and abroad are most attractive to medium-sized enterprises (22%).
Table 5: Incentives by type of financial incentive, type of company, by purpose in Serbia, in RSD, 2013

<table>
<thead>
<tr>
<th>Type of financial incentive</th>
<th>2013</th>
<th>Type of beneficiary</th>
<th>2013</th>
<th>Purpose</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total regional development incentives</td>
<td>173,661,103</td>
<td>Large companies</td>
<td>52,609,547</td>
<td>Employment</td>
<td>4,101,315</td>
</tr>
<tr>
<td>loan</td>
<td>136,717,134</td>
<td>SMEs</td>
<td>22,696,597</td>
<td>Export</td>
<td>5,361,510</td>
</tr>
<tr>
<td>Non-returnable subsidy</td>
<td>12,789,463</td>
<td>Entrepreneur (solo trader)</td>
<td>361,501</td>
<td>Manufacture</td>
<td>11,273,268</td>
</tr>
<tr>
<td>For attracting investments</td>
<td>1,052,198</td>
<td>Agricultural holdings</td>
<td>3,682,339</td>
<td>Agriculture</td>
<td>4,697,158</td>
</tr>
<tr>
<td>Non-returnable resources</td>
<td>263,059</td>
<td>Business incubator/cluster</td>
<td>9,888</td>
<td>R&amp;D</td>
<td>7,833,035</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Education, science, sport</td>
<td>3,454,514</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Infrastructure</td>
<td></td>
</tr>
</tbody>
</table>

Source: Serbian Business Registers Agency, 2013

3.4. Advisory services

Advisory services have so far been used by 39% of respondents. Free services were mostly used in the field of business start-up consulting (33.5%), marketing/promotion and sales trainings, then business planning, legal services and training for computer skills. On the other hand, entrepreneurs most often paid for services in accounting (64%), legal services (59.5%) marketing/promotion and sales (35.6%), work safety and protection (31.1%) and information technologies (23.5%). In the last field research of Employers Association of Serbia, SMEs, among them FF have ranked their business aspects like in below Figure 2:

Source: Employers Association research on advisory support of SMEs, 2013

Ranking the different aspects of their business, SMEs are most successful by the quality of their products/services, qualifications of their employees and relations with business partners. Most problems they have are related to payment collection and financial aspects (financial stability) and competitiveness in the market. According to the opinion of half of respondents, in order to have a more successful business, payment collection should be improved first (48%) and the financial aspect of company’s business operations (47%). Market demand (40%) is ranked third, and market competitiveness (33%) fourth among priorities for improvement.
Innovation and educational support

An innovation is the implementation of new or significantly improved product, service or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations (OECD, Oslo Manual, 3rd ed., 2005). A business entity can have several types of innovative activities in the defined period. According to the field research on innovation of SMEs in 2012, further results are found (Table 6):

### Table 6: Share of types of innovation

<table>
<thead>
<tr>
<th>Source</th>
<th>Product/service innovation</th>
<th>Business process innovation</th>
<th>Abandoned/in progress innovations</th>
<th>Organizational innovation</th>
<th>Marketing innovation</th>
<th>Non-innovators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serbia</td>
<td>26.49</td>
<td>27.25</td>
<td>14.46</td>
<td>31.27</td>
<td>28.51</td>
<td>53.19</td>
</tr>
<tr>
<td>Medium-size</td>
<td>33.30</td>
<td>36.30</td>
<td>21.10</td>
<td>40.32</td>
<td>37.51</td>
<td>42.78</td>
</tr>
<tr>
<td>Small</td>
<td>24.86</td>
<td>25.09</td>
<td>12.87</td>
<td>29.10</td>
<td>26.34</td>
<td>55.68</td>
</tr>
</tbody>
</table>

*Source: National Agency for regional development*

Share of implementation of a certain type of innovation by size of a business entity – innovator, shows the biggest share of innovation in business entities as follows: total 31.27%, in small 29.10% and in medium-sized business entities 40.32%.

Discussing the sources of information and cooperation for innovation activities of the SMEs through that advice services show that the most important for the development of new innovation projects or implementation of the existing projects are internal sources, what speaks about the undeveloped cooperation and institutional support services.

### Table 7: Business entities (technological innovators) that reported high importance of the source of innovation information

<table>
<thead>
<tr>
<th>Sources</th>
<th>Total</th>
<th>Small</th>
<th>Medium-sized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal With the business entity or group it belongs to</td>
<td>32.25</td>
<td>31.06</td>
<td>35.88</td>
</tr>
<tr>
<td>Market Suppliers</td>
<td>16.86</td>
<td>15.53</td>
<td>20.89</td>
</tr>
<tr>
<td>Clients or customers</td>
<td>24.60</td>
<td>22.99</td>
<td>29.50</td>
</tr>
<tr>
<td>Competitors or other business entities in the industry</td>
<td>10.07</td>
<td>8.58</td>
<td>14.60</td>
</tr>
<tr>
<td>Consultants, business research agencies/IR</td>
<td>6.28</td>
<td>5.84</td>
<td>7.64</td>
</tr>
<tr>
<td>Institutional Universities/higher education institutions</td>
<td>4.58</td>
<td>3.60</td>
<td>7.54</td>
</tr>
<tr>
<td>State or Public Scientific Institutes</td>
<td>2.59</td>
<td>2.17</td>
<td>6.58</td>
</tr>
<tr>
<td>Other Conferences, trade fairs, exhibitions</td>
<td>14.75</td>
<td>14.64</td>
<td>15.09</td>
</tr>
<tr>
<td>Scientific magazines and technical publications</td>
<td>9.86</td>
<td>9.76</td>
<td>10.15</td>
</tr>
<tr>
<td>Professional and industry associations</td>
<td>5.49</td>
<td>4.86</td>
<td>7.93</td>
</tr>
</tbody>
</table>

*Source: NARD*

There are 65 accredited higher schools of professional studies (state and private) in Serbia with 378 study programmes, /more than 50% study programs are in the field of technical and technological sciences with a very different distribution. In the state schools TTS programs are dominant, with 61%, private schools realize predominantly study programs in social sciences and humanities (66%). According to the Scientific field in the period of 2008-2012, there were in HSS 21.384 students, in TTS 26.343, and in medical scientific field (MS) 2.262 students. By Law, all education providers (including TVET) have to establish an internal Quality Assurance and Evaluation Commission. The annual self-assessment is mandatory for all education providers. The problem is that, this educational infrastructure with its programmes is not adequate educational institutional support of FF development needs. Modernizing VET system –improving performance, quality and attractiveness of VET for Family Firms development needs with tailored
programmes would be one of the Challenges in the time come for Family firms. VET would have to become a tool to help meeting FF immediate and future skills needs, reducing the social impact of and facilitate recovery from the crises.

4. DISCUSSION AND CONCLUSIONS

Family businesses are the backbone of the Serbian real economy and incubators for entrepreneurship. Productivity, competitiveness, job creation and sustainability are part of their success and development, as well as of institutional support and tailored qualitative services. There is an unbalanced geographical distribution of business, innovative, financial and educational support infrastructure elements in Serbia, and there is no specific target business infrastructure which supports exactly the family businesses, but as SMEs sector general approach. It is more significantly distributed in five large cities in Serbia: Belgrade, Novi Sad, Niš, Subotica and Kragujevac. Some of numerous reasons for concentration in these cities include the presence of donor programmes and regional or SME development agencies that jointly contributed to raising awareness and the idea about the need for development of business support infrastructure. In the analysis of business support infrastructure could be seen an weak link between clusters, incubators, universities and development agencies.

Serbia has been built on their contribution to economic and social prosperity, and now, in times of trouble, Serbia should look back to its roots, valuing and fostering the necessary role of family businesses as a reliable and committed driving force for recovery and new employment creation. Because of that, the objectives in further development of an positive ambient for family businesses in Serbia would have to:

- Promote a full understanding of the key role of long term family-owned enterprises in Serbian economy;
- Press for policies that will support the creation of a level playing field for family businesses compared to all other types of companies, in the fields of transfer of businesses, legal and taxing framework, financing and entrepreneurship education;
- Ensure recognition of their contribution to the entrepreneurial culture and social cohesion of Serbia in Europe;
- Fostering the next generation through Entrepreneurship Education because that Entrepreneurship is hugely relevant to family businesses, as they are incubators of entrepreneurs, highlighted as being essential for fostering creativity and innovation. Furthermore, family business specific issues such as succession and family governance should be included in Entrepreneurship curricula to better prepare future business owners to successfully run their companies for the long term.

In addition, special efforts need to be made to better the relationship between universities and business. Business owners need to be directly engaged in the learning process, since they bring practical expertise and hands-on know-how into the class room. In addition, family business owners can often bring something different - their corporate values, such as sustainability, trust, responsibility, and integrity. Family Businesses represent the backbone of many local communities in Serbia, where are traditionally very much recognized: Cacak, Indjia, Novi Pazar, Arilje. Their future entrepreneurial commitment and prudent approach to company financing means that they can contribute to long-term growth and job preservation in Serbia.

In order to achieve positive synergy effects in terms of raising competitiveness and economic development on the local and regional level, it is necessary to establish close cooperation between the elements of business support infrastructure, public and private sector, as well as development agencies, chambers of commerce and other relevant institutions, in order to harmonize activities and exchange the necessary information. It is also necessary to harmonize the activities of business support infrastructure with strategic plans on different levels. At the same time, it is necessary to continuously work on building management capacities and human resources in general, in all business support infrastructure elements: business incubators, clusters, zones and parks. Recommendation for national and regional institutions supporting economic development is to design programmes that will have the best effect in supporting this integrated approach in local and regional development of family businesses in Serbia. It is also recommended to establish cooperation with the media in order to raise awareness about benefits of development of family business, employment opportunities and growth of FF in Serbia.
REFERENCES


THE ROLE OF SMEs IN THE ECONOMIC DEVELOPMENT OF ALBANIA

ABSTRACT

Small and medium enterprises are the engine of the economy. They are an essential source for the creation of new jobs, entrepreneur and innovation spirit and have a crucial importance for growing of competitiveness. SMEs dominate Albanian economy by representing 99.8% of all registered businesses and the latest assessment of SME’s policy (OECD 2012) is slightly below the Western Balkan regional average. SME sector contributed in more than 73% of GDP and more than 71% in employment.

In the article will be analyzed the contribution of SMEs in the Albanian economy during years according to the size of SMEs, sectors and regions. In addition a detailed analysis will be presented regarding Doing Business Report for Albania on 10 dimensions and the implementation of Small Business Act (SBA) which is a new framework policy document for SME.

Furthermore an innovative method to compare a single country's standing to a certain benchmark (according to Doing Business) shall be introduced. The adequate Comparison Result is obtained after several transformations of the figures. Through this technique a researcher at first needs to determine what will be the final goal that a country needs to achieved in terms of SME development. This will be the benchmark to analyze how far its SME development stage is from the desired stage to be achieved. The analysis continuous by establishing the indexes for each country and for each dimension compared to the benchmark. Finally the results are much more user friendly and easy to be understood from policy makers, researchers and public.

The study goes in more details in assessing Albania’s SME development stage compared to the benchmark, which in this case is European Union 27 (EU27) as the final goal to achieve. As a final result from this assessment Albania’s Gap compared to EU27 benchmark on 10 dimensions of Doing Business is quite significant. The overall assessment of Albania fits to 44% of the average of EU27. The same approach may be used from all other countries in the region for which EU27 benchmark is believed to be the final goal for all of them.

Keywords: SMEs, Albania’s SME development strategy, perspectives, entrepreneurial, business, theoretical, behavior. Serbia

JEL Classification: L26, L29, M13,

1. SME DEVELOPMENT IN ALBANIA

In 2013 the economic growth of Albania is estimated to have reached a historic minimum of 0.44%. The number of active enterprises till the end of year 2013 (INSTAT 2014a), reached 111,083, which indicated an increase of 6.5% comparing to 2012. The active enterprises in Albania from 2005 to 2013 have increased by about 83% (see figure 1) and approximately 27.8% of them are managed or owned by women. Approximately 52% of enterprises carry out their activities in Tirana's and Durres's administrative area (prefecture) and 60% of active enterprises have been created during 2008-2013.
Referring to their structure for 2013, 99.8% of all active enterprises are SMEs. SME's are classified as microenterprises (1 to 9 employees) which count for 94.6% of the total active enterprises, small enterprises (10 to 49 employees) which count for 4.2% and medium enterprises (50 to 249 employees) which count for 1%. On the other hand only 0.2% of the total number of active enterprises are large enterprises with more than 250 employees (see figure 2).

Exporting enterprises count for 1.8% of the total number of active enterprises in the country. The exports reached 1.75 billion Euro increasing with 14.7% as compared to the previous year. Foreign and joint venture enterprises in Albania count for 4.2% of the total number of active enterprises. Foreign direct investments for 2013 amounted to 923 million Euros increasing by 38.6% as compared to the previous year or three times as compared to year 2006.

The contribution of SME (INSTAT 2014b), (see table 1) is 81.6% of employment in private non agriculture sector, 43.7% in export and 69.8% in value added. The contribution according the size of enterprises is: Micro firms contributed by 45.8% in employment in private non agriculture sector, 8.2% in export and 23.5% in value added. Small enterprise contributed by 19% in employment, 13.3% in export and 28% in value added. The medium enterprises contributed by 16.8% in employment, 22.2% in export and 18.3% in value added.

Table 1. The contribution of SMEs during 2012

<table>
<thead>
<tr>
<th>Size of enterprises</th>
<th>Micro (1-9)</th>
<th>Small (10-49)</th>
<th>Medium (50-249)</th>
<th>Large (250+)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nr. of employment</td>
<td>45.8%</td>
<td>19.0%</td>
<td>16.8%</td>
<td>18.4%</td>
</tr>
<tr>
<td>Value added</td>
<td>23.5%</td>
<td>28.0%</td>
<td>18.3%</td>
<td>30.2%</td>
</tr>
<tr>
<td>export</td>
<td>8.2%</td>
<td>13.3%</td>
<td>22.2%</td>
<td>56.3%</td>
</tr>
</tbody>
</table>

Source: INSTAT 2014, ASN 2012 and author's calculation
compared 2011. The value added in 2012 (INSTAT, 2014b) was 24.7% higher as compared to 2011.

2. DOING BUSINESS IN ALBANIA

According to Doing Business 2014 report (WB 2013a), in ease of doing business, Albania is ranked 90 out of 189 countries compared to 82 ranked in the previous year and 135 in 2008. It is to be mentioned that several reforms on reduction of administrative barriers in business have been undertaken to improve the business climate in Albania during the period 2007-2011. (See table 2).

Table 2. Rank of Doing Business in Albania by years.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ease of Doing Business</td>
<td>90/189</td>
<td>82/186</td>
<td>82/183</td>
<td>77/183</td>
<td>82</td>
<td>86</td>
<td>135</td>
</tr>
<tr>
<td>Starting a Business</td>
<td>76</td>
<td>68</td>
<td>61</td>
<td>56</td>
<td>46</td>
<td>67</td>
<td>130</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>189</td>
<td>189</td>
<td>183</td>
<td>176</td>
<td>173</td>
<td>170</td>
<td>160</td>
</tr>
<tr>
<td>Registering Property</td>
<td>119</td>
<td>115</td>
<td>118</td>
<td>126</td>
<td>70</td>
<td>62</td>
<td>56</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>13</td>
<td>11</td>
<td>24</td>
<td>21</td>
<td>15</td>
<td>12</td>
<td>61</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>14</td>
<td>14</td>
<td>16</td>
<td>15</td>
<td>15</td>
<td>14</td>
<td>168</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>146</td>
<td>146</td>
<td>152</td>
<td>150</td>
<td>138</td>
<td>143</td>
<td>125</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>85</td>
<td>84</td>
<td>76</td>
<td>76</td>
<td>66</td>
<td>77</td>
<td>73</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>124</td>
<td>96</td>
<td>85</td>
<td>88</td>
<td>91</td>
<td>88</td>
<td>88</td>
</tr>
<tr>
<td>Closing a Business</td>
<td>62</td>
<td>65</td>
<td>64</td>
<td>62</td>
<td>183</td>
<td>181</td>
<td>181</td>
</tr>
<tr>
<td>Getting electricity</td>
<td>158</td>
<td>155</td>
<td>154</td>
<td>154</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source of this data are respective reports of Doing Business (DB 2014a). **Doing Business 2013: Data revised by DB2014 report

2.1 Performance Index of DB in Albania compared to the average of EU27

Another effective way to evaluate a country’s standing in terms of SME development is to measure the distance of the performance of the economy compared to the EU average, which serves as a benchmark for all countries in the SEE7 region aspiring for EU integration. For this purpose it is elaborated the indicator of the performance of ease of doing business compared to the EU27. The calculation methodology for comparing performance indicators of Albania with the EU27’s average is based on the concept of calculating the average ranking of EU27 in 2013 for each of the 10 areas of WB DB (2013b). The same approach is used to calculate the average index of DB for 2014 in EU27 aggregated as the simple average of the rankings for 10 areas covering DB (author’s calculations). These indicators serve as a benchmark for evaluating the performance of Albania and other countries of SEE7. The index of economic performance for each country is estimated as a percentage of EU27 average ranking, where 0% is the lowest performance a country can get and 100% is the performance of the EU27, which serves as a benchmark for SEE7 and all other countries of the region aiming to achieve EU standards. In the same way it is calculated the ratio of the ranking of Albania
in the DB to the average ranking of the EU27 in percentage for each of the 10 areas of DB and their aggregate. The higher this percentage the better the country's economy is assessed and the gap to the EU27's is smaller. In addition it is calculated another indicator which represents the performance of the country according to DB for current year compared to the previous one as a ratio of the respective rankings of the country. The results of these calculations are presented in table 3.

Table 3. Performance index of ease doing business in Albania compare to EU27

<table>
<thead>
<tr>
<th>Albania</th>
<th>DB 2014</th>
<th>DB 2013</th>
<th>index DB2014/2013</th>
<th>Aver. rank EU27, 2014</th>
<th>Index, AL/EU27 2014 in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rank</td>
<td>90</td>
<td>82</td>
<td>91%</td>
<td>40</td>
<td>44%</td>
</tr>
<tr>
<td>Starting a Business</td>
<td>76</td>
<td>68</td>
<td>89%</td>
<td>70</td>
<td>92%</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>189</td>
<td>189</td>
<td>100%</td>
<td>74</td>
<td>39%</td>
</tr>
<tr>
<td>Getting Electricity</td>
<td>158</td>
<td>155</td>
<td>98%</td>
<td>74</td>
<td>47%</td>
</tr>
<tr>
<td>Registering Property</td>
<td>119</td>
<td>115</td>
<td>97%</td>
<td>63</td>
<td>53%</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>13</td>
<td>11</td>
<td>85%</td>
<td>56</td>
<td>434%</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>14</td>
<td>14</td>
<td>100%</td>
<td>66</td>
<td>472%</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>146</td>
<td>146</td>
<td>100%</td>
<td>63</td>
<td>43%</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>85</td>
<td>84</td>
<td>99%</td>
<td>36</td>
<td>42%</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>124</td>
<td>96</td>
<td>77%</td>
<td>45</td>
<td>36%</td>
</tr>
<tr>
<td>Resolving Insolvency</td>
<td>62</td>
<td>65</td>
<td>105%</td>
<td>37</td>
<td>60%</td>
</tr>
</tbody>
</table>

Burimi: WB (2013a) Doing Business and author’s calculation index

2.2 Measure the gap between Albania's economy to EU27

In the facilities of doing business Albania is far from the EU27 average and performs as 44% of the EU27 average ranking. It appears better than the EU27 in the protection of investors and facilities of getting credits, meanwhile regarding the indicator starting a new business is evaluated at 92% of the EU27 average. In all other areas Albania is ranked far from the EU average. It is presented poorly in enforcing contracts (36%), dealing construction permits (39%), paying taxes (43%) and electricity supply (47%), registering property (53%), closing a business (60%) see figure 3. Referring to the other indicator which measures the progress compared to the previous year it can be noticed from table 2 that Albania continues to remain at the bottom level of global rankings in terms of dealing construction permits. It has deteriorated in the ranking compared to one year before mainly in 6 areas: starting a business, supplying electricity, registering property, getting credit, cross-border trade, enforcing contracts and has recorded progress only in closing a business, see figure 4.

Figure 3. The gap between Albania and EU27 in DB. Fig. 4. The progress of Albania in DB2014
Macedonia is ranked 25th in the global rankings of easy of doing business and first among the SEE7 countries, recording a significant improvement since 2008 with 50 seats. Macedonia is ranked first in the region of SEE7 in starting a business (7); in dealing with construction permits (63), in obtaining credit (3); and in the payment of taxes (26). Second is ranked Montenegro 44 out of 189 countries, then Kosovo 86th, followed by Croatia 89 and Albania 90 and last two countries ranked are Serbia 93 and B & H 131. See Table 4.

Table 4: Ranking of the Western Balkan countries according to Doing Business 2014 in 10 areas

<table>
<thead>
<tr>
<th></th>
<th>Ranks of DB 2014</th>
<th>Starting a Business</th>
<th>Dealing with Construction Permits</th>
<th>Getting Electricity</th>
<th>Registering Property</th>
<th>Getting Credit</th>
<th>Protecting Investors</th>
<th>Paying Taxes</th>
<th>Trading Across Borders</th>
<th>Enforcing Contracts</th>
<th>Resolving Insolvency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macedonia</td>
<td>25</td>
<td>7</td>
<td>63</td>
<td>76</td>
<td>84</td>
<td>3</td>
<td>16</td>
<td>26</td>
<td>89</td>
<td>95</td>
<td>52</td>
</tr>
<tr>
<td>Montenegro</td>
<td>44</td>
<td>69</td>
<td>106</td>
<td>69</td>
<td>98</td>
<td>3</td>
<td>34</td>
<td>86</td>
<td>53</td>
<td>136</td>
<td>45</td>
</tr>
<tr>
<td>Kosovo</td>
<td>86</td>
<td>100</td>
<td>136</td>
<td>121</td>
<td>58</td>
<td>28</td>
<td>98</td>
<td>43</td>
<td>121</td>
<td>138</td>
<td>83</td>
</tr>
<tr>
<td>Croatia</td>
<td>89</td>
<td>80</td>
<td>152</td>
<td>80</td>
<td>157</td>
<td>34</td>
<td>99</td>
<td>49</td>
<td>99</td>
<td>49</td>
<td>98</td>
</tr>
<tr>
<td>Albania</td>
<td>90</td>
<td>76</td>
<td>189</td>
<td>158</td>
<td>119</td>
<td>13</td>
<td>146</td>
<td>85</td>
<td>124</td>
<td>62</td>
<td>62</td>
</tr>
<tr>
<td>Serbia</td>
<td>93</td>
<td>45</td>
<td>182</td>
<td>85</td>
<td>44</td>
<td>42</td>
<td>80</td>
<td>161</td>
<td>98</td>
<td>116</td>
<td>103</td>
</tr>
<tr>
<td>B &amp; H</td>
<td>131</td>
<td>174</td>
<td>175</td>
<td>164</td>
<td>96</td>
<td>73</td>
<td>115</td>
<td>135</td>
<td>107</td>
<td>115</td>
<td>77</td>
</tr>
<tr>
<td>EU27 * average</td>
<td>40</td>
<td>70</td>
<td>74</td>
<td>74</td>
<td>63</td>
<td>56</td>
<td>66</td>
<td>63</td>
<td>36</td>
<td>45</td>
<td>37</td>
</tr>
</tbody>
</table>

Source: WB 2013a. Doing Business 2014 and *author’s calculation

2.4 Measure the gap between SEE7 to EU27

According to the above methodology for Albania's case, we compute the performance index for each SEE country to EU27. The results of these calculations are given in table 5.

Table 5. Index of evaluation amenities in doing business in the EJL7 compared to EU27
According to indicators of performance evaluation of ease of doing business in each country compared to the EU27 results, Macedonia is ranked first in the SEE7 region and performs better than the average of EU27 (see figure 5). According to the performance index of DB, Macedonia performs better than the EU27 in starting a business, paying taxes, the protection of investors and in dealing with construction permits, but performs worse in enforcing contracts (48%) at resolving insolvency (71%) and registering property (75%).

Montenegro is ranked second in the region and performs 91% of the EU27. It performs better than the EU27 in getting credit, protecting investors, power supply and start-ups, and performs more poorly on enforcing contracts (33%), registering property (64%), cross-border trade (68%), dealing with construction permits (69%), paying taxes (73%), resolving insolvency (82%), while other countries have a greater distance from the EU27 respectively Kosovo which performs as 47% of EU27, Croatia 45%, Albania 44%, Serbia 43% and lastly Bosnia & Herzegovina with 31%. Kosovo is ranked 86/189 and performs better than the EU27 in getting credit, paying taxes and registering property, while the gap is large in cross-border trade (30%), enforcing contracts (33%); resolving insolvency (44%); dealing with construction permits (54%); power supply (61%); protecting investors (67%) and starting a business (70%).

Croatia is ranked third in the region and performs better than the EU27 for paying taxes, getting credit and power supplies, while performing worse in cross-border trade (36%); resolving insolvency (38%); protecting investors (42%); dealing with construction permits (48%), registering property (59%), starting a business (87%) and contract implementation (92%).

Albania is ranked fourth in the region and performs better than the EU27 in protecting investors and getting credit, while in all other areas appears worse (see above figure 3).

Serbia ranks next to last and performs better than the EU27 in starting a business, registering property and getting credit, but performs poorly in resolving insolvency (36%), cross-border trade (37%), performance (39%), dealing construction permits (40%), protecting investors (83%) and electricity supply (87%).

Bosnia & Herzegovina is ranked last in the SEE7 region and performs as 31% of the EU27 and poorly in all areas: cross-border trade (34%), implementation of contract (39%); starting a business (40%), dealing with construction permits (42%), electricity supply (45%), paying taxes (47%), resolving insolvency (48%), protecting investors (58%), registration of the property (65%), getting credit (77%).

**Figure 5. The gap between SEE7 to EU27, 2014**

**Figure 6. The gap in starting a business SEE7 to EU27**
By comparing the performance indices with EU27 for each field results that in starting a business (see figure 6) Macedonia, Serbia, Montenegro are presented better than the EU27, while Bosnia & Herzegovina and Kosovo have the greater gap from the EU27 and perform respectively with 40% and 70% of the EU27. In dealing with construction permits (see figure 7) Macedonia performs better than the EU27, while Albania (39%), Serbia (40%), Bosnia & Herzegovina (42%), Croatia (48%), Kosovo (54%) perform poorly.

Figure 7: The gap in dealing with construction permit and enforcing contract between SEE7 to EU27

The greater gap between SEE7 to EU27 countries is shown in the enforcement of contracts (see figure 7). More poorly perform Kosovo and Montenegro (33%), followed by Albania (36%), Bosnia & Herzegovina, Serbia (39%) and Macedonia (48%). In cross-border trade all of SEE7 countries perform poorly (see figure 8), but worse performs Kosovo (30%), Bosnia & Herzegovina (34%), Croatia (36%), Serbia (37%), Macedonia (40%) and Albania (42%). In resolving insolvency Serbia (36%) (see figure 8) has the biggest gap from EU27 followed by Croatia (38%), Kosovo (44%) and Bosnia & Herzegovina (48%) (see figure 8). In payroll taxes further from EU27 are Serbia (39%) and Albania (43%), Bosnia & Herzegovina (47%), while Macedonia, Kosovo and Croatia outperform EU27. In protecting investors Albania, Macedonia and Montenegro outperform EU27, while Croatia (42%), Bosnia & Herzegovina (58%) and Kosovo (67%) performed worse.

Figure 8: The gap in trading across border and resolving insolvency between SEE7 to EU27
In power supply better than the EU27 perform Croatia and Montenegro, while Bosnia & Herzegovina (45%), Albania (47%) and Kosovo (61%) performed poorly. In registering property Serbia and Kosovo outperform EU27, while Albania (53%), Croatia (59%), Montenegro (64%), Bosnia & Herzegovina (65%) perform poorly. In getting credit all SEE7 countries except Bosnia & Herzegovina (77%) outperform the EU.

3. IMPLEMENTATION OF SMALL BUSINESS ACT

In June 2008 the European Commission adopted the Small Business SBA, a framework policy document, moving from policy guidelines to targeted actions and the Western Balkans are expected to move towards the same policy approach adopted by the EU Member States. The document was endorsed by the European Council in December 2008 (EC, 2008). The SBA for Europe aims to refocusing attention on SMEs’ needs in EU and national policy making so as to fully unlock the growth and jobs potential of SMEs and make full use of their innovation capacities. SMEs around the Europe face the same type of problems: administrative burden, difficulty to find financing and skilled labour, or to take opportunity of the Single Market. Addressing some of these problems together through a partnership between the EU and the Member States can bring considerable results. The SBA aims to promote entrepreneurship, make legislation SME-friendly and help SMEs to grow. The SBA includes an ambitious set of measures to allow SMEs to fully benefit for the Single Market and expand into international markets by orienting more resources to SMEs’ access to finance, R&D and innovation.

A set of 10 principles are set to guide the conception and implementation of policies both at EU and Member States level. These principles are essential to bring added value at EU level, create a level playing field for SMEs and improve the legal and administrative environment throughout the EU.

The implementation of SBA principles evaluated by OECD and EC in the SME Policy index 2012 (OECD, 2012) report as are presented as follows:

3.1 Albania SME policy index 2012

Albania in 2012 is assessed by score 3.01 (out of 5) slightly below from the region average score by 3.07. Compare with 2009 is improved by 0.24 point (2.86 in 2009). The overall score of the SME policy index 2012 for Albania according 10 dimensions is presented in the figure 9 and the less development dimensions are: dimension 9 environments and dimension 1 Entrepreneurial learning.

Figure 9. The score of the SME policy index 2012 for Albania and SEE7
According the SBA fact sheet 2014 the progress of Albania in the implementation of SBA in 1 dimension, access to finance, out of 10 is given in the fig.10. The lowest progress over the period (2008-2013) is recorded in environment and internationalization. The reforms in responsible administration have recorded no continuity during the 2012-2013.

**Figure 10. Albanian SME performances according the years 2008-2014**

Source: OECD, SME policy index 2012

According SME policy index 2012 progress has been uneven across the region. The Western Balkan economies have recorded moderate progress in several areas, including the institutional framework for SME policy, regulatory reform and administrative simplification, company registration, entrepreneurial learning and business start-up processes as well as the legal and regulatory framework for access to finance. They have made marked progress in skills development and export promotion.

The first group, Turkey, Croatia and Serbia are scoring above the regional average in most dimensions. They are characterized by an advanced degree of policy convergence with EU SME policy practices and standards.

The second group, Albania, the Former Yugoslav Republic of Macedonia and Montenegro are scoring slightly below the region average. They have reached a good level of policy convergence, but the implementation of SME policy has been uneven across policy dimensions. All three economies perform well
on the implementation of horizontal policies, particularly in the areas of company registration, regulatory reform and access to finance. Nevertheless, gaps remain in the implementation of targeted policies and innovation-support measures for SMEs which are still at an early stage of development.

The last group, Bosnia and Herzegovina and Kosovo scored below regional average performance in most of the policy dimensions, indicating a limited level of policy convergence and the persistence of significant gaps in policy implementation. Nevertheless, both economies showed some progress since the 2009 report in the policy dimensions of entrepreneurial learning and enterprise skills.

4. **RECOMMENDATION FOR FURTHER DEVELOPMENT OF THE SMEs IN ALBANIA**

Albania needs to continue the reforms in improving business environment in order to reach the level of other Union European Countries. They ought to improve the SME support policies and also their implementation. Some recommendations in this regard are stated below:

1. Drafting and implementation of the National Action Plan to promote the lifelong entrepreneurial learning.
2. Create and/or enhance a SME dedicated portal, with all information related to SMEs
3. The systematic application of regulatory impact analyses, RIA, in the new business legislation
4. Promote incentive programmes for startups as grant scheme, business plan competition, young entrepreneurs, women entrepreneurs etc
5. Promote exports by introducing new financial instruments such as export insurance scheme or credit financing schemes for export companies.
6. Promotion of new financial instruments such as leasing, venture capital and private equity funds, Business Angle etc.
7. Innovation competition. To stimulate an innovation competition to bring together academia and the private sector.
8. Mechanisms to finance business services in support of innovation (e.g. voucher schemes).
9. Improving domestic firms’ access to finance to support technological innovation.
10. Strengthening of the institutes for supporting private companies especially micro and small.

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PAST, PRESENT AND FUTURE OF SMES IN THE VISEGRAD4 GROUP.
CONSEQUENCES OF A SURVEY

ABSTRACT

SMEs are considered by EU documents as backbones of the European Union’s economy. Competitiveness of SMEs is one of the popular topics of researchers all over the world for a long time. We started our field work in 2006, and made a follow-up research in 2013 following Porter’s methodology in the North Hungarian Region. In this paper first we compare the outcomes of the two surveys and on the basis of its results we think over the potential role of SMEs in the periphery of the EU with special emphasis on Visegrad4 countries. We will put stress on the need of a specific SME policy of these countries inside the EU and the need of their cooperation with neighbouring countries like Serbia. The paper is a second publication following the issue by University of Belgrade in Bor 2014.

Keywords: SMEs, competitiveness, clusters, regional cooperation, Visegrad4, Óbuda University

JEL Classification: L26, O14, O18

1. INTRODUCTION

Our basic goal of research was to identify how small and medium sized enterprises are able to contribute to the competitiveness of regions. For this general question we expect answer from the empirical research survey carried out in the North Hungarian Regions before and after the world economic crises. The theoretical background of this research were previously made by different authors either in Hungary or abroad [1,2,3,4,5,6,7,8,9,10,11,12,13,14,15,16,17,18,19,20], we only refer to them in this paper.

The survey is also based on research activities started some twenty years ago at the Institute of Organization and Management in Budapest Tech [21,22,23]. This particular research was started in 2006 in the North Hungarian Region and was followed in 2013 by the help of our students at Budapest Tech and in its successor at Óbuda University.

In this particular paper we concentrate on the strength of regional connections between firms and other stakeholders with special regard to their propensity to join clusters. We intend to give a comparative analysis between the two periods, before and after the crises.

North Hungarian Region, as it is proved by several different macroeconomic figures, is the most backward regions out of the seven regions of Hungary. Previous and further overall results and conclusions were and will be published in respective articles. The survey is based on the questionnaire made by M. Porter and his colleagues at Harvard University and the U.S. Council of Competitiveness [24].

We adopted the above mentioned questionnaire and added some own questions concerning the relations between enterprises and other bodies in the region. The addresses of firms Possibilities for development of business cluster network between SMEs from Visegrad countries and Serbia were earned from the comprehensive list of Dun & Bradstreet Hungary . This list was filtered according to Hungarian SME’s law and our needs with the exception that micro enterprises are excluded. This means that firms having more than 10 employees were put in our sample. This way we had all the names and addresses of small and medium sized enterprises in the North Hungarian Region. We got 103 pieces of valuable questionnaires from the North before the crises and 117 after the crises.

The survey is structured around the following areas: the business environment, collaborative business networks in the region, economic beliefs and attitudes, accessibility of services in the region and in smaller regions. We defined innovation, following Porter’s approach, in a broad sense. Innovation is the transformation of knowledge into new products, processes, and services. Innovation involves more than just science and technology. Improvements in marketing, distribution, and service can also be considered innovations.
2. EVALUATION OF ANSWERS

Business environment

The business environment can be understood in terms of four critical areas which can be affected by government through its policies:

- community infrastructure;
- local demand conditions;
- rules and incentives governing investment and competition;
- related and supporting industries.

In the first block of questions we were curious about the availability of infrastructure assets in the region. We asked the people to evaluate our statements on a seven grade Likert scale according to the intensity of their agreement or disagreement. The cost of doing business (cost of real estate, wages and salaries, utilities etc) in comparison with other regions was estimated lower by only half of the people in the North Hungarian Region before the crises.

To our surprise all the grades appeared, although it is considered to be the most backward region in Hungary. The most frequently given mark for the overall quality of transportation (roads, air transport, railroads and ports) was two before the crises. It went up to three after the crises.

Specialized facilities for research (science laboratories, university research institutions and technical laboratories) were considered as very limited in the North. Almost one third gave mark one initially, and it did not change! Almost the same proportion of answers stated that institutions in the region that perform basic research does not transfer knowledge to regional firms. We did not find significant difference between the results of 2006 and 2013.

In other words, unfortunately the results of the research carried out by universities and other institutions do not reach regional SMEs although the research facilities have been improved in the last few years.

In contrary to the above, but not surprisingly, the communications infrastructure, including internet access, satisfies the business needs of the companies at a high level. The average of the grades exceeded five before the crises, and the level of satisfaction was close to six in 2013. Most of the firms complained about the scarcity of qualified scientists and engineers in the North Hungarian Region.

The available pool of skilled workers in the North was considered heterogeniously. The average grade in 2006 was a bit over three which worsened to 2,9 for 2013. The overall quality of the elementary and secondary school education got an average of four in the North before the crises. The advanced educational programs (e.g. vocational schools, colleges and universities) were said to provide regional business with relatively low quality workers.

The regional access to risk capital (venture funds and private equity investments) seems to be really difficult. We suspect that for a part of the firms it is simply out of question. No significant differences can be identified in this area between 2006 and 2013.

Quality of life

The quality of life and cost of living were examined from the point of view of their contribution to easy recruitment and retention of employees. Almost all the seven marks were mentioned in the same proportion before the crises, while according to the post-crises answers, the recruitment and retention of employees became significantly harder.

Local demand conditions

It refer to the presence or emergence of sophisticated and demanding local customers who press firms to improve and provide insights into existing and future needs. One fourth of companies in the North Hungarian Region considered their regional customers for their products and services very sophisticated and demanding before the crises. On the other hand the same amount of answers evaluated customers as undemanding. It seems that the crises made competition even more fierce, and customers became much more
demanding. The proportion of demanding clients went up to one third from one fourth. For the question, if regional customers have special needs that impact the firm’s product offering the distribution of answers are very similar to the previous one before the crises but it did not improve as much as the percentage of demanding customers.

**Rules and incentives governing investment and competition**

The investment climate and policies towards competition set the context within which firm strategy and rivalry develop. The climate for investment refers to labour market policies affecting the incentives for workforce development, the structure of the tax system, intellectual property rules, and their enforcement. In the opinion of the majority of those entrepreneurs who gave answers in the North Hungarian Region, state and regional regulations affecting business were and remained inappropriate and hinder their firm’s ability to succeed. A bit more than the half of companies regarded state and regional environmental standards and safety regulations quite strict in 2006 and in 2013 as well. Investment in R&D is considered to be neutral from the view point of state and local taxes by most of the firms, but considerable part of companies stated state and local taxes as discouraging for the investment in R&D in the North Region. The assessment of the situation did not change for 2013. The support of state and local government for the investment in R&D (funding business incubators, creating consortia etc.) got 1 and 2 marks in nearly half of the Northern cases in 2006. The opinion of the small- and medium entrepreneurs became slightly more favourable for 2013.

The government’s overall responsiveness and ability to work with the needs of business got the hardest critics initially. The most frequent grade was two and average was under two! Basic changes were not recognized in 2013, but the average exceeded two. The number of regional competitors was estimated to be high by approximately 55% of entrepreneurs, and a bit less than 45% felt competition to be intense in the North Hungarian Region. In the opinion of the SME owners, the competition intensified by 3% points during seven years.

**Related and supporting industries**

Related and supporting industries refer to the local access to internationally competitive suppliers of materials, components, machinery, and services. It also involves local access to industries sharing technology, channels and customers. Only very few of the firms said that specialized suppliers of their business’s materials, machinery, and services are mostly not available inside the region.

Roughly the same group of firms stated that regional special suppliers’ quality is rather law and more or less this group considered infrequent regional supplier’s assist with new product and process development. Two thirds of companies shared the opinion in the North that businesses in the region hide information from other firms even when there is not a competitive reason to do so. In the follow-up survey, slight improvement in the special suppliers’ quality could be identified.

**Clusters**

A cluster is a geographic concentration of related companies and institutions in a particular industry field. A cluster also usually includes specialized suppliers, universities, trade associations, government institutions and other organizations that provide training, education, information, research and or technical support.

Questions concerning clusters caused problems for the firms in the region and for us to process data. In most of the cases there are no clusters at all in the industry or service area of the firms, or if there is, it is at the starting point of its life cycle. That is why the most frequent mark for the relationship between firms and organizations in their cluster was one in the North Hungarian Region in 2006. This has not been changed for 2013, only the average became higher by 0.1% point. The situation is almost the same in case of changing information inside the cluster and the willingness to accept new members into cluster activities. Those who participate in a cluster mostly finds it a good initiative. Theory of clusters developed in the last few decades, but knowledge is not widespread enough. [25]

Only 5% of the firms had geographic preferences for their business partners. Very low number of the companies stated that firms in the cluster percieve new buyer trends more rapidly than their competitors who
do not operate within a cluster.

For the question, finally, considering all the significant factors, including government, industry and social factors, how good a location is your region as a place to innovate in your business, half of the firms gave mark one or two in the North Hungarian Region in 2006. For 2013, only the distribution of ones and twos changed for the favour of twos, but their cumulated proportion remained on the same level i.e. 50%. About innovation goals and practices among Hungarian SMEs in general see Marosi’s approach [26].

**Overall evaluation of business environment**

As a summary the last question in the first section of the questionnaire was as follows: Taking into account all the elements of the business environment that you have considered so far, which five currently have the greatest positive impact on your business’s success? Which factors do you consider to be greatest future threats to your business if not addressed? Out of the five positive and negative factors we asked to give the ones which have the greatest impact.

**Table 1. Part of the questionnaire**

<table>
<thead>
<tr>
<th>Positive impact</th>
<th>Future threat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of doing business (real estate, wages and utilities)</td>
<td>1</td>
</tr>
<tr>
<td>Quality of transportation</td>
<td>2</td>
</tr>
<tr>
<td>Specialized facilities for research</td>
<td>3</td>
</tr>
<tr>
<td>Qualified scientists and engineers</td>
<td>4</td>
</tr>
<tr>
<td>Transfer of knowledge from research institutions</td>
<td>5</td>
</tr>
<tr>
<td>Communications infrastructure</td>
<td>6</td>
</tr>
<tr>
<td>Available pool of skilled workforce</td>
<td>7</td>
</tr>
<tr>
<td>Quality of K-12 education</td>
<td>8</td>
</tr>
<tr>
<td>Sourcing of employees from advanced educational programs</td>
<td>9</td>
</tr>
<tr>
<td>Access to capital</td>
<td>10</td>
</tr>
<tr>
<td>Demanding regional customers that provide feedback</td>
<td>11</td>
</tr>
<tr>
<td>Specialized needs of regional customers</td>
<td>12</td>
</tr>
<tr>
<td>State/local regulations for production processes and products/services</td>
<td>13</td>
</tr>
<tr>
<td>State and regional environmental/safety regulations</td>
<td>14</td>
</tr>
<tr>
<td>State and regional tax and incentives for investment in R&amp;D</td>
<td>15</td>
</tr>
<tr>
<td>Predictability of government policies</td>
<td>16</td>
</tr>
<tr>
<td>Government’s overall responsiveness to the needs of business</td>
<td>17</td>
</tr>
<tr>
<td>Level of competition in your industry</td>
<td>18</td>
</tr>
<tr>
<td>Quality and in-region location of your suppliers</td>
<td>19</td>
</tr>
<tr>
<td>Assistance from regional suppliers for new product and process development</td>
<td>20</td>
</tr>
<tr>
<td>Relationships between firms and organizations in your cluster</td>
<td>21</td>
</tr>
<tr>
<td>Participation with regional institutions in R&amp;D efforts</td>
<td>22</td>
</tr>
</tbody>
</table>

In the North Hungarian Region around 60% of the entrepreneurs were afraid of the raising cost of doing business, although only four percent considered it as the major threat. 45% of the firms were anxious about the predictability of government policies and for half of them it is the most important threat. Available pool of skilled workforce is a potential problem for almost half of the enterprises, but only 8% put it on the first place.

Access to capital is one of the threats for forty percent, but very few of them considered it as the most serious threat for the future. Beyond the above mentioned factors, state and regional environmental/safety regulations got considerable amount of votes, approximately 30% in 2006. In 2013 we recognized some
considerable changes.

The percentage of those who were afraid of the raising cost of doing business has not been changed significantly, but from four it increased up to 11% the ratio of those who consider it as the most serious threat. It is even more remarkable, that the access to capital became one of the most important threats for the future business after the crises.

As far as the positive impacts are concerned, more than the half of the enterprises did not mention any as the most important one in the North! That is why we did not find any positive factor with more than 10% in our first survey. Communications infrastructure and demanding regional customers that provide feedback gave positive experience for equally 40% of the entrepreneurs. Approximately thirty percent of the companies appreciated the quality of in-region suppliers and the quality of transportation. It is interesting that the level of competition was considered by 20-20% of the firms as positive impact and a future threat.

3. REGIONAL CONNECTIONS

One of the crucial aims of our research was to explore the regional and international connections of the SMEs. First we examined the division of their income by different territorial levels. Less than forty percent of them had export activity, while the proportion of those who acquired more than 50% of their income from abroad is only a bit more than ten percent in the North. Every fifth of the firms realized the majority of its income from local sales. 57.7% of the companies did not have sales on subregional level at all. None of the firms reported subregional sales with more than 30% ratio. 15% of the SMEs did not have any sales on county level. 7% of the enterprises got the majority of their income from this level.

As far as the strength of the regional connections are concerned, 69.3% firms reported income from the region in the North Hungarian Region. On the other hand, just like in case of the counties, a very small group of companies gets the majority of its income from the region. Approximately one third of the Northern SMEs does not have any sales in Budapest. 90% of them earns less than 25% of their income from the capital city in 2006. Taking into account the changes during the last seven years, no major movements can be recognized. Neither the export orientation of SMEs, nor the importance of their regional sales strengthened significantly, although a slightly higher proportion of companies reported subregional activities.

Only half of the small and medium sized companies in the North Hungarian Region had business connections in other Hungarian regions in 2006. As we have already mentioned before, roughly 40% of these companies are involved in exports. But only ten percent earns its living basically from this source. Most probably there is some kind of invisible, indirect export, very often regional producers do not even know that their components are built in a product exported by somebody else.

As far as the territorial structure of the exports is concerned, it dominantly went to EU member countries, but every fourth of the enterprises had exports to non EU members. Overseas exports was and remained exceptional and the volume of it is very low. An important indicator of territorial connections between firms is the origin of inputs used for products and services. 42% of the North Hungarian SMEs did not use any local input in 2006. Usage of inputs from imports could be found at half of the companies. In comparison with other territorial levels, the proportion of the firms using basically imported inputs is much higher. Almost half of the importing firms got more then 50% of their inputs from abroad. During the crises this import dependence became even stronger, although we expected import substitution tendencies.

Naturally we wanted to also know where did our firms find their new partners in the previous few years. In 2006 a bit less than 30% of the SMEs succeeded in getting new partnerships abroad. In case of those who were able to find new international partners, the importance of these new connections was significantly bigger than in any other territorial levels. More than the half of new partnerships had at least sixty percent weight in the given enterprise's new connections. For 2013 the number of those who could find new international partners were somewhat less than in 2006, but the importance of these new foreign partnerships remained outstanding.

For our question if they had any cooperation with other companies in product development and in putting products on different markets, 15% of the SMEs reported local cooperation of both types. On regional level product development was stronger, 14.1% of the firms were involved in both surveys. The outstanding role of Budapest has not been changed. 38.4% of Northern Hungarian SMEs cooperated in product development in the capital city, while 26.9% in introduction of new products to markets in 2006. These figures were almost the same in 2013. As far as cooperation with international partners are concerned, a
bit more than five percent cooperated in product development and slightly more than 10% in product introduction to markets at both dates.

Experts with different professional background widely accept the notion that participation in networks contributes to the stability of enterprises. That is why we asked SMEs in the North Hungarian Region if they participated in networks. 46.3% of them said, yes in 2006 and 48.1% in 2013. Out of those who participated, more than the half had connections in more territorial levels. Participation in Budapest based networks was and remained dominant, but cooperation with networks in other Hungarian regions continued to be also important.

Accession to international networks was not and have not become relevant. Only a few percentage of the firms participated in these kind of networks. We measured the intensity and importance of participation in networks by the income earned from sales to network partners. With a few exceptions this ratio in 2006 was above 20% and went up to 22.2 for 2013. One third of the participants earned more than 80% of their income from networks. The average moved up from 48.3% to 49.6 which expresses the dependence of SMEs on network activities.

Around 20% of the SMEs took part in tenders financed from EU budget. Those who got funding from these resources earned an average of 3.36% of their annual income in 2006, while this figure reached 4.03% in 2013. Out of ten applicants six proved to be successful in 2006 and 6.6 in 2013. Finally we wanted to see what kind of help do SMEs require from central, regional and local governments to improve their market position. We offered 18 possible answers. Out of them three had outstanding importance for the firms when they were first questioned, and not any change could be recognized for 2013.

The most powerful requirement was and remained long term, predictable government rules. Similarly almost all of the enterprises would like to see reduced rate of old age pension and health care contributions. Reduced taxes based on research and development costs would also be appreciated by entrepreneurs.

For other possible measures, mainly for those which would cause direct government intervention into market relations e.g. subventions, protectionist steps against foreign firms etc., the demand is very limited from the companies side. Organizing clusters by governments is at the bottom of the list! All in all SMEs seem to require a stable behaviour and ruling i.e. assurance of the general framework of market activities in the long term and any other tool is considered to be of secondary importance.

4. CONCLUSIONS OF THE SURVEYS

As it was proved by our surveys, regional connections between North Hungarian SMEs are quite week, they basically depend on other regions and Budapest. Their usage of inputs is also dependent on other sources outside the region. The most important possible forms of their cooperation, taking part in regional networks or clusters are not characteristic, they are at the beginning of this route. Most of them are not aware of the importance of these kind of connections. Spatial development in the framework of EU’s Regional Policy has outstanding importance for the less developed regions. On one hand the considerable territorial differences over the country can be influenced by the state basically using EU financial sources.

On the other hand it would also be very important that companies, mostly small- and medium sized enterprises, could contribute to the spatial development in different regions. For being able to push spatial development, firms should use as much local resources as possible. It creates connections between SMEs and provides their interest in networking.

As we could see above, on the basis of the outcomes of our research these kind of connections are not satisfactory in the most backward Hungarian region. That is why the contribution of local SMEs is limited to the spatial development in the North Hungarian Region. The competitiveness of a certain region is determined very much by the productivity and strength of the companies in the region. On the other hand the region affects the performances of local firms to a considerable degree. Balanced spatial development needs mutual efforts.

5. RESPONSIBILITY OF GOVERNMENTS IN CREATING A BETTER SME POLICY

European Competitiveness Report 2013 gave a detailed analysis on the present and possible future of SMEs inside the European Union [27]. Among other remarkable issues, it studied the complexity of EU export products suggesting that targeting only high tech sectors might be less rewarding than increasing the
share of knowledge-intensive products in all tradable sectors, including medium-low tech sectors. Moreover, according to ECR 2013, some of the labour-intensive sectors with lower knowledge intensities may be better positioned to tackle the EU’s unemployment challenges than the high-tech sectors. About 40% of EU manufacturing employment is in low-tech sectors. Therefore the policy priority attached to key enabling technologies which lead to new materials and products in all manufacturing sectors has a strong potential to upgrade EU competitiveness not only in the high-tech sectors but also in the traditional industries.

The European Competitiveness Report handles EU and its Member States as an economic unity. This approach is quite misleading when characterising the European industry. It left in shadow the fact that between Member States the centrum-periphery relations can be observed, which basically influences the division of labour inside the European Union. It sounds well, that European content in the export of high-tech products is higher than in any other rival’s share, but the advantages of the export outside of the EU appear mostly on the side of Germany and other highly developed countries.

The assembling activities are deployed mostly to the periphery, among others to the countries of the Visegrad Group(V4), thus guaranteeing the pumping of incomes from the periphery to the centrum. Upgrading inside the value chain would be important for the enterprises located in the V4 and other members and non-members such as Serbia, Montenegro etc. As it was proved in our empirical research survey in the North Hungarian Region, quite high proportion of the SMEs belong to different networks, but their position in these value chains are not decisive, they are not the ones who determine prices and distribution of profits.

Although the EU has a very sophisticated SME policy, quite surprisingly, the role of SMEs is not analysed in the competitiveness report of 2013. Their role is necessarily different in knowledge-driven reindustrialisation of Europe. It is even more true for the SMEs of the Visegrad Group [28]. Knowledge – driven economy offers chances for a relatively small group of enterprises, while others may feel themselves discriminated or excluded.

On EU and national levels solutions should be found for the integration of the majority of enterprises and people. Countries of V4 and other neighbouring countries around, basically the previous so called socialist countries and former members of Yugoslavia have common interests, among many others, in this field, too.

The Hungarian government, recognizing the above mentioned situation, launched the so called „Wekerle Plan” which is intended to be the growth strategy of the Hungarian economy on the Carpathian Basin level [29]. It was created during the worldwide economic crisis and its main goal is to offer opportunities in the first place to the Hungarian enterprises, but wants to integrate the efforts of the neighbouring countries as well. Carpathian Basin is defined as a meeting point of enterprises and economies coming from the resource-driven East and the innovation-driven West.

This combination may offer new chances for this region. Deeper integration in this region could mobilise additional resources, while showing a certain unity for business partners from other areas. Not only the historical background, but the current problems are common in this region. All of the countries of the Carpathian Basin, in a broader sense in the V4 group, have relatively low GDP/capita inside the EU, their financial position is very similar and their markets are too small. Their economy is dominated by foreign large enterprises who are the drivers of growth while their own SMEs are quite week. Until 2020 the vision expressed in the Wekerle Plan is that SMEs of the Carpathian Basin will be able to contribute on the regional level to the creation of jobs and the growth of export activities.

The vertical cooperation of the entrepreneurs in the Carpathian Basin can be enforced, from row material processing up to the selling of the ready-made products for the consumers.

The two supporting measures of the strategic goals of the Wekerle Plan are as follows: (i) Coordination of the infrastructure in the Carpathian Basin and (ii) Creation of the Single Labour market.

There are five sector specific areas in the background:

- Vehicles and machinery production
- Food industry
- Tourism and Health Industry
- Creative industries and ICT
- Green Economy.

In each of the above mentioned areas the role of SMEs should be guaranteed, but with different emphasis. Mikó Imre Plan in Transylvania[30] is a good example for the regional cooperation initiatives. It contains an overall approach for the Transylvanian economic cooperation opportunities and lean, in many
aspects, on the local resources and SMEs.

Raising competitiveness in the Carpathian Basin is a complex and long term task of governments, enterprises and many other stakeholders. The common history and common current social and economic problems of the countries located in the there, gives the mutual interest for cooperation. Identifying competitiveness factors is not easy, but it should be done by governments, chambers, researchers and other interested parties. EU’s policies concerning competitiveness and SMEs provide a starting point for the policy makers, but they are too general and insufficient for regional use [31].

As it was described earlier, although knowledge-driven reindustrialisation in Europe offers opportunities even for our companies, but the vast majority will not be able to access to this process. Among other reasons, that is why it would be so important to be able to combine resource-based and knowledge-based approaches in the Carpathian Basin and in the V4 group as well. At least on the level of planning, Wekerle Plan gives us some hope in this respect.

6. TASKS OF THE SMEs FOR THE FUTURE

The time of independent fighters have already gone. As the outcomes of our research carried out in the North Hungarian Region proved, the majority of the small- and medium sized enterprises tries to fulfil their plans independently, their propensity for cooperation with others on the different stages of innovation is quite week, there are very few local networks on the basis of common interests.

Regional and country level networks are improving, but they are mostly led by foreign companies based in the centrum of the EU. Many other outcomes of different surveys on SMEs supports our results, which means that the problems we described in the North Hungarian Region are quite general, enterprises all over the Visegrad Group member countries and their neighbours are facing the same challenges. That is why it is important to find each other not only inside certain regions, but on cross regional levels, too. For this interest SMEs should make at least the following steps:

- Create and become members of local networks,
- Join to existing clusters in their fields of activity,
- Found new clusters in cooperation with all other interested stakeholders,
- Cooperate with universities and research institutions in their geographical proximity,
- Find partners and cooperate with them in all stages of innovation process,
- Keep in mind the traditional economic connections with the neighbouring countries on the basis of mutual interests,
- Based on the above mentioned requirements, try to upgrade their positions in the value chains.

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NEWS

The Europe 2020 Summit on "A Growth and Employment Blueprint for an Innovation-Led, Digitally-Powered Economy"

The Lisbon Council
22 May 2014

On 22 May 2014, the Lisbon Council organized the Europe 2020 Summit, which convened just days after the launch of the European Commission consultation on the future of this vital growth and jobs programme, which is up for review in spring 2015. Participants discussed how this important European Union policy agenda can be renewed and revamped to fit the realities of the post-crisis world.

This Summit also marked the Brussels launch of the European Digital Forum, a new think tank spearheaded by the Lisbon Council and Nesta, and Startup Europe Partnership, an innovative platform led by Mind the Bridge and Nesta. Neelie Kroes, vice-president of the European Commission and commissioner for the digital agenda, keynoted.

The Lisbon Council used the occasion to launch Productivity and Digitalisation in Europe: Paving the Road to Faster Growth, a policy brief by Bart van Ark, chief economist of The Conference Board and one of the worlds’ leading experts on productivity and ICT-led growth.

Opening address by José Manuel Barroso (President, European Commission)

Mr. Barroso thanked Ms. Mettler, executive director for the Lisbon Council and the European Digital Forum for her invitation to open the discussion. He highlighted that the European Union is now exiting the crisis. Its size doubled in 10 years, still it is still working. GDP is expected to reach 1.6% growth, maybe 2% next year. The euro remains the second largest currency and it is showing stability and resilience. Energy remains our main source of concern. The European Union should avoid the temptation to sit back and relax, as it is not out of the crisis yet. A lot of progress has been accomplished and more solid foundations are needed.

Europe has been living beyond its means for too long. The Banking Union will bring better regulation and supervision. The Budget Partnership agreements with the Member States are in progress, allowing mainstreaming EU’s efforts through structural funds. 2020 Budget will be 30% bigger than its predecessors.

It is not too late for the EU to take advantage of the digital revolution and to integrate these perspectives in the market. The European Union needs to pass on reforms, to keep going on.

BRUSSELS LAUNCH OF THE EUROPEAN DIGITAL FORUM AND STARTUP EUROPE PARTNERSHIP

This session marked the Brussels launch of the European Digital Forum and Startup Europe Partnership, two initiatives that have been developed in collaboration with the European Commission’s Directorate-General Communications Networks, Content and Technology.
1 – Strengthening the European Ecosystem for Tech Entrepreneurs and Boosting the Digital Economy

**Neelis Kroes** (vice-president responsible for the Digital Agenda, European Commission)

- Ms. Kroes advised the assistance to consult the September 2013 Manifesto for entrepreneurship and innovation to power growth in the EU, launched by the Leaders Club.
- The European Union but also the Member States need to develop a good environment for entrepreneurs.
- Women are missing out digital carriers, which is a lost for EU economy. Among the barriers are fear, failure, dare, and lack of inspiration, lack of recognition, of resources, of rules across the single market. These barriers need to be taken away.
- The EU should facilitate further the innovation, especially for SMEs.
- The EU is making available 15 million of euros for the digital agenda, especially for individual entrepreneurs.

**Sherry Coutu** (angel investor and non-executive director, London Stock Exchange Group)

- Ms. Coutu highlighted the importance of ‘scaling up’ and not ‘starring up’.
- In 2011, 0.2% of United States GDP was invested in new and high growth companies which now have revenues that account for some 20% GDP.
- Focus should not be limited on short-term results, e.g. universities efforts will impact in 2025, government and private sector in 2020.
- Start-ups are not the only concern but also scales-up.
- She highlighted that 30% of European workers are self-employed and the EU should take advantage of it.

**Kaj Hed** (deputy chairman, Rovio; member, the Leaders Club)

- Mr. Hed insisted that EU competitiveness is an issue for all the companies. Rovio’s credo is that 2nd place is 1st looser.
- Failure is acceptable. Companies need an environment enabling them to try, fail and succeed. EU needs to create an environment for companies to experiment. Digital initiative is important for EU future.
- Education should also be an entertainment, combine different assets. A global exploitable business should be possible out of education. Their company is currently working with China, the US, Brazil, Taiwan. The EU can bring something to the table.

**Boris Veldhuijzen van Zanten** (founder and CEO, The Next Web; member, the Leaders Club)

- Mr. Veldhuijzen van Zanten called entrepreneurs should reconsider their role in society, as they bring to the table growth, jobs, life.
- They deserve to be looked out for. They do not have time to engage into EU policies and therefore need support.

**Mark Silverstein** (head, product, tech, IP and policy, Spotify)

- Mr. Silverstein pointed out that Spotify is not yet implemented in all Europe. The EU remains a fragmented area. This is a prime example of disruptive innovation.
- He thanked Ms. Kroes for her tenacity in implementing the Digital Agenda.
- He stated that the platform neutrality concept is important for a growing global development.
- Thus, in Sweden Spotify benefited from a fast broad range in the whole country. This advantage allowed a fast development. The situation is very different regarding the countries.

**Kaya Taner** (CEO and co-founder, Applift: member of the European board, Application Developers Alliance)

- Mr. Taner’s company works in the field of marketing for mobile games. In two years they reached a capital of 20 million of dollars, a capital accessible in the whole EU. They employ 100 persons from 25 nationalities.
- The EU should more actively promote attractiveness, talents, exchange. It should also bring-in non-European talents.

**Sherry Coutu** (angel investor and non-executive director, London Stock Exchange Group)

- Ms. Coutu stated that several questions need to be answered. Why is the EU dominated by public money? How to bring in more private investment?
- She pointed out that small funds are difficult to access; therefore larger funds have to be encouraged, but not only. Governments could influence the process.

**Kaj Hed** (deputy chairman, Rovio; member, the Leaders Club)

- Mr. Hed stressed that private money goes to great teams’ idea, meaning the Silicon Valley, where the economic system facilitates entrepreneurship. Then why would people stay in Europe?

**Boris Veldhuijzen van Zanten** (founder and CEO, The Next Web; member, the Leaders Club)

- Mr. Veldhuijzen van Zanten stated that the issue in Europe is risk avoidance.
- In London a couple of Silicon Valleys are smelling their chances. They have links with business angels.
- Google bought 300 companies last year. Europe does not even have this number of IT firms. All the companies are very linked with peoples’ lives, meaning jobs, houses. Therefore there is neither exit possible nor investment.

**Ann Mettler** (executive director, the Lisbon Council and the European Digital Forum)

- What would be the one thing you would change in the European Union?

**Boris Veldhuijzen van Zanten** (founder and CEO, The Next Web; member, the Leaders Club)

- It should be mandatory for big companies to buy from small businesses.

**Sherry Coutu** (angel investor and non-executive director, London Stock Exchange Group)

- It should be mandatory for big companies to buy goods from small businesses.

**Mark Silverstein** (head, product, tech, IP and policy, Spotify)

- Consistency is needed in the negotiations.
2 – Next steps for the European Digital Forum and Startup Europe Partnership

Alberto Onetti (chairman, Mind the Bridge Foundation and the Startup Europe Partnership)
- Mr. Onetti stressed that EU has vital growing start-up ecosystems. But only 50% of EU start-ups survive the first 3 years. An exit culture is inexisten.
- More than 1,000 European start-ups have raised more than one million funding investment in the last three years, among them 57% of actively fundraising.
- The Startup Europe Partnership is about sharing, mapping and sharing.

Ann Mettler (executive director, the Lisbon Council and the European Digital Forum)
- The EU Digital Forum is conceived as a think tank, but also as a meeting place for entrepreneurs and policy makers. E.g. the open letter entitled ‘The next EU Commission President needs to be a digital President’. Mr. Juncker replied by a letter and Mr. Verhofstadt by a tweet.
- The EU Digital Forum recently launched a website.

Pierre Louette (deputy CEO; group general secretary, Orange)
- Mr. Louette explained how companies like Orange interact with start-up companies. According to him, it is in their DNA to innovate. Innovation allows mobility, which is one key for scalability.

- Recent efforts have been done on open-innovation and interactions with digital new companies. Most of these companies do not always need big companies’ funding, although Orange maintains its efforts to fund them.
- A new focus has risen on incubators, allowing accommodating and nurturing. The firm spends time on finding new processes. In Europe a lot of companies but only a few grow.
- The key is scalability. The issue is to protect them for former start-ups which became threatening giants.

Frédéric Michel (global director, public engagement, Europe director, public affairs and communications, Telefónica)
- Mr. Michel stated that he is proud of their university. Fifteen academies are present across the world.
- The keyword is environment: to develop future talents, help youth to reach adulthood and economic independence. There is a space to turn ideas into action. Until now, they helped 10 000 young people across Europe.
- Teaching digital technologies, education is key in innovation and investment.

Javier Arias (corporate director; group head, EU affairs, BBVA)
- Mr. Arias stressed that BBVA is the biggest provider of funds for entrepreneurs. Nothing will function without money. Spotify, Applift... all have benefit from EU funds. Partnerships are important, as is bringing in investments in the right place and support companies.
- One issue in Europe is that private investment does not always find outlets. The market and the regulations are too fragmented. There is no proper environment to invest in so-called risky companies.
Marjut Santoni (deputy CEO, European investment fund)
- Ms. Santoni pointed out that there is a current need for business angels. Part of the work is to bring private investment and start-ups together.
- The EIF is the risk capital-arm of the European Investment Bank.
- Besides financing, entrepreneurs’ interests have to be promoted.

INNOVATION ECONOMICS: TOWARDS A GROWTH AND JOBS STRATEGY FIT FOR THE DIGITAL AGE

This session presented recent Lisbon Council and OECD researches on drives of growth and jobs in the digital age, in particular the policy brief Productivity and Digitalization in Europe: Paving the Road to Faster Growth. It was presented by Mr. van Ark, one of the world’s leading authorities on productivity.

Bark van Ark (executive vice-president, chief economist and chief strategy officer, The Conference Board) – Presenting Driving Growth and Productivity
- Despite weak demographics and low investment, production is increasing in Europe. ICT was accounted for about 1 point of EU GDP growth before the crisis. Since then, it is 10 times less as ICT use collapsed in non-ICT sectors and is slowly recovering.
- Mr. van Ark highlighted that productivity through digitalization is key to returning to a sustainable growth path in Europe.
- Europe should build its ability to maintain intangibles as driver of knowledge and grow them faster especially in non-technologic innovations and competencies.
- Three policy principles drive productivity through digitalization:
  o Pre-condition for reaping ICT-driven growth benefits need to be secured by a high-quality and affordable infrastructure in all sectors
  o Governments and business should work together to foster the skills and willingness to use ICT and support overall ICT readiness
  o Governments need to focus on facilitating a regulatory environment in which business in the ICT and non-ICT sector can thrive… and fail.

Dirk Pilat (deputy director, science, technology and industry, Organisation for Economic Co-operation and Development) – Presenting Generating Jobs and Closing the Skills Gap
- Mr. Pilat pointed out that there are new evidences: on young SMES, policies for entrepreneurs and experimentation and the role of ICT and skills.
- Concerning young SMEs: they have a very little part in the contribution to employment but they contribute largely in job creation. During the crisis, old firms destroyed more jobs than new ones. The growth of young firms is a challenge in many OECD countries as resources in some countries don’t flow to the most innovative firms. A range of policies influence the reallocation of the resources. A net job creation does not come from all small firms, but only from those which are young.
- Mr. Pilat stated that policies’ priorities for the EU to unlock jobs creation from young firms should:
  o Enable experimentation
  o Level the playing firms
- Complete the EU internal market
- Support entrepreneurship.

Skills are a challenge: 2 out of 3 people lack the skills to succeed in a tech-rich environment. There is a need for national skills strategies to link the world of learning and the world of work. Training for workers should be implemented in order to convince adults.

Chris Haley (head, start-ups and new tech research, Nesta)

- Mr. Haley stressed out that innovative firms produce more employment and investment. In the US, 7% are responsible for 50% of the job creation for the period 2007-2010. This concerns high-technology, in big sectors monthly and across all sectors.
- The innovation is not classified in a scientific, numeric way. Stakeholders should make sure that EU policies recognize it.
- Mr. Haley saluted Nesta for providing tools to youth for working in digital sector. Are jobs the proper metric to look at firms’ growth? Indeed, IT businesses can develop without hiring more staff.

Nicklas Lundblad (director, public policy and government relations, Europe and the EU, Google)

- Mr. Lundblad stated that there is a need for a trade framework, for predictable rules to continue to scale-up.
- He highlighted the importance of trade when it comes to offering services regarding digital technologies, which is currently under-studied.

Ann Mettler (executive director, the Lisbon Council and the European Digital Forum)

- One of today’s main issue is considering proper metrics to measure innovation and the impact on innovative firms on job creation.

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EMN 11th ANNUAL CONFERENCE
in cooperation with Millennium bcp

Employment: Challenges and Opportunities for Microfinance

The European Microfinance Network (EMN) is holding its 11th Annual Conference on 19-20 June 2014 in Lisbon.

The intention of the event was to held a meeting of minds, ideas and experiences. EMN member organizations, representatives of EU institutions, funding organizations, microfinance practitioners from across Europe and beyond will be invited to share, exchange and challenge best practices in microfinance. The conference aims at achieving in-depth and interactive sharing through plenary sessions, workshops, roundtable meetings, and open space dialogue.

Europe faces one of the most serious economic crises in history.

- Eurostat estimates that 26.338 million men and women in the EU27 were unemployed in February 2013.
- Among Member States, the lowest unemployment rates were recorded in Austria (4.8%), Germany (5.4%), Luxembourg (5.5%) and the Netherlands (6.2%), and the highest in Greece (26.4%), Spain (26.3%) and Portugal (17.5%).

Microfinance and microcredit in particular play an important role in job creation. As we cross this period of crisis, microfinance can help create opportunities for people with the will and initiative to succeed. Here we also refer to young people, with a university degree, that seek an opportunity to create their own jobs. In many countries, young people are facing a bleak future of joblessness with far-reaching repercussions and talk of a lost generation.

- In February 2013, 5.694 million young people were unemployed in the EU27. Compared with February 2012, youth unemployment rose by 196,000.
- In February 2013, the lowest rates were observed in Germany (7.7%), Austria (8.9%) and the Netherlands (10.4%), and the highest in Greece (58.4%), Spain (55.7%), Portugal (38.2%) and Italy (37.8%).

The conference focused mainly on the challenges linked to this new European landscape

- What is microfinance doing to give a proper response to the current environment?
- What are the challenges and opportunities for microfinance that arise from this context?
- What is the true impact of microfinance in entrepreneurs’ lives?
- How can the social impacts be effectively measured?

The conference provided a unique opportunity for the participants to analyze how the sector in Europe should respond to the various challenges that have emerged after the financial crisis to build a more social, financial and entrepreneurially inclusive Europe while also supporting an effective response to unemployment.

For further information see at http://www.emnconference.org/
INSTITUTIONAL PROFILE

Frankfurt School of Finance & Management is a leading private business school based in Frankfurt am Main, Germany. It has 86 regional education centres throughout Germany and various joint ventures and programmes abroad.

It offers top class degree courses and continuing education options in seven different programme divisions. We maintain four specialist research centres and run numerous international consulting projects. All educational, research and consulting activities are focused on finance and management. By finance, we mean crossfunctional financial activities at all companies that deal with financial management. And by management, we mean classical corporate leadership, where managers deploy employees and resources in such a way that the company’s goals are met as cost-effectively as possible.

Frankfurt School of Finance & Management is a research-led business school, covering every aspect of business, management, banking and finance. An impressive portfolio of services – ranging from degree courses to Executive Education programmes, from research projects to consultancy – means that Frankfurt School acts as adviser, catalyst and educational partner to companies and organisations, to individuals embarking on new careers, and to experienced executives. As a centre of intellectual and practical activity, the business school formulates forward-thinking solutions for the worlds of business, finance and management, where agendas and issues are constantly changing.

The Microbanking Competence Centre (MBCC) at International Advisory Services contributes to facilitating microfinance institutions in providing fully-fledged financial services (loan, deposit and insurance services) to their clients. It assists banking institutions (e.g. commercial banks) in downsizing or establishing microfinance business units, in order to support them in servicing microenterprises and low-income clients with a large array of tailor-made financial products.

The Competence Centre fosters institutional transformation of various kinds, by supporting microfinance organisations on different levels in their organisational upscaling.

Additionally, the MBCC develops and implements innovative microfinance products in the field of credit and savings, as well as the improvement of product development processes, product costing techniques and credit scoring.

The promotion of innovative delivery channels is another service provided by the MBCC. Dealing with a large number of small transactions poses challenges to operational efficiency in microfinance business. In this perspective, we have promoted linkage and branchless banking concepts.

Providing training courses on a large range of topics also is a crucial part of our services. Training is offered in the form of classroom and on-the-job training as well as coaching. For several years, we have offered the Micro Banking Summer Academy as a special training programme and since 2010, our e-learning course “Certified Expert in Microfinance” (see separate information – link auf linkEd) has become a very successful distance learning tool for microfinance practitioners.

Source: http://www.frankfurt-school.de/content/en.html and http://www.frankfurt-school.de/content/en/consulting/ias/competence_centres/microfinance.html
NEW COMING EVENTS AND CALL FOR PAPER

EMN 12th ANNUAL CONFERENCE

Microfinance and banks: are we the right partners?

The European Microfinance Network - EMN - will hold its 12th Annual Conference in Dublin (Ireland) on 18-19 June 2015

The event intends to be a meeting of minds, ideas and experiences. Over 300 participants are expected to attend, including EMN member organizations, speakers, and representatives from other institutions active in the microfinance sector.

Microfinance practitioners from both Europe and developing countries will be invited to share, exchange and challenge best practices in microfinance. EMN aims to achieve in-depth and interactive knowledge sharing within its plenary sessions, workshops, roundtable meetings, and open space dialogues.

The general objective of the conference will be to discuss the cooperation potential between traditional financial institutions and the microfinance sector so that greater collaboration and cohesion is enhanced between both sectors in reaching out to the underserved.
BOOK

ENTREPRENEURSHIP
by
Dr. Maria Zarezankova-Potevska and Dr. Emeric Solymossy

In November 2013 at the FON University in Skopje, The Republic of Macedonia was organized the promotion of the book Entrepreneurship of Dr. Marija Zarezankova-Potevska, Professor at FON University and Dr. Emeric Solymossy. The book “Entrepreneurship” by authors Marija Zarezankova-Potevska Ph.D. associate professor from FON University from Skopje, Republic of Macedonia and Emeric Solimossy Ph.D. professor from Western Illinois University, USA, is an attempt to be made on synergy between both different approach to the entrepreneurship as a global phenomenon.

Common participation of two academic people on the Fulbright Conference in Skopje produce common work and publication of the book on Macedonian language.

The first part of the book is devoted to the main macro level measures and instruments of organization and support small businesses, including terminology, philosophy of activities and functions of small business.

The second part elaborates the micro aspect of small business. Business models, business strategies, business planning are analysed including situation in the republic of Macedonia.

The third part of the book is on different approach to the entrepreneurship though the example is illustrated how small business operates.

We believe that the book Entrepreneurship will be a good lecture for the student in Macedonia.

“ENTREPRENEURSHIP” book is a continuation of my first book aimed at small businesses and entrepreneurship, titled “Perspectives of Small Businesses”, publishes 2000 from Neol, Skopje and is a amended edition.

In the book are incorporated the latest knowledge, experience in the development of entrepreneurship in the world and in our country, in order to be available for students from Fon University and others who want to know more about entrepreneurship development.

The book consists of 3 parts. The first part deals with basic features and trends in the development of entrepreneurship and its importance to the overall development of a society, ii ia a macro aspect of the concept of entrepreneurship, and the second micro aspects. The third part is devoted to a practical example of entrepreneurship I mean the translated Macedonian version of "Dr E’s Primer on Entrepreneurship" by Prof. Dr. Emeric Solymossy from Western Illinois University from USA.

I would like to thanks to my dear colleagues and friends for their the reviews of this paper, professor Dean Dr. Mirko Tripunoski and prof. Dr. Blagoja Spirkoski for their open support.

I would like to express my thanks to Assistant M.A. Menche Ivanovska for her expert assistance in the preparation of the book.

Would like to express special thanks to my dear colleague and friend Prof. Dr. Emeric Solymossy from Western Illinois University from the U.S.A. who met at the Fulbright conference in Skopje in March 2009. At the same time he and I are members of the Network for Entrepreneurship and Research ERENET. In Skopje, prof. Dr. Emeric Solymossy, gave me an electronic version of his book "Dr E’s Primer on Entrepreneurship ", Second Edition, 2007, to be published on Macedonian language if
is it possible., as it has already been published in several languages. Gladly accepted it and I have on my electronic mail confirmation of the Prof. Dr. E. Solymossy that he would want only one copy of the Macedonian version of the book. I had the opportunity to jointly publish a book titled Entrepreneurship, in which its full version will be released in its book of third part. I deeply express my gratitude to Prof. Dr. Emeric Solymossy the confidence and desire and Macedonian citizens to get more knowledge with an American view of the process of entrepreneurship.
30.10.2013 Skopje

Dr Marija Zarezankova - Potevska is a doctor on Economic Sciences since 1999. She has years of career working on the issues of small business development and entrepreneurship. She has working many years in the Ministry of Economy on the issues of entrepreneurship, small business including creation of the policies for development.

She attends many training courses, seminars all around the world, and has been expert many international institutions, conferences, public appearances. She has a lot of publications including books “Perspectives for Small business”, “Ten Steps towards Entrepreneurial Start-up”, “Business Communication and Ethics”, as a co-author etc.

She is nominated as a assistant professor at 2005, and in 2012 she is promoted as an associate professor at FON University in Skopje.

She has many public appearances in the newspapers, TV and interviews for economies issues. including participation in the projects from abroad and Macedonian ones.

Prof. Dr Emeric Solymossy received his B.S. degree in engineering from Century University, and his M.B.A. from Colorado State University. Returning to academia from successful business experiences, he earned his Ph.D. in 1998 from Case Western Reserve University. His expertise is Entrepreneurship and Small Business within a Global and Multi-National context. This required integrating expertise in several disciplines, including strategy, human resource management, international business, economics, and statistics. His have considerable experience in new venture creation and business acquisition, as well as substantial international experience. These experiences are an integral part of his teaching, providing a "real-life" orientation to his teaching methods.

Today Prof. Dr Emeric Solymossy is professor at Western Illinois University with very rich experience as an international expert. He has a lot of publications and books. He is well known as ("Dr. E")
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OPEN INNOVATION YEARBOOK 2014

The 2014 edition of the Open Innovation 2.0 Yearbook highlights new trends in innovation, delves deeper behind the buzzwords and tries to give a good overview of what actually is going on. This edition of the yearbook is divided in three sections in order to be better accessible and comprehensive.

The first section, "Open innovation 2.0: the big picture", is based on the White Paper from the Open Innovation 2.0 conference 2013, which was updated to correspond the current situation and trends. This paper together with the Dublin Innovation Declaration is a sound basis for modern innovation understanding and actions.

The second section, "The European setting", illustrates the European perspectives on innovation from an institutional and ecosystem standpoint. The special topics in this section touch the aftermath of the financial crisis, and also youth engagement to innovation.

The third section, "Open innovation 2.0 in a real-world setting", highlights the best practices of open innovation in real world cases. Here we talk about open ecosystems, big data, youth innovation, smart cities and two very special, but interesting, topics on lawyers in innovation as well as drivers for creativity based on humour.

Martin Curley, Vice President & Director of the Intel Labs Europe, Intel. Corp. in the Forwrods highlight that "We know Innovation itself is morphing at a very fast pace and we will endeavour to track and indeed help drive the changes so that an Innovation mind-set and culture becomes pervasive in Europe so that we can continue to drive improved quality of life, progress, sustainability and more in Europe and beyond. We know that culture is very important for sustaining innovation — you may have heard the expression that 'culture eats strategy’ for breakfast, so no matter how good our innovation strategy and instruments are, unless we collectively are able to embrace Innovation as a way of life, the results we get from our efforts will be sub-optimal."

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