

## ERENET PROFILE

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## WINTER MESSAGE OF THE SCIENTIFIC DIRECTOR



### Distinguished ERENET Members and Friends,

Only a few days passed since we entered the second decade of the new century. The first decade had little effect when it comes to greater understanding among the nations and when looking back to 2010 there is not much for which we can be proud. Globally we must reflect on three major challenges:

**First:** The world has not become safer; non the conflict situation in Afghanistan, Iraq, the Middle East nor in Kosovo have been resolved.

**Second:** Ecological disasters on massive scale brought tears and suffering, like the BP oil spill in the Gulf of Mexico; the extreme cold from in Bolivia caused water temperatures to dip below the minimum temperatures for life to be maintained in rivers; tropical storm Agatha unleashed torrential rains triggering flash floods and mudslides over Guatemala; Iceland's erupting volcano brought ash across parts of Europe; there were floods in Madeira, floods and mudslides in Portugal; several serious earthquakes hit China and Chile; and last, but not least, the recent ecological catastrophe in Devecser (Hungary). A flood of toxic red sludge from an alumina plant storage lake spilled over the countryside.

At the international level, Governments seemed unable to address the probably cause of these events. The Summit on Climate Change in Cancun held in December 2010 represented a rematch of the previous meeting in Copenhagen. This was a failure given that the rich countries would not commit themselves to reduce polluting gases which are generally considered the basic cause of global warming. It is sad the US Government could not even pledge themselves to lower their contribution to the contamination not even by three percents. Given this lack of responsibility it is likely that there will be continuing environmental catastrophes such as the floods, tornados, extreme rain and snowfall that we have seen over the past year.

**Third:** The global economic crisis has not gone away. The fall of the Berlin Wall in 1989 proclaimed the triumph of the market economy with the "Holy trinity" preached by the neoliberals with its 'magic powers' of liberalization, deregularization and privatization. One global power-economic elite selected Ireland as a glittering example of the success that came when this model was practiced. The idea was that full liberalization, radical tax cuts and a flexible labour market would offer high and quick returns and for a time this was true. The Celtic tiger is now completely discredited. This situation is a cause of deep concern to all members of the European Union who fear that Ireland's problems will be extended elsewhere.

Hungary is already bleeding. The new Orban Government confronted by 3 million poor is trying to cut its huge debt inherited from the previous liberal-social government in order to breathe a little easier gets rewarded for downscaling the existing banks and lowering the credit rate. The credit rating institutions Standard and Poors, Moodys and Finch are afraid that Hungary will be unable to honour its obligations and follow in the footsteps of Greece and Ireland. And in the New Year we have the Hungarian Prime Minister of a small non-EURO but EU country responsible for managing the efforts of the quarrelling EU countries about how to stabilize the EURO. The danger is that national interests of the new Central and Eastern European member countries, including the Danube strategy, the use of "mother tongue" by minorities in the neighbouring countries and further enlargement of the EU will be pushed probably to the background.

As far as the ERENET Network is concerned, we are preparing to convene our **Jubilee and 5<sup>th</sup> ERENET Annual Meeting in 2011 during the Hungarian EU Presidency**. In cooperation with the PERMIS BSEC and Konrad Adenauer Foundation we are preparing the strategic report for the further development of the SME sector in the 12 BSEC countries. There are also many others program in the pipeline. Our medium-term aim is obtaining an UN consultative status at the United Nations Economic and Social Council (ECOSOC).

I wish you all ERENET Members and our Readers Happy New Year!

Dr. Szabó Antal  
Scientific Director of ERENET

**Ambassador Traian Chebeleu**

Deputy Secretary General of the Organization of the Black Sea Economic Cooperation  
Permanent International Secretary  
Istanbul, Turkey  
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**STATEMENT BY ON THE OCCASION OF THE WORKSHOP ON  
“ENTREPRENEURIAL EDUCATION FOR SMEs”<sup>1</sup>**

Distinguished Resident Representative of the **Konrad-Adenauer-Stiftung**  
Distinguished Participants,

On behalf of the Permanent International Secretariat of the Organization of the Black Sea Economic Cooperation, I would like to express warm thanks and appreciation to **Konrad-Adenauer-Stiftung** for Turkey for co-organizing this Workshop, which offers an excellent opportunity to exchange views and information, and also hopefully to formulate some recommendations, on a highly topical issue in support of the activities of SMEs in the BSEC Member States. As it was mentioned by the Distinguished Resident Representative, BSEC and KAS have been long working together to raise public awareness in the region of the importance of SMEs. Through a series of jointly organized workshops and seminars, various issues related to the development of SMEs were addressed, resulting in useful guiding conclusions and recommendations.

SMEs have specific strengths and weaknesses that may require special policy responses. Traditional problems facing SMEs – lack of financing, difficulties in exploiting technology, constrained managerial capabilities, low productivity, access to markets and regulatory burdens – become more acute in a globalised, technology-driven environment. We have chosen to address one of these problems: managerial capabilities – strengthening them through entrepreneurial education.

Our Workshop today is about combining two areas of activities, to which all our Member States pay special attention, both at national level and in their regional cooperation, for a specific purpose: entrepreneurial education for SMEs.

One of these is the SMEs, which plays an important and significant role in the economic, social and political life. The establishment of the BSEC Working Group on SMEs and its activities testify to it.

In the area of the SMEs, BSEC is currently focusing on high technology, innovation, technology parks and incubators with the objective to encourage innovative ideas, products, services and procedures. Our Organization is also endeavouring to bring together and link business, scientific sector, financial institutions and state administration from the BSEC Member States with the purpose of developing a culture of cooperation in support of SMEs through networking. BSEC is also promoting the collaboration of SMEs with large companies, with a view to improving production efficiency.

The other one is the area of education, which is a key component for facing the new challenges of the economy and society in order to secure the sustainable development of the BSEC Member States. The activities of the Working Group on Education testify to it. The primary objective the Action Plan of this Working Group is to lay the foundations of a project-oriented cooperation at regional level among the BSEC Member States, in particular through:

- support of university research projects and the renewal and modernization of research infrastructure;
- promoting the use of advanced information technologies, offering the BSEC Member States wider possibilities for unrestricted exchange of and access to information;

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<sup>1</sup> Held on 13 October 2010 in Belgrade

- enhancement of the collection and dissemination of information in the field of higher education and specifically in regard to the legislative, regulatory and standard framework in the field of education;
- promoting joint post-graduate programs between universities and institutions of higher education in the BSEC region.

Entrepreneurship has never been as important as it is today, when the world is confronted with big challenges. Entrepreneurship is about starting new business. It is the backbone of the economy. It means ability to turn vision and ideas into action.

Real life, however, has shown that entrepreneurship does not come spontaneously, but that it requires proper policies and an enabling economic environment. Running a business requires skill and knowledge. Entrepreneur training is designed to teach the skills and knowledge that someone needs to know before embarking on a business venture. Within this framework, the state has an important role to play. Entrepreneurship is a tremendous force that can have a big impact in growth, recovery, and progress of the society by fuelling innovation, employment generation and social empowerment.

The important role of education in promoting entrepreneurial attitudes and behaviours is now widely recognised. Entrepreneurial education should allow SMEs to adapt their competitive performance and proceed to innovation strategies in order to match the quick changes in the market demand, re-orient their activities and diversify their business so that they minimise possible losses and increase profitability. Therefore, our policies should aim at incorporating the entrepreneurship education across all levels of career-technical, academic education, and community-based programs.

SMEs depend on entrepreneurs, namely the individuals who have the ideas and are willing to take the risks necessary to set up an enterprise. The BSEC Member States need more entrepreneurs and our Workshop is just one more initiative to advance in this direction. They need to develop a more entrepreneurial culture, starting with young people and from school education.

This topic is one of the highest priorities also in the EU. We could inspire ourselves from the Communication of the European Commission issued in June 2008 “Small Business Act” for Europe, which recognizes the central role of the SMEs in the EU economy and for the first time puts into place a comprehensive SMEs policy framework for the EU and its Member States. Principle 1 of this Act states that “the EU and Member States should create an environment within which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded”. As a consequence, education for entrepreneurship is high on the agenda in EU Member States. A lot is being done, but there is room for doing more in order to promote entrepreneurship through education at all levels.

In concluding my remarks, I wish to underline that BSEC will continue to promote support for the SMEs in the Black Sea region. In this process, we will maintain the traditional cooperation with our partners, in particular with the **Konrad-Adenauer-Stiftung** with other regional organizations and initiatives as well as with international organizations and institutions.

I would like to thank the Institute of Economic Sciences for their hospitality and the **Konrad-Adenauer-Stiftung** for its continued interest in, and essential contribution to, policies in support of developing and strengthening the SME in the BSEC region.

I look forward to listening to evaluations and visions of government people, academics and practitioners attending this Workshop on lines of conduct and action to be taken in the BSEC Member States in supporting SMEs, which is essential for their economic recovery and growth. I wish all of us a fruitful Workshop.

**Dr. Antal Szabó**

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**EDUCATION FOR ENTREPRENEURSHIP****–  
NON SCHOLAE SED VITAE DISCIMUS –  
WE DO NOT LEARN FOR THE SCHOOL BUT FOR LIFE.<sup>2</sup>**

**Navigare necesse est vivere non est necesse** ("to sail is necessary; to live is not necessary") said the ancient **Romans** during the late **Republic** in the **1st century BC**, who, during a severe storm, commanded sailors to bring food from Africa to Rome. **Undertaking/enterprising is necessary; it is a must** in our globalized world today. It is the time to wake up political and Governmental leaders to move from its lukewarm place the European economy, which is in the state of suspended animation and promote entrepreneurship in order to make the new and enlarged Europe a favourable place to work and live. Rediscovering the entrepreneurial spirit of Europe through better regulation, education, access to finance and innovation are the primary goals.

The old Latin saying **non scholae, sed vitae discimus** summarizes my entire view of education. We do not learn (and teach, too) for the school but for the life. This is the motto for many schools, all over the world. This is what we should be doing in the process of rehabilitation and development of the education system in all transition economies, but also the over the post-communist and post-atheist space of Central and Eastern Europe, the South-Eastern Europe and the CIS, but also in all advanced market economies in the EU to move towards the European Community Lisbon strategy and meet the criteria to be competitive in our globalize world.

A starting-point for entrepreneurship education is our reflection on education and learning. There is a distinction between school curriculum and the needs for life. The former school curriculum focused rather on classical encyclopaedical knowledge preparing students for maturity examination and the best ones with school-leaving certificate continued their studies at high-schools and/or universities. Education and learning are on one side synonym terms, but education is more than just learning. It is about presenting knowledge, raising somebody to my level, doing, relating and becoming. Education is contextual. Education is also sharing the teacher's personal experience with the disciple and sharing the experience of one generation with another. The word education implies not only the academic routine of delivering certain knowledge, fostering some skills and training specialists in various fields or subjects, but also it is strategic task of the development of the whole culture to.

In many Countries in Transitions (CITs) the society was suspicious towards entrepreneurs until the recent past, who intend to become reach overnight, and the mass media prefer to show the negative phenomenon instead of showing the picture of the honest and useful entrepreneurs producing goods and services, which were not available during the era of centrally planned economies. The term "entrepreneurship" itself can lead to misconception. Parents, the business community and the education institution certainly have a different understanding of what this concept means. Europe recognized that education and entrepreneurship are no more two separate issues. Now, to their mutual benefit, more and more bridges link the two.

Europe is on his way to exploiting its entrepreneurship potential. Fostering and entrepreneurial mindset and develop relevant skill among young people - starting already from basic education – will contribute to achieve the strategic goals of the EU. However, the education system in Europe, and in particular the school curricula, do not focus enough on entrepreneurship and do not provide the basic skills

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<sup>2</sup> This article has been written as a contribution to the workshop "ENTREPRENEURIAL EDUCATION FOR SMEs", organized by ORGANIZATION OF THE BLACK SEA ECONOMIC COOPERATION (BSEC) and KONRAD-ADENAUER-STIFTUNG ANKARA (KAS). Belgrad, 13-15 October 2010

which entrepreneurs need. Children can learn to appreciate entrepreneurship from the beginning of their education.

In 2000, the **Lisbon European Council** considered entrepreneurship as a new basic skill, to be provided through lifelong learning. Education for entrepreneurship is already a high agenda in the old EU countries as well as in the American continent. The wide variety of programmes exists in many EU Member States. However, there is a need to promote this continually and systematically.

The Lisbon Growth and Jobs Agenda, adopted in 2000 and aimed at making the EU "the most dynamic and competitive knowledge-based economy in the world by 2010," first recognised the need to boost the competitiveness of SMEs.

At the June 2000 Feira Summit, the EU endorsed a European Charter of Small Enterprise, the first policy framework seeking to make Europe a "world-class environment" for SMEs.

In the new EU countries as well in the candidate and associated countries the entrepreneurship education is still in an embryonic form. Many universities and high-schools in CEE and in the whole BSEC region believe that entrepreneurship belongs to the business community rather than to the academic curricula. This approach is wrong and deficient. In order to cope with the challenges of the globalization and the world trade requirement the society and the citizens have to thing entrepreneurial and every Government should be committed to promoting entrepreneurship through education at all level.

## PROMOTING ENTREPRENEURSHIP AND SKILLS

The 2007 **Flash Eurobarometer**<sup>3</sup> on entrepreneurial mindsets shows that 45% of Europeans would prefer to be self-employed, compared to 61% in the US. This has not changed for many years. People in Europe need to be made more aware that self-employment is a potentially attractive career option and be provided with the necessary skills to turn their ambitions into successful ventures.

The new **EU Partnership for Growth and Employment document**<sup>4</sup> underlines the need to improve the business environment, especially for SMEs and take account the entrepreneur's concern on making business. SMEs in practice create more jobs than large enterprises, while they are more flexible and innovative; however, they are also more vulnerable than large enterprises. To revitalise the economy, Europe needs more people willing to become entrepreneurs. This is why it becomes paramount importance to promote entrepreneurial culture in the entire Europe.

Therefore entrepreneurial friendly policy both at the European Policy level, as well is in individual Member States become more important to stir up and boost the European potential. For that reason the European Commission is taking actions to keeps SMEs high at the political agenda and proposes a new start for SME policies to be implemented in close relations both with the Commission as well as with the neighbouring countries. The Commission emphasises the "**Thinks Small First**" principles in all its actions. Unfortunately this is not the case in many transition economies yet.

The new actions to improve SME's capability and competitiveness in accordance with the new EU policy<sup>5</sup> include the following:

- **Promoting Entrepreneurship and Skills**
- **Improving SME's access to markets**
- **Cutting red tape**
- **Improving SME's growth potential**
- **Strengthening dialogue and consultation with SME stakeholders**
- **Promoting entrepreneurship and the image for SMEs.**

<sup>3</sup> [http://ec.europa.eu/enterprise/enterprise\\_policy/survey/eurobarometer\\_intro.htm](http://ec.europa.eu/enterprise/enterprise_policy/survey/eurobarometer_intro.htm)

<sup>4</sup> Communication from the Commission: Common Actions fro Growth and Employment: The Community Lisbon Programme. COM (2005) 300.

<sup>5</sup> Communication from the Commission to the Council: Implementing the Community Lisbon Programme Modern SME Policy for growth and Employment. COM (2005) 551 final



In order to giving fresh impetus to SME policies the Commission sets out a number of objectives and actions especially in the field of implementing the Lisbon integrated guidelines by SMEs. The new SME is based on a comprehensive view of SMEs' role in the society that highlights their importance as a significant and basic factor of economic and social cohesion at local and regional level. Moreover, today there is a requirement that SMEs would committed themselves to corporate social responsibility, which allows them to improve their competitiveness and behaviour those having a positive impact on the local community and the environment. This requires fair relations also from the big companies, especially multinationals making SMEs as fair sub-contractors. At time being multinationals in CEE many times abuse with their power playing to sub-contractors over 90 days, requiring fees for placing sub-contractors products on their selves and forcing down prices hardly covering the prime costs of the suppliers, while they are making extra profit sometimes due to Government special subsidy benefits.

Following the presentation of a mid-term review in October 2007, the Commission presented a proposal for a [Small Business Act for Europe](#) (SBA) in June 2008, aiming to unite all the existing the initiatives under a single legislative document while also introducing a series of new measures to speed things up.<sup>6</sup> The SBA is a set of 10 principles which should guide the conception and implementation of policies both at EU and national level. This is essential to create a level playing field for SMEs throughout the EU and improve the administrative and legal environment to allow these enterprises to release their full potential to create jobs and growth.

More than 60% of companies responding to the consultation by the European Commission consider that schools do not provide the competences needed by entrepreneurs and their staff. This result highlights the societal need to always provide young people with essential skills, such as reading, writing, natural sciences, management, technical, ICT and language skills and enable them to be creative. SMEs suffer in particular from the lack of skilled labour in the field of new technologies.

I	Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded
II	Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance
III	Design rules according to the "Think Small First" principle
IV	Make public administrations responsive to SMEs' needs
V	Adapt public policy tools to SME needs: facilitate SMEs' participation in public procurement and better use State Aid possibilities for SMEs
VI	Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions
VII	Help SMEs to benefit more from the opportunities offered by the Single Market
VIII	Promote the upgrading of skills in SMEs and all forms of innovation
IX	Enable SMEs to turn environmental challenges into opportunities
X	Encourage and support SMEs to benefit from the growth of markets
a set of 10 principles to guide the conception and implementation of policies both at EU and Member State level	

In the context of the above-mentioned I would like to reflect the question of promoting entrepreneurship and skills. The EU recognized, that its entrepreneurial potential not fully exploited yet and there is somehow lack in sufficient start-ups. There are lot of factors, which do not support start-ups and we

<sup>6</sup> Small Business Act for Europe, Brussels, 25.6.2008, COM(2008) 394 final  
[http://ec.europa.eu/enterprise/policies/sme/small-business-act/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/small-business-act/index_en.htm)

are eyewitness of these processes in many CEE countries as well. The Commission in the future intend to set up efforts toward increasing the appreciation of entrepreneurs in society, promote awareness of career as an entrepreneur and foster entrepreneurial mindsets. In order to do this the Commission intends to increase entrepreneurship education.

One of the most important steps is to strengthen support for activities to reduce the burden of risk intrinsically linked to entrepreneurship. While in many EU countries a business failure makes the entrepreneur unviable and deprive of further financial resources, in the US this is considered as an advantage, because the failed entrepreneur in the meantime collected significant experiences in making and managing a business. Brussels will launch initiatives to tackle the negative effects of business failure and examine the possibility of increasing the social security system.

It is also a significant task how to increase skills by development and redefining of training courses and methodologies. Introducing basic entrepreneurship leaning into schools and universities is an important part of the EU's overall economic programme. The Commissions calls its Member States to review their educational and training policies to make them more responsive to current and anticipated changes in the labour market. Member States should elaborate lifelong learning national strategies.

Europe recognized that education and entrepreneurship are no more two separate issues. Now, to their mutual benefit, more and more bridges link the two. In the framework of **Bologna Process** Europe still not unique concerning entrepreneurship university development. However, European policymakers already agree, that **the scope of entrepreneurship education** is much wider that training on how to start a business, as it includes the development of personal attributes and horizontal skills like creativity, initiative, self-confidence, among many others.

## THE BOLOGNA PROCESS

“A Europe of Knowledge is now widely recognised as an irreplaceable factor for social and human growth and as an indispensable component to consolidate and enrich the European citizenship, capable of giving its citizens the necessary competences to face the challenges of the new millennium, together with an awareness of shared values and belonging to a common social and cultural space. The importance of education and educational co-operation in the development and strengthening of stable, peaceful and democratic societies is universally acknowledged as paramount, the more so in view of the situation in South East Europe” as its states in the joint declaration of the European Ministers for Education as of 19 June 1999.

During the 1<sup>st</sup> ERENET <sup>7</sup> Annual Meeting held on 31 March 2006, the Members of this Network decided to share experiences in this field. Harmonization of the university curricula is very important in our region due to the fact, that even at the reputable old EU institutions there are hiccups in the process, while the new-accession-candidate EU countries and transition economies all facing at once the problems of the transformation of their economies as well as reorganization of their education systems. At the same time the US and Far-East universities are booming without the Bologna Process. However, we believe, that it is worth to collect information and share experiences, so in the future we could exchange the good and bad site of the “Bologna-coin” too. The current experiences and practices in CEE we collected in the ERENET PROFILE No. 3 as of August 2006. <sup>8</sup>

As part of the Bologna process, new development objectives have been set and further changes in economics, sciences and technology. The whole EU business environment demands new rethinking of higher education too. However, in the transition economies including CEE countries, this process is rather slow and controversial. I heard opinion from leading university professor that “we survived the COMECON orders from the socialists Moscow and we shall survive Brussels’ directives too”. There is an important paradigm that old fashioned teachers/professors are not able to change mentality and respond to the needs of today’s challenges.

It is also true, that the Bologna process did not justified itself. In many cases we see universities trying the compress the five years university curriculum into the Bachelor degree, while the two year of the Master courses are somehow repetitions and extensions and expanding of the major curricula of the Bachelor courses.

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<sup>7</sup> ERENET stands for Entrepreneurship Research and Education Network of Central European Universities established on 22 April 2005 in Budapest.

<sup>8</sup> <http://www.erenet.org>



As **Professor Miroslav Glas** from the University of Ljubljana highlighted “even after two years of work on the new Bologna-based curriculum and the first year of its implementation, we still have some reservations about the employability of bachelors and we could hardly forecast the number of students continuing directly from the first on the second cycle.”<sup>9</sup>

So far The Bologna Process not has been proceeding as smoothly as its 47 European member countries wish it would. They missed their 2010 deadline for full implementation

## THE SCOPE OF THE ENTREPRENEURIAL STUDIES

The European Commission for the purpose of entrepreneurial education made the definition see below:

### DEFINITION OF ENTREPRENEURSHIP

**“Entrepreneurship refers to an individual’s ability to turn ideas into action. It includes creativity, innovation and risk taking, as well as the ability to plan and manage projects in order to achieve objectives. This supports everyone in day-to-day life at home and in society, makes employees more aware of the context of their work and better able to seize opportunities, and provides a foundation for entrepreneurs establishing a social or commercial activity”.**<sup>10</sup>

Between 2001 and 2005 the European Commission carried out a **Project on Education and Training for Entrepreneurship**.<sup>11</sup> This project clearly stated that “Promoting entrepreneurial skills and attitudes provides benefits to society even beyond their application to new business ventures. In a broad sense, entrepreneurship should be considered as a **general attitude** that can be usefully applied in all working activities and in life. Therefore the objectives of education will include nurturing in young people those **personal qualities** that form the basis of entrepreneurship, such as creativity, spirit of initiative, responsibility, capacity of confronting risks, independence. This type of attitude can be promoted already in primary school teaching.”

“Entrepreneurship is now recognised as a basic competence, and could be explicitly included in the national curriculum, depending on the way the education system is structured. In most countries the national curriculum is reported as having **broad objectives** and therefore allows - at least theoretically – the development of activities to foster entrepreneurial attitudes in schools.”

The European Commission emphasizes, that as a new approach to teaching and as a basic competence, entrepreneurship should be introduced in the education systems already at an early stage. Entrepreneurship can be seen as a cross-curricular and horizontal aspect or as a teaching methodology, besides being treated as a specific subject.

### WHAT IS ENTREPRENEURSHIP EDUCATION?

**ENTREPRENEURSHIP EDUCATION IS EMPOWERING INDIVIDUALS FOR PURSUING OPPORTUNITIES REGARDLESS OF RESOURCES**

**Stevenson HBS**

<sup>9</sup> Miroslav Glas: New Bologna-based Curricula at the University of Ljubljana. Erenet Profile No. 3, August 2006.

<sup>10</sup> Commission Communication “Fostering entrepreneurial mindsets through education and learning”. COM(2006) 33 final.

<sup>11</sup> EC Enterprise Directorate General: Final Report of the Expert Group “Education for Entrepreneurship” – Making progress in promoting entrepreneurial attitudes and skills through Primary and Secondary education. Completed in February 2004.

### The situation of the entrepreneurship education is the following:

- Explicit policy commitment exists in most countries
- However, initiatives in most cases extra-curricular and taken independently by schools, local authorities or other actors.
- A global framework is still lacking, programmes are not generally available.
- Teacher staff is very weak and not suitable to teach entrepreneurship.
- Limited availability of quantitative data.

**Entrepreneurship** education should not be confused with **general economic studies**. Teaching of entrepreneurship aims at stimulating from an early age those personal skills that form the basis of entrepreneurial behaviour, or at encouraging self-employment as a career option. Although there may be certain areas where the two concepts might be partially overlapping. In higher education – entrepreneurship should be considered as an innovative and cross-curricular approach, as a teaching methodology or as subject in its own right, also depending on the level of education.

Entrepreneurial education should not be focused on general economic and business studies. Developing generic attributes and skills that are the foundations of entrepreneurship is complemented by imparting more specific knowledge about business according to the level of Education. The goal is to promote creativity, innovation and self-employment.

It is now commonly agreed that **the scope of entrepreneurship education** is much wider than just business venturing and profit making, and training on how to start a business, as well as how to write a business plan. It includes the development of personal attributes and development of such skills like self-confidence, creativity, initiative, vision, risk-taking and many others. It is a decision to build and use the entrepreneurial spirit across the entire institution and applying an entrepreneurial attitude during the individual's working life. The acceptance of the broad definition is the key in competitiveness of the whole Europe. This is why we need a revolutionary new approach in entrepreneurial education.

### Teaching methodology

**Entrepreneurship** needs a holistic approach. It consists of two components. **Enterprising** requests an organized knowledge referred to as **SCIENCE** and doing in practice as an **ART**. In this context **science** and **art** are not mutually exclusive but are complementary.

**K Kumar**, Professor from Bangalore states, that *“An entrepreneurship program offers two components--one is the business component and other one is the entrepreneurship component. The business component acts as a safety net for those students who might not feel like starting their own ventures immediately, and the entrepreneurship component is the inspirational net that is going to instill passion and skills in a student to be a successful entrepreneur.”*

Entrepreneurship education requires learning methods and pedagogical approaches, what majority of the current university does not master. Talking about how to teach entrepreneurship one question is relevant whether a professor can teach entrepreneurship. It is similar to the question whether an ornithologist can fly? However, if somebody can teach how the bird flies, perhaps somebody getting knowledge on enterprise and entrepreneurship can try to be an entrepreneur.

**We have to distinguish between entrepreneurship education for youth and the adult population.**

### THE ROLE OF ERENET <sup>12</sup>

On 22 April 2005, representatives of universities from Croatia, Hungary, Romania, Serbia, Slovakia and Slovenia inaugurated and signed a foundation declaration on establishment of an Entrepreneurship Research and Education Network of Central European Universities, called ERENET.

<sup>12</sup> See at <http://www.erenet.org>

The signatories of the declaration on cooperation accepted that education plays a significant role in the development of entrepreneurship and that research and education could ultimately contribute to closing the gap in entrepreneurship between countries of Central and Eastern Europe and those in Western Europe and North America. He went on to say that: Taking advantage of international experience based on research of issues, such as good governance, enterprise-friendly economic and social policies, administrative burden and the financial environment, can speed up the growth of entrepreneurship in Central and Eastern Europe to rival that in western countries. ERENET is a research and development partnership acting as an open-ended network. So far nearly 160 members from 40 countries including 74 universities, high-schools, and 7 government representatives have joined ERENET.

On 6 October 2006, within the framework of the 3<sup>rd</sup> European Day of Entrepreneurs held in Zagreb, ERENET organized a **Round Table on “Increasing Investment in Human Capital through Better Education and Skills”**. The Roundtable raised awareness about new role of the education systems in EU and Croatia, in particular in the field of higher education and entrepreneurship education. Roundtable analyzed and compared several programs in entrepreneurship education in order to learn from the best practice and share the experiences. Basic papers, conclusion and recommendation of this event see in the ERENET PROFILE No.4 as of November 2006.

ERENET objectives are:

- To promote the exchange and dissemination of **good practice**;
- To **steer policy action** in CEE and SEE Countries, the EU Member States, the CIS Countries (and in the other countries participating).

As one of our activities I would like to mention co-organizing the Budapest Round Table on *How to become successful and socially responsible entrepreneur?* held on 10 November 2006. The main issues discussed were as following:<sup>13</sup>

1. **To be a successful entrepreneur:**
2. **To be a socially responsible entrepreneur:**
3. **To be young, creative, innovative entrepreneur:**
4. **Lessons to learn from successful young and socially responsible entrepreneurs:**

In mid 2007, ERENET has been launched the **EDARO Project on “Benchmarking of Entrepreneurship Education in Selected EU and North-American Countries”**. The purpose of this project is to collect current practice in entrepreneurship education at the Romanian universities as well as collect best practices and curriculums in entrepreneurship education in the old, new and associated EU countries as well as in North-America in order to develop and establish an advance similar education in the country too. The research is oriented to an educational component which support the economy based on knowledge and innovation, entrepreneurship, sustainable development, elaboration and development of the research networks. The project wishes to gather information in the field of investigation and implementation of the entrepreneurial education in the Romanian universities, specialized institutions of Romania and European Union. The International Conference on Economics, Law and Management - ICELM3 – was a cornerstone in this project. We reviewed the wide variety of entrepreneurial education in old and new EU Member States. However, we looked out the European continent and highlighted some of the achievements made in North-America as well as in advanced Far-East.

In 2008-2009, the European Commission financed a **Project on European Entrepreneurship Education** under the supervision of the Petru Maior University in Tirgu Mures (Romania). In this project the Fachhochschule Frankfurt am Main – University for Applied Science (Germany), Université de Strasbourg IUT Louis Pasteur Schiltigheim (France), Miskolc University (Hungary), Technical University in Kosice (Slovakia) and Petru Maior University took place. The international teaching staff prepared 6 harmonized teaching materials on the following subjects:

1. Sustainable Development and Business Opportunities;
2. Entrepreneurial Creativity and Innovation Management;
3. Entrepreneurship;
4. Business Planning;
5. Small Business Administration; and

<sup>13</sup> Péter Szirmai – Antal Szabó: Lessons to be Learn from the Budapest Round Table. ERENET PROFILE No.5. January 2007, pp. 3-8.

## 6. English for Business

These materials are already in the teaching curricula of these institutions.

## CONCLUSION

Fostering entrepreneurial mindsets of the population is a process for young people through education at all levels, **from primary school to university**, and later a **long-life learning** for the adult generation.

Teaching of entrepreneurship in higher education is the odd one out. The old proverb says: “How knows, does – how do not know, teaches.” Real life experience is a key. Talking about how to teach entrepreneurship, Professor **Vecsenyi** from the Budapest Corvinus University said it is similar to the question “whether an ornithologist can fly? However, if somebody can teach how the bird flies, perhaps somebody getting knowledge on enterprise and entrepreneurship can try to be an entrepreneur.” A university professor, who did not sold a T-shirt on the street, is not considered as an authentic entrepreneurial teacher. On the other hand, it is no sufficient to bring entrepreneurs into the classroom: student should be directly involved into entrepreneurial project or real businesses. And this creates a big dilemma for the majority of CEE bachelor courses simply due to the fact, that universities have no well-established connection with the business communities.

ERENET recommendations for the BSEC Countries are the following:

- **In each BSEC country Cooperation between Ministries at a national level should be increased (entrepreneurship education is a horizontal issue).**
- There is a need to develop a coherent **strategy** or action plan **In each BSEC country**
- A **curriculum** that allows entrepreneurship is not sufficient if **measures of support** are not introduced.

## ANNEX 1

## GOOD PRACTICE IN DEVELOPMENT OF YOUTH ENTREPRENEURSHIP IN HUNGARY

THE PRACTICE OF THE HUNGARIAN LiveWIRE FOUNDATION <sup>14</sup>

Education and entrepreneurship are the main enabling conditions for future change. Institutions of higher education should function as role-models of **sustainability**, with fairness in their own social policies and economic interactions. They should be active in the development of sustainable communities. At the same time, we need a new type of entrepreneur: one who is the product of institutions where sustainability is taught and exercised. Many currently taught courses in “entrepreneurship” emphasize starting a small business; instead, they should emphasize **transformational entrepreneurship**: the type that changes the values and behavior of stakeholders and citizens.<sup>1</sup>

John T. Chambers (Chairman and CEO, Cisco emphasizes: *„We are facing a transition, and we must take this opportunity to provide today’s students and entrepreneurs with the tools and the thinking that is required for the future. Collaborative technologies can fundamentally transform both how we teach and learn. We need to harness the power of the Internet and these new technologies for creating and sharing knowledge that will prepare students with the skills to compete in the 21st century.”*

ENTREPRENEURSHIP EDUCATION FOR YOUTH<sup>2</sup>

## Why Entrepreneurship Education for Youth is important

Young people become entrepreneurs for the same reasons that adults do, sometimes out of necessity and sometimes to capitalize on an opportunity. The advent of the digital age has helped reduce barriers to entry for younger people both because each successive generation grows up more digitally savvy than its predecessors, and because geographic barriers to business have been essentially eliminated. As global popular

<sup>14</sup> This part is prepared by **Ágnes Kiss**

culture continues to be centered on youth, young people have been able to exploit their “native fluency” to score entrepreneurial success. Risk-taking, opportunity recognition, competitive collaboration, and innovation define the species, and are a crucial aspect of self-expression. Surveys in many cultures indicate that youth specifically harbour strong if latent entrepreneurial tendencies. Unfortunately, the structures and delivery of mass education in most countries often thwart or throttle the natural entrepreneurial impulse in youth. There is a hunger to identify, analyse and implement practices that enable education to foster entrepreneurship at the early stages of an individual’s education. In the US and Europe, recent studies have also revealed a disastrously high number of students who drop out of school, with all the consequent social and economic problems that entails. By unleashing the innate spirit, using interactive, experiential forms of teaching and learning, and connecting the classroom with the workplace, entrepreneurship education may be a factor in helping to keep students in school. National and supranational policy-makers have focused in the past decade on youth entrepreneurship as an important tool to combat persistent youth unemployment, criminality. In addition, evidence is mounting that girls and young women may benefit disproportionately from entrepreneurship education. For all of these reasons, youth entrepreneurship education is a theme that needed to be addressed separately in this report.

What differs between youth and adult entrepreneurship - beside the age of the entrepreneur – is how entrepreneurship is taught and how it is learned. As the European Commission framed matters in 2006 Communication to the European Council: “Nurturing qualities such as creativity and a spirit of initiative helps develop entrepreneurial attitudes ... done through active learning based on children’s natural curiosity.”

Entrepreneurship education, especially for youth, must focus on a handful of key fundamentals – students must learn these. Among them:

- Joy of business, serving others, wealth creation and ownership.
- Market opportunity recognition and research.
- Empathy (“walk in your customer’s shoes”).
- Comparative advantage.
- Laws of supply and demand.
- Marginal utility (“economics of one unit”).
- Return on investment and break-even calculation.
- Compound interest

## Where to Teach

Among the groups advocating for inclusion of youth entrepreneurship within national and local curricula are LiveWIRE, Youth Business International, Junior Achievement, the National Foundation for Teaching Entrepreneurship, the Consortium for Entrepreneurship Education (USA), the Youth Entrepreneurship, Strategy Group (hosted by The Aspen Institute), the Know About Business programme of the International Labour Office, ImagineNations, and The YES Fund.

## Who Should Teach

Entrepreneurship education, to be successful, demands entrepreneurial teachers. Retooling for successful youth entrepreneurship education means selecting and promoting teachers who are able to engage young learners in the necessary experiential activities. Teachers may need training in either or both the experiential pedagogy and the business content. The training curriculum may be nearly as extensive as the underlying curriculum for students.

## Work Closely with Entrepreneurs

This may sound straightforward but can be surprisingly difficult, given time and logistical constraints – successful interaction takes significant planning and execution. No entrepreneurship programme can succeed without close interaction with entrepreneurs. As important as developing curricula for the students, and professional development materials for the teachers, is developing materials for the entrepreneurs and other businesspeople (typically volunteers) who will work with the programmes.

### Inspire with Real Examples

Students should read and write about great entrepreneurs of the past and present as part of any entrepreneurship course. The stories of young entrepreneurs and entrepreneurs from poor or marginalized backgrounds may be especially inspirational.

#### **Mentor, Coach and Incubate**

Most successful programmes engage entrepreneurs and other business professionals as volunteer advisors, mentors, and coaches for the students. Mentors and coaches play a major role in incubating student businesses.

### **A GOOD PRACTICE**

**Életpálya Alapítvány (the Hungarian LiveWIRE Foundation)**, founded in 1993, helps young people (between 18 and 32) in Hungary to start-up their own businesses. Its objective is to provide support and access to guidance to young entrepreneurs and potential entrepreneurs.

Életpálya Alapítvány adapted the LiveWIRE know-how, joined the Youth Business International Network in 2001, and founded YES! For Hungary. It works together with other organisations (for example with Junior Achievement) focusing on the younger generation, but also has its own educational programme for example for the youngs in specialized schools.

#### **Why is it needed?**

Around one in five young people not in work, education or training. Youth unemployment costs the economy billions in lost productivity, while youth crime costs even more every year. They address this by giving practical and financial support to the young people who need it most. They help develop key skills, confidence and motivation, enabling young people to move into work, education or training.

#### **The results**

Életpálya Alapítvány helped more than 15,000 young people during this period to start-up their own businesses. They microcredited 60 young entrepreneur. 800 youngs took part in the competition **Young Entrepreneur of the Year Award**. They won several prizes (money, mentoring, and services). 150 short films on the finalist were made. They educated hundreds of disadvantaged youngsters (groups of unemployed, women, specialised school students) how to become an entrepreneur. They run programmes that encourage young people to take responsibility for themselves – helping them build the life they choose

#### **How it works?**

The centre office coordinates the system with only two employees. Életpálya Alapítvány bases more on its own 3-stage volunteers network. It has many **coordinators** in the country that are available during the whole year for the young 'wannabe-entrepreneurs'. They give free advices (personally or via telephone or e-mail) about how to start up a new business, and how to write a business plan. They could send them forward to the **business advisers** – they are the practicing specialist of different territories in accordance with entrepreneurship (e.g. accounting, finance, law, and marketing). And finally, the **mentors** help them during the realizational period, when they are already operating their business.

#### **Programmes:**

(Start-up services and finance to help young people to start their own business)

- **Get free help and advice** from coordinators, business advisers and mentors
- **Download free guides** on "Writing your first business plan"
- **Apply for business funding**(start up loans at low rate) is open for those who are unable to raise all the finances to start-up a business from other sources (for example banks, local finance providers, friends and family)
- **Young Entrepreneur of the Year Award** – business plan writing competition
- **Promote your business** - social networking

They are ready sharing their experiences with others in order to help them how to organise such groups in other countries.



## Key Indicators of Success

The biggest challenge facing the field is a lack of commonly accepted metrics for success and protocols for conducting the necessary evaluations. As Damon and Lerner note, “The crucial study of youth entrepreneurship ... is still in its infancy ... so few studies have been done that most reviews of the entrepreneurship literature do not even mention youth”. As a result, according to other researchers. “Yet, implementing an effective research design to isolate the effects of different programmes ... is a monumental task” (Haftendorn, 2003 and Lee & Wong, 2005). Practitioners in the schools, and their funders, have to date used success indicators that fall into four categories:

- Academic knowledge about entrepreneurship
- Academic performance more generally
- Business formation and wealth generation
- Personal values and aspirations

An area of great focus right now is measuring the impact of entrepreneurship education on the traditional subjects such as language arts, science and math. Qualitative evidence suggests that there should be positive impact – but rigorous, randomized control studies need to be done to confirm the hypothesis.

## Recommendations

Peter Drucker said it best decades ago: “What we need is an entrepreneurial society in which innovation and entrepreneurship are normal, steady, and continual” (Drucker, 2001).

To achieve this society, senior policy-makers, supported by leading entrepreneurs and senior corporate officers, need to:

- Require entrepreneurship education (“ownership literacy”) in public schools, or, at the very least, make entrepreneurship education available as an option for all students
- Fund entrepreneurship educations sufficiently

Revamp uptake and training of new teachers to include entrepreneurship education and to ensure that the pedagogy is experiential, action- and project-based, focused on problem-solving with practical application, and centered on the concepts of ownership and individual responsibility

- Encourage educational institutions to partner with business and law schools as well as other stakeholders from the public and private sector, on entrepreneurship education
- Mandate certification of teachers in entrepreneurship education
- Encourage formal, direct links between teachers and entrepreneurs, and between schools and companies, so that the theory and practice are intertwined
- Encourage and fund research on and evaluation of youth entrepreneurship education

<sup>1</sup>Adela Coman: Education and entrepreneurship: Drivers for sustainable development, Humans System Management, 2008

<sup>2</sup>Educating the next wave of entrepreneurs, Chapter 1 (World Economic Forum Switzerland, April 2009)

Snow-covered statue of Mahatma Gandhi  
at the Arianna park in Geneva  
by  
Dr. Antal Szabó ©



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## ENTREPRENEURIAL EDUCATION FOR SMEs

An entrepreneur - man or women, starter or successor - above all owner of a smaller manufacturing company, is a rather peculiar personality, compared with fellow citizens, who are self-employed in clearly defined and legally constituted professions by certificates or licenses such as architects, lawyers, engineers, physicians or pharmacists. The passionate entrepreneur prefers to be on his own authority and to act as an independent, freedom-minded individualist. He is never a philanthropic dreamer, living in a cloud-cuckoo-home distant from the business reality. However, apart from gender-related differences, he or she dislikes restraints because of too many public regulations by state bodies.

Anyway, entrepreneurial leaders must take into account two levels of responsible engagement, if they interested in running a profitable business. That concerns, on the one hand, the rational and extensive in-house management in the field of purchase, production, marketing, sales, export, service, finance and last not least workforce. On the other hand, entrepreneurs must strive more than any time before against outside developments in view of the increasing influence of globalization, the changes of climate, the state of pollution, the running short of raw-materials, the higher becoming prices of some raw-material, the taxation burden, the altered structure of demography, the partly growing weight of minority groups, etc.

External incidences, whether politically or economically produced, occur mostly unpredictable, that in particular small business leaders are overtaxed to react at short notice mainly by reason of insufficient expertise and defense means. On the whole, SMEs are often rarely adequately organized to offer resistance, and often rarely fitted out with above-average competence to meet the many-sided challenges of company surroundings. What happens as for the well-timed identification of actual innovative technological needs? What happens with the screening of alternative production methods or terms of sales in the frame of a digital society?

Sustainable development depends heavily upon nurturing contacts especially with proper partners or even competitors as a basic and critical orientation focus to discover resorts of renewal of antiquated working procedures. Entrepreneurs experience and learn best newness with and from each other in the business community who face similar shortcoming of benefits.

Simply battening down the hatches is not enough, if a SME owner wants to survive through serious phases. What appears always more vital is winning and apply directive corrections of costly habits of the past. Switch to another assembly of a more easily marketable palette of products and services manifests itself as animated lifeblood key to overcome bottlenecks. Indeed, the recent financial crises and the economic turmoil have hit many smaller firms hard.

Some have stumbled, some have fallen, but others have picked up in (good) times the pace of adaptation their goals and plans. However, in view of many formerly less significant facts, abundant unwontednesses distress at present the entrepreneurial behaviour: the opening of earlier closed centrally administered plan-economics with its bureaucratic free-trade restrictions, the speedy occurrence of IT-communication systems, the emergence of pluralistic set of values, which are expressed for about two decades in the notion „business ethics”, the increase of environmental protection conditions, and the changes of life-style force the entrepreneur to consider supplementary liabilities.

A number of barriers disturb or hinder the SMEs getting on efficiency:

- Concerning time pressures entrepreneurs have a variety of special roles to play, which determine extra attention, caused for example by the shift of emphasis in favour of social responsibility, representing often a significant overload for the company management.
- Durable leadership commitment is limited because SMEs suffer from a paucity of liberality for action, measured at the available know-how, and moreover insufficient funds to hire and retain external experts are at disposal.

- Entrepreneurs repeatedly opt for short-term solutions over the long-term perspective. In so far they are inclined to be conservative and prefer to maintain the status-quo.
- Weak information structures, including inadequate exploitation of workforce feed-back, lead sometimes to confusion about the in-house strengths and drawbacks of a company. Therefore the future business potential looks invisible.
- Lack of observation initiatives, lack of market research follow-ups, which illustrate company reply reactions with regards to supplier or subcontractor offers, to customer requests, to the responsiveness of credit institutions or to the decree of political bodies.
- Mainly some senior entrepreneurs, located and operating in rural areas, act as if the world were stable; they trust in traditional partners, they believe in unchangeable standing of their banks, but they renounce to be in social touch with chambers of industry and commerce, with business associations or any other private assistance representing support agencies of managements consultants, coaches, mentors or trainers.
- Small business owners, family-bound, with modest self-confidence have a low sense of control what they do, and they are unprotected and unwarranted victims of external irrevocable circumstances. They carry on day-to-day jobs with narrow future outlook. Additionally the important question remains unnoticed when and how to solve the succession matter.

Entrepreneurs should not only being technically proficient according to their priority education as youngsters: they must also agree to recurrent training – without shyness – that they capable to get on with the multiple new tasks of operating safely a productive business.

For the productivity purpose new adjustment of outdated single segments of the value creating chain belongs among other objectives to perceive without delay. That means the removal of any kind of prodigality: typical indications for such abuse are overproduction, incorrect goods, expensive stock storage, burdening of too extended waiting periods, superfluous (transportation) ways, false employment of staff, and neglected human resources without taking into account workforce recommendations to turn off poor results.

A not yet generally recognized and acknowledged significant component of entrepreneurial competence is nowadays reflected by the slogan „corporate social responsibility“. Within small scale units, where everybody is familiar with the individual attributes of his colleague, the communication happens satisfactorily. Nevertheless, the chairperson should be acquainted with some psychological principles. Eventually employees are exposed to trouble in person because of anxiety whether income continues. It refers to those who are addicted to alcohol or drugs.

If people are sickened by burn-outs or anyhow dissatisfied, management should be aware of health precautions. Man's dignity conscious leaders have to mind job security and safety, ergonomically well equipped working rooms, manual labour facilitating machinery, division of jobs between man and woman, regulation of flexible working hours, etc.

Reviewing all the interrelated factors on behalf of external influence, on the other hand, and in-house disposition, on the other hand, the entrepreneurs must be somehow a millipede to take care of every detail.

It goes without great saying that leadership know-how skills are of fundamental prerequisite for success. Indeed, entrepreneurial vigorous standing is based on an integrative activity aiming at a comprising capacity to master very complex dilemmas regarding carrying on business expectancy and social viability. To avoid surprising friction causalities substantial signposts have always been reliable: thus, strategic visions, company mission statements, formulation of gettable objectives, feasibility investigations, identification and analysis of possible risks, opportune task planning, evaluation of performance, rating of income and expenditure, assessment of workforce contribution.

That business heads are not wrecked on uncertainty how to overcome defiles they should look into the establishment of an advisory board, consisting of a few retired executives as proved companions getting to grips selected everyday affairs. Entrepreneurs are independents only in the sense that they are free to choose upon whom to be dependent, the type of dependence and the degree of dependency.

Leaders are asked not to hesitate to utilize lifelong learning as a key component of their jobs and as stimulation of the employees they conduct. To be at the top it is necessary to take care of spare time either to upgrade current knowledge or to collect advanced know-how findings by make full use of reports, published in the technical literature, or examining internet data that are in place in order to remain competitive by transfer of gained suggestions.

Other experience advantages are mediated in visits of fairs or exhibitions and as well as in attendance of management conferences.

Learning needs may differ according to the stages of entrepreneurial career standard. Vocational instruction cultivates an acceptable elementary standing-point to understand the core of the business world. Ongoing education in academic high schools or university colleges is generally dominated by scientific subjects of theory, less handy in smaller firms, but more and more professors deal at present with applied case studies or business games of proceedings in practice.

Formation programmes are frequently not transparent; they are set up too bureaucratic, too inflexible and not near to demand for business oddity. Serviceable management trainings, presenting multi-disciplinary and multi-dimensional problem-solving methods, constitute at least in Germany increasingly one welcomed highlight on behalf of chambers of industries and commerce, business associations and many-sided professional free-lance agencies. They all organize regular seminars, courses or round table discussions with suitable partners aiming at the improvement of

- Leadership, team management skills;
- Individual human communication skills;
- Psychological, ethical behaviour skills;
- Strategic conceptional creativity skills;
- Goal setting and long-range planning skills;
- Technical innovation and quality management skills;
- Risk management skills;
- Process evaluation skills;
- Financial, investment and accounting skills;
- Commercial skills;
- Ecological skills;
- Health provision skills;
- Legal consideration skills,
- Negotiation and networking skills;
- Public relation skills;
- Rhetoric, foreign language, writing skills,
- Interfirm cooperation skills; and
- Furthermore skills to enrich entrepreneurial drive by advanced training or application of consulting expertise.

On principle, entrepreneurs are motivated as optimist; they are eagerly in search of changes and facilities to bring about their self-chosen mandate trouble-free; they are encouraged by intuition, inspiration, ambition, mental energy and physical agility to operate as fair business masters. Bright, future-oriented SME owners who are enabled to balance learning, working and societal living challenges earn everybody's respect for ever!

Christmas lighting at the Place de la Concorde in Paris  
by  
Dr. Antal Szabó ©



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## ACADEMIC ENTREPRENEURIAL EDUCATION IN GERMANY <sup>15</sup>

### 1. Differences between business administration and entrepreneurial studies

To understand the progress and problems of entrepreneurial education in Germany, we have to look at the differences between studies in business administration and entrepreneurship. Business administration is a relatively young discipline in Germany. It has been introduced at most universities not before the 1920 because it was considered to be a kind of art studies rather than pure scientific studies, according to the ideas of Eugen Schmalenbach (1873-1955), the founder of German “Betriebswirtschaftslehre”.

However, in the following decades these studies have been become more and more academic in the sense of an increasing theoretical orientation on microeconomics in idealized neoclassical environments. This theoretical cosmos and the tools derived from it have dominated the faculties since the 1960s, rather fitting the needs of large corporations than those of SME. Moreover, entrepreneurial activities continuously went down from the 1950s when 25 % of the German population were entrepreneurs or self-employed (including farmers) to the early 1980s when only 8 % self-employers and entrepreneurs remained. So there seemed to be no need for particular academic studies for SME and start-ups. They were regarded as relicts of pre-modern societies and considered to provide only unattractive jobs for university leavers.

What is the difference between entrepreneurial education and business administration? In short, we can characterize them as following:

- While entrepreneurship is a holistic approach, also focusing motivation and attitudes of the potential founder, business administration is focusing on theory and algorithms.
- The approach of entrepreneurship is broader but less specialized approach than that of business administration because
  - Activities of SME or start-up owner are less specialized
  - SME owners lack capacity to pay specialists who could work for them
  - They have no need for complicated mathematical micro-economic simulation and no need to process great data masses because data are not available from the past or from competitors
- Entrepreneurship is including less analysis, but more concept-building and decision orientation
- In sum: The world of SME and start-ups is a „non-parametric“ universe with a qualitative focus on identifying opportunities and market chances, making optimal use of limited resources, pushing innovations – not on control of existing resources like in corporate management.

Also the traits of future SME owner or founders, and corporate managers are very different and lead to different styles of perception and learning:

#### Liability:

- **Entrepreneur:** risk is not limited, even including his private assets
- **Corporate manager:** maximal risk = loss of job, liability protected by clearly limited authority and responsibility

#### Decisions:

- **Entrepreneur:** protection of assets and liquidity, quick decisions with high degree of uncertainty
- **Corporate manager:** high dependence from shareholders, underlying pressure to increase shareholder value and profits, slow decisions with a great number of people involved

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<sup>15</sup> This article has been written as a contribution to the workshop “ENTREPRENEURIAL EDUCATION FOR SMEs”, organized by ORGANIZATION OF THE BLACK SEA ECONOMIC COOPERATION (BSEC) and KONRAD-ADENAUER-STIFTUNG ANKARA (KAS). Belgrad, 13-15 October 2010

**Skills:**

- **Entrepreneur:** lack of formal education, lack of theory but often good practical experience
- **Corporate manager:** good formal theoretical education, but not always related to practice

**2. The early development of academic entrepreneurial studies in Germany**

The development of entrepreneurial education in the United States started in the late 1940s under the pressure to create employment for 100,000s of soldiers coming back from the war. However, it did not influence the development in Germany where there was a certain lack of skilled male labour caused by the war. One of the first courses in Entrepreneurship was opened in 1947 at Harvard. Peter Drucker thought another early course at New York University in 1953. But only since the 1980s, courses in business administration have separated from entrepreneurship and SME management.

In Germany, the attitude towards entrepreneurship changed in the employment crisis of the early 1980s. Since then, the idea of entrepreneurship, however ignored by many business administration teachers, has resonated in the academic domain. Suddenly SME were discovered as a source of growth, employment, and innovation. Start-ups made themselves up to be the symbols of the dynamic regeneration of capitalism.

At that time, the need for entrepreneurial education by researchers and academic teachers was discovered. This was clearly due to the impact of years of economic stagnation. However, a strong obstacle of the development of a start-up culture was the German attitude and policy to protect and subsidise existing industries rather than to accept the Schumpeterian “creative destruction process”. More than 60 % of German citizens reject the idea to create a business because of the risks related to this act.

First courses for entrepreneurs were not fully integrated in the regular curriculum. They took places at the universities of Cologne and Stuttgart in the 1970s. A first chair for general management including start-up management was established at Dortmund university 1992 for Dr. Müller-Böling. The first chair particularly dedicated for entrepreneurship has been established at the European Business School (EBS) for Dr. Klandt. At Fachhochschule Frankfurt, the „Frankfurt model for start-up management“ including consultancy and coaching for students of all faculties and externals was operated by Dr. Weissbach, H. Emge and P. Sulzbach from 1998 to 2003. It was based on the idea of immediate support and help for start-ups whenever they would need it, but separated from the regular curriculum.

Also in 1998 a contest was arranged by the Federal Ministry for Research. Five regions were selected for a pilot academic education scheme (EXIST) in entrepreneurship. In 2000, ten other regions were selected for EXIST-Transfer projects, among them Rhein-Main with Fachhochschule Frankfurt, Goethe Universität Frankfurt, and other schools. Additional EXIST programs have been established to provide seed capital and mentoring for high-tech entrepreneurs.

The end of the dot-com bubble was in a certain way very important for the German entrepreneurial culture, because due to the shockwaves of this crisis with 1000s of crashes of start-ups created by well-educated academics, the traditional of German founders fear to fail and the shame to have become insolvent widely has disappeared. Since then, it has been societally accepted to give the founders a “second chance” (or even a third one).

In about 2007, one could speak of a successful implementation of academic entrepreneurial education. At that time, 54 chairs and 19 incubators existed at 49 universities. 80 % of the chairs had been established at business and economic faculties, 5 % at engineering faculties, 4 % in information technology, 4 % in social studies, 7 % at others. However, most of the courses were eligible, and B.A. (B.Sc.) or M.A. (M.Sc.) schemes for entrepreneurs did not yet exist.

It must also be mentioned that in some universities central support departments took the role to provide facilities and consult for founders in cooperation with practitioners, patent lawyers, etc. The intention was to provide a more practical training and advice because the professor in general is not the best role model for entrepreneurship students. At other universities, task sharing between academic entrepreneurial training and practical consultancy and support has been established. But the integration of entrepreneurship as a full academic discipline goes on. We estimate the today 80 to 90 chairs exist in this domain.

But how strong is the influence of academic education on the founders? Their average age in Germany is more than 35 years. The number of start-ups founded by people younger than 35 years is going back in Germany. They make up their businesses at least 8 or 10 years after leaving university. This shows that the influence of the educational system is limited, and its impact – if there is any - is hard to evaluate.



Moreover, it demonstrates the increasing need for more continuous entrepreneurial education.

Some other weaknesses of academic entrepreneurial education have to be stated: Chairs at universities are not always close to entrepreneurial practice, because most of them are research-orientated. Many of the academic teachers never have established an enterprise of their own. Often they have difficulties to cooperate with practitioners, banks, etc., and leave the practical part of the start-up development to transfer agencies. Most of the chairs are situated at faculties for economy or business. This is the reason that often content from the business administration curriculum is “recycled” in a non-creative way, making its way into entrepreneurial courses.

### 3. Recent trends in academic entrepreneurial studies in Germany

Over the last two or three years, some recent trends could be identified. One of the most important is that the generalist MBA can be provided in a more specific way for entrepreneurs. Also in Germany, the first specialized MBA courses in entrepreneurship will take in 2011. At Fachhochschule Frankfurt, a course was accredited by FIBAA and will start in March 2011.

Meanwhile, entrepreneurship has not only become an important eligible for business engineers, designers, IT specialists, etc. at technical universities but also a regular discipline in combination with innovation management.

More short certificate courses of continuous education for practitioners from 5 days to 3 semesters are provided by the universities, following the “Frankfurter Model” of 1998 created at Fachhochschule Frankfurt. Incubation and seed capital are provided by universities in cooperation with private actors, and some universities directly invest in start-ups.

In the future, we expect a further separation of studies for start-ups and SME management. First specialized courses at universities for applied sciences for SME (e.g. FH für den Mittelstand Bielefeld) have already been established.

And last but not least, a standard curriculum has emerged that follows a holistic approach and focuses motivation and attitudes of the future entrepreneur. This fact does not contradict the observation that a greater differentiation and specialization of entrepreneurial courses for particular target groups (e.g. entrepreneurship for women, for web-based start-ups ...) takes place.

### 4. The MBA program “Entrepreneurship & Business Development” at Fachhochschule Frankfurt am Main

As a recent development in entrepreneurial training, a part-time and e-learning MBA program has been developed at FH Frankfurt. It has been accredited by FIBAA in April 2010 and will start in March 2011. The course is provided for people with entrepreneurial tasks and at least one year of job experience. The costs amount to 9.800 €.

120 ECTS can be gained within 5 to 6 semesters, depending on time invested on the thesis. The content is 75 % in German, 25 % in English. The target groups of our program are

- Start-ups
- Business unit managers, profit center managers
- SME owner-managers
- Managers preparing a management buy-out
- Corporate managers who want to develop innovative business models
- Managers of non-profit organizations who have to develop new markets.

The following modules are included in the curriculum:

- Module 1: General Management I – Basics (5 ECTS each)
- Module 2: General Management II – Simulation of a case
- Module 3: Strategic Management and Strategic Business Planning
- Module 4: Entrepreneurship and Entrepreneurial Business Planning
- Module 5: Management Skills I
- Module 6: Initialization of Growth and Development Strategies
- Module 7: Corporate Business Development and Strategic Business Unit Development

- Module 8: Implementation of Business Plans
- Module 9: Management Skills II
- Module 10: Access to International and Intercultural Markets, Mergers & Acquisitions
- Module 11: Financing and Controlling of Change and Growth Processes
- Module 12: Marketing & Sales
- Module 13: Information Management
- Module 14: Development of Competences and Knowledge Resources
- Module 15: Service Business Specifics for Corporations and Start-ups
- Module 16: Business Development for SME and Non-Profit-Organisations
- Module 17: Finance Management: Case Studies
- Module 18: Juridical Aspects of Business Development. - Sustainability
- Module 19: Master Thesis (30 ECTS)

(The master thesis could be a business plan including an implementation strategy, or an innovative business model.)

## 5. Some unsolved questions remaining

Some questions remain in spite of all progress made in entrepreneurial education during the last two decades:

- Can the (German, Serbian, Rumanian ...) professor be a good role model for entrepreneurs? And how can the weaknesses caused by his limited practical experience be compensated?
- Should practitioners be integrated in academic training, and how can this be done?
- Should academics be involved in practical aspects of the start-up business? (bank talks, etc.) What about responsibility of academic teachers?
- Are academic teaching methods appropriate to the individual needs of young entrepreneurs?
- Is an academic curriculum providing the knowledge and skills exactly at the time when needed?
- Should the performance of young founders be evaluated in traditional academic terms?
- What should be the result of the entrepreneurial education and training? A business plan? A business idea? An individual orientation? A job option?
- How (and when) can the practical impact of academic entrepreneurial education be evaluated? Does it really have a sustainable impact on attitudes and motivations?

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## ENTREPRENEURSHIP EDUCATION DEVELOPMENT IN BULGARIA

### 1. INSTITUTIONAL FRAMEWORK FOR THE ENTREPRENEURSHIP DEVELOPMENT IN BULGARIA

All European countries, including Bulgaria, need to strengthen the entrepreneurship mind among young people, encourage the creation of their own business, and stabilize the institutional and cultural environment for innovation and SMEs growth. Following the EU politics for stimulating the entrepreneurship development, Bulgarian governments approved a number of **basic documents** in the field of work, education, and creation of a knowledge based competitive economy<sup>16</sup>. In almost all these documents the necessity for stimulating the entrepreneurship was accounted, but there is not entirely unified document with a unified strategy, which consolidate different initiatives in the field. For instance in the “National plan for development of Bulgaria 2007-2013” it is indicated the necessity to strengthening the links among education, science, and business; increasing the adaptability of employees to the market demands; introducing the life long-term education; improvement of the education quality, etc.

The issues of entrepreneurship are elaborated in more details in **two national strategies** for encouraging SMEs development (respectively for 2002-2006 and for 2007-2013) (MEE 2002; MEE 2007)<sup>17</sup>. Along with priorities like the simplification of the administrative and normative environment for SMEs, improvement of the information access, support for innovation, etc, the encouraging of entrepreneurship is the other accent in the first strategy. Quite more attention on the entrepreneurship is given in the second strategy. It envisaged the introduction of entrepreneurship in the secondary education, broadening the entrepreneurship in the higher education and universities, support for entrepreneurship training in enterprises, elaboration of appropriate consultancy services for SMEs, assisting the new starts-up, including special programs for female and ethnic minority entrepreneurship, information campaigns for stimulating own business, etc. (MEE 2007, p. 21). The other important document is the Bulgarian **innovation strategy**<sup>18</sup>, which contains also stimulus to entrepreneurship. It emphasized mainly the creation of special entrepreneurship units in polytechnic universities, helping the new techno starts-up, and increasing management and marketing skills of students in these universities (Innovation strategy..., p. 16-17).

The main **institutions**, which are engaged with the entrepreneurship promotion, are educational (schools, colleges and universities), State (Bulgarian Small and Medium Enterprises Promotion Agency - BSMEPA, Ministry of Economy, Energy, and Tourism, Ministry of Labour and Social Policy, Agency for Employment), and nation wide non governmental organisations like Bulgarian Chamber of Commerce and Industry, Bulgarian Industrial Association, National Association of Small and Medium Size Business, and others. For instance the last organization was created in 2000 as a NGO and in 2004 became a confederation, unifying municipality associations of small business and sector specific associations. It has more than 400 juridical persons and 165 physical persons as members from different economic sectors. In its goal, tasks and structure, it is similar to other European associations for small and medium size business. It propose different

<sup>16</sup> Some of these documents are: National plan for economic development 2000-2006; Governmental program 2001-2005; Strategy for employment 2004-2010; National strategy for continuing vocational training 2005-2010; Governmental program for European integration, economic growth, and social responsibility 2005-2009; National program for the development of the school and preceding school education and preparation 2006-2015; National plan for development 2007-2013; Pact for economic and social development of Bulgaria until 2009; National program for reforms 2007-2009; National strategy for lifelong learning 2008-2013; Governmental program for the European development of Bulgaria 2009-2013; Program for the development of education, science and youth politics in Bulgaria 2009-2013, etc. (Bulgarian industrial association 2010, c. 13)

<sup>17</sup> Ministry of Economy and Energy, 2002, Strategy for encouraging SMEs development in Bulgaria 2002-2006, (<http://www.mi.government.bg>); Ministry of Economy and Energy, 2007, National strategy for encouraging SMEs development in Bulgaria 2007-2013 г., ([http://www.mee.government.bg/ind/doc\\_eco/NationalStrategy forSMEs2007-2013.doc](http://www.mee.government.bg/ind/doc_eco/NationalStrategy%20forSMEs2007-2013.doc))

<sup>18</sup> Innovation strategy of R of Bulgaria and measures for its realization ([http://europe.bg/upload/docs/Inovation \\_strategy.pdf](http://europe.bg/upload/docs/Inovation_strategy.pdf))

services to its members as entrepreneurship education, managers qualification improvement, marketing research, business plan and investment projects creation, tax and accounting services, etc. Its mission is to contribute to the creation of a favourable environment for SMEs development. It presents its members in the dialog with governmental and local institutions. The association networks with other NGOs, state agencies and municipalities in the accomplishment of different projects. A number of research organisations from **non governmental sectors** work in help of entrepreneurship development too. Among these are: Centre for economic development, Foundation for entrepreneurship development, Centre for entrepreneurship development, Centre for the study of democracy, Institute for market economy, Institute for economic policy, Federation for the local self-government development, and others. There are also many **regional** (district and town) state and non-governmental organizations, which work for local economic development, and which include in their activities the entrepreneurship promotion. In 2006 several regional centres for entrepreneurships have been set-up.

## 2. ENTREPRENEURSHIP DEVELOPMENT IN SECONDARY EDUCATION

### 2.1. Junior Achievement Bulgaria

The introduction of entrepreneurship in the Bulgarian secondary education started with the activity of the created in 1997 **Junior Achievement Bulgaria** (<http://www.jabulgaria.org>). It is member of the Junior Achievement Worldwide (JAW) and its regional unit Junior Achievement – Young Enterprise Europe (JAYE). This is the leading organization with the longest tradition in delivering educational programmes in business, economics, and entrepreneurship mind development among pupils. It started in Bulgaria with 10 pilot classes, and today it propose 23 educational courses and business programs, having more than 12 000 pupils in the whole country. During the 2005-2006 academic years the Junior Achievement programs are taught by 358 teachers in 220 schools in 95 towns. Since 1997 more than 32 000 pupils, 410 pupils companies and 130 business consultants took part in the Junior Achievement activities.

### 2.2. Educational training firms

In 1996 the teachers from National High School in Finance and Business created the Centre of educational training firms, which serviced all similar firms in Bulgaria, and since 1999 it became an independent unit at the Ministry of Education. The creation of these firms was strengthened by the ECO NET project in the framework of the Stability Pact for South Eastern Europe, which started in 2001 (<http://www.econet-see.com/bg/index.html>). The project was financed by the Austrian Foreign Ministry and realized by Kultur Kontakt Austria with k.education Bureau for projects in Bucharest, Sofia, and Tirana. In spite that the project ended in 2002, it was decided to continue and widen its activities in the “Framework program ECO NET”. The targeted countries are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Montenegro and Romania, and its targeted groups are representatives of the education ministries of the partner countries; in-service teacher training institutions; managers of the training firm centres; head-teachers of the pilot scheme schools; teachers of the pilot scheme schools; pupils of the pilot scheme schools. The main project activities included the creation and the expansion of a regional set of educational training firms (ETF); establishment of trade contacts on national and international level; training of teachers, representatives of educational institutions, and school directors on project and quality management, business communications, key qualifications and special topics related to training firms work.

As a result of these efforts 3 national, centrally coordinated set of 68 training firms were created in Albania, Bulgaria, and Romania; close to the practice educational methods were introduced in 11 pilot schools; the schools were equipped with necessary techniques for running ETF; more than 200 experts in the education were trained; new educational materials were created; the trade fairs of ETF were realized as platform for direct contacts; the ETF were connected in international set through the internet site [www.econet-see.com](http://www.econet-see.com). The participation of the training firms in the Comnet international web-shop for training firms (<http://www.comnet-project.com>) was also facilitated. Information about the differing business practices in the project countries was exchanged, agreements were made on carrying out regional trade, teaching methods were compared and differences recognised. According to the starting point of training firm networks, courses in a modular system were held on subjects from the founding of training firms to quality

management for advanced training firms. The Bulgarian training firm managers with most experience in the field of training companies developed teaching materials and information on the subject area of “entrepreneurship and training firms” under the guidance of a local expert. In function of the respective country necessities, modules could be combined flexibly. The basic point in these modules are economics of enterprise; informatics; management; ETF set-up; public relations; foreign languages; presentation techniques; strategies development, etc.

Actually in Bulgaria there are 61 schools with 245 ETF, or 4 ETF on average by one school. Of course, some special business oriented schools have mere training firms as National High School in Finance and Business (10 ETF), national High School in Commerce and Banks (41 ETF), while some other schools have only one ETF.

### 3. ENTREPRENEURSHIP DEVELOPMENT IN COLLEGES AND UNIVERSITIES

Actually in Bulgaria there are 51 accredited universities and colleges offering high level education. Almost in all these establishments the disciplines related to economic, management and entrepreneurship knowledge and skills are taught. Most often this is a work of economic and business faculties, while some of colleges are even exclusively business oriented. It is assumed that the leading universities propose higher quality education on economic and business, and their graduates are preferred by employers. These are University for National and World Economy in Sofia, Academy of Economy – Svistov, Economic University in Varna, Faculty of Economic and Business at the Sofia University St Kliment Ohridski and others. The higher education quality in these units is due to the better coverage with university teachers, who are able to propose larger spectre of economic and business courses. The basic disciplines are micro- and macro economics; mathematics; statistics; accounting; management, HRM, marketing, etc. At the same time the education seems to be based on the **narrow understanding** of entrepreneurship as the knowledge and skills for creating and managing small firm, and maybe because of that is directed mainly to students from economic and business faculties.

As noted in the EC report, (EC 2008, p. 7), „currently the teaching of entrepreneurship is not yet sufficiently integrated in higher education institutions’ curricula. Available data show that the majority of entrepreneurship courses are offered in business and economic studies. The diffusion of entrepreneurship is particularly weak in some of the Member States that joined the EU in and after 2004”. According to the commission experts, „it is questionable whether Business Schools are the most appropriate place to teach entrepreneurship: innovative and viable business ideas are more likely to arise from technical, scientific and creative studies” (ibid). Commission experts considered that „entrepreneurship education should not be confused with general business and economic studies; its goal is to promote creativity, innovation and self-employment” (ibid, p. 10). Bulgarian colleges and universities are not an exception of this picture.

In order to overcome these shortcomings, the special project was put in action in 2006 by the Ministry of economy and energy “Creation of entrepreneurship centres in the universities and colleges in Bulgaria”. Under this project a number of university and college centres have been established. The main goal of such centres is to educate students in entrepreneurship skills and to prepare them for successful management of their own companies. For instance the “Centre of Entrepreneurship and Industrial Property” at the Technical University in Varna, was set-up. The centre works to commercialize relevant technical knowledge (techno start-up), and accomplishes educational, consultancy and information services. In order to network better among such centres in North Eastern region of Bulgaria, in 2009 the Inter-university centre for the support of entrepreneurship was set-up in High school international collage Dobrich (<http://iuec-ne-bg-vumk.com/index.php>).

According to data, there is not a great difference between the old and new EU member states on key six dimensions of entrepreneurial education (these dimensions are: Strategy, Institutional Infrastructures, Teaching & Learning, Outreach, Development, Resources). In some of the dimensions it seems that more institutions in EU>15 have a broader model of entrepreneurial education with more institutions having entrepreneurial professors and degrees, placing the strategic responsibility at the top-management, and providing recognition for achievements in entrepreneurial education. However, more resources seem to be allocated to entrepreneurial education in institutions in EU15 compared to institutions in EU>15 (Survey of Entrepreneurship Education in Higher Education in Europe, 2008, c. 36).

The key findings of the above mentioned survey are that in general, there is a shortage of entrepreneurship studies within non-business institutions and disciplines in Europe; the majority of entrepreneurship courses are offered in business and economics studies; coverage of entrepreneurship in non-business studies is particularly weak in some of the new member states; while the demand for learning about entrepreneurship is increasing, there is a shortage of human resources; there are currently too few professors of entrepreneurship; there is very little in terms of incentives to motivate and reward teachers for getting involved in entrepreneurial teaching and activities with students (Survey of Entrepreneurship Education in Higher Education in Europe, 2008, p. 65-66).

Similar to other EU high educational establishments, the Bulgarian colleges and universities often suffered from the same weaknesses, related to organization of education in entrepreneurship, available teachers, quality of education, use of contemporary teaching methods, integration of entrepreneurship education into the whole curricula, horizontally spreading it across different fields of study. There are not so many teachers, specialized in the field of entrepreneurship, and like otherwise the stimulus for career development are linked mainly with publications in referred journals, and less with commitment in teaching. The faculties, departments and chairs often function not well coordinated, which create difficulties for students to have and/or attend interdisciplinary courses. Additionally, the teaching methods like lectures prevailed, while the experience based methods are used to a lesser degree. As mentioned in the EC report, the “mobility of teachers and researchers between higher education institutions and business is in general very low, and the practice is not encouraged. There are in many cases little or no incentives, or even disincentives... The lack of relevant skills and experience to teach entrepreneurship is especially acute in the post-transition countries of central and Eastern Europe... Although entrepreneurs and business practitioners are in general involved in the teaching, there are few examples of entrepreneurial practitioners engaged in the full curricula experience. Most frequently, they are only engaged in short presentations to students (e.g. as testimonials or guest lecturers) or as judges in competitions (EC 2008, p. 32; 38; 66).

A key recommendation of the cited survey of entrepreneurship education in higher European schools is related to the “definition of entrepreneurial education. All levels (EU, national governments and higher educational institutions) need to embrace a **broad definition** of entrepreneurship. Much of the resistance from academics to pursue the entrepreneurial agenda is, in our understanding, a misconception of what entrepreneurship is. Entrepreneurship has previously been closely linked to starting up businesses for profit. The courses have focused on business plan writing and product development. Therefore, many have felt that entrepreneurship is at odds with the values prevalent in academia. In academia, the objective is to create and disseminate knowledge as a common good – not to create knowledge for one’s own personal gain/profit. Consequently, it has been difficult to get the academics (outside the business schools) to support and engage in the entrepreneurial agenda (Survey of Entrepreneurship Education in Higher Education in Europe, 2008, c. 36).

#### 4. ENTREPRENEURSHIP DEVELOPMENT THROUGH CONTINUING EDUCATION

In the country there are 49 accredited private colleges for vocational training in tourism, management, and many other professions, where the entrepreneurship education is also presented. Having in mind the outlined above situation with the entrepreneurship education in universities, it is hard to imagine that vocational colleges made an exception. Besides, many private educational centres have been created particularly in the field of management and entrepreneurship, which offered short term and not expensive courses. Such courses are delivered by the specially created centres of vocational education by some of the largest nationwide professional associations.

For instance, the Centre of vocational education at the Bulgarian Industrial Association (BIA) offers courses for initial and advanced qualification in 35 professions and more than 600 specialities. Additionally, it organizes education for start up entrepreneurs. The courses can start if the group of 8-10 people is already formed. Courses are quite flexible – the education can be done evening, or during the week-ends. The average prices are about 200-250 Euro for 18-200 hours. The Centre proposes also the certification of the European Business Competence\* Licence (EBC\*L) – European standard for business competencies. The BIA partnered with German Association for Organization of Work, Enterprise and Company development (REFA) in organizing REFA courses. Successful students finished with REFA certificate. Similar centres function also at the Bulgarian Chamber of Commerce and Industry, and similar courses are proposed by the Bulgarian Small



and Medium Enterprises Promotion Agency, the National Association of Small and Medium size Business, and some others branch associations and centres.

The young entrepreneurs can improve their skills in the program Top Class of the Centre for Entrepreneurship and Executive Development (CEED). The Centre organizes regular meetings among young entrepreneurs, helping to create their specific community. The yearly membership fee is about 750 Euro, and the membership guarantees meeting with established businessmen and multiple contacts. High class courses are offered by the Bulgarian Association for Management and Entrepreneurship Development together with the London Chartered Management Institute (C.M.I.), Thessalonica based Institute for Management development at the Association of Industrials in Northern Greece, and Institute of Management and Entrepreneurship for South Eastern Europe (IMESE). The education is centred on team working and resolving cases. The price of the courses was 4 700 Euro, and successfully graduated can make application for the C.M.I memberships. Each year the Bulgarian Forum of Business Leaders (<http://www.bblf.bg>) organizes master business classes for selected 40 students. The classes are free of charge. In each master class the up to day issues of real business are discussed and the lecturers are top managers of the biggest national and foreign companies from the country.

## 5. SOME EFFECTS OF THE ENTREPRENEURSHIP EDUCATION ON THE BULGARIA ECONOMY

According to the Registry Agency, as to September 2009 in the Trade registry are entered in total 271,694 companies, of which 184,995 re-registered and 86,69928 new-registered. After March 2009, about 3,400 companies were newly registered monthly on average. The dynamics of the newly registered companies is one of indicators for innovation degree, as among these companies the authentic entrepreneurs could be looked for (Innovation. BG 2010, p. 39). The tendency showed a decreasing of sole proprietors at the expense of an increasing the number of registered Limited trade companies. The diminution of the smallest companies (usually registered as sole proprietors) is a positive sign as they have low innovation potential (ibid, p. 40). Nevertheless, these companies could be very innovative and excelled authentically entrepreneurship.

As a whole, however, the situation within the sector of Bulgarian SMEs in terms of innovation, internationalization, standardization, IKT and e-commerce implementation is not very bright. The structure of the sector witnesses its relative weakness because of a great number of micro enterprises in most economic sectors, low competitiveness, small share of exporters, and particularly of the high tech exporters, weak inclusion in the e-business, not sufficient innovation (except maybe of the IKT sector) and quality certification. The data form different researches (Kolev 2008) showed that Bulgarian SMEs are at beginning of a process of integration in the EU and other developed international markets. We can assume that the situation of SMEs sector is related in some ways with the not very well developed strategies and structures of entrepreneurial education in the country, but this assumption should be checked more in detail.

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## Appendix 1.

### EUROPEAN COMMISSION PROPOSITION OF THE ON THE ENTREPRENEURSHIP EDUCATION DEVELOPMENT (EC 2008, p.9)

#### The *public authorities* might:

- set up a task force (including the Ministry of Education and other ministerial departments: Economy; Employment; Science and Research) to determine how entrepreneurship can be integrated into primary, secondary, and higher education;
- adopt legislation supporting relations between private business and universities, including allowing professors to work part-time with business;
- help develop an accreditation system to validate non-formal learning and practical activities that favour entrepreneurship development;
- establish awards for entrepreneurial universities, teachers and students, and promote positive examples of academic spin-offs.

#### At their level of responsibility, *higher education institutions* could:

- set up a strategy and an action plan for teaching and research in entrepreneurship, embedding practice-based activities, and for new venture start-ups and spin-offs;
- create an entrepreneurship education department, which would serve as an entrepreneurial hub within the institution and spread the teaching of entrepreneurship across all other departments;
- offer an introduction to entrepreneurship and self-employment to all undergraduate students during their first year. In addition, give all students the opportunity to attend seminars and lectures in this subject;
- set up incentive systems to motivate and reward faculty staff in supporting students interested in entrepreneurship, and acknowledge the academic value of research and activities in the entrepreneurial field;
- develop clear institutional rules about intellectual property;
- award academic credits for practical work on enterprise projects outside the established courses.

#### Finally, as regards *other actors* who need to be involved:

- Business associations could help to get their members more involved in teaching entrepreneurship at educational establishments.
- The European Commission could support programmes to train entrepreneurship teachers on a European scale, and back the creation of networks and cross-border exchange programmes for educators.



Sketches for Christmas by  
Tamás Tóth ©

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**REPORT ON SMEE 2009 – REVIEW**

In early December 2010 the Ministry of Economy and Regional Development has released its Report on Development of the SMEE Sector for 2009.

During the transition period (after 2000) Serbia has created a rather favorable business climate, including that for the operating of SMEE. Results are encouraging compared to the level of EU average by structural and quantitative measurement, but modest if we include qualitative ones (e.g. per employee). The global economic crisis has seriously affected Serbian companies including SMEE. In spite of Government and Central Bank measures introduced to neutralize recession, a smaller number of start-ups and entrepreneurs emerged in 2009. In the future the key thing is to support fast growing SMEE in order to make Serbian economy more competitive.

After the democratic changes that took place in 2000 much of a progress had been made in the creation of an institutional and legal framework for doing business. Serbia managed to overcome the development lag of SMEE in relation to other transition countries and even to become better than some EU member states in some segments. The number of enterprises and shops was continually rising, in parallel with the number of employees, and so the number of jobs created in the SMEE sector after 2005 had been higher than the number of jobs lost through restructuring of large enterprises.

A faster rise in the number of small and medium-sized enterprises and the setting up of a system of incentives for their development both present significant achievements of transition of Serbian economy during the period 2000-2009. The sector of small and medium-sized enterprises and entrepreneurship (SMEE) has become the most efficient segment of Serbian economy, and the agent of growth and employment. In 2009 it accounted for 66.7% of employment, 67.8% of turnover, and 57.4% of gross value added of the non-financial sector of Serbian economy.

A comparative analysis of development of the SMEE sector in Serbia and those in EU member states suggests that by the share in the number of enterprises and employment, as well as by realized turnover and GVA, the sector of SMEE of Serbia is at the level of the EU average. However, the lagging behind of the SMEE sector of Serbia vis-à-vis EU average is marked if we consider turnover per employee, GVA per employee, and profit per employee. A comparative analysis of investment per employee and investment per enterprise in adjacent countries and EU-27 indicates a considerably lower level of these indicators in Serbia, both relating to the SMEE sector and to the entire economy. Investment per employee in the SMEE sector amounts to EUR 3,000 (the EU average at EUR 7,700) and investment per enterprise to EUR 9,200 (in the EU at EUR 33,400).

The growth model of Serbian economy had faced severe limitations even before the crisis as it was unsustainable in the mid run. The global economic crisis negatively affected Serbian economy and limited the development of SMEE. Government and the National Bank of Serbia have undertaken a series of measures through which adverse effects of the crisis have only partially been cushioned.

Recession effects (a decline in external and domestic demand, and investments, increased risks and costs of investment, as well as the fear of failure) have impacted negatively on the doing business of economic entities and the entrepreneurial climate. Results of the GEM research into entrepreneurial activity in 2009 indicated a smaller number of start-ups and new entrepreneurs. A robust entrepreneurial dynamics of recent years is undermined (slower establishment, growth and development; faster closing), which heavily limits opportunities for the creation of new jobs and a productivity rise.

In 2009 in the sector of SMEE 314,827 economic entities operated, and they employed 872,540 people and realized 4,380bn dinars of turnover, as well as 819.2bn dinars of GVA. The structure of SMEE was prevailed by micro economic entities – entrepreneurs and micro enterprises (302,484), whereas small and medium-sized enterprises (12,343) were dominant with all the indicators of reference (they accounted for

52.7% of employment, 57.6% of turnover, 60.2% of GVA, 76.0% of exports, and 74.2% of imports).

The number of SMEE rose by 11,378, a result of an increased number of entrepreneurs and micro enterprises (by 11,420 and 703, respectively), which due to their poor economic power could not impact much on the rise of the level of development of the entire sector. At the same time, the number of small and medium-sized enterprises fell (by 542 and 205, respectively).

Consequences of the crisis are mirrored in a drop of employment, turnover, GVA, and profit. In 2009 the sector of SMEE employed 67,619 less workers than in 2008 (-7.2%). Turnover of SMEE went down in real terms by 14.7%, GVA by 11.2%, and profit by 15.5%.

An adverse tendency of SMEE being concentrated in two sectors lingered (Wholesale and retail trade, 34.4%, and Manufacturing industry, 17.2%), and that primarily in two regions (City of Belgrade, 29.5%, and South Backa District, 10.0%).

Recession led to enterprises being less bent on investing, and to a decrease of the share of equipment and construction works in the technical structure of investments. By the share of investments in GVA, the sector of SMEE is below the average of the economy (27% vs. 32%), pronounced differences being present within the sector itself. The crisis hit hardest micro enterprises whose allocations in 2008 equaled only 9% of GVA (29% in 2007), whereas above the average were only medium-sized enterprises (36%). In addition, micro enterprises invest most in construction works, whose share in overall construction works of the non-financial sector stands at 19.7%.

The rise in major indicators of cost competitiveness in 2004-2008 was interrupted in the crisis-laden 2009, with micro and small enterprises being hit hardest as they contribute greatly to employment but they are less productive because of less skilled labor that generates a smaller value added. Income of the SMEE sector accounts for almost 2/3 of GVA and so enterprises are left without sufficient funds to enhance and modernize the process of work.

The global economic crisis hits enterprises involved in international trade most and so the number of exporters and importers in 2009 fell. A drop in domestic consumption impacted on a lot faster decline in imports than exports and so the coverage of import by export rose to 52.8%, especially in the SME sector. Although the export of high-tech products registered the fastest rise, the economy of Serbia is still dependant on the export of branches of low-tech intensity. The situation in the SMEE sector is highly unfavorable: subject to trade are mainly products the production of which does not require the usage of high technology nor intellectual work. The intensity of structural changes to exports in 2009 was most significant in micro enterprises that, just like enterprises of medium size, managed to raise the nominal value of exports as well (by 3.5% and 4.7%, respectively).

Application of cutting-edge ICT for the purpose of achieving a competitive doing business in a modern enterprise shows that by the level of equipment and the usage of computers in day to day operations, SMEE of Serbia are slightly behind the average of EU-27 and highly developed countries but that when it comes to the usage of the Internet they lag behind most EU member states a lot. The Internet is most often used for providing banking and financial services while e-business (purchase and sale) is still inadequately applied.

In 2009 Serbia made progress in designing and pursuing the policy of SMEE development. 'SME Policy Index' Report<sup>19</sup> underlines that Serbia underwent the process of strategy formulation and designing of the policy of supporting the development of SMEE efficiently, and that at present Serbia is in the stage of policy pursuit which is characterized by ever higher public funds earmarked for the support for SMEE. Assessment of the Index of 2009 (3.3 of the possible 5) suggests that Serbia is half way through to building up a system of stimulations for the development of SMEE, compared to the state needed at the point of accessing the EU. Almost entire legal infrastructure is built up and the policy of incentives for development of SMEE is efficiently implemented. Together with Macedonia and Montenegro, Serbia belongs to the group of countries that have made a marked progress in implementation of the European Charter. Only Croatia is more advanced owing to reforms it undertook as a full membership candidate country. In comparison with the previous year, Serbia made most significant progress in the areas of: promoting operations on the national and international market, more efficient representation of interests of small enterprises, models of efficient electronic operating, and a first class support for small enterprises, enhancement of the on-line access and

<sup>19</sup> It was compiled by the European Commission, OECD, ETF, and EBRD. The Report was presented at the Ministerial Conference on Enforcement of the European Charter for Small Enterprises in the Western Balkans (Brussels, June 2009)

strengthening of technological capacities of SMEE. Intensive activities were lacking in the area of education and training for entrepreneurship, harnessing available capacities, and the upgrading of legal regulations.

As part of the process of EU accession, a decision was taken for the Western Balkans countries and UNMIK to monitor implementation of principles of the **Small Business Act - SBA** in the period to come. **SBA** is a dominant initiative of the EU in the area of SMEE development policy, the implementation of which will ensure for the single European market to be more in accord with the needs of SMEE. SBA rests on 10 principles which lay down guidelines for the creation and pursuit of policies at the level of the EU and member states.

In the course of 2009 the '**Strategy for Development of Competitive and Innovative Small and Medium-sized Enterprises 2008-2013**' was being implemented. The strategy rests on five pillars – major priorities of SME development. These are: promotion and endorsement of entrepreneurship and establishment of new enterprises, development of human resources for a competitive SME sector, funding and taxation of SME, development of competitive advantages of SME on export markets, and development of a legal, institutional, and business environment for SME.

Implementation of the **Strategy for Regulatory Reforms in the Republic of Serbia 2008-2011** is underway and through it administrative costs of the doing business will be reduced by at least 25%. A Comprehensive Regulation Reform (CRR) is being implemented and it diminishes the regulatory burden SMEE have by enhancing the existing system of analyses of effects of regulations and by one-off invalidation or amendment of inefficient regulations. In 2009 the Unit for Implementation of CRR was set up and the process of amending 191 regulations was started. Estimates suggest that sole enforcement of 22 recommendations will ensure annual savings of about EUR 120m.

In 2009 for the financial and non-financial support for the SMEE sector from public sources **29.9bn dinars was allocated (EUR 318.1m)**. From the Budget **10.6bn dinars was allocated (EUR 113.0m)**.<sup>20</sup> The work of the *Republic Network and the Network of Regional Agencies/Centres* aimed at providing professional assistance and consulting services was endorsed with about 203.5m dinars (EUR 2.2m); *National Employment Service* provided non-financial services to SME to the amount of 3.0bn dinars (EUR 37.2m); *Fund for Development of RS* approved 3.9bn dinars (around EUR 41.0m) of credit funds for start-up loans, 2.9bn dinars (EUR 30.6m) for crediting the development of enterprises and entrepreneurship in most underdeveloped municipalities, as well as 166m dinars (EUR 1.8m) to stimulate the quality of catering supply. For implementation of the Project of fostering enterprises to invest in the strengthening of innovativeness 37.3m dinars was approved (EUR 401,000), and for implementation of the Programme of development 23.3m dinars (EUR 248,000). In addition, *Export Credit and Insurance Agency (AOFI)* approved 2.7bn dinars (EUR 28.3m) of favourable loans for exporters, 1.4bn dinars for the funding of the factoring (EUR 14.5m), as well as 1.0bn dinars (EUR 10.7m) for insurance and guarantees of exports, whereas *Serbian Investment and Export Promotion Agency (SIEPA)* for promotion activities of private enterprises extended 41.4m dinars (EUR 439,000). Moreover, from its own funds the Fund for Development of the RS for the sector of SMEE approved loans to the amount of **14.3bn dinars (EUR 151.6m)**. *Financial support from external sources* (Fund of Revolving Credits, Apex Global Credit II and Credit of the Government of the Republic of Italy) – in 2009 credit applications of EUR 50.8m were realized (EUR 201.4m not used).

Owing to the **non-financial support** results were made in the area of development of human resources in the SMEE sector, as well as the improvement of the level of knowledge and capacities of entrepreneurs, owners of SMEE, and employees. Programmes of business education involve numerous institutions on the national and local level. Quality of programmes and the allocated sum for their realization is rising year in, year out. However, they are still lagging behind the real needs of creating a competitive, export-oriented SMEE sector.

Serbia is at the beginning of the final phase of transition and is on the threshold of obtaining the status of a candidate country for accession to the EU, institutions essential for the functioning of market economy already being set up. This imposes new tasks for the policy of reforming the economic system and stimulating the development of the SMEE sector, the emphasis being on measures designed to boost the level of global competitiveness of the economy.

<sup>20</sup> In 2008 from the Budget 9.6bn dinars was earmarked (EUR 117.6m) for the funding of financial and non-financial support for the SMEE sector.

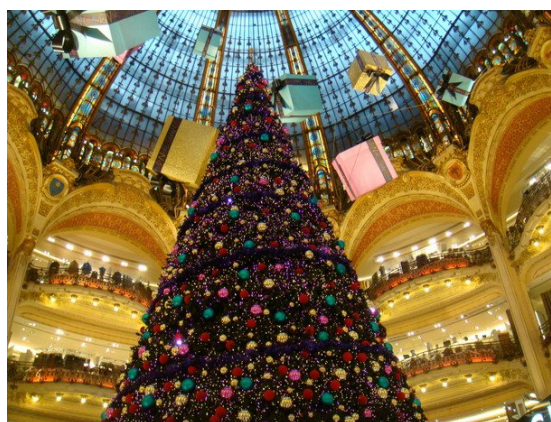
During the transition period the Government has realized horizontal measures for fostering the development of SMEE (building up of the system of setting up new enterprises). Thus measures targeting fast growing companies and gazelles have not been introduced (particularly the provision of specific business services, support for boosting competitiveness, and development of technological capacities). It is expected that in the period to come much attention will be focused on further development of instruments designed for certain target groups of enterprises, such as schemes of credit guarantees, division of costs, and the scheme of returning costs for innovation, introduction of standards and development of operations (implementation of regulatory reforms, creating conditions for e-business and on-line services, as well as development of human capital through entrepreneurial education and development of skills).

	EU	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovenia	Serbia	
	2008							2008	2009
No. of companies in 000	20,727	303.4	899	532	1,563	440	102	303.4	314.8
No. of employees in 000	90,006	940.2	2,505	1,767	5,880	2,633	424	940.2	872.5
Turnover in EUR billion	14,284	58.3	245	163	421	268	51	58.3	46.6
GVA in EUR billion	3,626	10.5	49	25	81	37	11	10.5	8.7
Profit in EUR billion	977	4.0	9	1	19	19	1	4.0	3.2
No. SME per 1,000 inhabitants	41.6	41.4	86.6	53.0	41.0	20.4	50.7	41.4	43.0
No. of employees per company.	4.3	3.1	2.8	3.3	3.8	6.0	4.2	3.1	3.1
Turnover per employee in 000 EUR	158.7	62.0	97.8	92.2	71.6	101.8	120.3	62.0	53.4
GVA per employee in 000 EUR	40.3	11.1	19.6	14.1	13.8	14.1	25.9	11.1	10.0
Profit per employee in 000 EUR	10.9	4.2	3.6	0.6	3.2	7.2	2.4	4.2	3.6
Profitability rate	27.0	38.1	19	2.0	23.0	52.0	9.0	38.1	36.2
<b>SME SHARE IN THE NON-FINANCIAL SECTOR (IN PERCENTAGE)</b>									
No. of companies	99.8	99.7	99.8	99.8	99.8	99.6	99.7	99.8	99.8
No. of employees	67.4	74.1	67.6	71.1	68.9	63.6	67.0	67.2	66.7
Turnover	57.7	65.1	58.8	58.8	59.2	58.7	63.2	66.6	67.8
GVA	57.7	54.1	54.8	51.9	51.7	42.2	59.8	59.1	57.4
Profit	49.4	45.4	31.5	-	33.6	34.8	29.1	58.7	54.1

Source: DG Enterprise and Industry; Republic Statistical Office for data on Serbia

Christmas tree at the Galeries Lafayette  
in Paris

Photo by  
Dr. Antal Szabó  
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**COMPETITIVENESS OF SMALL AND MEDIUM SIZED ENTERPRISES**

Doctoral Theses

Consultant: Prof. Dr. Habil. Losoncz Miklós DSc.

**1. Topic of the meeting, its aims and structure**

The **topic** of my Doctoral Thesis is: Analysis of the Competitiveness of Small and Medium-Sized Enterprises (SMEs), which was motivated by two factors. The first motif is a personal one: within the frames of our family entrepreneurship we have provided accounting services to more than a hundred SMEs, thus I have had a possibility to get acquainted with specificities and problems of the target sphere in practice. I have also wanted to examine the features of the domestic SME sector with scientific excellence that goes beyond empirical experiences, that is why for many years of research connected with my doctoral studies, I have tried to explore the characteristics of small and medium-sized enterprises and their economic role (e.g. changes in the definition of the sector, its composition; funding issues; networking; the share of SMEs in employment, GDP production and exports). Dr. Miklós Losoncz has helped me to do the final touches to the theme, he was the one who suggested that I should apply competitiveness as central term in arranging the earlier researched diverse topics into one single system, and who I owe my thanks to for his valuable professional advice.

To support the up-to-date importance of the topic, I would like to cite from the European Commission's document, entitled "We should put the SMEs in the first place!": "The small and medium-sized enterprises form the backbone of the European economy and are key players in the creation of new jobs and economic growth as well". (EU 2007a: 1) According to this, successful implementation of the two major objectives of the renewed Lisbon strategy in 2005 (growth and employment) is possible only with involvement of well-run and developed SME sector, covering 99% of the companies of the European Union, and two-thirds of employment. (COM (2005) 24 final: 17) Accordingly, in the recent years, numerous national and European community development strategies have been created and measures have been taken to improve competitiveness of the small and medium-sized enterprises, which, however do not include, as they do not have to, a scientifically grounded term, or its determinants. While I was studying a substantial part of rich professional literature on competitiveness, I came across a lot of information dealing with the term of competitiveness interpreted on different levels (macro-, mezzo-, micro levels) as well as possibilities of analysis, however, I did not come across any mature definition or systematization of numerous competitiveness factors (affecting factors and outcome) of small and medium-sized enterprises as company group. In my thesis I have attempted to make up for this.

The **aim** of my research was to find answers to the following questions:

1. How can competitiveness of small and medium-sized enterprises be interpreted?
2. How can competitiveness of SMEs be analyzed?
  - 2.1. Which main factors have effect on competitiveness of the sector, and what are the main outcomes of competitiveness and its changes?
  - 2.2. What theoretical framework should the mentioned factors be added to?
3. Can the sector of small and medium-sized enterprises be treated as a whole in analysis of competitiveness?
  - 3.1. If yes: In which cases and in what conditions?
  - 3.2. If no: What criterion(s) should be applied to segment the sector?
4. How can the Hungarian sector of SMEs be evaluated?

- 4.1. Which factors can be considered of outstanding importance from the point of view of the sector's competitiveness and how the national competitiveness of SMEs can be evaluated with the help of above factors in international comparison?
- 4.2. How can competitiveness of company size categories in national SME sector (micro-, small- and medium-sized enterprises) be characterized?

Prerequisite to analysis and answering the above questions was to define the competitiveness and to process the literature analyzing competitiveness. Thus it had been completed prior to giving answers to the questions of research, as a basis for theoretical support of the theme.

Accordingly, the **structure** of the thesis, which includes six chapters, is as follows:

Chapter 1 is the "Introduction", where the topic of the dissertation and questions of research have been drawn up, followed by formulation of hypotheses and description of research strategies.

Chapter 2 gives theoretical foundation to the analysis of competitiveness. Within it, first, short presentation of economic, management and organizational theories will be given, where, because of transparency and comparability, I tried to go through the foreign and national literature in chronological order. After that I collected important methodological questions of competitiveness (levels of the subject and factors of competitiveness, offer and demand, as well as ex ante and ex post approaches, questions of definition and measuring), without answering which, in my opinion, it is not advisable to start the analysis of competitiveness at all. It is especially not sensible, as in the course of studying the literature, I met some contradictory and controversial views, so I applied critical approach and formulated my own standpoint for their explanation. The next three subchapters contain the term of competitiveness developed on the level of economic policy programs and scientific research and introduction of analysis ability on the levels of national, regional and enterprises economy, as subjects of analysis. Thus the aim is to help understand competitiveness and to establish analytical framework which could add to analysis of competitiveness of small and medium-sized enterprises.

Chapter 3 includes realization of the above mentioned aim. This is where my own definition of competitiveness of small and medium-sized enterprises will be presented, together with systematization of macro-level factors effecting competitiveness using STEEP analysis, and creation of a "complex model" which gives classification of effecting factors and results (factors of competitiveness) which influence/indicate competitiveness of small and medium-sized enterprises on the macro level from different points of view. As the number of factors and indicators used for their measuring is actually infinite, I have not tried to take into account all of them, but rather tried to systemize them.

At the beginning of Chapter 4 the concrete factors of competitiveness will be defined, the analysis of which I want to present in my thesis with the aim of defining competitiveness of national SME sector. I will also deal with the environment of economic policy and macro economy, which belong to the factors of macro level; with questions of financing, networking, productivity, R&D and innovation in ex ante approach on the micro level, as well as with employment in small and medium-sized enterprises in ex post approach, gross added value, net income, and examination of contributions to export production as well. Highlighting of the listed factors was motivated by my studying of foreign and national specialized literature, as well as my own experiences gained in the course of my research; however, I am totally aware that analysis of many other factors which have not been examined within the frames of the dissertation but are really important from the point of view of competitiveness of SMEs, would have been justified too, but that was impossible because of size limits.

## 2. Hypotheses of research

The hypotheses formulated below are connected to question group 4 of my research. This is due to the fact that question groups 1-3 are methodological, therefore it is rather difficult to make statements connected with them; however, answering these questions is suitable for formulation of novel scientific approaches.

**1<sup>st</sup>H: Performance and potential for development of small- and medium-sized enterprises substantially influence competitiveness of the geographical area of the site (region, country, macro region).**

**2<sup>nd</sup>H:** After the millennium, national small- and medium-sized enterprises were primarily able to make positive influence on the competitiveness of national economy through their role in employment.

**3<sup>rd</sup>H:** Improvement of competitiveness of national SME sector is not impeded by scarcity of offered internal resources, but rather by lack of ability to accept them, as well as lack of competence and inadequacy.

**4<sup>th</sup>H:** Results achieved in the field of intercompany cooperation (development and operation of networks and clusters) have not been able to contribute substantially to improvement of national competitiveness of small- and medium-sized enterprises so far.

**5<sup>th</sup>H:** From the point of view of competitiveness, the sector of small- and medium-sized enterprises is heterogeneous, that is why it should be segmented in analyzing competitiveness. One of the most important criterions of segmentation is the size of the enterprise, where the growth of the enterprise goes together with the improvement of its competitiveness in case of national SMEs.

### 3. Methods of research

In the process of research and preparation of my dissertation, I have relied on a wide methodological base. I have studied national and international literature on competitiveness of two branches of economic science for theoretical preparation of the topic – economics and management and organization. I have tried to present the theoretical foundations of conceptual circumscription and analysis of competitiveness by systematization and synthesis on the one hand, and by applying critical approach on the other hand. I have done a research of sources for presentation of SME politics and competitive approach, that dominate economic policy, and for this purpose I have studied numerous national and community legal sources, working papers, national governmental and European Commission development plans and programs in order to monitor changes over time.

Chapters of thesis containing empiric analysis can be divided into two well-separated parts from methodological point of view. In Chapter 4 you can find analyses that are based on secondary data sources, among which, besides national (first of all KSH, NFGM) and international (primarily Eurostat, OECD, statistical offices of some central-eastern European counties) statistics, national and international empiric research results have also been shown. During data processing I followed three guiding principles. One of them is the dynamic approach: wherever I had a possibility, I tried to present trends of the studied phenomena over time, using data lines from the millennium up till present day. The second principle is the effort of international comparison, where Hungary was the target country in each case, and the “benchmark” countries were presented by some of Hungary's main competitors in Central and Eastern Europe - Czech Republic, Slovakia, Poland and Romania, and also “old” members of the European Union (EU15) as well as the whole community (EU27). The third principle is the need of analysis of company size categories, which, because of limited number of available, separated within this structure data, was not possible to evaluate for each topic. Here I have to add, that it is usually true for international data that parts of figures were not available for every country or group of counties involved in the analysis, and in some cases only information for different periods of analyzed term was available. Though it has made comparison more difficult, I believe that lack of data is not so significant as to make drawing conclusions impossible.

The other chapter of the thesis containing empiric analysis (Chapter 5) is based on primer research database. At my place of work, College for Modern Business Studies, I took part in the work of a research group between 2006 and 2008, where the comprehensive analysis of management of domestic small-and medium-sized enterprises (among other things: the tool and source structure, profitability, funding patterns, market situation and outlooks) made a part of the research program, and the greater part of information was suitable for characterization of the competitiveness of SMEs. The survey of more than 800 companies on the basis of a questioner was completed in December 2006 and January 2007, that is why the obtained data mainly applies for the business year of 2005. Though the result of the research shows only a “snapshot”, as any questioner-based survey, the trends cannot be examined over time; however the survey was really appropriate for carrying on an analysis by company size. Processing of the questioners was made with the help of SPSS program package by using the following statistical methods: absolute and relative frequency lines, descriptive statistical indicators (average, modus, median, standard deviation, skewness, kurtosis), as well as hypothesis testing procedures characterizing relationship between criteria (independence test and variance analysis).

At the end of Chapters 4 and 5, I have summarized the examined competitiveness factors with the

help of SWOT-analysis (in some cases on the basis of several indicators), and I have also made a comparison chart for description of competitiveness of three company size categories within the range of SMEs, on the basis of which I had a possibility to make overall conclusions.

It is true for the whole thesis and especially for chapters including empiric statements that I have tried to support and exemplify my account with numerous charts and diverse figures.

Finally, I have to say several words about the terminology used in the thesis: when referring to SMEs, I have not used the wide-spread term of “small- and medium-sized entrepreneurship”, but rather “small- and medium-sized enterprises” (except for the cases of verbatim quotations, where the first term is used). This is because I have accepted Zoltán Román’s point of view, which can be found in many of his writings, according to which: enterprise  $\neq$  entrepreneurship. (Román 2007: 80). Mixing of the two terms does not create only problems of linguistic aspect. In the documents of the European Union the terms “enterprise” and “entrepreneurship” are used separately, which is usually lost in translations. This can be really problematic, as the terms “enterprise development” and “entrepreneurship development” have totally different meaning. While the first one means development of enterprises as organizations (e.g. expansion of the circle of funding sources, reduction of administrative charges, etc), the latter one means advancement of entrepreneurial mindsets, skills and knowledge, which has been increasingly emphasized in the documents relating to the Community since the launching of Lisbon Agenda in 2005. (Román 2007: 82) Taking all the above stated into account, I consider the term “small- and medium-sized enterprises” solely suitable for naming the SMEs.

#### 4. Assessment of hypotheses

I have evaluated the formulated hypotheses on the basis of the results of empiric and theoretical research:

***1<sup>st</sup>H: Performance and potential for development of small- and medium-sized enterprises substantially influence competitiveness of the geographical area of the site (region, country, macro region).***

The thesis contains several levels of justifying this statement. Using theoretical specialized literature, on the first level, I have shown that the essential factor affecting national economy competitiveness is the competitiveness of companies operating there. Explanation of this view can be connected with the research in management science and with the name of Michael Porter, who traces back competitiveness of national economies to the competitiveness of internationally successful enterprises, industries, clusters operating there, which statement can also be true for both smaller and bigger geographical units (regions, macro regions). Behind this idea there is the standpoint, which has been accepted by both scientific theory and on economic policy level as well by now, that the final aim of improving competitiveness is to increase the standard of living, which first and foremost depends on economic growth, that is essentially depends on trends in productivity, which means that ultimately it is determined on company level.

On the second level of justifying my hypothesis I have stated that since the millennium, but especially since 2005, there has been a shift in stress in defining company circle having influence on the competitiveness of regions, countries (groups of counties). What concerns foreign markets, earlier, almost exclusively, the stress was on the leading corporations, first of all transnational corporations, on both competitiveness researches and on the sphere of economic policy, but nowadays the stress has gradually shifted to the direction of highlighting the importance of small- and medium-sized enterprises. This has happened because, besides productivity and economic growth, the stress on the role of employment in competitiveness comes more and more into view, as economic growth goes along with the growth of welfare only if the broader segment of population gets the share of the produced income. As in the area of employment significance of small- and medium-sized enterprises goes far beyond significance of large and transnational corporations, the decisive factor of their operating and developing ability is social welfare, and through it – enhancement of competitiveness.

Finally, in the course of analyzing the SME policy and the perception of competitiveness of the European Union and of national government, I demonstrated that since publication of the European Charter for Small Enterprises in 2000, and later the renewal of Lisbon strategy in 2005, the role of competitiveness of SMEs has received bigger stress in the community and national economic policy; furthermore the documents of recent years specifically mention development of the SME sector as major booster of competitiveness of

community and member countries and regions at the same time.

On the basis of the above stated, I accept the 1<sup>st</sup>H hypothesis as proven.

*2<sup>nd</sup>H: After the millennium, national small- and medium-sized enterprises were primarily able to make positive influence on the competitiveness of national economy through their role in employment.*

The second hypothesis is closely related to the previous one. In relation to the 1<sup>st</sup>H hypothesis, I explained that behind valorization of the role of competitiveness of SMEs there is the fact that because of the great number and proportion of their employees, they are able to “expand” the benefits of economic growth derived from bigger performance on the society, thereby contributing to the increase in living standards. This is naturally also true for the SME sector operating in Hungary; however the 2<sup>nd</sup>H hypothesis states more than that. Besides their contribution to employment, activities of small- and medium-sized enterprises also (can) contribute to the growth of GDP and export performance, that is affect competitiveness of their national economy in several “ways”. According to this hypothesis, in case of domestic SMEs, it is the role in employment that is able to show the positive effects of the sector on competitiveness of Hungary. As a proof, I have analyzed the position of SME’s share in employment, gross added value and export production with the help of time lines starting from the millennium. I have come to the conclusion that it is only true for the weight of employment of SMEs, that it exceeded the average of the European Union for the analyzed period, as well as the mean of all analyzed competing Eastern and Central European countries; moreover it showed increasing tendency, that is, its formation had positive effect on the competitiveness of the country both in international comparison and in dynamic approach.

On the basis of the research **three additions** can be connected to the above stated. The first one is that the analyzed indicators of measured performance of the SMEs give us information not only about how the small- and medium-sized enterprises contribute to competitiveness of national economy, but also **rate the competitiveness of the sector itself**, as they refer to its development in ex post way, from the side of results. This duality is stated in the definition formulated by me, as well as in the content of the “Results” column of the “complex model”. The second addition is that development of the role of employment in the national SME sector did not show a single image: first, the micro enterprises, and second, the small enterprises could increase the number of their employees, thus their role in employment increased, while that of the medium-sized enterprises decreased. As a result, **not the whole circle of the SMEs, only development of the role of employment of the micro- and small-enterprises did have a positive effect on national competitiveness.** The third addition is connected to the above stated, according to which, in the analyzed period, expansion of employment in micro- and small-enterprises was able to compensate for the reduction in employment that had been experienced at medium enterprises and large corporations, but did not result in detectable decrease of high inactivity rate in international comparison. Consequently, **the performance of micro- and small-enterprises in this area was in reality enough only not to let the international position in competitiveness of the existing employment in Hungary decline, which was in fact terrible.**

Taking into consideration the above additions, I accept the 2<sup>nd</sup>H hypothesis as proven.

The first two hypotheses highlighted the fact that small- and medium-sized enterprises do have an effect on the competitiveness of their business areas; nevertheless, from the whole thesis we can see that this effect is mutual. Macro and micro environmental conditions provided by a region, country or a macro region have both positive and negative effects on the competitiveness of SMEs operating there; however, the majority of positive effects can only come into existence if the enterprises are ready and able to exploit the competitive advantages provided by the location. The following two hypotheses fit in this line of thinking.

*3<sup>rd</sup>H: Improvement of competitiveness of national SME sector is not impeded by scarcity of offered internal resources, but rather by lack of ability to accept them, as well as lack of competence and inadequacy.*

Both in literature dealing with the competitiveness of enterprises, and in the community and national documents about SME development as well, the fact that available funding resources are one of the most important factors affecting competitiveness of SMEs has been continuously stressed; on the other hand, the level of financing SMEs, despite observed development, is not satisfactory. With the help of national and European Union research I have showed that insufficiency of funding is not the worst impeding factor of SMEs’ development, and there have been upward trends in recent years in this area; alternatively, loan

financing is not a major problem as well, but inadequate equity is. After that I have supported by analyzing national data about different external funding sources, mainly bank loans, that after the millennium, offers for external financing sources have increased on the one hand, and the source-providers have been paying increasing attention to serving the needs of SME circle; on the other hand, demand for external sources has expanded as well. Nevertheless, national SMEs' endowment with external sources is low, which has been supported by the primer research as well, and have been supplemented from different points of view. According to the results of the research, the SMEs are basically satisfied with the possibilities of getting external sources, and only insignificant part of them think that they would not be able to get the sources if they wanted to. Primary reason for the low proportion of SMEs receiving external sources is that a significant number of enterprises believe that they do not need this kind of funding for their operation and development in the first place; they just wish to rely on their equities solely. This is true for each enterprise size category, but the biggest role of equity funding is within the circle of micro enterprises.

On the basis of research results I have to add **a clarification and an addition** to the hypothesis. I assume that an important role in formation of the frequently experienced lack of sources in the SME circle is played by the fact that the enterprises are not capable or ready to accept the sources. Primer research results refine this, stating that **out of the two reasons not the lack of "capability", but rather the lack of "readiness" is the decisive factor**. Besides this, on the basis of examinations of corporate assessment of risk factors, I can conclude an addition that though lack of funding is an existing problem, **the SMEs see the main risk to their operation mainly in market difficulties first of all and in the problems of regulatory environment secondly, as well as in inadequate funding thirdly**. Together with clarification and addition, I accept the 3<sup>rd</sup>H hypothesis as proven.

***4<sup>th</sup>H: Results achieved in the field of intercompany cooperation (development and operation of networks and clusters) have not been able to contribute substantially to improvement of national competitiveness of small- and medium-sized enterprises so far.***

In the globalized world economy, formation of competitiveness of small- and medium-sized enterprises has been affecting the willingness and ability to cooperate more and more, as by using the privileges of joining networks and organizing clusters, the possibility to get into global competition successfully multiplies for smaller-sized enterprises. By analyzing sources on the topic I have concluded that after the millennium stimulation of networks and initiation of clusters have been increasingly emphasized both in the SME development programs of the European Union and national programs as well, which has increasingly strengthened in recent years. The reason for this is that previous programs were only partially successful and several of them, according to conclusions of a number of European Union researches, had not resulted in desired degree of competitiveness of the sector, neither in Hungary nor in the studied competitor countries.

Primer research of national SMEs' linkage to the network of suppliers has supplemented the above stated. The essence of the **supplement** is that according to research results, one of the most obstructing factors of network expansion is **insufficient willingness of SMEs to cooperate**. According to the vast majority of SMEs, becoming a supplier or increasing the rate of supply will not help the growth of a company in the near future, what is more, **the majority of them do not see it as their way of expansion**, only smaller part of them do, but they do not believe in success. Besides, on the basis of analysis according to company size, it can be stated that **smaller enterprises see much less possibility for gaining or increasing supply, moreover, they aspire less than the bigger enterprises**. Together with the additions, I accept the 4<sup>th</sup>H hypothesis as proven.

Finally, the last hypothesis highlights the connection between company size and competitiveness in reference to national SME sector.

***5<sup>th</sup>H: From the point of view of competitiveness, the sector of small- and medium-sized enterprises is heterogeneous, that is why it should be segmented in analyzing competitiveness. One of the most important criteria of segmentation is the size of the enterprise, where the growth of the enterprise goes together with the improvement of its competitiveness in case of national SMEs.***

Proving of the hypothesis in my thesis has been done by analyzing numerous competitiveness factors on the basis of company size. Consequently, it is absolutely clear that substantial differences can be observed among some company size categories even within the conditions and results of competitiveness on micro level, i.e. the size of a company does have an influence on formation of competitiveness of SMEs. Like domestic research and secondary data sources, the results of primer research as well show that within national

sector of SMEs the bigger enterprises are in a better position of competitiveness in almost all analyzed competitiveness factors than the smaller enterprises. In some **exceptions** shown in the thesis, on the basis of research results, **the role in employment** can be considered as the most important, where the micro enterprises are clearly the leaders.

Emphasizing the mentioned “exception”, I accept the 5<sup>th</sup>H hypothesis as proven.

## 5. New and novel scientific results of the research

Questions connected with the analysis of competitiveness in the Chapter 2 of the thesis (levels of the subject and factors of competitiveness, offer and demand, as well as ex ante and ex post approaches, questions of definition and measuring), as well as questions 1-3 of research question groups are of methodological character, and thus no hypotheses were created. While answering them though, in my opinion, *I have developed and/or applied totally novel approaches in analysis of competitiveness, or rather competitiveness of small- and medium-sized enterprises, which have not been used in the specialized literature in this form so far.* They can be summarized as follows:

### *General questions of competitiveness analysis*

- (1) I have called attention to the fact that **we should clearly distinguish the levels of subject and factors of competitiveness analyses**, which often merge in the specialized literature.
- (2) There is also considerable confusion in the specialized literature in connection with the analysis of competitiveness from the sides of supply and demand, as well as ex ante and ex post approach. Authors, who use the terms, usually identify the side of supply as ex ante, and the side of demand as ex post, which, in my opinion, is not correct. I have explained that **the ex ante (condition) and the ex post (result) factors of competitiveness can be both related to the sides of supply and demand**, and in the “complex model” for analyzing competitiveness of SMEs on micro level **I used this approach in practice as well.**
- (3) I have pointed out that the “side of supply/demand” is problematic as a term itself, because some authors use this pair of terms just in the opposite way than the others. That is why **I have suggested using the terms “input/output sides”**, as I have used them in my thesis, as they clarify whether the analyzed factor stands in front of the analyzed subject of competitiveness or after it in the value chain system.
- (4) What concerns determination of competitiveness, I have stated that I do not consider it as essential criterion of the **definition** if it does not contain directly measurable terms, but, taking into consideration different peculiarities of subjects of different levels, I consider it essential **that it should help to assign the main trends and factors of analysis.** I have been trying to use all of the above stated for defining competitiveness of small- and medium-sized enterprises.

### *Questions of analysis of competitiveness of small- and medium-sized enterprises*

- (1) After having studied literature on competitiveness as well as community and governmental documents on development of SMEs, I did not find a definition, which would have defined specifically small- and medium-sized enterprises as a group of enterprises. That is why, in accordance with established principles, on the basis of the studied competitiveness definitions and methods of analysis on national, regional and company level, I have formulated **my own definition: *Small and medium-sized enterprise sector of a region, country or macro region can be considered competitive, if it is able to contribute substantially and, if possible, increasingly to the development of economic performance of the geographical area and raise the level of employment. Condition of this competitiveness is that the sector's companies, making use of flexibility resulting from their dimensions, should be able to adapt to changes within and outside the company, as well as to exploit the environment for competitive advantages, and, by doing this, to improve their position on domestic and / or international market by ensuring improvement of conditions for gaining profit to the owners.***

(2) I have stated about the macro level of competitiveness of small- and medium-sized enterprises that they are such external factors of ex ante character that usually have the same influence on each enterprise; thus, while analyzing them, I handled the SME sector as a whole. **I have used the STEEP analysis for the systematization of factors on macro level.**

(3) When taking into consideration the **factors of micro level**, I pointed out that one can find elements of input and output side, ex ante and ex post character and internal and external elements of enterprises among them, which **have been systematized in a single structure with the help of the “complex model”.** (Figure No.1) The model



takes into account all the listed aspects of classification, moreover it integrates the systems of conceptions of Porter’s diamond model (Porter et al. 2008:49) and competition model (Porter 2006 [1980]: 30), and Chikán’s business competitiveness index (Chikán 2006: 44) as well.

While doing analyses of the micro level, I defined the subject of the analyses in two ways: first, I treated the sector of SMEs as a whole; secondly, I used segmentation on the basis of company size where it was possible.

*Figure 1: Complex model of competitiveness of small and medium-sized enterprises*

		Terms, affecting factors (ex ante)			Results (ex post)
		External		Internal	
		Environment	Participants	Competition	
Input side	<b>Input terms</b> •Natural features •Human resources •Capital resources •Infrastructure features (ICT logistics, etc.)	<b>Related and sponsors</b> •Suppliers’ quality and bargaining power •Sponsor presence •Features of making clusters	<b>Strategy and competition</b> Strength of competition for inputs: •with competitors •threat of the new entrants	<b>Operational ability</b> •Productivity •Cost Efficiency •Prices •Quality of products •Standard of production •Terms of Delivery •Standard of services •Flexibility	<b>Results on Input Side</b> •Progress of employment •Progress of R&D expenditures •Progress of the extent of raising capital
	<b>Output side</b>	<b>Terms of demand</b> •Volume of demand and its sophistication •Consumers and users’ needs •Consumer Protection and other requirements	<b>Terms of demand</b> •Customers’ bargaining position •Features of making clusters	<b>Strategy and competition</b> Strength of competition for buyers: •with competitors •threat of the new entrants •threat of the substitute products	<b>Ability to change</b> •Market relations •Employees’ qualification •Preparedness of management •Methods of decision/operation •R&D and innovation

Source: Personal redaction

*The new scientific results of my research can be connected first of all to the primer research, and, first and foremost, to exploration of differences in competitiveness factors according to company size categories, and can be summarized as stated below for the circle of national SMEs:*

**(1) Funding**

- SMEs rely mainly upon their equities in funding their operation and development; however, in the circle of micro enterprises, the role of private capital is much more significant than in the case of other enterprises.
- The majority of SMEs refuse the possibility of involving partners with capital. The largest proportion of medium-enterprises though has partners with capital; all the same, the micro companies are the most open ones to this possibility.
- Provision of micro and small enterprises with bank loans is below of that of medium-sized and big enterprises; at the same time, within the circle of companies with loans, the two smaller enterprise categories have twice as many long-term loans as the bigger ones.
- Only a fraction of SMEs that have no credits would like to get a loan regardless their size; the most common reason for refusing to get one is the fact that the enterprise does not need it.
- Only small proportion of SMEs thinks that they would not get a credit if they wanted to; all the same, the biggest proportion of micro enterprises assumes their own creditability or ability to pay off credit unsatisfactory.
- Use of tender sources is “more popular” within the circle of SMEs than use of state-subsidized loans.
- Significantly smaller proportion of micro enterprises took part in tenders and submitted applications than the other enterprises, and the tenders of applicants of this company circle were less successful than of those of the other enterprises, especially in comparison with small enterprises.

**(2) Networking**

- According to the vast majority of SMEs, becoming a supplier or increasing the rate of supply will not help the growth of a company in the near future.

- The proportion of companies in supplier position and of those that assume this status positively significantly grows simultaneously with the size of the company.

### (3) Export:

- In the circle of exporting SMEs, export productivity of smaller companies keeps pace with that of the bigger ones in the sense that almost the same proportion of turnover comes from export, regardless company size. Differentiation according to size, which is typical for the whole enterprise circle (the smaller the company the lower the export rate), thus, can be thanked to the fact that significantly lower number of smaller enterprises take active part in export.
- The majority of SMEs, regardless their size, experience strong competition on the export market; however, the small- and mainly the medium-sized enterprises believe in growing export possibilities, while the micro enterprises consider the possibilities pretty unchangeable or even rather decreasing.

### (4) Competition, assessment of market prospects and risks:

- In all size categories the majority of enterprises assume strong competition on every market, nevertheless they count on growth of their market possibilities (on local market), or staying on the same level (on national and export markets).
- Only smaller proportion of micro enterprises feels strong competition (except for the export market) in comparison with the other SMEs; at the same time, they are less optimistic than bigger enterprises in judging future market prospects.
- The SMEs see the main risks in their operation in market difficulties (stronger competition, loss of market, worsening of customers' payment behaviour) first of all, also in the problems of regulatory environment and finally, in inadequacy of funding sources.

## 6. Further possible directions of research

I can see possibilities of further development of my research of competitiveness of national small- and medium-sized enterprises from four different perspectives:

(1) Within the frames of the thesis, there was no possibility of analyzing all essential factors of competitiveness, thus their inspection could be another topic of research. The topics which I find most important are:

- **Profitability:** Within the frames of profitability we can analyze the proportion of profitable/loss-making enterprises, as well as development of different profitability indicators (e.g. turnover ratio of profits, ROA, ROE, ROIC, etc.) for the whole sector and for separate segments too. Besides, a lot of other connected topics can be given consideration to, especially those that influence the progress of profitability, or profitability data that can be certified on the basis of accounting documents of enterprises: e.g. the influence of tax and contribution system on profitability, distorting effects of hidden economy (unavowed employment, concealed income), etc.
- **Application of ICT-technology:** In my thesis I have stated that the development programs of SMEs of the European Union and the national ones consider assisting modernization of the SMEs as an important aim, the main fields of which is the broadest possible application of the fast growing information and communication technologies. I think it would be an interesting topic for research to analyze the characteristics of domestic SMEs in this field and what impact it has on the development of their competitiveness.
- **Entrepreneurial thinking and skills:** One of the new directions of the system of entrepreneurial-statistical data collection that has gone through major renewal recently is the observation of "entrepreneurial thinking and skills". (Román 2007: 68) The resulting data sources, possibly supplemented with primer data collection, create the possibility to analyze more profoundly this important internal factor of the competitiveness of SMEs. Szirmai-Szerb's study (2009: 25) also draws attention to this increased need of such kind of analysis, according to which, behind the problems of competitiveness of SMEs there usually lies ineptitude of individual (personal and corporate) abilities and skills.

(2) The second possible way of stepping forward is increasing the circle of indicators used for measuring and characterizing separate competitiveness factors, as well as exploration of relationships and interactions between them. I consider it to be done first of all within the frames of primer research, where the researcher him/herself can "create" indicators, can check their relevance, and with their help can carry out

such multivariate analyses (e.g. factor-, cluster-, discrimination-analyses), with the results of which it would be possible to do segmentation of SME sector from the aspects of competitiveness.

(3) Another important direction of research could be exploration of peculiarities of competitiveness of the existing “natural” factors within the SMEs’ sector. In my thesis I have attempted to show segmentation exclusively on the basis of company size, as segmentation criterion, however, analyses made on the basis of sector affiliation, geographical location, or any other criteria can also disclose essential characteristics of competitiveness of the SMEs. Particular attention should be paid to new, fast growing companies, the so-called “gazelles”, as according to foreign experience, these 1-3% of enterprises create 70-80% of new jobs. (Szerb 2008: 2)

(4) Finally, I consider it important to mention, that analysis of the short- and long-term effects of the global crisis that broke out in the autumn of 2008 means new directions of research in the area of competitiveness analysis.

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## 9. Author's conference presentations on the topic

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**Place:** College for Modern Business Studies, Tatabánya  
**Title of the conference:** Networks  
**Section name:** Network economy  
**Title of the presentation:** Networks and clusters in the SME sector
2. **Date:** 25 September 2008  
**Place:** College for Modern Business Studies, Training Centre in Odorheiu Secuiesc, Romania  
**Title of the conference:** Economy and school sans frontiers  
**Title of the presentation:** Comparison of the economic role of the Hungarian, Romanian and Slovak small- and medium-sized enterprises
3. **Date:** 30 May 2007  
**Place:** Hétkúti Wellness Hotel, Mór  
**Title of the conference:** II. KHEOPS Scientific Conference  
**Section name:** Section in English  
**Title of the presentation:** Significance of small and medium-sized enterprises in terms of employment policy
4. **Date:** 22<sup>nd</sup> November 2006  
**Place:** College for Modern Business Studies, Department in Tatabánya  
**Title of the conference:** Science Day Conference  
**Section name:** Department of Economics and Basic Methodology  
**Title of the presentation:** Role of small- and medium-sized enterprises in employment
5. **Date:** 31<sup>st</sup> May 2006  
**Place:** Hétkúti Wellness Hotel, Mór  
**Title of the conference:** I. KHEOPS Scientific Conference  
**Section name:** Challenges in the sectors of national economy and public sector  
**Title of the presentation:** Role of bank loans in funding small- and medium-sized enterprises
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**Place:** University of Kaposvár  
**Title of the conference:** "Spring Wind 2006" DOSZ Conference  
**Section name:** Finance – Accounting  
**Title of the presentation:** Distinctive features of funding of small- and medium-sized enterprises
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**Title of the conference:** European Challenges, 3<sup>rd</sup> International Scientific Conference  
**Section name:** Management-organization  
**Title of the presentation:** Presentation of the importance of small- and medium-sized enterprises in the Hungarian economy with the help of statistical analysis of the main data characteristic of their management.

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## COOPERATION AMONG SMALL- AND MEDIUM-SIZED ENTERPRISES

### PART TWO

#### PRACTICAL EXPERIENCES FROM BAZ COUNTY

After making a short outline of theoretical background of cooperation among companies in the first part of the paper, we would like to highlight the experiences regarding this topic in Borsod-Abaúj-Zemplén County. First we would introduce the methodology of the research. After that the economic and social situation of Borsod-Abaúj-Zemplén County would be shortly introduced as well.

#### METHODOLOGY

In the course of empirical analysis we used a questionnaire, which was made as a part of the FKFP 0015/2002 educational and research platform. The aim of the questionnaire was to survey the small and medium sized enterprises' operational environment, trans-border economic function and the nature of association among enterprises. We surveyed whether the county's frontier position reflects on the companies' more intensive international presence or not.

As the aim of the original research was monitoring of the trans-border function of the county's enterprises together with the companies' system of relations, which function's feasibility is rising together with the growing size of the company on account of the necessity of some additional expenses and competences, we tried to achieve the representativity of the model without the micro-enterprises. Thus the model's 217 Borsod-Abaúj-Zemplén (BAZ) County's enterprises represent the county's joint businesses which employ 10-249 employees according to scope and size of activities. Besides we analysed the data of 16 micro enterprises, but only in questions where the subjective opinion of the entrepreneurs is measured to show the tendencies according to the size of enterprises. The results of the calculation in which these data have been used have to be dealt with precaution.

The consistence of the county's enterprises in terms of size does not differ significantly either from national or European statistics. By analysing only enterprises which consist of more than 10 people, we get the result that the small and medium sized enterprises' distribution is nearly 80-20 per cent. While 59 per cent of the model is functions industrially, 27 per cent deals with trade and 14 per cent deals with provision. The survey covered 217 enterprises, which is 14.1 per cent of all registered small and medium sized enterprises in the county.

#### THE SITUATION OF BORSOD-ABAÚJ ZEMPLÉN COUNTY

In this paper we would like to demonstrate the county's situation only by laying some data, given the limited framework of this paper. GDP per capita is 1,563 thousands HUF, which is 66 per cent of the national average (KSH 2008a). The same fallback is perceptible in investments, where the county's per capita performance is 64.5 percent of the national average (215,500 HUF) (KSH 2009). The county shows underdevelopment in terms of the economic organisation's statistics as well. Low enterprising willingness implies unfavourable economic situation too. 4.59 per cent of the country's registered enterprises can be found in the county, about 71,500. Such statistics proves that enterprising here is far below the national average. The number of enterprises vested for a thousand inhabitants is 102 while the national average is 156. (KSH 2009) It partly contradicts the GEM's subsequent survey, as according to it the Northern-Hungarian region is the 4-5th in the region's hierarchy in terms of enterprising activity. According to the authors, the better data can be the sign of convergence, in which motorway-building can act as a catalyser. (Szerb, L., Varga, A. 2004) In terms of research-expansion, performance is below the national average again. (KSH

2008b). Unfavourable economic situation reflects in the social indices as well. Unemployment rate was 14.5 percent in the first quarter of 2006, whilst the national average is 8.0 percent. We can find further unfavourable social tendencies while analysing emigration and polarization.

## BUYER-SUPPLIER RELATIONSHIPS OF SMES

This part of the paper intends to introduce the reader to the characteristics of buyer-supplier relationships of small- and medium sized enterprises, based on an empirical research's experiences.

Literature emphasizes the advantages of long-term cooperation, because of the routines and the evolution of mutual trust, by which companies can realize economic benefits. A possible benefit of this kind can be the decreasing cost of processes.

The entrepreneur him/herself has a great influence on the characteristics of cooperation as well, besides these processes pushing them to the direction of cooperation, whose intention to get involved depends on his/her skills and abilities, but such characteristics of the company such as scale and fields of activities affect it too. Economic, social and cultural circumstances are of major importance too, among which the above mentioned factors pursue their effects. Cooperation among companies can happen in any field of the firms' activities, for example research and development, marketing, purchase or trading.

In the course of the research cooperation declared by companies (when the company filling in the questionnaire declared involvement in cooperation<sup>21</sup>) and latent cooperation were treated separately. In this part of the paper we focus on the latter.

In order to test, whether cooperation among SME's is a strategic decision, buyer-supplier relationships were analysed according to their geographical concentration and permanent nature of cooperation. Companies had to give the characteristics of their three most important buyers and suppliers. According to our work hypothesis, rational companies will form permanent partnerships as strategic decisions within a relatively narrow geographical area.

The average share of the most important purchaser is higher than 50 percent, but we face a high level of standard deviation (St dev=27.9). The most important supplier's share is slightly beyond this, it is 48.3 percent (St dev=25.2). A weak but significant relationship can be found between the shares of purchasers and suppliers ( $p=0.01$ , Pearson Correlation=0.302) which mean that the concentrated nature of purchaser and supplier relationships are interrelated, companies with a concentrated circle of purchasers tend to have more concentrated supplier relationships.

After analysing the share of the most important partners, the length of the surveyed companies' buyer-subcontractor relationships was analyzed.

When analysing the length of partnerships it can be concluded that the average length of relationship with the most important buyer is over 10 years (St.dev=7.059). Partnerships among companies and their suppliers also last for almost 10 years on average (St.dev=6.04).

The analysis of buyer-supplier relationships among companies is made more difficult by the fact that companies' chances to survive differ according to their size, so the average age of the groups of companies also differ. So the average age of partnerships increases with the increase of the scale of companies.

That is why we introduced a new variable by filtering the age of companies to decide the permanent nature of these relationships by measuring the length of the relationships as a share (%) of the companies' age.

The variable expresses the trust of buyers in the company and the company's loyalty to its suppliers.

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<sup>21</sup> The question was the following: Are you involved in any types of cooperation beyond buyer-supplier relationships (cooperation: long-term partnership among independent small- and medium sized enterprises which aims to achieve some kind of common goal going beyond a distinct action, a one-time transaction.)

**Table 1** The average length of buyer relationships according to type of the buyer and size of the company

Size	Type of the buyer	Average (year)	N	Standard Deviation
10-19	Consumer	10.10	31	5.31
	Small and medium sized enterprise	10.33	12	6.41
	Large enterprise	7.95	19	4.74
	Local government	7.50	2	3.54
	Total	9.42	64	5.33
20-49	Consumer	13.58	12	4.38
	Small and medium sized enterprise	8.13	23	3.92
	Large enterprise	9.14	21	5.15
	Local government	12.67	3	2.52
	Total	9.83	59	4.85
50-249	Consumer	23.25	8	19.73
	Small and medium sized enterprise	9.71	7	4.64
	Large enterprise	10.64	14	5.56
	Local government	9.00	2	1.41
	Total	13.58	31	11.94

Source: own elaboration

$$\text{Length of the partnership as a share of the companies' age} = \frac{\text{Time period of the partnership (year)}}{\text{Age of the company (year)}}$$

The average value of the permanency index is 0.783 in case of the most important buyers, while 0.72 in case of suppliers. That indicates that companies' relationships can be regarded to be stable.

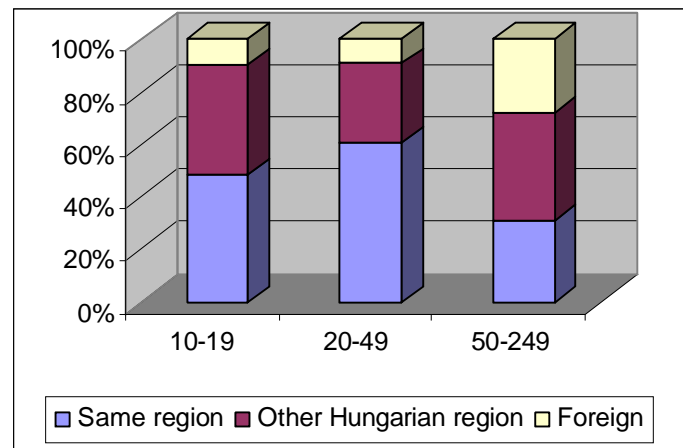
It can be concluded based on these tests that there is a connection between the permanent natures of the surveyed companies' relationships: if a company decides to be involved in a permanent relationship, it is more likely to act so in all of its partnerships ( $p=0.000$ , the most important and second important buyer's Pearson Correlations 0.721; the most important and second important supplier's Pearson Correlations 0.657). This means companies tend to harvest the additional gains of cooperation as strategic decisions.

After that the buyer-supplier relationships were analysed according to their geographical concentration. According to our working hypothesis there is a connection between the size of companies and the geographical concentration of their relationships and the geographical concentration and the permanent nature of cooperation.

Local markets are generally very important for the surveyed companies. The smaller the size of a company is, the more likely it is to be connected to the local environment, to the local market, because of its limited resources and the characteristics of its purchasers. It was cleared that personal contacts and human factors are generally decisive in respect of the cooperation's success. That is why they play a major role in forming permanent cooperation.

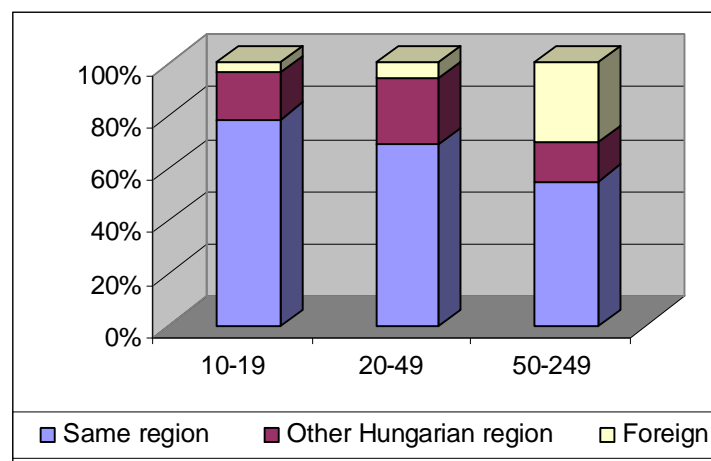
When analyzing the partnerships from the geographic point of view it can be concluded that there is a statistically significant relationship between the geographical distance and the size of the company involved in cooperation ( $p=0.01$ , Eta 0.341). That means, that the smaller the company is, the more concentrated partnerships are. These are demonstrated by the following figures.





Source: own elaboration

Figure 1 Geographical concentration of suppliers according to the size of the company



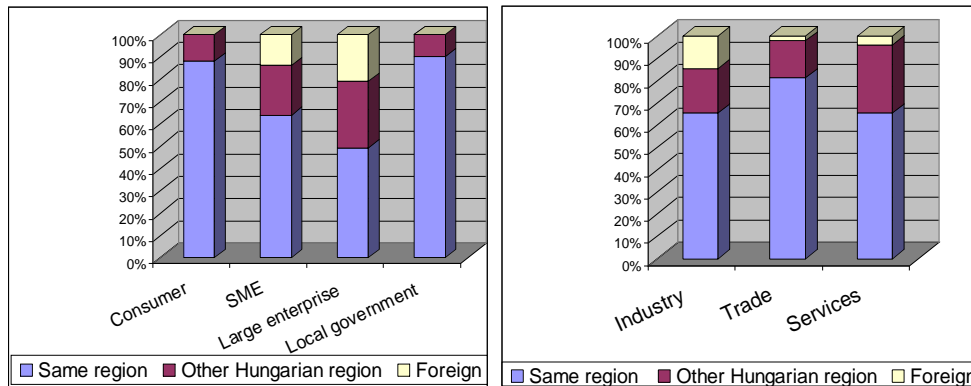
Source: own elaboration

Figure 2 Geographical concentration of buyers according to the size of the company

The further extent of cooperation proved to be matched with the more permanent nature of relationships.

On the other hand, both the characteristics of activities and their types are decisive in the aspect of geographical situation of the partners ( $p=0.000$ , Cramer's  $V=0.259$ ). Buyers of companies in the fields of merchandise and services are more concentrated geographically; more distant partnerships and international activity are rather characteristic for industrial companies. The main connections are shown in Figure 3.

About 90 per cent of the partners of companies supplying directly consumers or local governments can be found in the same region the firm is situated in. Buyers of those who sell to small- and medium sized or large enterprises are less concentrated, but even in their case, partners pursuing their activities in the same region play a major role (63.7 and 49.3 percent).

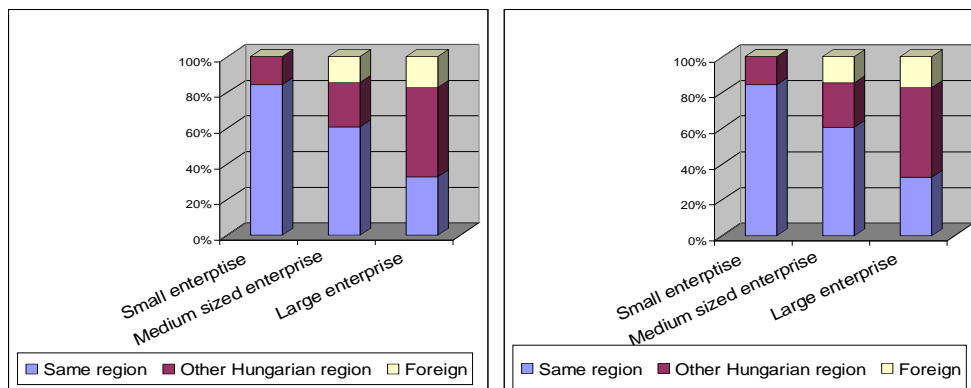


Source: own elaboration

Figure 3 Geographical concentrations of buyers according to the affiliation and field of activities of the buyers

Suppliers’ geographical positions differ both according to the type of supplier and the field of activity. Suppliers of small enterprises can usually be found in the same region where the company is situated in. With the increase of the supplier company’s size the probability of having more distant partners increases too ( $p=0.000$ , Cramer’s  $V=0.304$ ). This context is shown in Figure 4.

Inter-regional relationships of both industrial and service sector firms are over-average important (56.5 and 59 percent). As far as services are concerned, major differences can be found according to branches of services pursued (transportation and financial activities are less concentrated).



Source: own elaboration

Figure 4 Geographical concentrations of suppliers according to the affiliation and field of activities of the companies

The time-horizon of the surveyed companies’ buyer-supplier relationships and the geographical concentration was analysed separately. The stochastic relationship between the permanent nature of relationships (the length of the partnership as a share of the companies’ age) and the geographical location of the buyer-subcontractor was tested.

Based on the edification of the sample the more close partners are situated to each-other (the buyer and its supplier), the more lengthy their relationship will be. We can conclude that personal relationships favour the length of partnerships and human factors of cooperation can be crucial for its success.

**Table 2** The average length of buyer relationships according to the geographical location of buyers

Geographical location of buyers	Average (year)	N	Standard Deviation
Same seat as the company	12.41	32	4.655
In 50 km round of the company	9.93	41	8.878
Same region	9.46	37	4.959
Other Hungarian region	9.24	33	3.873
EU member state	9.29	14	5.797
Other country	3.00	3	1.732
Total	9.99	160	6.144

**Source:** own elaboration

High values of deviation warn us that the sample is not homogenous, so the context was analysed distributing buyers by types as well. According to the type of purchaser small- and medium sized enterprises show a significant relationship, while large enterprises do not show significant relationship between the geographical position and the length of the partnership. That means that in case of large companies, purchaser partners' geographical distance does not play an important role in the permanent nature of the relationship.

The permanency of the partnership (percentage form) and the geographical position of the purchaser also show the same context, geographical closeness of the purchaser increases with the permanency of the partnership ( $p=0.02$ ,  $\hat{\epsilon}^2=0.117$ ).

The above mentioned observations concerning the cooperation among companies shed light on the contradiction of the time-horizon and geographical aspects of partnerships.

The geographical concentration of partnerships is beneficial for the companies involved as it contributes to the permanent nature of relationships on the one hand, giving additional economic advantages for the companies, but on the other hand, concentration denies the requirement of economic rationality as it causes the company to be dependent on the economic fluctuations of its close environment.

## COOPERATION BEYOND TRADITIONAL BUYER-SUPPLIER RELATIONSHIPS

Cooperation among enterprises is not a new phenomenon. Only the largest firms can be able to clasp the whole process of production chain, and the non-productive activities accompanying it, or only the simpler types of products make it possible for smaller enterprises to work separately. Aside from these exceptions production, and mainly the overall process of company's activities (including productive services) requires the cooperation among companies. What is different is the change in the nature of cooperation among companies, for example the increased complexity of relationships and the broadening of their time-perspective.

Two possible strategies can be drawn for small- and medium sized enterprise: they can behave self-sufficiently or cooperatively (Gemser, Brand, Sorge, 2004). According to some researchers (Eternad, Wright, Dana, 2001); there is a direct trade off between independency and efficiency, and only cooperative behaviour can be successful in an ever-changing, very risky economic environment.

If we accept the fact that cooperation among firms is appreciated, mapping the circumstances of cooperation and determining what motivations drive cooperation, and how cooperative intentions can be strengthened gain more and more importance. Moreover, it becomes necessary to examine the system of requirements for cooperation and the barriers firms have to face in connection with them.

### a. Characteristics of Cooperation among Small- and Medium Sized Enterprises

When explaining motivations we can lean on two theories. The **theory of transaction costs** (Coase, 1937, Williamson, 1985, Williamson, 1991, Williamson, 1998) explains decision among distinct institutional forms

(independent, market or mixed) by additional expenses above production costs related to transactions.

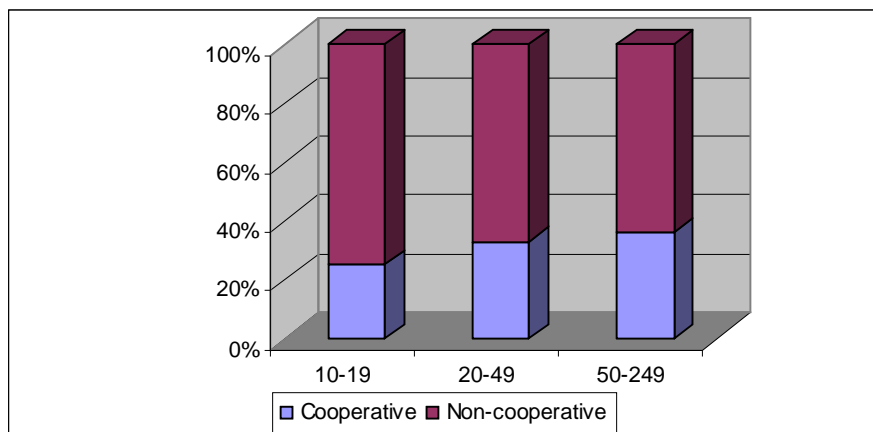
Williamson emphasizes the expenses of signing treaties and controlling, which, over the long run, will lose their importance as a result of the learning process. The decrease of risk because of reputation takes us to the same direction, which makes treaties self-enforcing (Langlois, Robertson, 1995). Transaction cost theory gives little weight to human factors, but we have to bear in mind that in case of the small- and medium sized enterprises the role of reputation and family ties can not be left out of consideration, and may be of high importance for an actor embedded in local community.

**Competence based theories** (Hodgson, 1998) emphasize the key role of abilities, informal knowledge and competence. According to this theory the main motivation for getting involved in cooperation must be to obtain some elements of competence.

#### Nature of SME cooperation

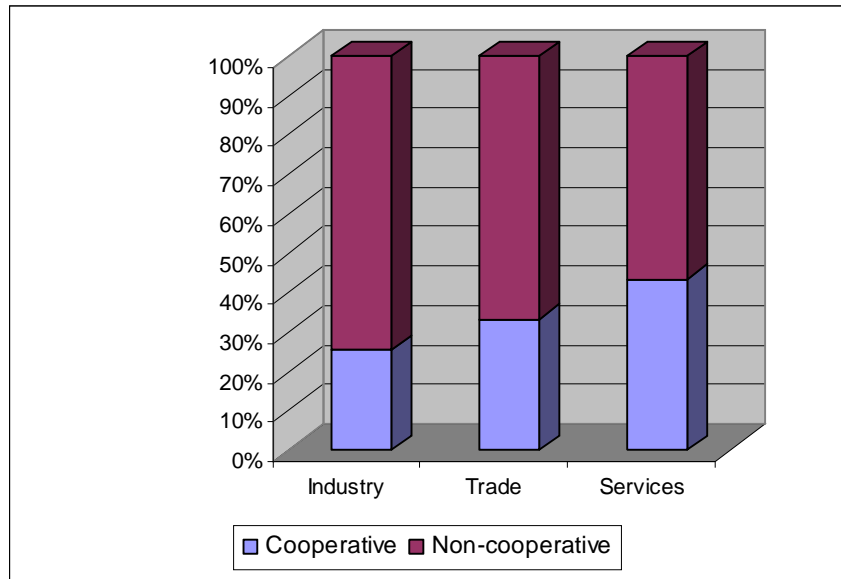
The smaller scale of the enterprise can be an incentive for cooperation. But cooperation also leads to additional costs and the need for additional competences (for example legal knowledge) and requires additional time as well. This is why it cannot be determined which enterprise size is the most favourable for getting involved in cooperation.

30% of the surveyed enterprises, 65 companies (plus 6 micro-enterprises) regard any of their relationships to be cooperation. According to our analysis, a slightly bigger share of larger companies get involved in cooperation among companies (the relationship is not significant). Cooperation is most common in case of service sector enterprises, followed by trade sector. Cooperation activity is lowest among the companies in the industry sector.



Source: own elaboration

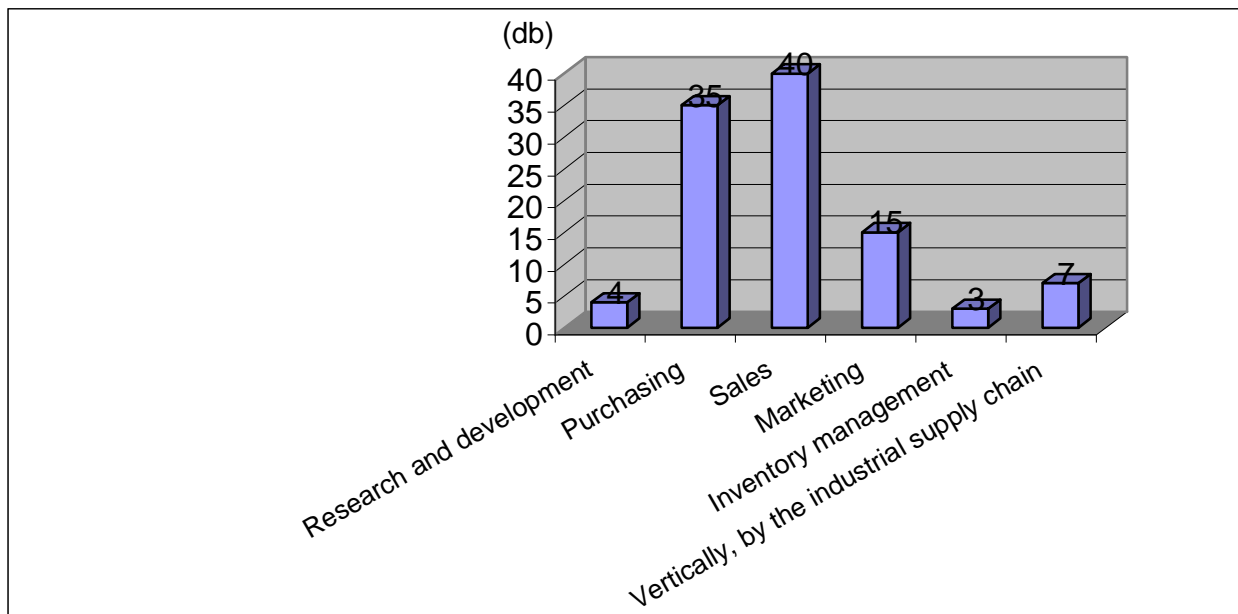
Figure 5 The share of companies involved in cooperation, according to the scale of companies



Source: own elaboration

Figure 6 The share of companies involved in cooperation, according to the scope of their activities

The frequency of certain types/fields of cooperation among the companies in our sample is introduced in the next figure.



Source: own elaboration

Figure 7 Fields of cooperation

The most often mentioned fields of cooperation are purchasing, sales and marketing. Only four companies in our sample mentioned cooperation in the field of research and development.

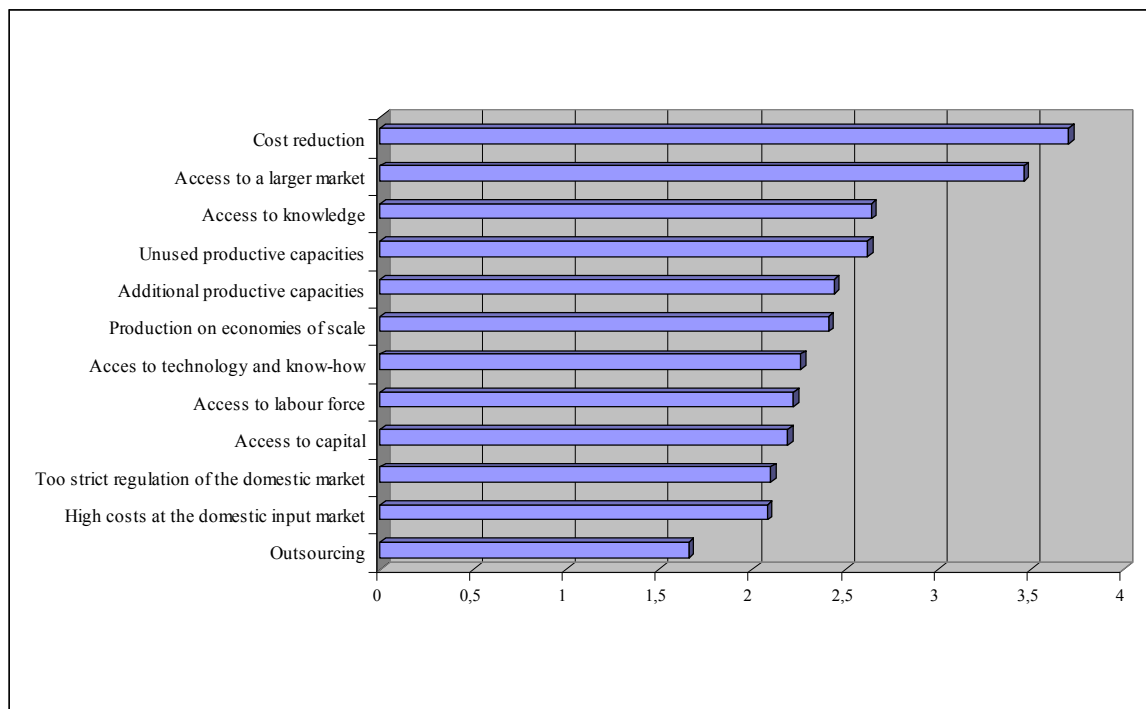
Differences can be identified according to the scale of companies. Smaller companies tend to commit themselves to simpler forms of cooperation, so they usually cooperate in purchasing, sales and marketing.

Motivation for cooperation

Opposite to the arguments of the two schools mentioned above, our hypothesis is that the motivations for cooperation among small- and medium sized enterprises cannot be originated from one source only.

We measured distinct motivations for cooperation on a Likert scale ranging from 1 to 5, then we ranked the results we obtained, and analysed them according to different points of view. Figure 2 shows the most important motives companies from our sample mentioned. We concluded that companies saw the main advantage of cooperation in cost reduction and obtaining access to larger markets. Access to knowledge, additional capacities, unused capacities utilisation and accomplishing economies of scale were judge as inspiring, but to a lesser extent. On average a bit less points were given to access to technology, know-how, labour force and capital.

Motivation which obtained the highest importance was related to access to market, and increasing the efficiency of production, which can contribute to enhance competitiveness on the market. Access to such resources like labour force or capital is of lesser importance to cooperating companies (Figure 9).



1: not at all inspired, 5: highly inspired

Source: own elaboration

Figure 8 Motivation for cooperation

Opposite to the arguments of the two schools mentioned above, our research showed that the real motivation for cooperation is determined parallel by several objective characteristics of the company.

Table 3 Motivation thought to be the most important, according to the size of the company

Rank	1-9	10-19	20-49	50-249
1.	Cost reduction	Cost reduction	Access to a larger market	Cost reduction
2.	Access to a larger market	Access to a larger market	Cost reduction	Access to a larger market
3.	Access to know-how and technology	Access to knowledge	Unused productive capacities	Unused productive capacities
4.	Access to knowledge	Access to capital	Economies of scale	Economies of scale

1: not at all inspired, 5: highly inspired

Source: own elaboration

We found it feasible that motivation for small- and medium sized enterprises' cooperation will differ according to the scale and field of activity as well. The smaller a firm is, the more it aims to gain competences. The larger the company is, the more feasible it will be to search for financial opportunities. In order to be able to justify this statement, we ranked the factors of motivation according to the scale and field of activity of companies.

Table 4 introduces the motivation which the surveyed firms thought to be of higher importance according to the scale and field of activities of the companies.

Independent of their size companies think the most important motivation for getting involved in cooperation is the reduction of costs and access to the larger markets. Besides these, smaller firms aim to obtain lacking competences and physical resources, like technology, know-how and knowledge; companies employing more people aim to make their production more productive, more efficient, by utilising their unused capacities. From this information we can conclude that larger firms face a higher pressure for competitiveness.

The need to reduce costs only became important with the increase of the scale of the firm in the EU-19, it appeared among the most crucial motives only in the medium sized enterprises (Observatory of European SMEs 2003/5).

We found a significant difference among the point values given according to the scale of the company. The larger a company was, the less importance it apportioned to distinct factors of motivation. (Pearson Correlation=-0.35,  $p=0.005$ ).

We can also recognize differences according to the field of activity of the companies. Regardless of the branch of industry they belonged to, companies judged cost reduction and access to larger markets to be crucial. Firms in the service sector emphasized access to knowledge, know-how and labour force; while firms operating in industry thought access to additional capacities and utilisation of unused capacities to be the main aim of cooperation. Firms concerned with trade thought that access to market was of utmost importance.

#### Barriers to company cooperation

We assumed that small-and medium sized enterprises face severe barriers to cooperation because of their characteristics (resource constraint, etc). The ratio and importance of external and internal barriers may depend on the size of the company in our opinion.

A fragment of the barriers faced by small- and medium sized enterprises are **external**, for example technological standards, bureaucracy, risk, high communication- transportation and other expenses or legal regulations. Another fragment of barriers are **internal** ones, which resulted from the characteristics of the entrepreneur and the employees. Such a barrier can be the bad quality of its own product or service, or the unqualified staff. Objective and subjective types of internal barriers can be defined. **Objective barriers** evolve from such skills and nature of the company like the existence or lack of needed resources, while **subjective** internal barriers evolve because of the different abilities and efforts of entrepreneurs and employees.

On the one hand we assume that Borsod-Abaúj-Zemplén County's unfavourable position will be reflected in the barriers highlighted in the survey as well, meaning the surveyed companies would account a lot of severe barriers in connection with cooperation. On the other hand we chose the well-known fact that entrepreneurs are often characterised by individualistic attitude as a starting point. They dislike involvement of others in their business and prefer not to give up any part of leadership that is why many of them choose to become entrepreneurs, and they usually do not see their own barriers either. That is why we expected them to appoint external barriers to cooperation mostly.

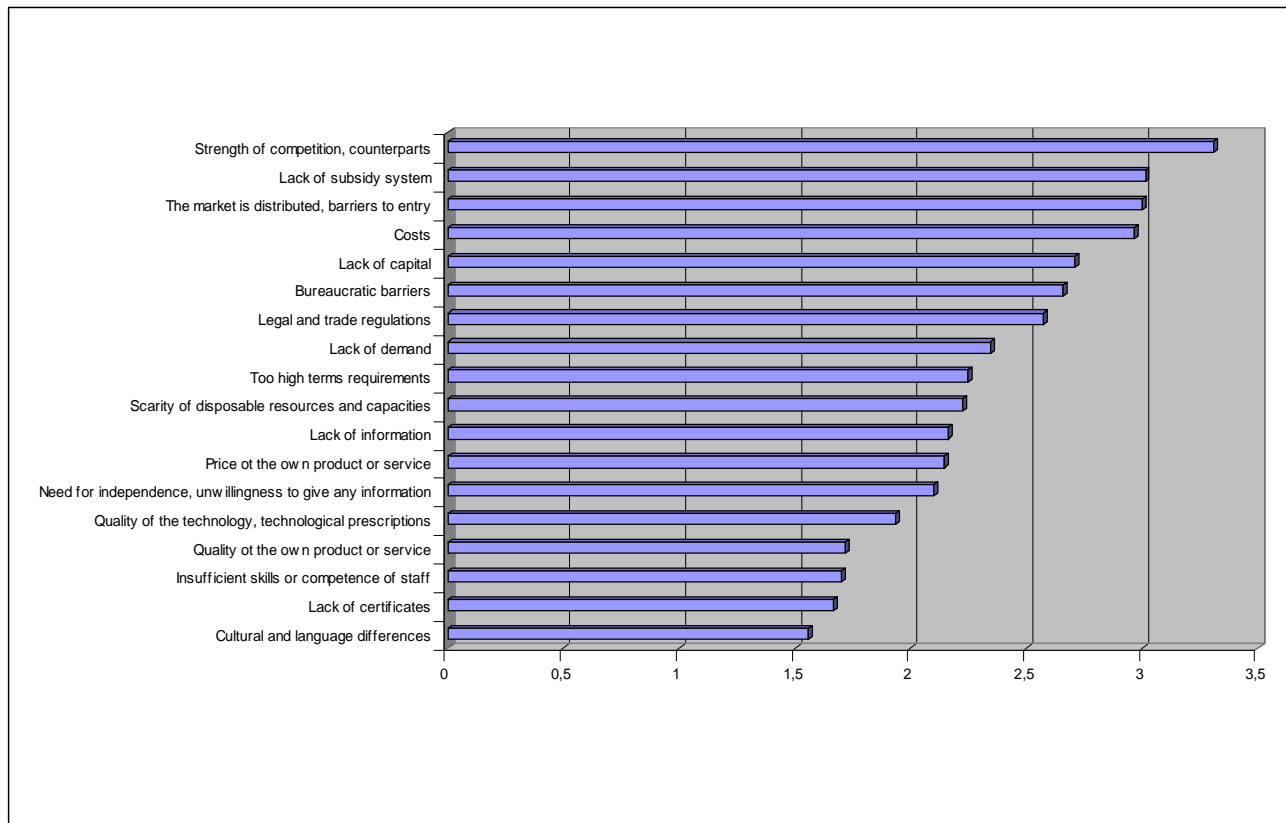
We applied Likert scale for measuring the barriers to cooperation, then set up a rank based on the point values we achieved. We discovered that most of the barriers to cooperation felt by entrepreneurs are so-called external barriers. Naturally, companies are usually satisfied with their own performance (efficiency, quality, range of products, etc.) and see the reason of a less successful operation at the market in external factors. Rank of the sample's companies can be seen in Figure 3.

Companies appointed the strength of competition as the largest barrier. They think market is "distributed" and they find it very difficult to obtain a good market position. A similarly high point value was appointed to the lack of subsidy system. They think their own products' quality and price, the competences of their



competitors are appropriate, just like technological standards, or the lack of any licences are not of great importance.

As the crucial elements of entrepreneurship are competition, bearing costs and financial responsibility, the results we found confirm our hypothesis that the companies in the sample are droppies who became entrepreneurs because from necessity (fear of competition, leaning on subsidies, financial barriers).



1: not at all inspired, 5: highly inspired

Source: own elaboration

Figure 9 Possible barriers to cooperation

Table 10 groups the barriers to cooperation according to the scale of the company. Each group of companies regards the difficulty of entry as a barrier and they feel the market is “distributed”. Micro enterprises feel the presence of bureaucratic barriers, and think light of their own resources and capacities. Both micro- and small enterprises pointed out the lack of subsidy system, while medium sized companies emphasized the strength of competition. Two groups of companies can be defined. Firms with less the 20 employees feel internal barriers as well, in case of micro enterprises this can be capacity and resource constraint, while in case of the firms with 10-19 employees lack of capital comes into consideration. Companies with more than 20 employees only appointed external barriers to cooperation. Costs of cooperation were worth considering according to larger companies. In case of barriers, we can come to the same conclusion we did with motivations. Barriers seen by smaller companies include factors concerning competences and resources as well, but as the size of the company in question increases, more and more only the strength of competition and costs come into consideration.

According to the field of activity we can not find a significant difference in the distinct barriers evaluation. Firms operating in industry think that the most important barriers are the strength of competition and the lack of relationships (the market is “distributed”) and subsidy system. Companies involved in trade think along similar lines, but besides the factors mentioned above they emphasized the importance of the lack of capital. Firms in the service sector pointed out high expenses and legal environment.

**Table 4 Barriers thought to be the most important, according to the size of the company**

	0-9	10-19	20-49	50-249
1.	Lack of subsidy-system	Strength of competition, counterparts	Lack of subsidy-system	Strength of competition, counterparts
2.	Bureaucratic barriers	The market is distributed, barriers to entry	Strength of competition, counterparts	Costs
3.	The market is distributed, barriers to entry	Lack of subsidy-system	Cost	The market is distributed, barriers to entry
4.	Scarcity of disposable resources and capacities	Lack of capital	The market is distributed, barriers to entry	Legal and trade regulations

1: not at all inspired, 5: highly inspired

Source: own elaboration

Differences are developed when branches of industry are divided into smaller units. Construction industry companies feel high cost (similarly to the service sector's entrepreneurs) and they think their own products' prices are not proper. Firms involved in financial services of the service sector appointed the lowest point values to barriers on the average, while companies involved in accommodation services and transportation gave the highest ones.

#### b. Characteristics of Cooperation among Small- and Medium Sized and Large Companies

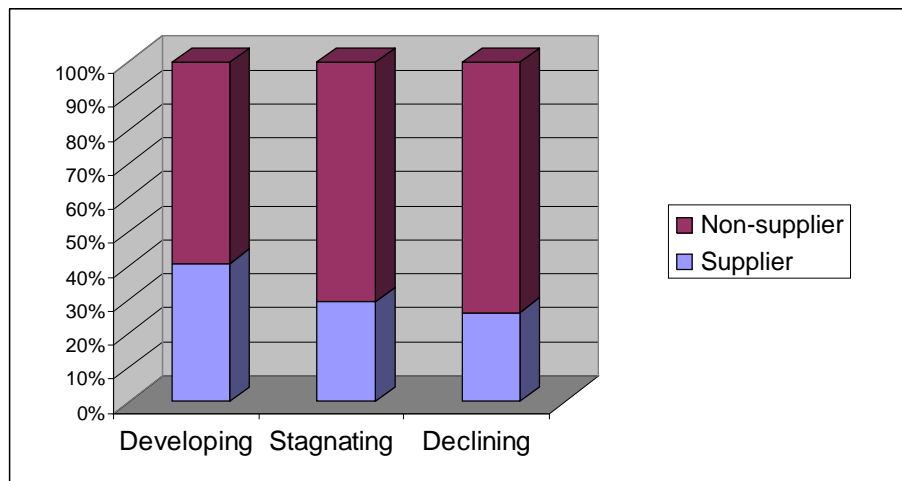
Small- and medium sized enterprises can be involved in both vertical- and horizontal types of cooperation. The former represents cooperation among small- and medium sized enterprises and one or more large companies, while the latter is partnership of small- and medium sized enterprises. Subcontracting (supplying) is a special type of vertical relation between companies, in which small- and medium sized enterprises are related to large companies, and their products or services will be built in other companies products, increasing its value.

Opposite to the general way of thinking (the belief that subcontractor position is generally advantageous for small- and medium sized enterprises) our **hypothesis** is that subcontracting is beneficial only for a limited group of small- and medium sized enterprises

It is well known that vertical and horizontal cooperation differs in the aspect of the strength of parties taking part in them, and the reciprocity of these relationships. Vertical partnerships usually incorporate hierarchical elements as well, causing a higher level of dependence for small- and medium sized companies. This type of dependence can also be present in case of horizontal relationships. Furthermore, it can be regarded as necessary because of the common objectives. The symmetric or asymmetric nature of relationships differs in case of vertical and horizontal relationships. Generally, the larger a company is, the smaller its dependence on its environment can be, letting it obtain more and more control over its relationships.

35 per cent of the surveyed enterprises, 81 companies regard any of their relationships to be a subcontracting position. Our empirical analysis showed that involvement in supplier relationship was not influenced by the size of enterprises. We were also unable to identify significant relationships with the objective performance of enterprises (revenues, per employee research and development costs and investment).

No significant relationship can be identified between the judgement of economic situation and involvement in supplier relationships either, but we discovered a tendency according to which those enterprises which evaluate their own economic situation more optimistically tend to be involved in supplier relationships to a higher extent. The relationship is shown in the next figure.



Source: own elaboration

**Figure 10** Enterprises involved in supplier relationships, according to their judgment on their economic situation

Weak, but significant relationship can be identified between involvement in supplier relationships and in international activities (Cramer's  $V = 0.283$ ,  $p = 0.000$ ). A higher share of enterprises being present on international markets in any forms reported involvement in supplier relationships.

We were not able to identify significant relationship between the types of company owners (foreign or domestic) and involvement in supplier relationships, so ownership structure does not have a significant influence on supplier relationships.

To characterise the actual situation in the County, we performed factor and cluster analysis, which helped us form three groups of companies.<sup>22</sup>

Variables of the three factors are the following:

Factor 1: Performance

- Involvement in supplier relationship secures stability for our enterprise
- Entering supplier markets improved the competitiveness of our enterprise
- Entering supplier markets improved the profitability of our enterprise
- We participate in very active, strong supplier competition

Factor 2: EU accession

- EU accession improved our possibilities in the field of supplying
- EU accession increased competition in the field of supplying

Factor 3: Bargaining power

- We have a partner we strongly depend on
- We are in a very weak bargaining position as a supplier
- We have only one, determining partner

Following this analysis, having applied these factors we made a cluster analysis<sup>23</sup>, differentiating among three clusters.

**Existentially dependents.** The first cluster includes those enterprises which judge their positions as highly dependent on their partners, and are in weak bargaining positions. They evaluate their performance and

<sup>22</sup> We identified three factors, applying Maximum Likelihood method. The three factors maintain 56,4% of the aggregate information content of the original variables, which can be regarded acceptable. Fitting of the model is also proper (Chi-Square=17.239,  $p=0.141$ <sup>22</sup>).

<sup>23</sup> We performed hierarchical cluster analysis with Ward method.

profitability as independent of their supplier positions. (N=33)

**Potential suppliers.** Companies of the second cluster do not sense significant improvement in their competitiveness and profitability due to their supplier positions, but feel the ever stronger competition in supplying. They are not strongly dependent on their partners. Even though the companies of this cluster maintained their independence, they were not successful in exploiting the potential advantages of it. (N=26)

**Winners.** Companies of the third cluster sense significant improvement in their competitiveness and profitability due to their supplier positions. EU accession did not influence their supplier positions. Their relationship with their partners is symmetric. These companies can be regarded as the winners of supplier relationships, which are capable of exploiting the advantages of cooperation and maintain their bargaining positions at the same time (N=11).

We can declare that only 15 percent of the surveyed companies judged their subcontractor position to be advantageous. Companies belonging to this cluster are those which spend the largest sums on development and investment, are more motivated than the average, and feel smaller obstacles to cooperation in general. Another cluster of about 47 percent of the surveyed companies can not realize profits even on the cost of approving a high level of dependence in their partnerships, while 37 per cent maintained their independence, but did not manage to harvest the opportunities of subcontracting either.

On the one hand, there is no general correlation between the subcontractor position and the advantages that can be gained from cooperation. On the other hand, subcontracting position is only beneficial for a small portion of companies which have an over-average performance and can maintain its relative independence.

We analysed both the motivations and barriers to small- and medium sized enterprises' cooperation. According to our hypotheses motivations for subcontracting and for cooperation in case of small- and medium sized enterprises show major differences.

The most often mention argument for subcontracting is that even though it is difficult to get in the circle of suppliers, if a company can meet the requirements, it is relatively easy (in questions of price, quality etc.) to maintain its stable business position.

According to the opinions of the surveyed companies subcontracting as a possible mean of increasing efficiency is mainly motivated by the opportunity to obtain market share and use of their capacities and cost reduction.

When analysing the motivations we found major differences according to the scale of companies. As the size of companies increases, just as in case of horizontal relationships, competitive and efficiency points of view are appreciated. Smaller companies aim to obtain additional knowledge, but as the scale increases, the above mentioned efficiency gains, making use of excess capacities, harvesting economies of scale and getting access of markets becomes ever important.

External barriers to subcontracting were given high points by the surveyed companies, just as it happened in case of the horizontal relationships. The obstacles regarded to be most important were connected to the problems of the subsidising system, to bureaucracy, and to strong competition. In connection with the obstacles to subcontracting we were not able to find any significant differences according to the scale of companies.

Motivations and obstacles found in horizontal relationships (cooperation among small- and medium sized enterprises) are almost fully characteristic for vertical relationships (subcontracting) too. This means that our starting hypothesis was contradicted by the results of our research, so this hypothesis must be taken out of consideration.

## SUMMARY

First we analysed the buyer-supplier relationship of SMEs. We proved that interrelation can be found between the permanent nature of the surveyed companies' most important partnerships: if a company forms permanent relationship on any field of its activity, it will try do act so in all of its partnerships. Companies tend to harvest the additional advantages of cooperation by making strategic decisions. Permanent partnerships are usually made within a relatively narrow geographic region and as the concentration of partnerships increases so will increase the time-horizon of the relationships as well.

Permanent and geographically concentrated partnerships of small- and medium sized enterprises contribute to harvesting the additional advantages of cooperation while on the other hand make them more dependent on their economic environment. Economic rationality appears in a paradox way in this case. This is why rationally behaving companies have to find the balance between forming economically beneficial permanent partnerships and bearing additional risk of geographical concentration.

According to the relevant literature one of the main motivations for cooperation is the **need to obtain resources**. This means the smaller the company is, the more intensive intention to cooperate it should show, as smaller firms face competence and capacity constraints. The conclusions of our research based on the sample of companies do not confirm this statement. We found that the fact of cooperation becomes more and more common as the size of the companies increases. The reason for this lies in the expenses of cooperation (even if they are lower than any other alternative's costs); additional time and the lack of the necessary knowledge

By a smaller modification of the motivations to obtain resources we can get closer to dissolving the contradiction. We considered the comparatively better conditions to obtain resources as one of the crucial motivations to cooperate. Access to customary resources usually means no difficulty. Though obtaining them through a traditional market transaction would mean that a company can obtain these resources just like any other firm, any other competitor can. The new motivation for cooperation can be the fact that with the help of such cooperation the company can obtain necessary resources in a way which is different from that of the competitors. This motivation can be related to the motivations of cost reduction and quality improvement as well.

In connection with the further motives for cooperation we will examine the **additional costs** as well. We assume that due to Borsod-Abaúj-Zemplén County's unfavourable situation this will play a major role as both inspiring and hindering factor.

We examined cooperation based on the transaction cost theory and the competence based theories. Our results let us think that real motivations for cooperation are determined by several objective factors of the company at the same time (for example the size of the company, and its field of activity), That is why cooperation can not be explained by only one final reason, (transactions cost or competence), so any monoclusal approach can only partially explain empirical experiences concerning cooperation.

Such a reason can for example be the field of activity of the company. Our survey showed that the smaller the company is, the larger motivation comes for obtaining necessary resources and competences. With the increase of the company's size obtaining or increasing financial resources, reduction of costs and improvement of efficiency gain more importance and become the driving force for cooperation. According to the field of activity service sector's companies mainly aim at obtaining additional knowledge and labour force, while industrial enterprises would like to make better use of their existing capacities. Trade firms are motivated by increasing their market shares.

Our research included the barriers to cooperation as well. We concluded that companies evaluate internal and external, objective and subjective barriers' role differently: respondents over-estimate external factors, and give not enough weight for the errors of their own competences and abilities. Strong competition, the lack of subsidy system and the expected expenses of cooperation are considered to be the largest barriers to cooperation. All these confirm the droppy (obliged) nature of entrepreneurship we assumed.

We found a relationship between the company's size and the barriers to cooperation felt by the firms, meaning that smaller companies rather fear the lack of competences and resources while larger ones only are afraid of the strength of competition and costs.

Obtained results enable us to think that inspiring and generally developing small- and medium sized enterprises' cooperation requires a different attitude according to the size and the field of activities of firms. When defining educational and developmental needs it is not enough to lean on feed-back from companies, expert should be get involved as well.

We analysed the subcontracting activity of SMEs as well. We found that this vertical type of cooperation can be a realistic option for a small portion of the sector because of such characteristics of small- and medium sized enterprises like their scale or field of activity.

The results of the subcontractor relationships' analysis let us think that only a limited fragment of these companies can make use of that kind of relationships. The increasing complexity of the system of requirement

and the internationalisation of activities also takes us to this direction.

Considering the relations small- and medium sized enterprises usually form with their close environment we can conclude that forming a cluster could be an optimal solution to their relations with large companies.

Quite serious attention was focused on cooperation among companies in the last years (its motivations, barriers, framework of conditions). Even though it is very difficult to measure quantitatively the direct effects of cooperation on companies' performance (as several earlier empirical work draw attention to it) still indirectly, we have to approve the appreciation of cooperation in companies' lives.

The most important consequence for supporting institutions is that a key question of the development of small- and medium sized enterprises is to motivate them and reduce the felt (imagined or real) obstacles. Getting to know the opinions of entrepreneurs, the motivations and obstacles they feel can be useful for the institutions regulating and supporting the operation of small- and medium sized enterprises, as well as for the representing unions of the enterprises themselves too.

The survey of the county was a one time, cross section research, but we see the opportunity to broaden it to the North-Hungarian Region, with some adaptation of the questionnaire. This would enable us to make a regional comparison and moreover, to compare our results with the Observatory of European SMEs results on small- and medium sized enterprises.

Further qualitative research should be made, as the barriers of our research showed, which evolved from the complex nature of relationships among companies. This complexity of the system of relationships and the analysis of embeddedness requires qualitative methods to be used. Data standing at our disposal did not enable us to map all the relationships between factors of partnerships fully, mainly in case of reasoning, so further efforts should be made to answer all questions.

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## CONGRATULATION...

**to Dipl.-Kfm. DIETER IBIELSKI, Honourable Member of the ERENET,  
Presidential Counsellor of the Union of Small and Medium-sized Companies – UMU –  
for the**

**GRANT OF THE CROSS OF MERIT upon RIBBON of the ORDER OF MERIT  
of the Federal Republic of Germany**

**handed over on 27 August 2010 at the City Hall in Steinbach (Taunus)**



Photo from left to right:

- **Dr. Stefan Naas**, Mayor of Steinbach/Taunus;
- **Dr. Peter Spary**, Managing Chairman of the Association to Promote the Competitive Economy (VFW/Berlin) and President of the German-Hungarian Society (DUG/Bonn);
- **Dipl.-Kfm. Dieter Ibielski**, Presidential Counsellor of the Union of Small and Medium-sized Companies (UMU/Munich) and Honourable Member of the Entrepreneurship Education and Research network of the Central and Eastern European Universities (ERENET/Budapest);
- **Dr. Göke Frerichs**, Member of the Presidency of the European Economic and Social Council (Brussels);
- Ulrich Krebs, District Councillor of the Hochtaunus Region.

I personally know Dieter more than twenty year. We were one of the founders of the series of Entrepreneur Days for Europe – EDE - held in Zagreb, the first place outside the EU. We met in Gibraltar during signing the MOU between UNECE and WASME. He made many contributions to several UN meetings and workshops held in Geneva and many other cities. Since several years we cooperate at the platform of the European Small Business Alliance with Headquarters in Brussels. I wish Dieter good health and further successes both in personal life as well as in his continuing international carrier.

Dr. Antal Szabó  
Scientific Director of ERENET



## CONFERENCE PAPERS



Konrad  
Adenauer  
Stiftung



### WORKSHOP ON “ENTREPRENEURIAL EDUCATION FOR SMEs”

organized by:

**ORGANIZATION OF THE BLACK SEA ECONOMIC COOPERATION (BSEC)**

and

**KONRAD-ADENAUER-STIFTUNG (KAS)**

**13-15 October 2010**

**Holiday Inn Hotel, Belgrade, Serbia**

The Workshop on “SMEs in the Time of Global Crises” was held in Tirana, the Republic of Albania, on 5-7 April 2010. It was jointly organized by the Permanent International Secretariat of the Organization of the Black Sea Economic Cooperation (BSEC PERMIS) and the Representation of the Konrad Adenauer Stiftung (Foundation) (KAS) for Turkey.

Welcoming statements were delivered by Mr. Jan SENKYR, Resident Representative of the Konrad-Adenauer-Stiftung (KAS) for Turkey; Ambassador Traian CHEBELEU, Deputy Secretary General of BSEC PERMIS; and Mr. Ivan STOSIĆ, Deputy Director, Institute of Economic Sciences (IES) Belgrade.

The Workshop was co-chaired by Mr. SENKYR; Ambassador CHEBELEU; and Dr. Antal SZABÓ, UNECE ret. Regional Adviser on Entrepreneurship and SMEs, Scientific Director of ERENET.

The Workshop was attended by the representatives of the following BSEC Member States: Albania, Bulgaria, Georgia, Hellenic Republic, Moldova, Romania, Russian Federation, Serbia, Turkey and Ukraine. Mr. Dieter IBIELSKI, Presidential Counsellor of the Union of Small and Medium Sized Enterprises (UMU), and Prof. Dr. Hans-Jürgen WEISSBACH, University of Applied Sciences Department of Economy and Law, Institute for Entrepreneurship represented Germany as key-note speakers. Ágnes KISS, PhD Student at Corvinus University of Budapest also participate at the Workshop as guest speaker from Hungary.

### FINAL DISCUSSIONS AND CONCLUSIONS

The following points were made in **CONCLUSIONS**:

1. The entrepreneurial potential has not yet been fully exploited in the BSEC Member States. There is a considerable gap between the actual number of start-ups and the potential of creating SMEs.
2. There is a general awareness in the BSEC Member States that entrepreneurial education is essential for developing and strengthening the SMEs.
3. A high number of students who drop out of school, with all the consequent social and economic problems that entails, are lost as a resource for profitable growth and employment because of the lack of formal education. Practical entrepreneurial training and orientation could give them a new perspective.
4. Entrepreneurship has been recognized as a basic skill in the process of lifelong learning.
5. Introducing basic entrepreneurship learning into schools and universities is an important part of



the EU's overall economic programme.

6. Many entrepreneurial training schemes are too theoretical.
7. The education system in majority of the BSEC countries, and in particular the school curricula, do not focus enough on entrepreneurship and do not provide the basic skills which entrepreneurs need.
8. Many universities and high-schools in the BSEC region look at entrepreneurship as a matter of the business community rather than of the academic curricula.
9. Standard curriculum on entrepreneurship in advanced EU market economies has been recently emerged. It is a positive sign that in Germany MBA course on entrepreneurship was launched.
10. The government and academic institutions are not yet in a position to fully evaluate the impact of entrepreneurial education for SMEs.

## RECOMMENDATIONS

The following recommendations were made:

1. Entrepreneurship should be introduced in the education systems already at an early stage. Entrepreneurship has to be seen both as a cross-curricular and horizontal matter and as a teaching methodology, besides being treated as a specific subject.
2. Entrepreneurship education should not be confused with general economic studies or business administration.
3. Entrepreneurship needs a holistic approach. It consists of two components. Enterprising requires an organized knowledge referred to as *SCIENCE* and practice as an *ART*. In this context *SCIENCE* and *ART* are not mutually exclusive but are complementary.
4. Entrepreneurial training should be specific with regard to content, and focused on attitudes and practical skills. Participants should be carefully selected with regard to their abilities and motivation.
5. Training schemes for unemployed should not be mistaken for entrepreneurial training schemes.
6. It is a significant task how to increase entrepreneurial skills by development and redefining of training courses and methodologies.
7. Expanding and improving effectiveness of entrepreneurship education require in each BSEC country increased cooperation between Ministries, business community and private actors at a national level.
8. There is a need to develop a coherent strategy and action plan in each BSEC country in order to meet entrepreneurship education requirements.
9. A curriculum that integrates entrepreneurship education is not sufficient if measures of support are not introduced.
10. The ERENET Board suggests launching a BSEC Project on Benchmarking of University Entrepreneurship Education with participation of academicians/lecturers/university professors from the BSEC countries and convening a Workshop on "Best Practice on University Entrepreneurial Education".



## UN Climate Change Conference - Cancun, Mexico

29 November – 10 December 2010

Over a decade ago, most countries joined an international treaty -- the [United Nations Framework Convention on Climate Change](#) (UNFCCC) -- to begin to consider what can be done to reduce global warming and to cope with whatever temperature increases are inevitable. More recently, a number of nations approved an addition to the treaty: the [Kyoto Protocol](#), which has more powerful (and legally binding) measures. The [UNFCCC secretariat](#) supports all institutions involved in the climate change process, particularly the COP, the subsidiary bodies and their Bureau. Currently, there are **194 Parties** to the United Nations Framework Convention on Climate Change and **193 Parties** to its Kyoto Protocol.

Human activity -- particularly the burning of fossil fuels -- has made the blanket of greenhouse gases around the earth "thicker." The resulting increase in global temperatures is alternating the complex web of systems that allow life to thrive on earth, such as cloud cover, rainfall, wind patterns, ocean currents, and the distribution of plant and animal species.

The greenhouse effect and the carbon cycle. More of the sun's energy is being trapped in the atmosphere, and much more of the world's carbon (in the form of carbon dioxide) is resting in the air rather than in trees, soil, and subterranean deposits.

The United Nations Climate Change Conference took place in Cancun, Mexico, from 29 November to 10 December 2010. It encompassed the sixteenth Conference of the Parties (COP) and the sixth Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol (CMP), as well as the thirty-third sessions of both the Subsidiary Body for Implementation (SBI) and the Subsidiary Body for Scientific and Technological Advice (SBSTA), and the fifteenth session of the AWG-KP and thirteenth session of the AWG-LCA.

The Head of the Distrito Federal, *Marcelo Ebrard*, considered that the resolutions adopted at the Summit on Climate Change in Cancun represent a rematch of the previous meeting in Copenhagen, which was considered a failure. The rich countries did not commit themselves concretely to reduce polluting gases, which was the first demand of the states most affected by global warming. Regarding the so-called bonus of carbon credits agreed for 2020, he said it is "it is very far from what needs to be invested, some 100 million dollars is nothing at all." The US Government did not pledge themselves in Cancun to lower the contamination not even at three percent.

Source: <http://unfccc.int/2860.php> and  
[http://english.pravda.ru/science/earth/14-12-2010/116208-climate\\_summit\\_cancun-0/](http://english.pravda.ru/science/earth/14-12-2010/116208-climate_summit_cancun-0/)

## INSTITUTIONAL PROFILE



**The Hellenic Organization of Small and Medium Sized Enterprises and Handicraft (EOMMEX) S.A is a non-profit public Organization operating under the auspices of the Ministry of Regional Development and Competitiveness. EOMMEX S.A. was founded in 1977, operating for more than 30 years to the promotion and development of Small and Medium Enterprises.**

**EOMMEX S.A. according to its founding law serves as following:**

- **Advisor of the State and the Ministry of Regional Development and Competitiveness on issues concerning the creation of a favourable environment for the support of business and of competitiveness to Small to Medium-sized Enterprises.**
- **Advisor of the SMEs to support its promotion, modernization and development policy, maximizing all possibilities of cooperation between various institutions in the framework of the national governmental policy.**

**The strategic role of EOMMEX includes implementing means, policies and actions of simplifying and facilitating the business environment so as to enable them to meet the requirements of the constantly changing conditions within the European Union created by wave of internationalisation.**

**The EOMMEX S.A. headquarters are located at 16 Xenias street, 11528 Athens. Contact us at +30 210 7491 100.**

### **EOMMEX Coordinator of BSEC WG on SMEs 2010-2011**

**The Hellenic Republic and EOMMEX is the Country-Coordinator for the BSEC Working Group on SMEs for the term January 1st 2010 - December 31st 2011.**

In the framework of the Organisation of the Black Sea Economic Cooperation (BSEC), the Hellenic Republic and EOMMEX assumed the role of the coordination of the SME Working Group, for the term January 2010 - December 2011. Through this many respectable activities may result, collaborations and projects for the SMEs of the BSEC region. The Working Group on SMEs, composed by the representatives of

- (i) the government officials from the BSEC Member States in charge of elaboration of

- national SME policies and supportive programmes,
- (ii) the national supportive organizations and institutions,
  - (iii) the chambers of commerce and industries and
  - (iv) the NGOs/associations representing interest of SMEs, is assigned with the following mission and tasks:

1. to contribute to the improvement of efficiency of the SME support policies and instruments of the BSEC Member States;
2. to attract the attention of their respective national authorities to the necessity of promoting wider cooperation among SMEs in the region;
3. to encourage the BSEC Member States to introduce relevant measures in order to improve legislation and simplify the procedures related to the formation of enterprises, development of SMEs as well as simplification of tax regulations, accountancy and reporting of SMEs;
4. to promote entrepreneurship and SMEs;
5. to organize exchange of information and experience related to the development of SMEs in the BSEC Region;
6. to provide a platform for discussions on entrepreneurship;
7. to collect, process and disseminate statistical and other information related to enterprise development and to establish the BSEC Data Bank on SMEs;
8. to cooperate with other Working Groups within the BSEC and with other international and private/public sector organizations.
9. to monitor the nature, level and impact of actions and activities in the light of the "Declaration on Small and Medium-Sized Enterprises at the Dawn of the 21st Century", adopted on 27 September 2001 in Istanbul by the Ministers responsible for SMEs.

In its effort to achieve a successful Greek presidency of the working group, and conscious of the crucial role of SMEs for the economies of the BSEC Member States, EOMMEX will seek the support and cooperation of the Ministry of Foreign Affairs, the Ministry of Development and the BSEC Permanent International Secretariat. Furthermore, EOMMEX has emphasised its wish to collaborate with its respective Organisations responsible for the Support of SMEs in the member states of the BSEC, calling on them to work together to encourage further cooperation among the SMEs in the region.

Source: <http://www.eommex.gr/Article.aspx?id=11761>



**BSEC: Hellenic Chairmanship-in-Office (1.6-31.12.2010)-Priorities please see at:**

**[http://www.mfa.gr/www.mfa.gr/en-US/Policy/Multilateral+Diplomacy/International+Organizations/Black+Sea+Economic+Cooperation/Greek+Chairmanship+of+the+Black+Sea+Economic+Cooperation+Organization+\(June+1st+December+31st+2010\)/](http://www.mfa.gr/www.mfa.gr/en-US/Policy/Multilateral+Diplomacy/International+Organizations/Black+Sea+Economic+Cooperation/Greek+Chairmanship+of+the+Black+Sea+Economic+Cooperation+Organization+(June+1st+December+31st+2010)/)**



Pilkington Ratiu Business School develops and delivers high quality international management education that fosters social engagement, prosperity and democracy as a way of life. The School is a tribute to the lives of Ion and Elisabeth Ratiu (nee Pilkington), successful international, for-profit as well as social entrepreneurs.

Although their backgrounds were very different, their stories reveal similar values - frugality, courage, persistence, pragmatism, vision, a willingness to take risks, a strong work ethic and a spirit of public service. Mirroring their lives, these are some of the values that have guided the founders of the international business school that today bears their name: the Pilkington-Ratiu Business School. The brief story of how their lives incorporates those values, follows...

PRBS is located in the historic, multi-cultural Transylvanian university city of Cluj-Napoca. The school is housed in an excellent purpose built modern building set in parkland on the outskirts of the city, close to public transportation, to university facilities (to which PRBS participants have access), to the city's leading shopping mall and spectacular roof-top swimming pool. Cluj-Napoca's bars, clubs, restaurants and boutiques offer a vibrant multilingual social life. The city is also a transportation hub with frequent, direct, daily flights to Bucharest, Budapest, London, Paris, Frankfurt, Milan, Rome, and Madrid as well as daily intercity and overnight rail connections to Bucharest, Budapest and beyond. Transylvania has fine fresh and/or salt water swimming, skiing, hiking, miles of off-road trail-riding, by ATV or on horseback, caving, mountain-climbing and much more... PRBS is located in the historic, multi-cultural Transylvanian university city of Cluj-Napoca. The school is housed in an excellent purpose built modern building set in parkland on the outskirts of the city, close to public transportation, to university facilities (to which PRBS participants have access), to the city's leading shopping mall and spectacular roof-top swimming pool. Cluj-Napoca's bars, clubs, restaurants and boutiques offer a vibrant multilingual social life. The city is also a transportation hub with frequent, direct, daily flights to Bucharest, Budapest, London, Paris, Frankfurt, Milan, Rome, and Madrid as well as daily intercity and overnight rail connections to Bucharest, Budapest and beyond. Transylvania has fine fresh and/or salt water swimming, skiing, hiking, miles of off-road trail-riding, by ATV or on horseback, caving, mountain-climbing and much more...

PRBS provides a one year full-time intensive English language-based postgraduate business course, a flexible Fellowship Program and various Short Executive Programs (SEP). The School has sought high-level professional accreditations. The diplomas of both courses will in due course convert into internationally accredited degrees.

PRBS works in association with other established European business schools seeking to expand their activity into Eastern Europe, the Middle East and Central Asia. PRBS has the support of Ashridge, the leading centre for executive education in the United Kingdom. Similar relationships are currently being negotiated.

If you are keen to play your own special role in the world, Pilkington Ratiu Business School is the place to acquire the higher education you will need. This is where you get the life we all need.

**Contact:** Fundatia Ratiu , P-ta. 1 Decembrie 1918 nr.1, 401094 Turda, Romania  
 Tel. +40 264 312 543 Fax. +40 264312 43 office@prbs.eu  
*Source:* <http://www.prbs.eu/#>

## CALLS – EVENTS – NEWS



### **4<sup>th</sup> International Conference on Entrepreneurship, Innovation and Regional Development**

*From Entrepreneurial Learning to Innovation and Regional Development*

**5-7 May 2011, Ohrid, Macedonia  
with celebration of 9 May the EU Schuman day**

ICEIRD 2011 is organized under the auspice of the President of the Republic of Macedonia H.E. Dr. Gjorge Ivanov and under the patronage of the European Academy of Sciences and Arts and Macedonian Academy of Sciences and Arts.

The **International Conference for Entrepreneurship, Innovation and Regional Development (ICEIRD)** Consortium was formally established in 2008. It is a multi - disciplinary and cross-sectoral network crossing several streams of theory and practice, namely entrepreneurship, innovation, regional economic development and information systems. The ICEIRD Consortium was set-up with members from institutions jointly researching and collaborating in strategising/organising the annual ICEIRD conference and managing joint projects focused on the theory, policy and practice of entrepreneurship and innovation in particular as it pertains to information technologies.

One of the higher concern features of the so-called European Innovation Paradox is the divide between academic research and policy-making, between thinkers and doers. The ICEIRD can become an authoritative reference in bridging this gap by developing analysis in the field of innovation and regional policy, based on high-level academic research, but without neglecting the lessons learnt by policy makers and professionals in the field. Thus establishing experiential feedback learning loops and cross fertilization among two communities which have lived too far away from each other for far too long, and in the European Union in particular.

Organizer

National Centre for Innovation and Entrepreneurial Learning - [www.ncdiel.mk](http://www.ncdiel.mk)



Patrons

- European Academy of Sciences and Arts - [www.euro-acad.eu](http://www.euro-acad.eu)
- Macedonian Academy of Sciences and Arts - [www.manu.edu.mk](http://www.manu.edu.mk)
- European Council for Small Business and Entrepreneurship - [www.ecsb.com](http://www.ecsb.com)

For further information please visit: <http://www.iceird.org/2011/>





## 5<sup>th</sup> ERENET JUBILEE ANNUAL MEETING

20 May 2011, Budapest, Hungary  
Budapest Corvinus University

Address: H-1093 Budapest, Fővám tér 8. Hungary

### PRELIMINARY PROGRAM

- |               |   |
|---------------|---|
| 09.00 – 09.50 | Delegate arriving, Registration, Refreshment on arrival + Networking  |
| 10.00 – 10.25 | <p><b>OPENING Welcome</b><br/>           Dr. Tamás Mészáros, Rector of the Budapest Corvinus University, Budapest<br/>           Tina Sommer, President of the European Small Business Alliance<br/>           Dieter Ibielski, Presidential Councillor of the Union Mittelständischer Unternehmen e.V., Honorable Member of the ERENET<br/>           Dr. János Vecsenyi, Director of the Small Business Development Centre, BCU<br/>           Dr. Antal Szabó, Scientific Director of ERENET</p> |
| 10.25 – 10.30 | <p><b>Inauguration of new ERENET Honorable Members</b><br/>           Dr. Tamás Mészáros, Rector of the Budapest Corvinus University, Budapest</p>  |
| 10.20 – 10.40 | <p><b>Development of the Entrepreneurship and SME Policy under the Hungarian EU Presidency</b><br/>           Representative of the Ministry of National Economy</p>  |
| 10.20 – 10.40 | <p><b>ESBA lobbying activity to reshape Europe SME support activities in the line of the EU New 2020 Strategy</b><br/>           Tina Sommer, President of the European Small Business Alliance</p>   |
| 10.40 – 11.00 | <p><b>Report on the activities of the ERENET Network in 2010 – Future orientation</b><br/>           by Dr. Antal Szabó, Scientific Director of ERENET<br/> <b>Co-referent from the SEE Secretariat</b><br/>           by Dr. Eric Dejan, Director of the Institute of Economic Sciences, Belgrade</p>  |
| 11.10 – 11.20 | <p><b>Achievement of the V4 project</b><br/>           Dr. Renata Vokorokosová, Assistant Professor, Technical University of Kosice</p>   |
| 11.20 – 11.30 | <p><b>Achievement of the EDUARO project</b><br/>           Dr. Zsuzsanna Szabó, Dean of the Economic and Administration Faculty of the Petru Maior University</p>   |
| 11.30 – 12.00 | <b>Cafe Break</b>   |

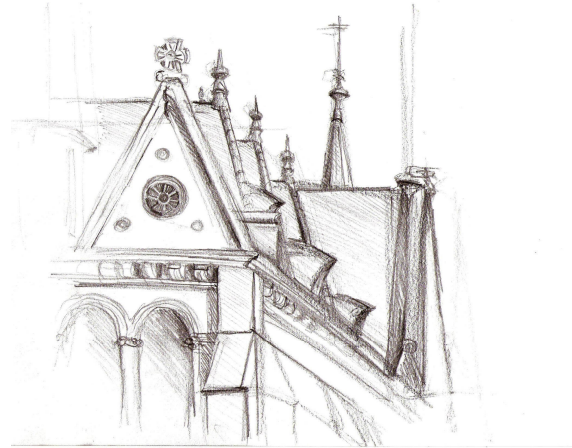
12.00 – 13.30	<b>SESSION I: University Entrepreneurial Education in Europe</b>
	<b>Call for papers and presentations is opened for ERENET members</b>
13.30 – 14.30	<i>Lunch</i>
14.30 – 16.00	<b>Continuation of Session I</b>
16.00 – 17.00	<b>SESSION II: Presentation of PhD Students on Development of doctoral theses</b>
17.00 – 17.50	<b>Discussion of the ERENET Work Program for 2011-2013</b>
17.50 – 18.00	<b>CLOSING</b>

**For information please contact**

**Ms. Ágnes Kiss at [agnes.kiss@uni-corvinus.hu](mailto:agnes.kiss@uni-corvinus.hu)**

**or**

**Dr. Antal Szabó at [erenet.hu@gmail.com](mailto:erenet.hu@gmail.com)**



Famous buildings from Kaposvár (Somogy Country/Hungary)  
© Nagy Szilvia







## SUPPORTING MICRO-FINANCE INSTITUTIONS IN EUROPE (JASMINE)

### Exert from the EU document

[ec.europa.eu/regional\\_policy/sources/.../jasmine/microcredit2010\\_en.pdf](http://ec.europa.eu/regional_policy/sources/.../jasmine/microcredit2010_en.pdf)

The vast majority of enterprises in the EU are very small. Of the 23.2 million businesses in Europe, over 92% employ fewer than 10 people and, if their annual turnover is less than €2m, they fall under the definition of micro-enterprises. They are nonetheless at the heart of local business and offer real prospects in many different sectors of the economy, especially in services.

However, many of these very small enterprises, including sole traders and disadvantaged people, lack the collateral to obtain even small-scale lending, usually less than €25 000, from traditional banks to set up or develop their business. As a result business opportunities are wasted and micro-borrowers need to turn to other types of finance providers, the so-called non-bank micro-credit providers, or micro-finance institutions (MFIs). MFIs have detailed, expert knowledge of the micro-credit sector and provide not only small lending but also business support and monitoring to final micro-beneficiaries.

In November 2007 the European Commission adopted the communication ‘**A European initiative for the development of micro-credit in support of growth and development**’. The Commission highlighted the potential of micro-credit to stimulate the EU’s economy and underlined the need to facilitate access to finance for very small businesses and disadvantaged people.

According to estimates based on Eurostat data and information from the ground there is a potential demand of at least 700,000 loans throughout the EU, totaling around €6.3m. The evidence suggests that there are not enough specialised micro-credit intermediaries on the market, in particular non-bank micro-credit providers.

The initiative identified four strands of action to develop the provision of micro-credit in the EU:

1. Improving the legal and administrative institutions in the Member States.
2. Encouraging a climate of entrepreneurship and growing employment.
3. Promoting good practice in the field of micro-lending.
4. Providing additional funding for non-bank micro-credit lenders.

### WHY JASMINE?

The two first elements of the EU’s 2007 initiative are primarily the responsibility of the Member States. The 3rd and 4th elements are being tackled by the JASMINE facility – a three-year pilot project set up by the European Commission and the European Investment Bank (EIB) Group to provide technical support and funding to non-bank micro-credit providers in the EU.

Put simply, JASMINE’s purpose is to help non-bank micro-credit providers or MFIs, reach high standards and become convincing partners on the micro-credit scene. In the longer term, JASMINE seeks to improve the situation in the micro-credit sector and to develop a financial environment where banks and non-bank lenders would work in partnership on micro-credit issues and complement each other in economically sustainable conditions.

## GETTING TO THE HEART OF SMALL-SCALE FINANCE

**Micro-credit is defined as a loan for business purposes amounting to less than €25 000. It is available from banks but also from a range of lenders outside the banking sector, although not in sufficient quantity.**

Micro-lending is often provided by the non-bank sector because it is not attractive enough to larger financial institutions. The return is small; the administrative costs of the loan, including assessing, scoring and monitoring borrowers are disproportionately high compared to the value of the loan. Lenders need to be ‘close to the ground’ to know the needs of their market and how to turn potential into reality.

The pilot project runs from 2009 to 2011 and provides technical assistance to help MFIs improve their own businesses and become quality operators in their own right.

It also provides limited funding to MFIs through resources made available by the EIB and seed capital granted in the framework of a preparatory action requested by the European Parliament.

### Technical assistance

Technical assistance to MFIs takes the form of an assessment by a specialised rating agency and subsequent training in areas where improvement is needed. This may mean helping MFIs adopt good governance and sound management procedures and demonstrate that every part of their business is reliable. How an MFI manages the risk, how it carries out strategic planning and the completeness of its information system, is likewise reviewed and improved through training if need be.

### Selection of micro-credit providers

September 2009 was the first opportunity for micro-credit providers to express an interest in receiving technical assistance. The applicants had to demonstrate that they were already operating on sound business principles. The main criteria for applicants were:

1. Be EU based
2. At least two years history of providing micro-credit
3. More than 150 active clients in the last calendar year
4. Evidence of internal strategic planning
5. Engaged in social outreach with an average loan balance per borrower/GNI per capita ratio below 150% in the previous three calendar years

14 credit providers were selected across seven Member States and assessments began early in 2010. A second call for expressions of interest was launched on 11 October 2010 in order to identify additional 15-30 beneficiaries interested in entering the JASMINE evaluation and training scheme.

### Assessment and training of micro-credit providers

Once a micro-credit provider has been selected, many different aspects of its operating mode are examined at length by a specialised rating agency. The rating agency starts by analysing the internal procedures for decision-making and day-to-day management, and identifying how they comply with existing standards or could be made more robust and transparent to an outside observer.

Accurate management information systems and consistency of data are essential elements in an MFI and should provide a fair view of its operation. They are at the heart of decision-making and the trustworthiness of the micro-credit provider and are thoroughly assessed by the rating agency.

At the sharp end of the business, the rating agency also examines how the micro-credit provider manages risks including the risks linked to external factors. This in turn enables better strategic planning and designing the most appropriate portfolio of lending that generates steady returns and allows for business expansion.

The whole assessment process establishes a clear picture of the potential and the efficiency of each micro-credit provider. It also seeks to highlight which improvements are deemed necessary for an MFI to reach the high standard required and so have facilitated access to the private capital markets which would help it to expand and become sustainable.

On the basis of the assessments carried out, recognised micro-credit practitioners such as the Microfinance Centre (MFC) design targeted training with each organisation and take the process forward.

Last but not least, the JASMINE facility will provide business support services accessible to all micro-credit

providers.

#### **MICRO-CREDIT PROVIDERS SELECTED IN THE FIRST PHASE OF JASMINE**

##### **FOUNDATION FOR THE AGRICULTURAL PROMOTION OF REGIONAL DEVELOPMENT (FAER)**

The Foundation was created in 1992 as a Romanian NGO with financial support from Swiss International Cooperation and the aid agency of the Swiss Protestant Churches. FAER has been registered as a Non-Bank Financial Institution since June 2005, within the new legal framework for non-bank financial activities in Romania.

##### **OPPORTUNITY MICROCREDIT ROMANIA (OMRO)**

This central Romanian micro-credit institution offers group loans to people with household incomes well below United Nations Development Programme's poverty line of US\$4 per day.

##### **EXPRESS FINANCE**

A Romanian micro-credit provider specialising in business loans to micro and small entrepreneurs as well as housing and energy efficiency loans.

##### **LAM**

This Romanian organisation offers micro-credit packages to small and medium-sized business as well as to farmers.

##### **USTOI**

Bulgarian entrepreneurs can access finance through USTOI.

##### **NACHALA**

This cooperative helps the poor and unemployed across Bulgaria by providing loans and business advice.

##### **MIKROFOND**

The Bulgarian organisation, Mikrofond, lends capital to start-up micro and small businesses that do not have access to funding from banks.

##### **PRIMOM**

The Foundation for Enterprise Promotion in Szabolcs-Szatmar-Bereg County (PRIMOM) was formed in Hungary in August 1990 and was the first county enterprise promotion foundation in the country.

##### **MIKROHITEL**

This Hungarian organisation lends to very small businesses and non-profit making organisations.

##### **FOUNDATION FOR REGIONAL ENTERPRISE PROMOTION FOR THE TOWN OF SZÉKESFEHÉRVÁR (FREPS/FEA)**

The Fejér Enterprise Agency<sup>®</sup> or FEA is a non-profit organisation created in 1991 in Székesfehérvár with the support of the European Commission. The Agency deals mainly with Hungarian enterprise development projects funded by the EU's PHARE programme in Fejér county.

##### **CP'AC (FPPAC)**

The CP'AC Foundation promotes employment, especially through self-employment, and the development of the social economy. CP'AC provides both non-financial services and micro-credit to its clients in Spain.

##### **PERMICRO**

An Italian organisation providing credit to small business and disadvantaged families that cannot access bank funds.

##### **CRÉASOL**

This French organisation provides loans and advice to small business and people unable to access traditional funds from the banking system.

##### **THE PRINCE'S YOUTH SCOTTISH BUSINESS TRUST (PSYBT)**

The Trust provides finance and support to young people who want to start up their own business.

More information on supporting micro-credit providers with JASMINE is available on the Internet at:

[http://ec.europa.eu/regional\\_policy/funds/2007/jjj/micro\\_en.htm](http://ec.europa.eu/regional_policy/funds/2007/jjj/micro_en.htm)

On 26 November 2010, **Conference on “Micro-finance as one of the most effective employment creation tools – domestic and international experiences and the future”** was held in Nyíregyháza. The event was organized by PRIMOM and the Hungarian Enterprise Development Network Consortium with participation of Philip Delveaux, Principal Administrator at the European Commission, Samuel Clause, Microfinance Investment Director at the EIF, Cyril Gauiffès, Jasmine Coordinator at the EIF, and Daniel Sorrosal, Senior Program Office of the European Microfinance Network and several ERENET members.

## PUBLICATIONS

### HOW TO START AN ENTREPRENEURIAL REVOLUTION

by  
Daniel J. Isenberg

Studies from around the globe consistently link entrepreneurship with rapid job creation, GDP growth, and long-term productivity increases. That's why the new Holy Grail for Governments in both emerging and developed countries is to create an environment that nurtures and sustains entrepreneurship. Unfortunately, many governments take a misguided approach to building entrepreneurship ecosystems. They pursue some unattainable ideal and look to economies that are completely unlike theirs for best practices. However, today the most effective practices often come from remote corners of the earth, where resources--as well as legal frameworks, transparent governance, and democratic values--may be scarce.



© Harvard Business Review

Drawing from lessons learned in such countries as Rwanda, Chile, Iceland, Israel, and Colombia, this article defines **nine principles for building a successful entrepreneurship ecosystem**:

- (1) Stop emulating Silicon Valley.
- (2) Shape the ecosystem around local conditions.
- (3) Engage the private sector early.
- (4) Favour the high potentials.
- (5) Get a big win on the board.
- (6) Tackle cultural change head-on.
- (7) Stress the roots.
- (8) Don't overengineer clusters; help them grow organically.
- (9) Reform legal, regulatory, and bureaucratic frameworks.

Each of these is critical to entrepreneurship--yet insufficient to sustain it. The key is to integrate them all into one holistic system.

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*Source:* Harvard Business Review Article  
<http://hbr.org/product/how-to-start-an-entrepreneurial-revolution/an/R1006A-HCB-ENG>

## Assessing the performance of European SMEs

Small and medium-sized enterprises (SMEs) not only make up the vast majority of companies in the European Union, but they are also Europe's main job-creation engine. The annual report on European SMEs reveals that the economic crisis has caused this motor to stall temporarily, despite the fact that the EU and its Member States have improved the policy environment for SMEs.



The 20.7 million SMEs in the EU make up 99.8% of European enterprises and are a key driver of economic growth and employment. According to the annual report of the '[SME performance review](#)', SMEs in the EU's 27 Member States created 9.4 million jobs between 2002 and 2008. This represented an annual increase of 1.9%, as opposed to a rise of only 0.8% in larger firms. This is partly due to the more rapid growth in the number of SMEs: during the period in question, the number of SMEs increased by 2.4 million, or 13%, while the number of large firms rose by 2 000, or 5%.

Moreover, this growth dynamic was not limited to particular regions of Europe, but was spread rather evenly between the 15 countries which were members of the EU prior to 2004, and the 12 which have joined since then. Any striking discrepancies which existed were between Member States in each of the two groups and no longer between the groups themselves.

This stresses the importance of the EU's and Member States' drive to place SMEs at the heart of enterprise policy, under the auspices of the '[Think Small First](#)' principle which is used to revise existing legislation and to formulate new laws and regulations. This pillar is enshrined in the 2008 [Small Business Act](#) which seeks to improve the Union's overall approach to entrepreneurship and to promote SME growth by helping them tackle the obstacles which may hamper their development.

### A bump in the road

In 2008, the financial crisis which began in America crossed the Atlantic to infect Europe, too. Soon after, the turbulence in the financial sector spilled over into the 'real' economy, plunging the EU into a period of recession.

Although this economic crisis has hurt companies of all sizes, its effects on smaller enterprises have taken slightly longer to materialise. In addition, it has had certain specific impacts on SMEs. In many ways, SMEs can be more vulnerable to economic downturns than larger firms, because they may lack the deep pockets needed to weather the storm or are too specialised to fall back on alternative business streams. In addition, in the wake of the crisis, SMEs had more trouble than large firms in accessing finance.

Unsurprisingly, given this worsening economic outlook, the SME growth momentum began to stall. According to the study, a slowdown occurred in 2008, followed by a halt the following year. In 2009, the number of European SMEs stagnated, while their economic output declined by 5.5% compared with the previous year. The knock-on effect of this on SME employment is projected to continue into 2010, even though production levels are expected to begin to recover. In 2009 and 2010, European SMEs are expected to shed 3.25 million jobs. A similar situation has occurred across the Atlantic and in other countries, although European SMEs have proven more resilient, the study reveals.

To help SMEs turn the corner and ride the wave of recovery, creating new jobs and growth, requires concerted action at the European, national and regional levels. "In light of the rather testing times

ahead, an effective policy response is crucial in helping SMEs to be successful,” said Antonio Tajani, European Commission Vice-President in charge of Entrepreneurship and Industry. “Member States should step up actions that give a boost to SMEs. For SMEs to thrive, they need a more business-friendly environment across Europe.”

### National snapshots of small businesses

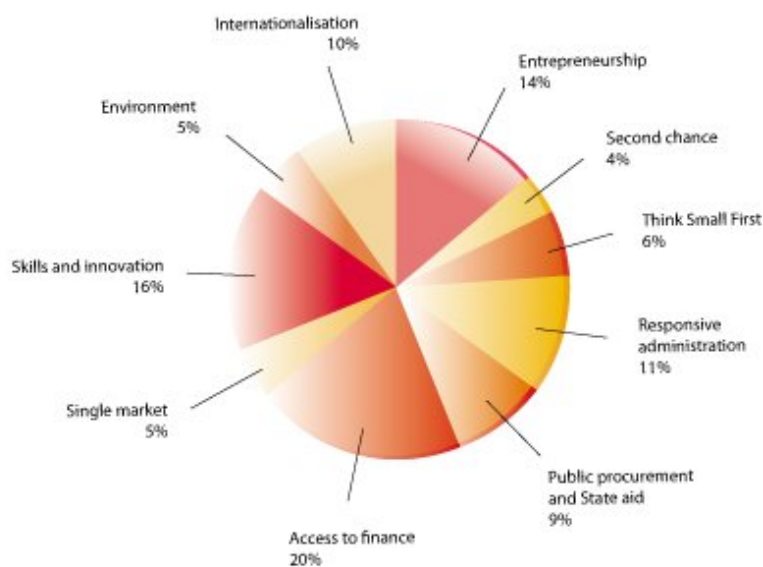
In recognition of the central role of small and medium-sized enterprises in the European economy, the Small Business Act (SBA) puts in place a comprehensive policy framework for the EU and its Member States in dealing with SMEs. The SBA outlines a set of ten principles which should guide the conception and implementation of policies both at EU and national level.

Since the SBA focuses not only on creating an SME-friendly environment at the EU level but also at the national level, the SME performance review, in addition to its annual report, has also produced national fact sheets for some 37 countries, including the Union’s 27 Member States.

These fact sheets, structured around the ten principles of the SBA, provide a synopsis of the SME policy environment at country level. They are important tools for monitoring the implementation of the Small Business Act and permit inter-country comparisons, while also relating the country’s individual performance to the EU average.

Altogether, the fact sheets reveal that, from 2006 to 2009, the Member States were active in implementing the SME support measures prescribed in the SBA, having adopted or already put into effect more than 500 policy measures. However, they also reveal that most countries have chosen to focus their policies on a few areas, and only eight of them have been active across the entire range of SBA principles.

**DISTRIBUTION OF POLICY MEASURES  
BY SBA PRINCIPLE: EU MEMBER STATES**



Graph 1: Distribution of policy measures by SBA principle in the EU-27.

Fact sheets are available for 2009 and 2008. They can be accessed at [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm).



## Environmental Compliance Assistance Programme for SMEs

### SMALL, CLEAN and COMPETITIVE

**Small and medium-sized enterprises** (SMEs) traditionally find it harder to comply with environmental legislation than their larger counterparts. In general, the smaller the company, the more difficult it is.

Although there is a cost implication in compliance, companies that do take action can benefit from lower energy bills and greater efficiency in their operations. The European Commission understands the pressures faced by small businesses and is taking action to help them. It has proposed an Environmental Compliance Assistance Programme to make it easier for SMEs to comply with their obligations and improve their environmental performances.

DG Enterprise has completed a study which estimates the environmental impact of SMEs in Europe, analyses administrative burdens stemming from EU environmental legislation and environmental business opportunities for SMEs, with concrete examples from single enterprises in 13 European countries. The study has been prepared in 2010 under the Competitiveness and Innovation Programme 2007-2013 by the Danish Technological Institute and the Greek PLANET S.A.

Among the most relevant findings, the study confirms that SMEs' contribution to industrial pollution in Europe is about 64%. Data is often lacking or is not sufficiently detailed, therefore many estimations had to be carried out, and certain impacts are not covered (e.g. emissions into water and soil).

Concerning administrative burdens, the report shows that SMEs recognise that environmental legislation is necessary. They ask for one-stop-shops, streamlined reporting, improved permitting procedures and subsidies.

Opportunities identified include cost reductions due to environmental measures, but the appropriate instrument needs to be chosen for the SME. The eco-market represents another important opportunity. Here, SMEs need support for marketing campaigns of their eco-products, easier certification of environmentally friendly products and sector-specific events highlighting eco-industry opportunities.

The study is accompanied by a web-based toolkit to assist policy-makers and SMEs in developing environmental improvements. For the first time a database was set up on the environmental impact of SMEs by size class and sector. The study can be downloaded from the following address:

[http://ec.europa.eu/enterprise/policies/sme/business-environment/files/main\\_report\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/business-environment/files/main_report_en.pdf)

*Source:* [http://ec.europa.eu/environment/sme/news\\_events/news29\\_en.htm](http://ec.europa.eu/environment/sme/news_events/news29_en.htm)

## Happiness and the Economy: The Ideas of Buddhist Economics

<http://laszlo-zsolnai.net/content/happiness-and-economy-ideas-buddhist-economics>

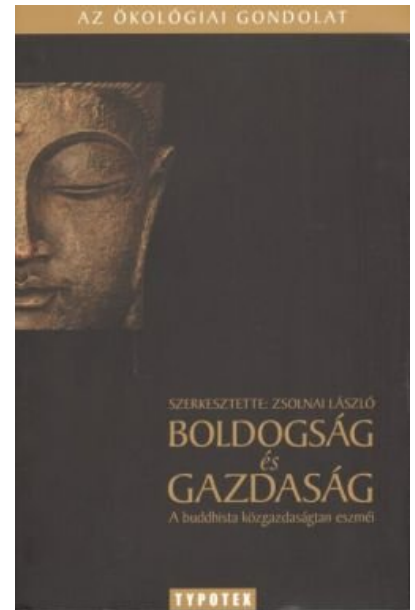
**László Zsolnai** (ed.) *Happiness and the Economy: The Ideas of Buddhist Economics*. Typotex, Budapest, 2010.

(This book may be available at: [Typotex](#))

This book published in Hungarian presents new insights of Buddhist ethics applied to economics and business. Buddhism suggests an approach to economic life, which is radically different from what mainstream Western economics offers. Buddhism promotes want negation and selfless service of others for achieving happiness, peace and permanence. These ideas might seem irrational or at least naïve for the Western mind which is preoccupied by cultivating desires and the instrumental use of the world. However, the deep ecological and financial crisis of our era renders alternative solutions worthy for consideration.

### Content:

- Preface
- 1 Deep Ecology and Buddhism (Knut J. Ims and Laszlo Zsolnai)
- 2 The "Middle Way" for Market Economy (Ven. P. A. Payutto)
- 3 The Need of a Buddhist Economics (Apichai Puntasen)
- 4 Happiness and Economics (Colin Ash)
- 5 Paths to a Mindful Economy (Joel C. Magnuson)
- 6 Buddhist Economic Strategy (Laszlo Zsolnai)



### EXCERPT FROM THE PREFACE

This book presents new insights of *Buddhist ethics* applied to *economics* and *business*. Buddhism suggests an approach to economic life, which is radically different from what mainstream Western economics offers. Buddhism promotes want negation and selfless service of others for achieving happiness, peace and permanence. These ideas might seem irrational or at least naïve for the Western mind which is preoccupied by *cultivating desires* and the *instrumental use* of the *world*. However, the deep ecological and financial crisis of our era renders alternative solutions worthy for consideration.

The economic crisis produced financial losses of billions of USD in the form of poisoned debts, the decline of stock prices and the value depreciation of properties. Formerly fast growing economies such as Ireland, Spain, Singapore and Taiwan experienced 5-10 % decline in their GDP. The fundamental cause of the crisis is the *avarice* of *consumers* fueled by *greedy financial institutions*. The prospect of future economic growth supposed to be the guarantor of the indebtedness of households, companies and economies. Today we experience the considerable *downscaling* of our *economic activities*.

The present scale of economic activities of humankind is ecologically unsustainable. The so-called ecological footprint calculations clearly show this. The *ecological footprint* of a person is equal with the land and water that is required to support his or her activities indefinitely using prevailing technology. The sustainable ecological footprint – also called "earthshare" – is the average amount of ecologically productive land and sea available globally per capita. In 2005 this earthshare was calculated at 1.6 hectare per person.

According to the latest available data the ecological footprint of humankind exceeds the ecological capacity of the Earth by 200-250 %. It means that we would need 2-2.5 Earths for continuing our present lifestyle. The ecological footprints of the *most industrialized countries* are shockingly big. These countries are *ecologically overshoot* by 600 - 250 %.

The ecological footprints of the so-called *Buddhist countries* are more modest. Most of them even do *not use* the full *ecological capacity* available for them.

Ecological economists argue that the material throughput of the economy should be drastically



reduced in the industrialized countries and also globally. We need to undertake an "economic diet" by introducing more frugal production and consumption patterns. Frugality, that is, reduced material activities, is becoming crucial for our survival.

The global warming survival guide was created by the American weekly magazine, *Time* suggest the following: "There is an older path to reducing our impact on the planet that will feel familiar to Evangelical Christians and Buddhists alike. Live simply. Meditate. Consume less. Think more. Get to know your neighbors. Borrow when you need to and lend when asked. *E.F. Schumacher* praised that philosophy this way in *Small Is Beautiful*.

In the 1950s and 1960s British economist E.F. Schumacher was working as an economic advisor in South-East Asia. He realized that the Western economic models are not appropriate for Buddhist countries because they are based on a different metaphysics than that of the Far-Eastern worldviews.

The main goal of a Buddhist life is liberation from all suffering. *Nirvana* is the end state, which can be approached by want negation and purification of human character. In Schumacher's reconstruction (Schumacher, E.F.: *Small is beautiful*. 1973) the central values of Buddhist economics are simplicity and non-violence. From a Buddhist point of view the optimal pattern of consumption is to reach a high level of human satisfaction by means of a low rate of material consumption. This allows people to live without pressure and strain and to fulfill the primary injunction of Buddhism: "Cease to do evil; try to do good." As natural resources are limited everywhere, people living simple lifestyles are obviously less likely to be at each other's throats than those overly dependent on scarce natural resources.

According to Buddhists, production using local resources for local needs is the most rational way of organizing economic life. Dependence on imports from afar and the consequent need for export production is uneconomic and justifiable only in exceptional cases. For Buddhists there is an essential difference between renewable and nonrenewable resources. Non-renewable resources must be used only if they are absolutely indispensable, and then only with the greatest care and concern for conservation. To use non-renewable resources heedlessly or extravagantly is an act of violence. Economizing should be based on renewable resources as much as possible.

Buddhism does not accept the assumption of man's superiority to other species. Its motto could be, "noblesse oblige"; that is, man must observe kindness and compassion towards natural creatures and be good to them in every way.

Schumacher concludes that the Buddhist approach to economics represents a middle way between modern growth economy and traditional stagnation. It seeks the appropriate path of development, the *Right Livelihood* for people.

From the 1970s Schumacher's conception of Buddhist economics became popular in the West, especially among the members of alternative and environmental movements. It was gradually recognized that Buddhist economics is not only relevant for Buddhist countries but can help Western countries to solve the problems of overconsumption, welfare malaise and destruction of nature. In the 1980s and 1990s more and more alternative minded, Western economists and social scientists turned to study Buddhist economics.

Today *happiness* is a top priority in economic, psychological and sociological research. In the last several decades the GDP doubled or tripled in Western countries but the general level of happiness - the subjective well-being of people - remained the same. Happiness research disclosed evidences, which show that the major determinant of happiness is not the abundance of material goods but the quality of human relationship and a spiritual approach to material welfare. Not unsurprisingly Buddhist countries are performing well in the happiness test.

There is a growing interest in *Bhutan*, this small Buddhist kingdom in the Himalayas, where the King of Bhutan introduced the adoption of an alternative index of social progress, the so-called *Gross National Happiness* (GNH). This measure covers not only the material output of the country but also the performance of education, the development of culture, the preservation of nature and the extension of religious freedom. Experts attribute to the adoption of GNH that while Bhutan's economy developed, the forestation of the country and well-being of people also increased.



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