

ERENET PROFILE

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Published by:

ERENET NETWORK
Small Business Development Centre,
Corvinus University of Budapest

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© ERENET PROFIL, 2011
ISSN 1789-624X

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SPING MESSAGE OF THE SCIENTIFIC DIRECTOR



Distinguished ERENET Members and Friends,

In my last message I raised the poetic question "Quo Vadis European Union? To be or not to be EURO?" As the past months passed the question is more valid as any time. Instead of abating, the EURO crises has recently taken for the worse. The fundamental problems have not been resolved. The Chairman of the Soros Fund Management sees the problems as threefold: "First, the rules governing the eurozone have failed and need radical revision. Defending a status quo that is unworkable only makes matters worse. Second, the current situation is highly anomalous, and exceptional measures are needed to restore normality. Finally, new rules must allow for financial markets' inherent instability." Nobel Prize-winning economist Joseph Stiglitz said Europe is in a "dire" situation as a focus on austerity pushes the continent toward "suicide." Amid the sovereign-deb crises the 37 EU Members are implementing austerity measures totaling about EURO 450 billion. At the same time the debt in the EU region rose last year to the highest since the start of the single currency. If only Greece would be the only country exercising the austerity it would be no problem. "But if you have UK., France, you know all the countries having austerity, it's like a joint austerity and the economic consequences of that are going to be dire." According to Stiglitz "the austerity combined with the constraints of the EURO are a lethal combination". At it is true, because the austerity will lead to high unemployment rate, which is unacceptable and will make the economic crises event worse. László Andor, the EU Commissioner for Employment said early May, than "since around last summer, we have experienced a deceleration of economic growth across Europe. This has worsened the recession which had already been ongoing in a number of Member States....Unemployment is again increasing, particularly inside the Euro area. Within the EU-27, the unemployment rate is now more than 10%, which is something we have not seen. As matter of fact, neither President Barosso, not the European Commission has no strategy how to get out of the crises, how to create job and develop human capital. Barosso and the European Commission, a mass of unconscientious commissers and horde of international civil servants are carrying out daily tactickes. sizing the bend of the bananas. Since opening the global market the EU puts knife to the through of the micro- and small firms and the methods of squeezing them of the tha market is more sohplisticated like increasing the size of the hencoops and allowing the import of the catchpenny eggs. The premium quality Central-European honey has no defeating net and the Eu allow to sale import honey made from sugar. Why there is a need for safety and lealthy food, we are eyewitness of the triumph of the funk food.

Recetly I participate in an International Conferenc on Family Businesses held in Krakow. There was a pre-conference with 200 indigenus - Polish - entrepreneurs and they all expresses the dissapointness of the current EU policy and emphasised the need to strengthen the interdependence of the central- and Easter-European Governments and citizens.

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**□EMERGING OUT THE ECONOMIC CRISES AND STRATEGIES OF
ENTREPRENEURSHIP IMPROVEMENT
AND SME SECTOR DEVELOPMENT
IN ALBANIA□**

INTRODUCTION

Albanian economy has registered a steady economic growth since 1992. During years 2000-2008 such growth has recorded levels between 6-7.7% resulting as one of the highest among BSEC countries. During 2009-2010 such economic growth is reduced to 3.3% and 3.9%, although faced with a global economic crisis. The private sector plays the most important role in the Albanian economy and its contribution is estimated at over 82% of GDP and employment level.

Small and medium enterprises are the engine of the economy. They are an essential source for the creation of new jobs; entrepreneur and innovation spirit and have a crucial importance for increasing competitiveness. SMEs dominate the Albanian economy by representing 99.9% of all registered businesses. The share of SME sector in GDP is about 73% and the sector covers approximately 71% of all employees.

According to Doing Business 2011, in ease of doing business, Albania is ranked 82 out of 183 as compared to 136 out of 183 in 2007. Such improvement in ease doing business is as a result of several reforms undertaken for improving business climate.

Maintaining high rates of economic growth in the upcoming years is a challenge for Albanian economy. Furthermore taking into account regional integration with the implementation of free trade agreements in the region and the free trade interim agreement with the EU, such task will be much more difficult to achieve. During the regional and global integration process, Albanian economy will face with increasing competitiveness of other countries.

Finally, the Small Business Act which is a new framework policy document will be analyzed. It was endorsed by the European Council in December 2008 (EC, 2008) and Albania as the other BSEC countries are expected to move towards implementation of the policies identified in this Act.

1.1. NATIONAL ECONOMY AND THE SME SECTOR

Between 1998 and 2010 economic growth in Albania averaged over 6.1% per annum. Over this period the relative importance of agriculture declined from over 25% of GDP to 18.5% (still a very high value in comparison to other peers). The share of manufacturing has risen from 6% to 9% of GDP but remains very low by regional comparisons. At the same time, construction has become a more important sector of the economy, whose share of GDP has risen from 8.3% to 13.9% between 2000 and 2008. Services have remained stable as a share of GDP at just under 60%. For this period therefore, most of the recent growth is attributable to a marked shift of workers from agriculture to services and manufacturing.

The strong growth was supported by strong remittances from the Albanians living abroad, increasing levels of FDI, increased availability of credit, and high private savings, which all contributed to high levels of investment. Total gross investment has increased from 24.6% of GDP in 2000 to 29.5% in 2009, and private investment from 18 to 21.4% over the same period.

However not all such investment went into productive activities, with only about 10% of GDP going to investment for production purposes up to 2006, as the bulk of investment has been skewed towards the construction sector.

During 2009, although the Albanian industrial output faced a contraction of the growth rate as a consequence of the negative shocks coming from the global economic crisis, the overall economy still performed positively and demonstrated again that it is a vibrant economy. This growth has generally been supported by a satisfactory performance of the services sector and a return to its normal pace of agriculture. According to the Institute of Statistics (INSTAT), real GDP increased by 3.3% in 2009 and 3.9% in 2010. It is worth highlighting that this positive growth rate of the economy for 2009 and 2010 was accompanied by the preservation of the macroeconomic stability within acceptable parameters, and is highly satisfactory if put at a comparative perspective with the countries of the region.

Public Sector and Fiscal Policy

Public policy underpinned economic development in the recent past years. One of the greatest successes of public policy in Albania is the great reduction in poverty levels which accompanied economic growth. The absolute poverty headcount rate fell from 25.4% in 2002 to 12.4% in 2008. Even more pronounced was the decline in rural poverty, which fell by 47% from 2002 to 2008; in 2008 the poverty rate in rural areas was about 14%.

During the last few years, the business environment improved considerably. Examples of government programs which successfully improved the institutional framework for doing business include the introduction of a flat tax of 10% on businesses and individuals, and the creation of a one-stop shop for business registration. Also, between 2004 and 2009 Albania's governance indicators improved in all six areas measured by the Worldwide Governance Indicators, WGI, (WB, 2010), of government effectiveness and rule of law.

However, notwithstanding such significant progress, there is room and need for further improvement in various areas of implementation of critical laws and regulations in line with the requirements for EU accession, which also count for attracting foreign investment. To this end, establishing a fully functional system of Regulatory Impact Analysis (RIA) and of a permanent Regulatory Reform Task Force would lend added credibility to the process.

The relative improvement in Albania's economic outlook, as outlined above, owes much to sound fiscal and monetary policy frameworks that remain largely in place. Fiscal consolidation has supported the monetary policy framework which strives to keep inflation under control. In past years Albania's fiscal stance has been restrictive, while the monetary policy stance has remained broadly neutral.

Although past strict application of prudent fiscal policy supported a downward trend in deficits, and in combination with strong GDP growth public debt declined from 62 to 53% of GDP between 2003 and 2007, this trend reversed starting with 2008 due to the increase of public investment and in the current context of high concerns about growing risks of sovereign debt financing deficits becomes increasingly difficult.

Bank sector

Since March 2009 when the government divested its remaining stake in United Bank of Albania the banking sector has been fully privatized and according to EBRD data at the end of 2008 foreign owned banks' share of assets amounted to over 93%. Italian, Austrian, Greek, German and French banking groups such as, IntesaSanPaolo, Raiffeisen, National Bank of Greece, Commerzbank and Societe Generale), amongst others, are all present in Albania. The banking sector's capital adequacy ratio is a high 16-17% heading into 2011 and even though non-performing loans have increased from a pre-crisis 4% to approximately 8%, the banking sector is stable.

SMEs DEVELOPMENT IN ALBANIA DURING THE RECENT YEARS

Small and medium enterprises are the engine of the Albanian economy. They are an essential source on the creation of new jobs, entrepreneur and innovation spirit and are crucial in growing competitiveness and employment.

Private sector contributed in more than 82% of GDP and more than 82% in employment. GDP per capita reached 3,677 USD in 2010 with declined by 10% compare 2008; Inflation declined from 3.4% in 2008 to 2.2% in 2009 and increasing again during 2010 in the level of 3.6%, staying within the central bank targeted band of 2% - 4%; Unemployment increased from 12.7% in 2008 to 13.49% in 2010; Remittances fell by 11.7% in 2010 compared to 2009 and fell by 27.5% compare 2007 were is the highest level of remittances. SME sector contributed in more than 73% of GDP and more than 71% in employment¹.

Definition of SME

The definition of SMEs in Albania is based on the same criteria in terms of employees as the EU definition; classification of thresholds differs in absolute terms for turnover and balance sheets because of economy size and performance. The number of employees is the main criteria employed in both definitions and there is consistency between them, seconded by turnover and balance sheet figures.

The Albanian definition of small and medium-sized enterprises consists of firms that employ fewer than 250 people, and have an annual turnover and/or a balance sheet total not exceeding 250 million ALL (approx. EUR 2 million).

Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed 50 million ALL (approx. 0.41 million €).

Within the SME category, a micro enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed 10 million ALL (approx. 0.08 million €).

Referring the INSTAT data (INSTAT, 2011:3), the number of active enterprises² till the end of 2010 reached 100,687; which indicated a very slight increase by 1% as compared to 2008. The new enterprises created during 2010 are 16,443 (NRC, 2011). The number of employees in non agriculture private sector during 2009 was decreased with 0.9 % as compared to the previous year, while the number of employees during 2010 was increased with 3.1 %.

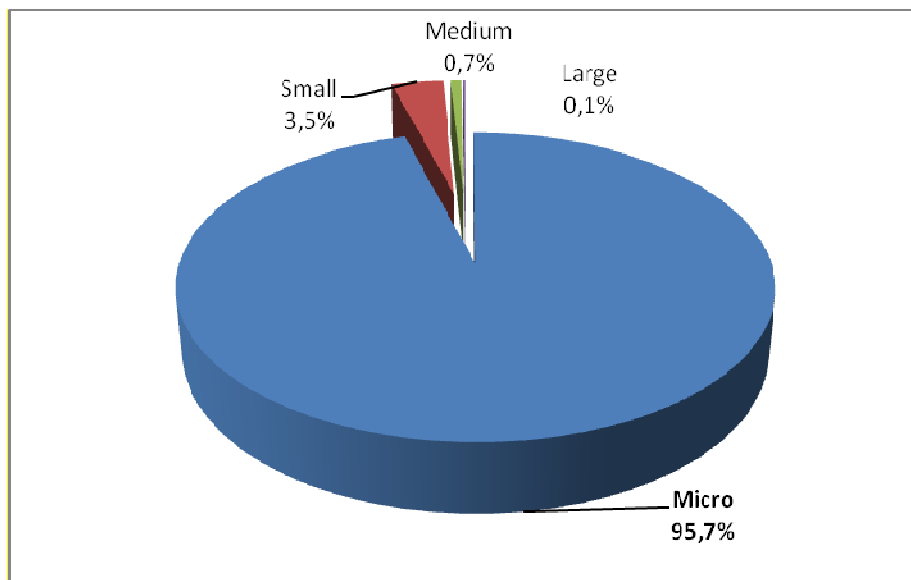
Birth rate of new enterprises for 2010 is 16% compared with 2009. In the following table are shown active enterprises by their year of creation. From 2005 to 2009 enterprises in Albania are increased by about 55%.

Year	2005	2006	2007	2008	2009	2010
No. of active enterprises	64,710	77,814	87,484	99,500	98,238	100,687

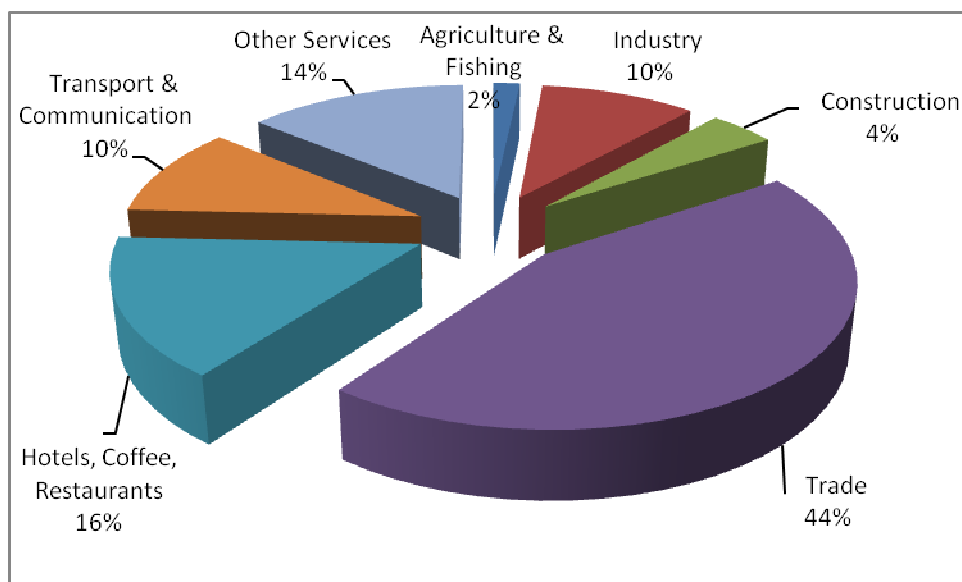
According to the data of the INSTAT, the share of SMEs is 99,9% of the total number of companies in 2009. SMEs contribution to exports in the year 2009 is about 69%. (33% from medium enterprises, 22% from small enterprises and only 14% from micro enterprises). Referring to their structure, active enterprises for 2010: microenterprises with 1 to 9 employee's makes 95.7% of the total active enterprises, small enterprises with 10 to 49 employees cover 3.5%, medium enterprises with 50 to 249 employees 0.7% and only 0.1% of their total number are large enterprises with more than 250 employees.

¹ Evaluation by authors because the Institute of Statistic, INSTAT didn't provide this data.

² INSTAT, data from the Business Register and Business Survey are referring non agriculture private sector.



About 50% of active enterprises in Albania operate in Tirana and Durres. The spread of active enterprises by economic sector are: trade 44%, industry 10%, hotels, restaurants 16%, transport and communication 10%, other services 14%, construction 4%, agriculture and fishing 2%.



From the industry sector which covers 16% of the total number of enterprises in Albania dominates manufacturing with 61.5%, construction with 30.6%, while agriculture and fishing 7.9%.

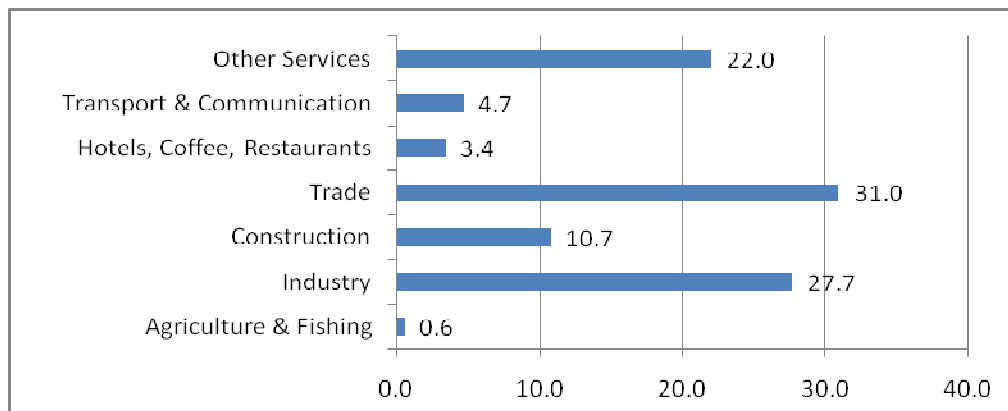
From the service sector making 84% of the total number, trade covers 55.6% of the service sector, 17.4% hotels, restaurants, 15.7% other services and 11.3% transport and communication.

The number of enterprises exporting is 1,706. Their export for 2010 reached the value of 1.1 billion Euros with significant increase of 56.4% compared to the previous year. Exports for the first quarter 2011, is increased 46% as compared to the first quarter 2010.

Foreign and joint venture enterprises in Albania make 2.2% of the total number of active enterprises in the country. Foreign investments for 2010 reached 827 million Euros with a growth of 17% compared to the previous year. FDI are increased three times compared to 2006. Foreign direct investments were largely directed into the hydro-energetic and fuel sectors. Net FDIs for 2010 reached 9.4% of nominal GDP in 2010 around 1.6% points higher compared to 2009.

From the following graph it is noticed that they dominate in trade with 31%, followed by about 28%

in manufacturing.



Source: Bank of Albania, 2010

Turnover for 2009 according to INSTAT (INSTAT, 2011:1) was 6.2% higher as compared to 2008 and 23% higher as compared to 2007. Turnover in services was 11% higher as compared to 2009 and in industry 2% lower during the same period. The average turnover per employed in 2009 is increased by 10% compared 2007. 38% of the turnover comes from the industry sector and 62% from the service sector. In the services sector is 55% of the total employed. Industry and construction sectors realized 49% of the total investments. The value added in 2009 (INSTAT, 2011:1) was 8% higher as compared to 2008. Value added in services was 15% higher than 2008 but in industry was 13% lower during the same period.

SME development policy

The framework policy towards SMEs is included in the Business and Investment Development Strategy/BIDS for the period 2007-2013 (Albanian Government, 2007). In chapter II of this strategy it is dedicated to SME promotion and development.

Another document is the Strategic Programme on SMEs Development for the period 2007 – 2009 (METE, 2007) which is an integral part of Sectorial Strategy of Business and Investment Development. The strategic programme for SMEs development is referred to a three-year period and covers the narrative part and the action plan for implementing European Charter objectives for small enterprises.

The vision of this strategic program is: Improve the climate for accelerating business and investment development, increase the competitiveness of SMEs in regional and global markets, through development and information technology, and reduce administrative barriers and create facilities for business.

The overall objective of this strategic program is sustainable economic development of the SME sector through increasing the number of new enterprises, and ensuring continuous improvement on productivity, competitiveness and export indicators.

The specific objectives that will help achieve the overall goal are as follows:

- Promote an entrepreneurship culture; draft entrepreneurship learning strategy; increase labour force skills and promote creative businesses.

- Develop growing businesses with internationalization potential.

- Improve the business climate for developing SMEs;

- Business registration only in one day through the establishment of one stop shop for business register and also the creation of the respective network with other prefectures; establishment and creation of the Regulatory Impact Assessment system to ensure evaluations and analysis of policies and the regulatory framework; standardization and unification of criteria and procedures on the issuance of licenses, permits, authorizations and certifications by local and central authorities.

- Increase competitiveness through innovation and technology transfer.

- Enhance SMEs funding: Creation of the Albanian Credit Guarantee Fund; application of other financial instruments like: factoring, improvement of leasing etc. Increase microcredit funds, support of non-financial institutions with micro credit fund from foreign donors and the Albanian government; and strengthen the capacities of micro credit institutions.

1.2 LEGISLATION and RANKING OF DOING BUSINESS ACCORDING TO WORLD BANK METHODOLOGY

According to Doing Business 2011, in ease of doing business, Albania is ranked 82 out of 183 from 86 that it was in 2009 and 136 in 2007-2008.

Doing Business, Albania	Doing Business 2011	Doing Business 2010	Doing Business 2009	Doing Business 2008	Doing Business 2007	Doing Business 2006
Ease of Doing Business	82/183	82	86	136	120	117
Starting a Business	45	46	67	130	121	108
Dealing with Construction Permits	170	173	170	160	161	131
Employing Workers	–	105	108	109	113	127
Registering Property	70	70	62	56	76	66
Getting Credit	15	15	12	61	48	41
Protecting Investors	15	15	14	168	162	136
Paying Taxes	149	138	143	125	125	132
Trading Across Borders	75	66	77	73	101	100
Enforcing Contracts	89	91	88	88	99	113
Closing a Business	183	183	181	181	89	73

Source: Reports of Doing Business (DB 2008, DB 2009, DB 2010, DB 2011)

Several reforms on reduction of administrative barriers in business have improved the business climate in Albania.

1. Starting a business

When entrepreneurs draw up a business plan and try to get under way, the first hurdles they face are the procedures required to incorporate and register the new firm before they can legally operate.

It is assumed that all information is readily available to the entrepreneur, that there has been no prior contact with officials and that all government and nongovernment entities involved in the process function without corruption.

It requires 5 procedures, takes 5 days, and costs 16.82% GNI per capita to start a business in Albania. Albania is ranked 45 overall for Starting a Business in BD 2011 making significantly steps comparing to BD 2007-08 where it was ranked 130.

➤ Business registering reform. The process of the reformation of business registration NRC: (i) convert the registration process by a mixed process (judicial and administrative) in an entirely administrative process, (ii) registration in a single day, with a single step, closer to the beneficiaries and electronic, (iii) increase transparency, impartiality and simplicity in registration (iv) immediate registration for trade, fiscal, social and

health insurance and work effect with a single step (v) simplification of requirements and documentation necessary for registration of businesses, (vi) Reduction of registration costs, eliminate contacts with administrative employees and thus reduce corruption (vii) provision of services at national level also being extended at the local government structures, (viii) full compliance of standards of registration process with the European directives.

National Register Center, NRC is functioning as a one stop shop since September 2007. Business registration within one day, at NRC, with a minimal cost of 100 ALL (0.81 EUR). This has brought the reduction of time registration of a business to 1 day from 28 days that is was in 2007 in the Court. During 2010 are registered 16,433 new companies.

- Reduction of steps for starting a business. The accomplished reforms during 2007 and 2008 have made that the number of steps to start a business in Albania to be reduced from 10 to 5 steps. So, there are reduced 5 steps to start a business, concretely:
 - Companies use an identification number which is given by NRC when they made the registration and at the same time is generated in the tax office, social insurance office and in office of labour. This has brought the reduction of 4 steps for starting a business;
 - With the Law No. 9897, dated 10.04.2008 "On a change on Law No. 9640, dated 09.11.2006, it is amended the law on chamber of commerce and industry reducing the obligation of the companies to register nearby CCI. This registration is already voluntary. This has brought the reduction of one step to for starting a business.

Regarding the procedures that are followed for business registration, in accordance with DB 2011 data are:

Steps	Procedures	Duration
1	Search for a unique company name	1 day
2	Notarize the incorporation documents	1 day
3	Request at NRC	1 day
4	Paying Taxes	1 day
5	Make a company Seal	1 day

Source: *Doing Business 2011*

The reduction of time for starting a new business. Now need only 5 days to open a new business compare 36 days in the 2008, which is also connected with the cost reduction to open the business.

According to data of the last four years, Albania has the following the results:

Starting business	Year 2008	Year 2009	Year 2010	Year 2011
Ranking	130	68	46	45
Procedures (number)	10	6	5	5
Time (days)	36	8	5	5
Cost (% of income per capita)	21%	26%	17%	16.82%
Min. capital (% of income per capita)	34%	32%	0%	0%

Source of this data are respective reports of *Doing Business* (DB 2008, DB 2009, DB 2010, DB 2011)

According to *Doing Business* data, the average time to complete the overall start-up business process in OECD countries was cut between 2004 and 2008 by over 60%, from 32.8 to 13.2 days, while the average cost for the entrepreneur was reduced by nearly 50%, from 9.3% to 4.9% of average per capita income.

2. Dealing with construction permits

To measure such regulation, *Doing Business* focuses on the construction sector. Construction companies are under constant pressure from government to comply with inspections, with licensing and safety regulations, from customers to be quick and cost-effective.

In *Doing Business 2011* it requires 24 procedures, takes 331 days, and costs 381.3 % GNI per capita

to build a warehouse in Albania. Albania is ranked 170 overall for Dealing with Construction Permits being the last comparing to the western Balkans countries. It has done some steps backward since in DB 2007 it was ranked 161.

➤ Reform in reduction licences not including the construction permits. During 2007-2009, regulatory reforms in the field of licenses were focused in sectorial improvements, which brought a drastic elimination of the huge number of licenses and permissions, concretely: There are taken off 64 licenses, are converted in self-declarations 21 licenses, are converted in auction 12 licenses and the others are decentralised.

National Lincensing Center, NLC is functioning as one stop shop since 9 June 2009. It operates on the bases of the new law on licenses, authorisation and permits Nr. 10081, dated 23.02.2009. It serves as a one stop shop for licensing and permits that were previously obtained at various ministries. It operates according the principle silent is consent. For the group I and II licenses are given by NLC itself within 2-4 days. For licenses of group III, which are sent to ministries in line, the time of giving a license is 10-30 days.

NLC offers quick and transparent services to businesses interested in obtaining a license and/or permit. There are opened 8 service windows in Tirana and also 9 service windows in other cities. NLC didn't include the construction permits which delivered by municipalities.

3. Registering property

Ensuring formal property rights is fundamental. Effective administration of land is part of that. If formal property transfer is too costly or complicated, formal titles might go informal again.

Albania is ranked 72 overall for Registering Property. According to DB 2011 it takes 6 procedures, 42 days, and costs 3.40% of property value to register the property in Albania. In DB 2007 Albania is ranked 76 thus making some progress in 2011 with 6 positions. In 2007 in Albania it is needed 7 procedures, 47 days and cost 3.6% of property value.

4. Getting Credit

For Doing Business 2011 Albania is ranked 15 overall for Getting Credit while the survey of DB for 2007 does not present any information regarding getting credit in Albania.

➤ Banks reforms in Albania. Since 2005 all the commercial banks in Albanian are private. Crediting of private sector (BA, 2011) for 2010 reached 39.5% toward GDP, with a growth of 2 points %age compared with the previous year, while with a significant growth comparing with 2005 where it was 14.9% toward GDP. The annual growth rate of credit portfolio almost 10%, even improving slightly compare to 3.5% the end of 2009, continues to be low. Credit granted by non-banking financial institutions continued to be low. Microcredit portfolio of these institutions by December 2010 is: 3.7% of total financial system assets and 5% of total credit granted by financial system. According to sectors distribution of credit, banks have financed mostly the service sector supported by more optimistic development in this sector, especially in trade by 34.5% of the total credit.

5. Protecting Investors

Stronger investor protections matter for the ability of companies to raise the capital needed to grow, innovate, diversify and compete. Even here Albania in DB 2011 is ranked 15 overall for protecting investors being also the first compared to the Western Balkan countries. In DB 2011 the Investor Protection index is 7.3 while in DB 2007 it was only 2.7 and ranked 168 places.

➤ Reforms in the field of legislation of companies. This important improvement has come as a result of reforms in the field of trade legislation, drafted and approved by Law no. 9901, dated 14.04.2008 "On Company Law", which provides a contemporary, simple, clear and updated legal framework for companies. The legislation is fully compatible (does not conflict) with the provisions of primary and secondary sources of the *acquis communautaire* and complies fully with all the principles ensuing from those provisions.

Novelties of this new law are the following:

- Protecting third parties (creditors) that enter into relation with the company according to EU requirements.

- The removal of the obligation that 1/3 of employees to be part of the supervisory board. But in compliance with the EU Directives the employee's council is created, having advisory and information competencies for the most important issues of the company.
 - Prevision of the cases when share-holders loose the limited liability and respond personally when abuse with law.
 - Prevision of clear rules on the manager's duties, and fiduciary duties against the company, rules that prevent unfair competition of managing directors and share-holders.
 - Preserving industrial secret.
 - More clear determination of the role of companies inside a group, and also, in distinction with the existing law, the draft law foresees consequences for the parent company when they abuse with subsidiary companies. Prohibition in alternated appointments of directors in parent and subsidiary companies, hereupon a high level of "corporate governance" with the aim of creating a positive climate for the welfare of business.
 - Prevision of electronic communications.
- Protecting foreign investors. Through the Law Nr. 10316, dated 16.09.2010 "On some additions to the Law Nr. 7764, date 02.11.1993 "On Foreign Investments" the government has made some very important changes to the award of a special state protection certain categories of foreign investors, that in the process of investing encounter problems with property titles, from claims on property titles by third parties. The special state protection is provided for the foreign investments in public infrastructure, tourism, energy or agriculture on a real estate and when expected investment worth more than 10 million Euro.

6. Paying Taxes

Taxes are essential to provide public amenities, infrastructure and services which are crucial for a properly functioning economy.

Albania has done steps backward regarding paying taxes. It is ranked 149 overall for Paying Taxes according to Doing Business 2011 while in DB 2007 it was positioned 125.

Table. Paying tax in Albania

	Doing Business 2011	Doing Business 2010	Doing Business 2009	Doing Business 2008	Doing Business 2007	Doing Business 2006
Time (hours)	360	244	240	240	240	244
Payments number	44	44	44	44	44	44
Tot. tax rate (% profit)	40.6	44.9	57.3	57.3	46.8	50.5

Source: World Bank, *Doing Business 2006, DB 2007, DB 2008, DB 2009, DB 2010, DB 2011*

➤ **Fiscal Reforms** for the reduction of fiscal burden for businesses: Fiscal policy is always more and more influencing in creating an encouraging and supportive environment of domestic and foreign enterprise.

- The main steps of the tax reform include: the gradual reduction of the rate for the profit tax from 25% in 2000 to 10% in 2008; The change in the system of personal income taxation, from progressive to proportional with the same tax rate as those for corporate income (10%); Tax policy reform has been based on the idea of lowering the tax rate and simultaneously extending the range of tax-payers.
- Significant reduction of the tax burden on income from work: currently the total measure of the tax-contribution on gross salary for social insurance and health is 27.9% of the gross monthly salary, down from 41.9% in 2000.

All these reforms shall bring a reduction of the fiscal burden of the businesses which will reflect in the next study of World Bank, Doing Business.

7. Trading across borders

Making trade between countries easier is increasingly important for businesses in today's globalized world. Excessive document requirements, burdensome customs procedures, inefficient port operations and inadequate infrastructure all lead to extra costs and delays for exporters and importers.

Albania is ranked 75 overall for Trading Across Borders. It is not performing well among Balkan countries leaving behind only Croatia. Although, compared to Doing Business 2007 Albania has significantly improved as in 2007 it was ranked 101 overall trading across borders. From DB 2007 to 2011 it is reduced the time and cost for exporting and importing in Albania.

8. Enforcing contracts

Where contract enforcement is efficient, businesses are more likely to new borrowers or customers.

Albania is ranked 89 overall for Enforcing Contracts. It is improved compared to the DB 2007 where Albania was ranked 99. Except the cost (% of claim) which from DB 2007 to DB 2011 is 31.8 to 35.7, the number of procedures and time (in days) has not changed for Albania.

9. Closing a Business

A robust bankruptcy system functions as a filter, ensuring the survival of economically efficient companies and reallocating the resources of inefficient ones.

Albania is ranked 183 being the last one in closing a business. It has no practice on time and cost for closing a business. (WB, Doing Business 2011)

➤ **Reform on closing the business.** Through the operation of NRC it is also reduced the procedures and time for closing a business. During 2010 the number of subjects de-registered is 26% lower than the previous year.

In the following table are shown the business closing by year

DE-REGISTRATION NRC, 2008-2011			
	Physical Person	Juridical Person	TOTAL
2011, first 3 months	1,343	75	1,418
2010	3,597	189	3,786
2009	4,716	440	5,156
2008	3,419	178	3,597

No cancellation appears to be made through the bankruptcy procedure. In the official website of the NRC, in the section "Orders & Judicial Decisions", are published 3 (three) judicial decisions, showing "The opening of bankruptcy proceedings". These decisions under the legal form of society are respectively: 1- for limited liability companies and 2- for joint stock companies. We emphasize that these decisions are in the first phase of review by the courts.

All these reforms shall bring a reduction of the fiscal burden of the businesses which will reflect in the next study of World Bank, Doing Business.

1.3 SME SUPPORT INFRASTRUCTURE

A number of public agencies and non government institution are supporting the SME by different services and training.

Albinvest (new agency AIDA) services for SME

Albanian Agency for Business and Investments (Albinvest) was the public agency and offered professional and high quality services, for the Albanian SMEs during the period 2007-2010.

Albinvest contributed in the improvements of professional skills for SMEs. It has created the portal in the

address: www.albinvest.gov.al/shqip where businesses can find information on:

Procedures of companies' registration; Guidelines with best practices for techniques of managing (marketing, quality, finance, etc); Business planning; Export's guide; Market information; Market research; Documents and procedures of exports; Information and news regarding trade exhibitions and sales missions; Connections with other national and international information sources; EU Programmes and donor Projects and SMEs Observatory.

Also Albinvest has offered several seminars and workshops to different Albanian companies.

Business and Investment Development strategy also gives a special attention to the strengthening of Albanian businesses the increasing the technological capacities of SMEs.

New agency AIDA

The Government of Albania through the Law no. 10303, dated 15.07.2010 "On creation and organization and functioning of the Albanian Investment Development Agency" that entered into force on 26 August 2010, creates AIDA as an investment promotion agency, and as a key player for attracting FDI-s in the country. The Agency, in view of its activities, performs all acts and undertakes all the necessary initiatives to support private sector development and improving business climate, pursuing and helping private commercial entities in all phases of their economic activity as well as by intermediating and cooperating with investors and state authorities. The new Albanian Investment Development Agency (AIDA) is established replacing the late Albanian Agency of Investment and Business (Albinvest) and has three main mandates: facilitation and support to direct investments into Albania; increasing competitiveness of small and medium enterprises in Albania; and promotion of, and support to, export of goods and services.

It will manages

- The government Competitiveness Fund – 200.000 Euro/year
- Export Credit Guarantee Fund (ECGF) – 1.6 million Euro /6 years

Within AIDA, a specific Division, denominated Business Relay and Innovation Centre (BRIC), will have the express role of implementing the Business Innovation and Technology Strategy (BITS) and Business Innovation Technology Action Plan (BITAP) for the years 2011-2016. The Albanian Government has recently adopted the (BITS) and its respective Action Plan (BITAP), through the Decision of the Council of Ministers (DCM) no. 104, dated 09.02.2011.

AIDA is an agency newly created continuing the work of the previous existing agency of Albinvest, which is no longer functioning. AIDA is in the phase of recruitment of staff and will hopefully start functioning properly during the beginning of June 2011.

Services from the network of Chambers of Commerce and Industry

In Albania are 12 Chamber of Commerce and Industry in county basis. They offer many consultancy services for their membership as: the issuing of goods origin certificate, support for members of the Chamber to resolve trade and civil disagreements through the intercession, and business missions. During 2010 are organized 12 fairs and exhibitions national and international and also 18 workshops and training courses. Also in CCI of Tirana and Durres are open service windows for business registration which are connected to the NRC and NLC.

Regional Development Agencies Network, NetRDA

In support of SMEs is also the Regional Development Agencies Network, which supports the business mainly with consultancy and business plan preparation.

Online service in declaration and tax payments.

Since March 2009 electronic declaration is extended to the entire country. During 2010 the expansion of this scheme has had a significant increase. With the Decision No. 55, dated 03.02.2010 "On the mandatory declaration of tax declarations and other tax documents, only through electronic form" published on Official Journal Nr. 10, dated 17.02.2010 all taxpayers, including small businesses have the opportunity to declare their tax obligations electronically. This new, contemporary, comfortable and efficient way reduces time and costs of business. In mandatory taxes that are declared electronically are included Value Added Tax with 152,015 completed statements, Annual Profit Tax, Social and Health Security with 161,082 completed statements,

income tax from employment with 151,707 completed statements, monthly instalments of the profit tax and Annual Tax on Personal Income (Small Business). More information is on the website of the General Directorate of Taxation (GDT): www.tatime.gov.al

✚ **Administration of Taxes.** On March 1, 2011 started functioning Taxpayer Service Centre of Tirana, which will serve to about 40% of the Albanian taxpayers and will be followed by other service centres, to be built in the regional departments. Through them, to the taxpayers will be offered quality service, quick information, simplified procedures, time saving, reducing unnecessary physical contacts with tax personnel, through the use of modern technology and a new culture of service.

In order to improve the service to taxpayers, in the fight against corruption and informality, this Centre will offer service to about 50,000 taxpayers of the Regional Tax Directorate of Tirana, to the large or small businesses, individuals, physical or legal persons and also to the public to recognize the tax legislation and its amendments, to provide assistance and help in the voluntary implementation of the declaration and payment of tax obligations within the legal deadlines that are set out in legislation, etc.

All contacts made are managed through an electronic system, which is completely transparent to taxpayers as well as for tax administration, while maintaining data confidentiality and respecting deadlines defined in legislation. Services offered at this centre have shortened the timeframe for getting certificates by the taxpayers from the tax administration from 5 days to 2 days, proper management of time by offering quality service and meeting the requirements of the taxpayer within some minutes, thus eliminating the contact of taxpayers with tax inspectors

Another innovation in the work of Tax Administration is the establishment of Call Centre, which will be used for Tax Debt management and assistance to taxpayers to pay as soon as possible their obligations.

✚ **Online procurements.** Since 1 January 2009 all public procurements are done only online through the Procurement Agency.

✚ **Online services on customs.**

Since 2008, the computerization of all customs and the use of ASYCUDA program has significantly improved service to business, reducing the time of completing the documents and control of goods, concretely customs declarations are made almost 100% using the ACA ASYCUDA system (100% DTI - Direct Trader Input).

✚ **Electronic Government**

Through support from the Millennium Challenge Albania Threshold Agreement (MCATA) administered by USAID, progress made towards the simplification of procedures for doing businesses concerns public administration performance in the following four main directions of: *Public Procurement, Business Registration, Tax Administration and Licensing*. It is continuing the implementation of the project even for other areas.

Based on the Decision of Council of Ministers No. 248, dated 27.04.2007 "On Establishment of the National Agency of Information Society", amended by Decision No. 837, dated 29.7.2009, amended by Decision No. 28, dated 20.01.2010, point 3 (ë), states that the National Agency of Information Society (NAIS) is responsible for the creation and administration of the government portal. Regarding the above, in November 2008 NAIS started the process of designing and implementing government portal, *e-Albania.al*.

This portal aims to serve as a single point of access that enables providing electronic services for businesses, citizens and government.

Currently, in this portal for businesses the services Government - Business (G2B), is provided the information estimated as follows:

Level of development / sophistication of business services

Public services for the business	Maximal Level	Actual level of supply
Social contribution for the employees	(4)	4
Corporate Taxes	(4)	4
VAT	(4)	4
Registration of new companies	(4)	2

Presentation of the data in the statistics offices	(3)	1
Custom declarations	(4)	4
Environmental licenses	(4)	2
Public procurement	(4)	4

The condition for the provision of full service online is the identification and authentication of users. In this context, the NAIS through the project "Support for NAIS in order to build e-government infrastructure in accordance with European standards for the protection of personal data" funded by the EC in addition to other developments in the focus of this project, also aims at solving the identification and authentication of users who will receive full service online through the government portal. This implementation enables all systems that provide electronic services to enhance their service delivery in levels 3 and 4.

1.4 INDUSTRIES, BRANCHES, REGIONS, CLUSTERS

A. Development of the industrial sector in Albania during the years. When referring mainly to the specific weight of contribution of important sectors of Albanian industry (NACE, C+D+E) to GDP over the three recent years (2006-2008) and linking of these sectors also with employment, investments, domestic market supply and export, they present the following picture based on the classification of NACE Rev 1.1.

- Manufacturing of garment and leather (NACE Rev 1.1: D17, D18, D19) : The specific weight of this sector in GDP has continuously increased from 1.4% in 2006 to 1.6 % in 2008. This is a sector, which operates mainly with material supply from the contractor (subcontracting or à la façon) through cooperating with European enterprises (Italian, Greek, German, French, Belgian, Spanish, etc.). Although this is a sector with a high global competitiveness that was affected by the global crisis by end of 2008 and during 2009, especially the garment subsector, it still remains a sector with comparative advantages (*accumulated experience, geographic position, low-cost labour, completed investments, etc.*), and with mid-term and long-term prospect for the Albanian economy. A characteristic feature of this sector is the high number of employed people about 8.6% of total level of employment or about 28% of employees in this industry. Capital investments in this sector are relatively low compared to other sectors and in year 2009 they amounted to EURO 12.6 million or 1.7% of total investments. This sector has realized 1.8% of the total turnover and 3.9% of total value added during 2009. During 2009 the number of firms reduced by 2.1%, the number of employees reduced by 13%, the turnover increased by 1.3% and value added increased 5.3% as compared to the previous years. (During 2009 the turnover from the garment subsector was reduced by 14.6% and the value added by 8.9% as result as the global crises).

During the last five years over 90% of the products of this sector were bound for export. During year 2010 they amounted to approximately EURO 404 million, thus making up more than 34% of the total exports of goods of Albania. The exports increased by 33.8% as compared to 2009 and the exports are in the same value with the period before the crises, in 2008. This sector is the most important and ranks 1st related to Albanian export of goods.

- Manufacturing of food products, tobacco and beverages (NACE Rev 1.1: D15, D16): This sector has provided a relatively constant contribution by taking up 1.3% of the GDP over the three recent years. Production in this sector has increased from EURO 183.4 million in 2006 to EURO 235.5 million in 2008. The level of employees in this sector has slightly increased and reached 4% of total employment level in 2009 (or 12.5% of the total number of employees in the industry). Investments in this sector have been in EURO 11.8 million in 2009 (or 1.7% of total investments) reduced by 51% as compared to 2008. This sector has realized 2.6% of total turnover and 2.5% of total value added during 2009. During 2009 the number of firms reduced by 9.2%, the number of employees increased by 4% and the turnover reduced by 11% as compared to the previous years.

The contribution of this sector to exports during 2010 is EURO 67.5 Million or 6% of the total exported goods of Albania, which increased by 24% compare 2009. Such sector ranks 4th related to Albanian exports of

goods.

- Manufacturing of basic metals and metal items (NACE Rev 1.1, D27, D28, D29): Specific weight of this sector in GDP has kept increasing over the last three years from 1.1% in 2006 to about 1.3% in 2008. Manufacturing of basic metals and their derivatives has experienced a considerable increase from EURO 154.5 million in 2006 to EURO 263.2 million in 2008, with an increase of approximately 70.4% compared to 2006. Employment in this sector has been stable with 2.5% of the total number of employees and the number of enterprises is 1.8% of total number of active enterprises. Capital investments in this sector have been EURO 22 million in 2009 (or 3 % of the total capital investments in industry), increased by 2% as compared to 2008. The turnover of this sector count for 2.4% of total turnover in 2009 and it is reduced by 26.5% as compared to 2008. In addition the value added realized by the sector count for 1.5% of total value added during 2009 and it is reduced by 56% as compared to 2008. During 2009 the number of firms reduced by 2.4% and the number of employees reduced by 9.4% as compare to the previous years.

Exports values of this sector have also experienced a considerable increase by going from EURO 81 million or 16% of the total export in 2006 to EURO 174.6 million or 19 % of the total exports of industry in 2008. Contribution of this sector to export during 2010 is EURO 275.8 Million or 23.6% of the total exported goods of Albania, which is increased by 1.5 times as compared to 2009. Such sector ranks 3rd related to Albanian exports of goods.

- Other non-metal mineral products industry sector NACE Rev 1.1, D26: Specific weight of this sector in GDP has kept increasing over the last three years going from 0.9 % in 2006 to 1.2 % in 2008. Production in this sector has increased from EURO 171.6 Million in 2006 to EURO 180.1 Million in 2008. Employment in this sector in 2009 reached in 2% of the total number of employees and the number of enterprises was 1.2% of total active enterprises. Capital investments in this sector amounted to EURO 16.5 Million in 2009 or 2.3% of total capital investments and they were reduced by 32.6% as compared to 2008. This sector has realized 2.5% of total turnover in 2009 and it was reduced by 3.5% as compared to 2008. In addition the value added realized by the sector count for 2.8% of total value added during 2009 and it is reduced by 15.6% as compared to 2008. During 2009 the number of firms increased by 42% and number of employees increased by 7.2% as compared to the previous years.

Export values of this sector have considerably increased by going from EURO 4.6 Million or, 0.6% of the total export in 2006 to EURO 9.5 Million in 2010.

- Sector of timber industry, its products, paper, paper and cardboard packing products and those for publishing and printing NACE Rev 1.1, D20-D22, and D36 : Specific weight of this sector in GDP has marked stability over the last three years. It has remained approximately at 1% of GDP, thus marking a slight increase in 2008 to approximately 1.1%. Production in this sector has increased from EURO 46.7 Million in 2006 to EURO 63.8 Million in 2008. Employment in this sector in 2009 reached 3.2 % of the total employees and the number of enterprises count for 2.1% of total active enterprises. Capital investments in this sector have experienced considerable increase going from EURO 6.4 Million in 2006 to EURO 26.5 Million in 2009, or 3.7 % of the total investments. The turnover of this sector count for 1.5% of total turnover in 2009 and it is increased by 23.5% as compared to 2008. In addition the value added realized by the sector counted for 2.3% of total value added during 2009 and it increased by 34.5% as compared to 2008. Export values of this sector reached EURO 34.8 Million or 3% of the total exports in 2010 and they were increased by about 30% as compared to 2009.

- Extracting industry (mining & energy) (NACE Rev 1.1 C10-C14, E40). The specific weight of this sector in GDP has continuously increased from 0.7% in 2006 to 0.9 % in 2007 and increasing during 2008-2010 to more than 1% of GDP. The number of employees is about 8.3% of total employment which increased 7.5% as compared to 2008. Capital investments in this sector in the year 2009 were EURO 71.2 million or 10% of total investments and they increased 2.7 times as compared to 2008. The turnover of this sector count for 2% of total turnover in 2009 and it is reduced by 18% as compared to 2008. In addition the value added realized by the sector count for 4.5% of total value added during 2009 and it is reduced by 27% as compared to 2008.

The exports realized in 2010 amounted to approximately EURO 324 Million, thus making up more than 28% of the total export of goods of Albania. The exports increased by 117% as compared to 2009. Such sector ranks 2nd related to Albanian export of goods in 2010.

B. Industrial policy. The National Strategy for Development and Integration 2007–2013 (Albanian Government, 2008) is a key national strategic document. Industrial Policy is based following the objectives of this main document and the objectives of the Business and Investment Development Strategy (BIDS) 2007-2013. These two documents have included objectives from the sectorial strategies such as Strategy of the SME, Mining Strategy and Strategy of Mineral Promotion which based on sector analysis and consequently on the elaboration of a series of regulatory and legal interventions intends to maximize their growth. The development and implementation of this BIDS overall strategy has to serve and interact with sector strategies to achieve maximum efficiency and effectiveness.

The industrial policy is an important component of the Business and Investment Development Strategy.

The main goal of industrial policy is to guide and encourage investment in high technology, growth and competitiveness, modernization, diversification and specialization in open markets.

Its strategic goal is: to promote a steady growth, dynamic and sustainable development of the industrial sector, support and encourage the development and increment of domestic production, improving productivity and competitiveness, product internationalization, foreign investment promotion and the better use of financial, human and natural resources. Improving legislation and undertaking a reform of all regulatory barriers in order to reduce administrative and business costs., Improving the efficiency of services offered by public administration have served to industrial developments, research and development for new products with aim of value added in the country and businesses exports, development of a suitable environment for the culture of entrepreneurship, development of networks (Cluster) to business cooperation and technological innovation.

Proactive industrial policy of the Government consists in encouraging, supporting, creating and developing competitive industry for preparing them to participate in the global market based on scientific knowledge, innovations and development collaboration between industry players.

The sustainable development on the industrial policy is treated in our strategies, programs and legislation as a balance on three pillars:

- i.) investment development;
- ii) investment development friendly to the environment, enforcing the mitigation measures, rehabilitation process and monitoring;
- iii) social aspects, with the involvement and understanding of community and increase of employment through creation of new job-places particularly for the zones with poor economic activity.

Industrial policy is a political priority for the Albanian government. With the implementation of strategic documents, government seeks to solve some important challenges like; how the government, enterprises and experts can respond to increased competition from the globalization process, the shift toward a service-oriented economy, the migration of population to urban centers, the reduction of the specific share of agriculture in the national economy, the obstacles of manufacturing sector faces, and unemployment. Efforts for building market institutions—which, it should be recognized, have gone through great difficulties related to lack of culture and heritage, leading to the growth of informal economy and corruption—are now useful lessons to be considered when taking a coherent approach to industrial development and business needs.

The implementation of this strategy is helping liberalization process in the domestic market, which bring new energy for industrial development, product research and development, new export products, appropriate conditions for the development of entrepreneurship culture, business clusters, technological cooperation and innovation. The strategy itself facilitates the process of developing market institutions, combined with the coordination role of the state with the balance on operation of the free market.

Applied policies are directed towards increasing the flow of foreign investment in the energy sector, infrastructure development, exploitation of mineral resources, in the oil and gas, improving the business climate and infrastructure, reduction of informal economy, accelerating privatization process of the country's strategic sectors, like TELECOM, ARMO, DSO, expansion and further development of the banking sector, securities market development, development of port and airport services.

Improving legislation and undertaking a reform of all regulatory barriers in order to reduce administrative and

business costs. Improving the efficiency of services offered by public administration have served to industrial developments, research and development for new products with aim of value added in the country and businesses exports, development of a suitable environment for the culture of entrepreneurship, development of networks (Cluster) to business cooperation and technological innovation.

Additionally, the strategy seeks to support industries sectors to gradually transform the economic structure from a low added value good production and export, to high value products and sectors by promoting also specific programmes for technology transfer and innovation.

There will be a careful prioritization of projects in order to match the available sources of finance.

Regardless of the efforts taken by the government in terms of improving the business climate, the industry performance, however, remains still weak for the time being with regard to coping with an increase of global competitiveness.

To improve this situation, the focus is set on better policy instruments and this will make it possible for the Albanian industry to be closer to the pace of Entrepreneurship Innovation & Technology developments in EU, it will help for a better cooperation between FDI's and SME-s and for more investment in HR & Development.

During the last years 2007-2009, the Government has undertaken encouraging policies for development of information technology, starting from students to entrepreneurs in order to increase competitiveness of Albanian businesses in regional and global market. It's in place the *legal framework*: Law No.9880, dated 25.02.2008 "On electronic signature" which is in fully accordance with EU Directive 1999/93/EC; Law No. 10128, dated 11.05.2009 "On electronic commerce" which is in fully accordance with Directive 2000/31/EC "On information society service", It is decreeted by the President of Albanian Republic with Decree No. 6179, dated 25.05.2009 and has entered into force on date 20.06.2009. During 2007-2009 it is increased the number of internet users in Albanian especially from the youth, respectively with 15.3%, 18% and about 31.2% (source ITU) of the population from 2.4% that it was in 2006.

Big investments are made on banking system, which are evaluated in approximately 200 million EUR and also in telecommunication sector. It is increased the number of commercial banks that offer online services.

During a medium-term period, (2010-2013) year, some foreign companies expressed their interests and are working for establishment of technological parks, renewable energy projects, etc. that will affect the development of technological capacities in the forthcoming years.

Privatisation process went on further with the privatisation of small and medium enterprises in the form of a public bidding. During 1993 - 1995, out of 2434 state enterprises evidenced in the frame of the project with the German Government, the following were privatised.

At the beginning of 1998 there were 423 registered enterprises and undertakings with state capital. 340 commercial enterprises with state capital were privatised mainly through the public bidding procedure during 1998 - 2009.

Apart from the privatisation of small and medium enterprises in Albania pursuant to Law No. 8306, date 14 March 1998 "On the privatisation strategy for sectors of special importance", privatisation of state commercial enterprises operating in the sectors of special importance (strategic) of economy has been ongoing since 1998.

To achieve the goals and the tasks defined in the Government Program and upon agreement with IMF, WB and with other international organizations regarding the privatization of strategic sectors, work has been carried out in cooperation with the line ministries and directorates and upon the international assistance provided by a group of Italian companies in the legal, technological and financial area. In this frame, the privatization process started upon the implementation of the "Five Stars" project, which entailed five companies belonging to the strategic sectors including AMC, Albtelekom, Albkrom, Albbaker and Albpetrol.

The privatization of enterprises with state capital belonging to the mining sector, telecommunications sector, oil and gas extraction sector and air transport sectors was accomplished over 1998-2009, while the privatization in the electrical power sector has started with the privatization of the "Distribution System Operator S.A."

25% of the inflow foreign investment came from the privatization process during the period 2003-2009.

Actually, there are 86 commercial enterprises with state capital participation operating in the Albanian economy.

Strengthening technological capacities of SMEs, creation of clusters and technologic business incubators.

Business Innovation and Technology Transfer Strategy (METE, 2011) is a new policy in compliance with EU policy and as such it will be implemented by METE in cooperation with other stakeholders and it aims to fill the existing gap in the field of innovation, regarding: assistance to companies in the process of innovation, improvements of technological capacity; implementation of a proactive policy of innovation; creation of an innovation system to increase the interaction of institutions in support for enterprises; filling a gap and creating a better connection between the policy of SME development with that of science and technology.

For the implementation of this strategic program are proposed four important programs: 1. Innovation Fund; 2. Business Innovation Services; 3. Business incubator's program; 4. Development cluster's program.

Under implementation of this program it is in process the establishment of Business Relay Innovation Center, BRIC, which in its first phase will be a small structure with a staff consisting of 5 persons within the AIDA (former Albinvest), started functioning on February 2011 and up to the end of the April 2011 ought to have recruited the staff. BRIC will have a clear mission: *"To enable the Albanian business to renew and improve the products and / or its technology"*. BRIC will function as the main mediator and facilitator to promote innovation and technology development in business by providing the latter's links with the Albanian Research and Technology and Innovation Agency (ARTI), National Agency of Information Society/NAIS, universities, centres of excellence, etc. and also to be part of EEN.

1.5. THE EFFECT OF THE INTERNATIONAL FINANCIAL AND ECONOMIC CRISES

The Albanian financial sector has developed strongly in recent years and adequate regulation and timely monetary interventions helped to limit the impact of the global financial crisis. Savings have been adequate to finance relatively high levels of investment, and financial intermediation has increased enormously, although for many SMEs the access to credit remains limited. The strength of the financial system is a reflection of the strong and efficient supervision regime implemented during the last decade. The last months of 2008 and the first months of 2009 were characterized by a decline in the financial system's activity, this being a difficult period for the entire world economy. However, the impact over the financial institutions that operate in Albania remained at low levels, as a consequence of non-exposure to the toxic assets which were considered to be the main cause of the world wide crisis. Actually, it seems that the situation has started to come back to normal and the financial situation of the financial system as a whole and banking sector in particular, is more sustainable.

The Albanian financial system passed very well the direct and strong strike of the global financial crisis, generated by the international financial markets collapse. During 2009 the credit for the private sector is shrinking. During the first half of 2010, the activity credit level continued to be tight, while during the second half of the year 2010 and during the first months of 2011, banks have lightened the credit standards toward businesses and individuals too. The inflation rate still stayed within the optimal borders of Bank of Albania objective of 2 to 4%, at the average level of 3.8%.

Albanian economy during these last years (2005 – 2009) has had a positive and stable growth where in 2008 the GDP growth rate reached one of its highest values, around 7.7%. During 2009, Albanian economy faced a decline of its growth pace, where the real growth of GDP for this year is at the level 3.3%, due to the negative effects of the global economic crisis especially during the second half of the year. The real growth of GDP for 2010 is reached 3.9% (INSTAT 2011:2); important to be mentioned is that this performance is quite good if it is compared on a relative base with the other economic performance of the region countries, showing that Albanian economy is a vital economy and full of optimism.

- As for the trade balance, during the year 2009 (INSTAT 2010:2), goods export reduced by 15%, compared with the year 2008, while imports also reduced approximately by 2 %. The trade deficit for 2009 reduced by 3% compared with the year 2008. In 2009 remittances have decreased by 6.2% (Bank of Albania 2010), compared with the previous year, they still remain a fundamental financial source for the trade deficit cover.
- Industry. The production of the industry sector (in which it is included the extractor and processing industry) for 2009 shows a negative performance compared with 2008, where it is calculated a real annual

growth of - 1.2%. The growth of energy price and of the inconstancy of the oil prices at international markets, were some of the main reasons for this decline, but due to the expansion of economy opportunities in years to come and also thanks to the implementation of several measures and inside policies, in this sector is expected to have a stable contribution with a lightly positive growth trend for the years to come.

- Services ³. In 2009 the service sector shows a positive increase of 5.6%, compared with 2008, in which it was registered one of the highest positive growth of the service sector, around 6.7%. Due to the high average value of the weight of the economy activity of this sector, around 50.7%, toward the nominal GDP during 2005 – 2009, showing clearly the importance of this sector, the service sector has maintained its positive trend – line, with an average real growth rate, approximately at 6.3% (during the above time – period).
- Construction ⁴. The construction sector for 2009 calculates negative real annual growth rate of -0.6 %, showing so a considerable slow – down of its growth rhythm, compared with 2008. Also, according to the forecasting data, in 2010 this sector will continue its decrease at the level of -0.8%.
- Agriculture ⁵. The agriculture sector for 2009 shows a positive real annual growth, around 2.7%, even if this sector has had a very difficult period of time during 2007 – 2008, because of the climatic extreme unfavourable conditions.

1.6. GOVERNMENT MEASURES TO COPE WITH THE IMPACT OF THE ECONOMIC CRISES

The positive developments during the hard global economic times of 2009 and 2010 are mainly attributed to the intertwining of the fiscal and monetary macro-economic policies pursued adequately, carefully and in a coordinated way by the government and monetary authority. Another factor with an important attribute of the sustainability of the economy of Albania were the radical structural, fiscal, administrative and legal reforms undertaken by the Government in the course of the recent years, as well as of the budget policies with well-defined priorities. The pay-off of these reforms and policies coincided with this difficult economic time, smoothing to a considerable extent the negative effects of the global crisis.

- In 2008 and 2009, in order to alleviate the contractionary impact of the global crisis, the fiscal policy was relatively more pro-active.

Along with reduced availability of foreign funding and increased cost of such funds, the uncertainty induced by unanticipated changes of spending plans due to lower than expected revenues in 2010, had mixed to increase risk aversion of foreign investors. Notwithstanding the fact that Albania had a highly successful first bond issue, future funding at appropriate terms and conditions depend upon the credibility of the debt reduction plan of the government. Such credibility of a macroeconomic framework aimed at achieving long term fiscal sustainability may be supported and enhanced by the introduction of a fiscal rule.

The radical structure, fiscal, administrative and legal reforms, taken by the government during this last four years and also the fruitful budgetary policies of sharp priorities, coincided with this economic hard time, flattening most of the negative effects of the economic global crisis, giving so a new impulse to the general economy and to the main sectors in particular.

- Fiscal reforms taken during 2007 – 2008 and the expansionists monetary policies applied during the first half of 2009 have made the tax system in Albania more simple and stimulant for the business development compared to the countries of the region. Tax policies have been applied according to the priorities of the government National Strategy for Development and Integration. In line with this purpose, the distribution of the tax weight equally and less deform, has been an important obvious element of these fiscal reforms.

- In 2009 was ratified by law the right of compensation to later tax obligations and contributions of social health insurance with the amount of VAT to be refunded.

³ Specification: The data shown for the Services sector include also the Transport sector;

⁴ People employed in the construction sector compound 8.4% of the total employment force, according to the data of the Labors Questionnaire for 2008, published by INSTAT;

⁵ The high level of employed in this sector (approximately around 52.5%, during 2006 – 2009), shows the high support that this sector has had toward the households.

- Extension or credit on time of the repayment of VAT on machinery, equipment and raw materials, which in 2008 was over 12 months depending on the investment cycle and the start of production.
- It is considering further reduction of the fiscal burden for the employer starting from 1 May 2009: further reduction of Social security employer's contribution to the level of 15% from 30% in 2008. The reduction of the payment for accidents and illness from 0.5% of the payments list sum to 0.3%. The reduction of the payment for the branch of unemployment insurance from 2% to 0.9% of the payments list.

➤ The Export Credit Guarantee Fund approved by the Decision of Council of Ministers No. 489, dated 25.07.2007 and started during 2008.

The exports credits guarantee fund is part of guarantees that the government issues and the maximum amount of the fund is ALL 200 million, (1.6 million Euro) and will be delivered for a period of 6 years.

ECGF will cover the banks' requirement toward the mortgage coverage for short term commercial loans. Each guarantee will be used to cover up to 85% of the credit's amount required and in maximum for ALL 10 million. Each guarantee will be valid for a period up to 1 year.

To manage this fund in Albinvest it is established a sector which is handling all the necessary procedures, and is making financial and risks analyses of the beneficiary companies.

➤ Finance and credit facilities

The Albanian banking sector is sound. This is confirmed by its ability to overcome the global financial crisis, easily and without serious consequences compared to other countries in the region. The financial environment has created the appropriate conditions for the expansion of credit. Crediting to the economy recorded a slight increase during 2009 and 2010 although this period is characterized by global financial crisis.

In order to improve the climate of SME financing during the last years, there are undertaken some measures regarding with credit guarantee schemes.

- Implementation of credit scheme for SMEs from the Italian program. In the framework of the Italian project to support SMEs during the period from January 2008 till December 2010 are credited 40 companies with a value of EUR 10 million. The financed sectors are agriculture, marble granite processing, shoe manufacturing, meat processing, underground constructions, aluminium products, etc. and with activity in different areas of Albania. Approval of the scheme and implementation of credit guarantee fund for SMEs. In the frame of the Italian project for SMEs, it is prepared the scheme for credit guarantee fund for SMEs, which is beginning its implementation in April 2011. Seeing the difficulties of business start-ups for access to finance from the banks, in the frame of the Italian program to support SMEs, is approved the possibility of providing loans from partner banks of the program to start ups in amounts from 15,000 to 50,000 Euro, with interest rate in Euro of 5.5% (lower than market rates).
- The European Fund for Southeast Europe (EFSE). EFSE is one of the largest creditors of the Albanian micro and small enterprises finance sector. It has offered a total of approximately EUR 40 million of funding to local financial institutions since its start of operations in Albania in 2007. These partner lending institutions have on-lent the funds received from EFSE in the form of more than 8,500 business loans. EFSE's support to the Albanian financial sector does not only include financial investments, but also technical assistance, consulting and training offered to partner lending institutions with the aim of increasing the outreach to its target group.
EFSE has provided a loan of EUR 20 million to Banka Kombëtare Tregtare (BKT). The loan agreement signed on 26 November 2010 will contribute to expanding the micro and small enterprise lending operations of the Bank. It is the first loan agreement between EFSE and BKT. It addresses the lack of long-term credit available to SMEs in Albania.

➤ The high level of public investment was the main instrument of the fiscal policy used for mitigating the negative effects of the global crisis, economic activity having been supported by a considerable volume of public investments with 9.9% of the GDP, out of which 8.8% have been carried out by the central government. These policies and the acceleration of public investment served to soften the impact of the economic crisis, but resulted in increasing fiscal deficits of 5.6% in 2008 and 7% in 2009. Due to the fact that

the economic consequences of the global financial crisis were not immediate for Albania, an ambitious growth and development plan went ahead as initially planned. The continuous improvement of the road infrastructure, the modernization of technology and the progress achieved in human development have enhanced the efficiency of economy.

These developments have provided a positive impact on employment. The consequent increase in household income maintained a high level of consumption but the strong domestic aggregate demand had its impact on the sustainability of the current account of the balance of payments.

- Industry. The relatively stable impact of this sector in the Albanian economy is expected to reflect also:
 - (i) An improvement of efficiency, due to a better management from the stakeholders, who denationalized two of the biggest state corporate in our country: ARMO (Albanian Oil Refining and Marketing) and OSSH (Electric Distribution System Operator);
 - (ii) Taking of measures in improving the services and efficiency in energy, of the electric state corporate of KESH (Albanian Power Corporate) and OST (Transmission System Operator), through additional investments for the construction of new production sources and for the reduction of the operational expenditures, by the Albanian government;
 - (iii) Keeping the volume weight of the Processing and Textile industry, because of:
 - (a) The advantages on low costs of their output in our country;
 - (b) The reduction of the capital tax (the tax on earnings has declined to 10%, since January 2008);
 - (c) The increase of the agro – industry earnings; while is expected the deepening on improving the land market in parallel with the renovation of the technology in this sector.

➤ Services. Is forecasted that during 2010 – 2013 this sector will continue to maintain an enormous average real growth of 4.4%. So, the average level of contribution forecasted for 2010 – 2013 periods, shows the maintenance of the importance of this sector toward the GDP growth, at the high level of 3.3%.

The positive projections made for this sector, are also correlated with:

- (i) The estimation of the increase of the indirect net tax ratio, toward GDP, due to the continues expansion on the tax base thanks to the fiscal reform and to the administrative improvement on one side and;

The subsidy reduction (toward GDP) on the other side, as a result of several state corporate privatizations and of the increase of the efficiency of those in property of the Albanian state;

➤ Construction. The projections for the construction contribution generated toward the GDP growth, for 2010 – 2013 shows a positive level with a pace in continues increase, at the average value of 0.3%.

This increase and the positive dynamic expected to follow the construction sector for the forecasted period, is attributed mainly to:

- (i) The stability of the house demand, due to the inside migration and due to the intense of the business activity in our country;
- (ii) The high level of remittances in the real estate field;
- (iii) The reduction of the cost transportation and the improvement of the infrastructure in general;

The increase of formalization of this sector in parallel with the expected construction permission for the next years, etc.

Agriculture. The projections for 2010 – 2013 periods are in the same positive pace as 2009, with an average real growth value of around 3.8% and with an average contribution of 0.6%.

The positive growth expected from the predictions made for the agriculture sector, relies mainly to:

- (i) The improvement of the land market and also the implementation of sector policies that aims the stable management of the land, from the Albanian government;
- (ii) The positive impact from the reimbursement of the VAT for agriculture product in order to the stimulation for using the national agriculture products;
- (iii) The increase of the efficiency of farms due to the introduction of the agriculture associate notion into the new agriculture law and also due to the reduce of informality;
- (iv) The public investment in water supplies and from the government support for possible negative shocks that this sector might have from the imported prices;
- (v) The increase of the productivity of the production factors due to the continuity of importing machinery in our country and due to the integration to the EU.

To conclude, Albania yet in a considerable positive moment, is ranked as a country that has had for almost a decade now a positive and high growth rate, of over 6%. This is also confirmed by this two last years,

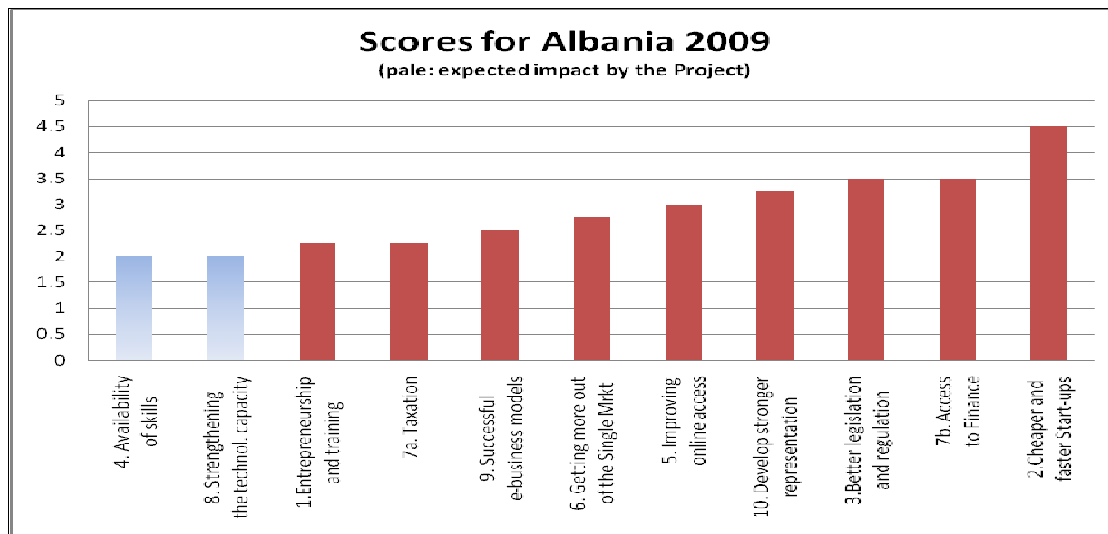
which were like a real “stress – test” for the economy, where along with all the energy problems, the dryness in agriculture and lately the financial global crisis, which let off the main foreign economic markets, the economic growth of Albania still continued to be high. The follow – up of the macroeconomic effective policies and also the deepening of the structural – economic reforms, despite other normal and obvious process where the economy is passing, like the technology progress, the capital accumulation and the economy rebuilding toward a more efficient economic model, will assure the continuance of this economic pace for at least a mid – term.

By considering and estimating objectively the economic environment for 2010, the serious commitment and the provision of the objective achievement for 2010 (so the reduction of the total public debt by 2.1% points from 59.2% of the GDP in 2009 to 57.1% in 2010), will be crucial to the minimization of several macroeconomic risks and in achieving the final aim, in keeping and consolidating a macroeconomic stability.

1.7. SWOT ANALYSES OF THE SME SECTOR

Albania’s SME policy performance over the period 2007-2009 has been remarkable (see in Annex). Albania record of policy implementation has improved in all ten dimensions; in particular, in all the policy areas linked to the general operational environment such as: company registration, regulatory reform, access to finance and export promotion and are in operation:

- National Register Center, NRC, as one stop shop, register of business in 1 day with less than 1 Euro;
- National Licence Center, NLC as one stop shop, which can provide licenses in 2-4 for days and maximum 10-30 days (not included the construction permits);
- Fiscal reform. The flat tax by 10% for the incoming tax and for the corporate tax;
- Portal e-government in November 2008 NAIS started the process of designing and implementing government portal, *e-Albania.al*. This portal aims to serve as a single point of access that enables providing electronic services for businesses, citizens and government.



Source: OECD, SME policy index 2009.

The weak points in Albania's performance remain human capital development and technological capacity of SMEs." (OECD, 2009) as:

- Availability of skills
 - Non-sufficient and inadequate higher education and training.
- Entrepreneurship and training
- Strengthening the technology capacity:
 - Development of Economic Zones in Albania is based on public and private partnership. During 2008 the Government has announced 6 economic zones as follows:
During 2009 are announced three economic zones, from which two have the status of industrial park and the other one the status of free zone, but none of them are in operation.
 - Missing Business Incubators. There have been previous attempts to set up business incubators in Albania, within donor-funded projects. Currently are in place only 2 business incubators, one in Tirana and the other in Shkodra (METE 2007) but they are not playing the real tasks of the business incubators. So, in Tirana's business incubator during the past 18 years were opened 19 businesses and employed only 52 people. Shkoder's business incubator is operating mostly as a place for rental areas were one of the businesses in the garment field have employed more than 150 workers and has operated for more than 6 years.
 - Missing Clusters (EC 2010). Clusters in Albania will be developed with the support of donor organizations. In the framework of Enterprise Development and Export Market Services Project (EDEM), financed by USAID four new clusters have been established in tourism, meat processing, medical herbs and leather goods production industry (USAID (2005). However as soon as the EDEM project was closed also those clusters closed down.

ANNEX

SWOT ANALYSIS IN ALBANIA

<p>STRENGTHS</p> <ul style="list-style-type: none"> • Implementation of strategic document for SME development successfully, especially in the reduction of the administrative barriers; • National Register Center, NRC, as one stop shop, register of business in 1 day with less than 1 Euro; • National Licence Center, NLC as one stop shop, which can provide licenses in 2-4 for days and maximum 10-30 days (not included the construction permits); • Fiscal reform. The flat tax by 10% for the incoming tax and for the corporate tax; 	<p>WEEKNESSES</p> <ul style="list-style-type: none"> • Missing financial schemes to support start ups; • Poor access of micro enterprises to financial sources; • Poor access of SMEs to financial resources; • Lack of alternative financial sources for SMEs as venture capital or business angel; • Deficient of providing business services; • Poor perform in innovation; • Lack in availability of skill; • Deficient technology capacity of firms; • Albania is not joint yet the EEN
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • The implementation of new strategy for increasing competitiveness of SME through technology transfer and innovation; • Strong government engage for improving business environment; • Existing SME donors Forum to create synergy to implement new projects through international cooperation (EU countries and international/ foreign organizations); • EC Decision that Albanian to be candidate countries during the year 2011; • 	<p>THREATS</p> <ul style="list-style-type: none"> • Political interference in the public agency staff. • Corruption are seen as one of major threats hindering the development of SMEs; • The low budgeting schemes for supporting SME development • Frequently changing of the fiscal legislation;

Source: Ministry of Economy, Trade & Energy, Albania, 2011

**ACTIVITIES OF ECONOMIC ORGANIZATIONS INCLUDING ALL PUBLIC AND PRIVATE UNITS
AND SMEs IN THE COUNTRY IN 2009 & 2010**

Economic unit	Agricultural farmers	Self-employed (individual entrepreneurs/ sole proprietors and crafts)	Partnerships, working teams without juridical personality	Incorporate Enterprises With juridical personality with 1-149 employees	Other economic units considered as SMEs	Total number of economic units
2007	369,598	69,602		17,882		457,082
2008	357,027	84,097		20,652		461,776
2009	353,486	86,017		20,460		459,963

NUMBER OF SMEs

Year	Total number of Enterprises (economic units) in the country	Micro-, small and medium enterprises with			>250
		0-9 employees	10-49 employees	50-249 employees	
2008	461,776	458,232	2,803	617	125
2009	459,963	455,925	3,238	667	133

EMPLOYEMENT

Year	Total number of Employment		Unemployment	
	in SMEs	in all type of economic units in the country	number	as % of the total employees
2008	195,481	974,067	141,495	12.68
2009	193,733	899,278	143,340	13.75
2010	199,800	916,919	143,040	13.49

INDEX OF SME DEVELOPMENT

Year	Share of Private Sector in Total Economy	Share of SME sector in Gross Domestic Product (GDP)	Share of Number of Employees in all SMEs compared to total number of employees in the economy as a whole	Gross Domestic Products (GDP) ⁶	Index of SME Development
	[%]	[%]	[%]	[USD/capita]	[USD/SME]
2007	75	64	19	3,393	305.37
2008	82	73	20	4,098	490.6
2009	82	73	21.5	3,836	493.7
2010	82	73	21.8	3,616	471.9

⁶ GDP with current price

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THE POSITION OF THE HUNGARIAN SMALL AND MEDIUM-SIZED ENTERPRISES

ABSTRACT

The analysis focuses on Hungarian small and medium size businesses. It concentrates mainly on ex post competitiveness, while making conclusions based on existing results. The principal aim is to draw attention to the economic environment Hungarian SMEs operate in and to demonstrate how much such businesses can increase economic performance and efficiency.

Keywords: competitiveness, national economic policy, SMEs

JEL Code: D0, L26, M21,

1. INTRODUCTORY THOUGHTS

The global economy today is characterized by a major change of era, in which the participants of the economic life must face a more and more intense competition. The companies will emerge from this situation if they can dynamically adapt themselves to the changes and if they will be able to make the participants of the economy and the society more competitive while using the right economic political means.

They realized the fact that the competitive operation of a national economy cannot be generated without the competitive operation of the enterprises. Unfortunately this approach is not discoverable yet in the domestic economic and political life. The domestic enterprises have to face serious problems day by day, and the solutions are still to be found by the economic policy.

Serious recognition and determination is needed for the Hungarian enterprises to start their development. Strengthening the sector of domestic enterprises could start the economic growth, the liquidation of unemployment and through these Hungary's levelling up to the more developed countries. The development of the SME's is not the only means for increasing our competitiveness, but their role and number is so significant in the structure of the domestic economy that the chance for the economic catch-up can be lessened considerably without the support and development of the SME's.

2. THE STATE OF THE DOMESTIC SME SECTOR

„One of the most important opportunities for Hungary's economic growth lays in the SME's development reserves. These enterprises employ two-third of the Hungarian employees and they produce half of the domestic GDP.”⁷

„While on the whole the small enterprises have a major role in today's economy, the perspectives of the individual small companies are insecure. A lot of young enterprises cease in the first year of their operation and many of them spend their times with persistently fighting to survive. That is why the dynamically increasing enterprises with constant high growth and significant profit are followed with enhanced attention. Within the period examined by David Birch (1998) three-quarter of the new workplaces in the United States were established by rapidly increasing companies, while a study of 'Innovation in Industry' emphasized that half of America's economy can be attributed to such 'gazelle' enterprises, which didn't even exist ten years

⁷ Kállay, László - Kissné, Kovács Eszter – Köhegyi, Kálmán – Maszlag, Ludmilla (2008): *Position of the small and medium-sized enterprises in 2007* (In Hungarian: *A kis- és középvállalkozások helyzete 2007*, ISSN 1416-2334, Budapest, Ministry of National Development and Economy

earlier. However the rapidly increasing companies don't just hold the first place in creating workplaces and producing GDP, they are also much more innovative than other enterprises."⁸

„Entrepreneurs are indispensable members of the society, not only because they exist but because they can create values for both the company and the society”⁹ The entrepreneur activity helps preserving the company/s competitiveness through making values, that is why it's critical for the long term viability of the company.”¹⁰

„In Hungary the increase of the number of enterprises slowed down after 2000. Though in an absolute value more companies are registered today than a few years before, the rate of the ones operating and their entrepreneur activity decreased. In 2001 Hungary was still second in Europe in entrepreneur activity behind Ireland, but by 2004 we had gotten below the European average.”¹¹

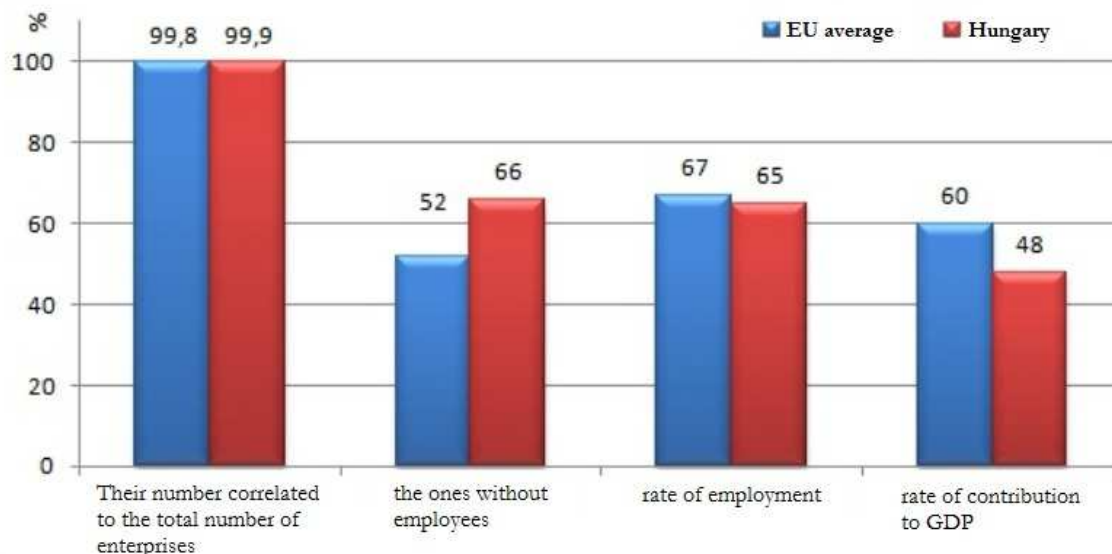


Figure 1: The role of the SME's in Hungary and in the EU

Source: Hungarian Central Statistic Office (KSH) & EUROSTAT¹²

The role of enterprises in building the competitiveness of the national economy is indisputable. The very enterprises can generate continuous changes and development on the market by their business activities, indirectly participating in the enhancement of the economic and social welfare. Besides the enterprises make the goods and services that satisfy the social needs, they can also create values in their socially and environmentally liable concepts not only for the economy, the society and the environment, but through these for the whole national economy as well.

The activity and competition of the enterprises determine the development level of the certain industries, so if the companies don't perform surpassingly in any of them, the country will be left with no leading sector. This could cause problems in the respect of the economic growth, because if the enterprises and the national economy do not possess a special competitive edge in either of the fields, the retention of their position on the global markets will become impossible. Hereby our handicap is continuously growing compared to countries that were able to show the same competitive edge up. The modern market economy is based on the assumption that the competition helps the growth of the standard of living, since the

⁸ Csapó, Krisztián (2009): The features and development potentials of the rapidly increasing small and medium-sized enterprises (In Hungarian: A gyorsan növekvő kis- és középvállalkozások jellemzői és fejlesztési lehetőségei Magyarországon, Ph.D. programme, PhD dissertation, Budapest, Budapest Corvinus University, p. 11.

⁹ Low, M.B – MacMillan I.C. (1988): Entrepreneurship: Past Research and Future Challenges, Journal of Management, p. 139-161.

¹⁰ Stevenson, H.H (1983): A perspective on entrepreneurship. Harvard Business School Working Paper, 9-384-131.

¹¹ GEM: Global Entrepreneurship Monitor, The Global Report 2010

¹² www.ksh.hu/http://epp.eurostat.ec.europa.eu/

competition forces the enterprises to continuously change, improve and provide better quality products and services than before. For this we need the right conditions and enterprises that are willing to change and make innovations, which in turn require the practice of a very high-level innovation activity. „According to Schumpeter the people’s innovation effort brings economic profit by means of cost reduction or extra incomes.”¹³ Unlike the conventional economic models in this case the economic profit doesn’t apply to reducing the wages or increasing the prices. This is rather a quality leap forward triggered by the change: we can talk about new elements that are new in a specific sector or industry.

3. IS AN ENTREPRENEUR REALLY AN ENTREPRENEUR?

„According to Kirzner the competing behaviour is what moves the market processes forward, while Simon said that the introduction of the new economic activities leads to the changes in the market.”¹⁴ „What is common in the two definitions is that the enterprise generates a change after all, and if there is no change, the activity is not an enterprise.”¹⁵ Through the entrepreneur activity something new must be put on the market if we think in this suggested theoretical frame, so a business can only be called an enterprise when it offers new alternatives to customers, it means a challenge for the existing participants of the market and in the meantime it attracts new entrants as followers too. As a result of the entrepreneur activity the means will be used more effectively and more efficiently, and that is what moves the market forward in the long run. The domestic SMEs have arrears in fields that would be indispensable for creating values and producing higher added value. Today innovation, knowledge, creative employees, cooperation and confidence are the most important sources of competitiveness in the globalized world, so the ones that are trying to compete without these factors will sooner or later be crowded out to the periphery of the development. The connection between the innovation of the enterprises and the economic development is unambiguously demonstrable, like it’s graphically shown on figure 2. As you can see on the graph a spectacular economic growth cannot be achieved without enterprises willing to make changes and innovations.

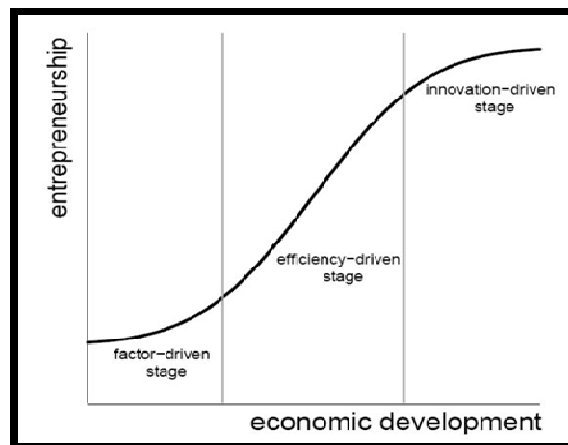


Figure 2: Correlation between the enterprises and the economic development

Source: Ács et. al., 2010: The global entrepreneurship and development index (GEDI)¹⁶

¹³ Schumpeter, J. A. (1934): Theory of economic development: An inquiry into profits, capital, credit, interest, and the business cycle. Harvard University Press. Hungarian edition (1980): A gazdasági fejlődés elmélete, Budapest, Közgazdasági. és Jogi Könyvkiadó

¹⁴ Kirzner, I. M. (1973): Competition and entrepreneurship. Chicago, University of Chicago Press

¹⁵ Davidsson, P (2003): The domain of entrepreneurship research: Some suggestions. In Katz and Shepherd (2003): Advances in Entrepreneurship, Firm Emergence and Growth, Volume 6, Elsevier JAI: Amsterdam, p. 318.

¹⁶ <http://www2.druid.dk/conferences/viewpaper.php?id=502261&cf=43>

„It's a more and more widely realised fact that innovation is the moving factor of the economic and social changes. Knowledge, research and innovation have an important role in the modern economies' competitiveness – just like in their rate of living and welfare. It's not only the competitiveness of individual enterprises, but also the competitiveness of economic sectors and industries, national economies and regions depend highly on innovation.”¹⁷

During the development of world economy only those countries can emerge in the respect of competitiveness that doesn't regret spending more percentage from their budget on innovation. In Hungary both the national economy and the entrepreneurs have to make bigger sacrifices in order to be able to prognosticate improvement on this field for the upcoming decades.

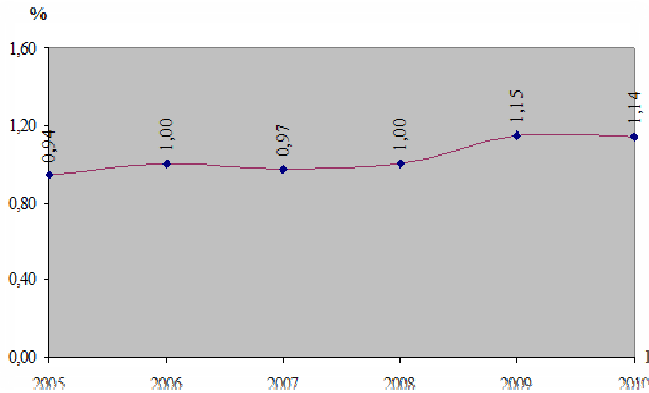


Figure 3: Innovation expenditures in Hungary as a percentage of the GDP

Source: Hungarian Central Statistic Office (KSH)¹⁸

One of the biggest reasons why Hungarian enterprises are staying behind is the low innovation activity. While most of the European Union member states support the innovation activity of the enterprises on a significant level and provide the right economic conditions, in Hungary these expenditures lag behind the EU average. Beyond that the governmental economic policy doesn't pay enough attention to establish an enterprise-friendly business environment either.

The EuroStat survey shows in what ratio the innovative enterprises are present in the economic structure of the certain countries. About one-quarter of the Hungarian companies can be considered innovative. If we add that we spend only 1% of our GDP on innovation and R&D, then we have every right to label our innovation effort (activity) low on the level of both the companies and the national economy.

While the more developed part of the world competes with innovation and consciously builds on its advantages, the same process is undetectable in Hungary. Only those can be on the top of the competitiveness lists in the ever-sharpening competition that are playing leading roles in point of developments and innovations. If we take a look at figure 4 we can see that we are falling behind more and more even in this innovation race, which provides one of the most important explanations of our drawback.

¹⁷ Inzelt, Annamária (2010): The performance and internationalization of SMEs (In Hungarian: A kis- és középvállalatok innovációs teljesítménye és nemzetköziesedése)

<http://www.penzugyututato.hu/files/Absztraktok.pdf>

¹⁸ www.ksh.hu

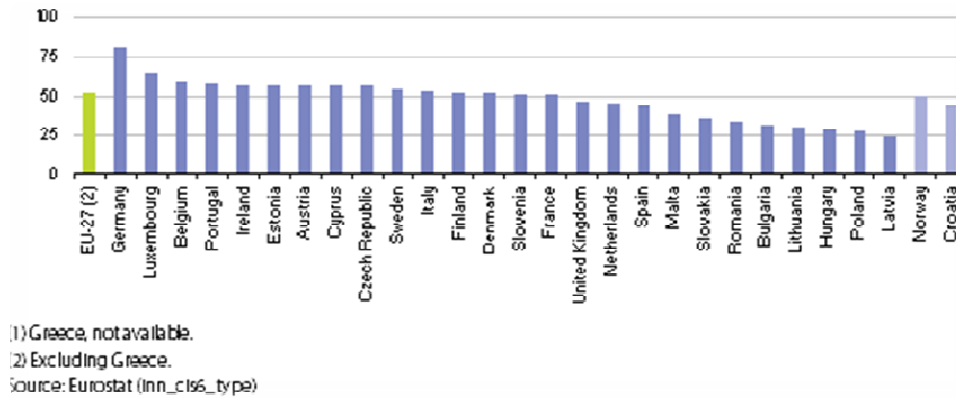


Figure 4: Rate of the innovative enterprises in 2008 (as a percentage of the total number of enterprises)

Source: EUROSTAT¹⁹

We can find similar results when reviewing the innovation indexes of the European Union Innovation Scoreboard (figure 5). Our performance is far below the European Union average in the respect of innovation efficiency, and we are positioned in the last half of the list. This again explains the economic arrears of the domestic enterprises, since while in the more developed regions the improvements and developpers can be characterized with a higher rate, we are continuously performing on a lower level in these matters.

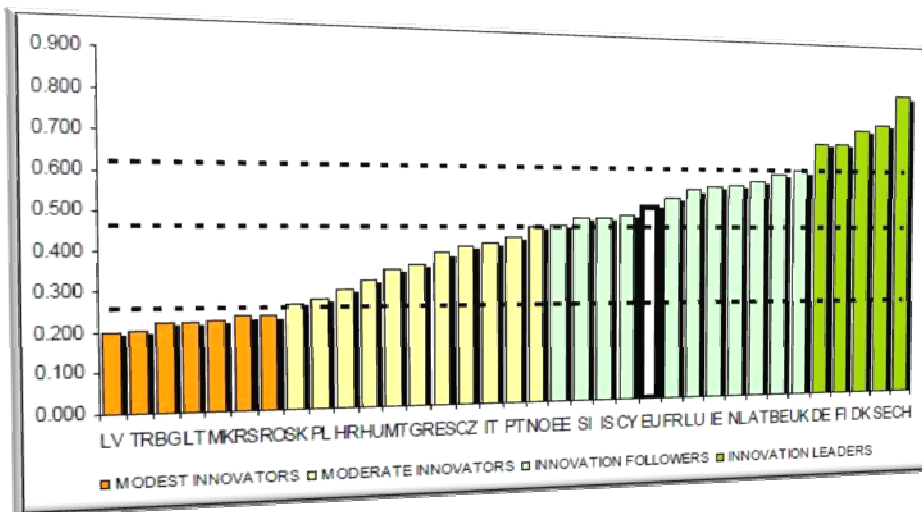


Figure 5: The indexes of the European Union Innovation Scoreboard in 2010

Source: Innovation Union Scoreboard 2010²⁰

OECD compared a few countries' R&D expenditures (figure 6). We managed to obtain the "distinguished" last place on this list as well. While other countries spend a significant percentage of their GDP on financing this field, Hungary grossly lag behind in the aspect of this kind of expenditures. It's not

¹⁹ <http://epp.eurostat.ec.europa.eu/>

²⁰ http://ec.europa.eu/enterprise/policies/innovation/facts-figures-analysis/innovation-scoreboard/index_en.htm

even typical of most of the companies to have R&D activities, and several companies don't have notable innovation activities either. Knowing these results it's not a surprise that the aggregated efficiency and the development opportunities of the Hungarian SME sector are very low. The not too enterprise-friendly business environment and the inappropriate economic policy make the operation of the already troubled SMEs' even more difficult.

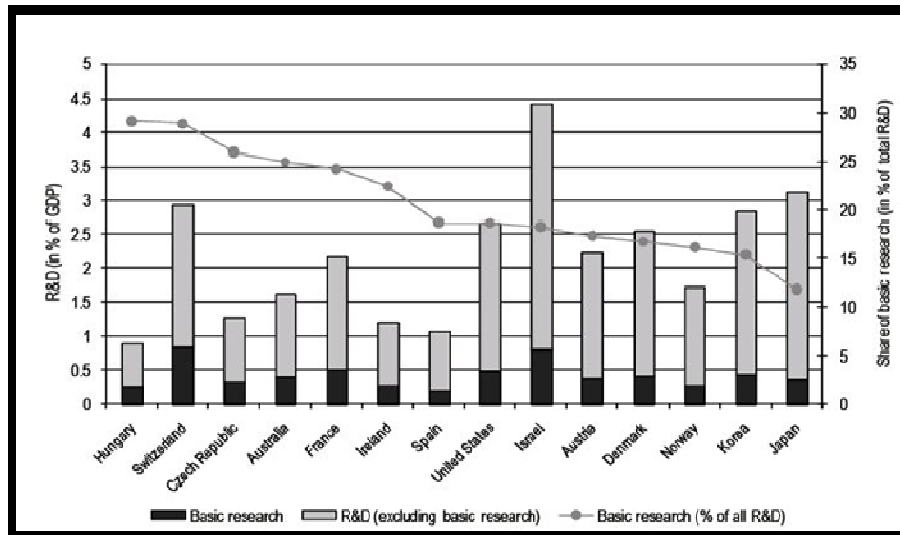


Figure 6: Comparing the rates of the R&D costs in 2008

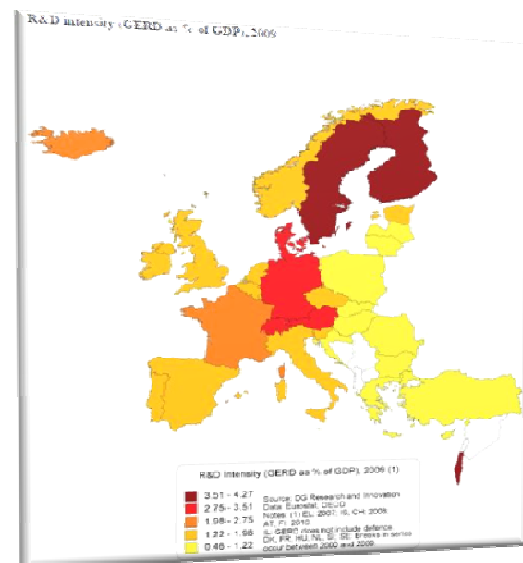
Source: OECD²¹

Figure 7 shows the comparison of the R&D intensities, which can be found in the Innovation Union Atlas. Since the countries are illustrated with different colours, we can see that the Eastern-European region spends much less on R&D financing than the more developed Western-European countries. Hungary doesn't excel spectacularly in this region either.

Figure 7: The intensity of research and development in the European Union (as a percentage of the GDP)

Source: Innovation Union Atlas 2011²²

The developed countries spend money on a much higher scale for (radical) developments, which can also mean that they are able to produce new products and new services on a much higher scale than their eastern competitors. Through the continuous improvement they can create such a competitive edge for themselves, which the eastern-european countries are unable to match. While the latter countries are only engaged in their conformity, the more developed countries keep on developing and improving, and by this the technological edge (Posner technological conception) between the two „blocks“ is growing bigger!



²¹ <http://www.oecd-ilibrary.org/>

²² <http://ec.europa.eu/research/innovation-union/pdf/competitiveness-report/2011/atlas.pdf>

As we can see in the results of the Regional Innovation Scoreboard the Hungarian enterprises are lagged behind not only in point of R&D expenditures (figure 8). When examining the Middle European sector we can ascertain that there is no region in our country where the level of cooperation and reliance would be outstanding. Contrarily we can find many regions in Austria, the Czech Republic, Poland and Bulgaria where the level of cooperation is higher than in Hungary in any respect.

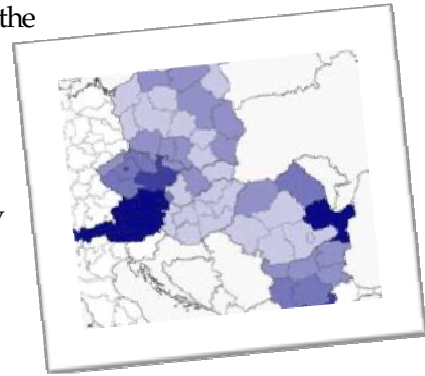


Figure 8: SMEs' willingness to cooperate (2006)

Source: Regional Innovation Scoreboard 2009²³

Hungarian companies emphasize the high corruption as one of the reasons of their arrears in competitiveness. The Transparency International regularly ranks the countries on the grounds of the level of corruption. On figure 9 the darker colour a certain country is marked with, the more typical corruption is in their business and economic processes. Hungary is in a favourable position on a global scale since there are many other countries with darker colour than the Hungarian orange. However our situation within the European Union is far from being that glorious because in the respect of corruption most of the EU member states are in a better position than Hungary. Corruption doesn't help competitiveness and economic development since it indicates a stronger black economy, lower social capital, larger tax avoidance and an unfair competition.

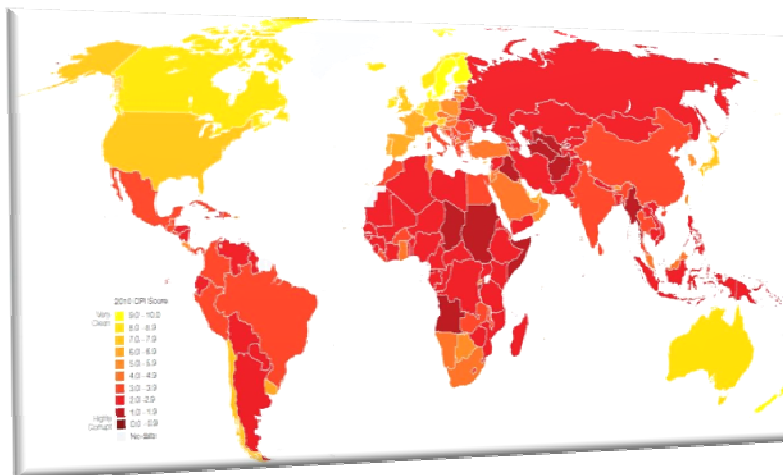


Figure 9: Global corruption perception index, 2010

Source: Transparency International²⁴

Studies of international organizations reveal that Hungarian enterprises have arrears even in such decisive areas like innovation, R&D or the level of cooperation and reliance. However these factors in themselves do not explain the weaker competitiveness of the Hungarian SMEs'. Among the most important reasons we have to mention the not really SME-friendly economic policy, which was not yet able to establish the supportive business environment that would be essential for the more efficient operation of this sector.

²³ www.proinno-europe.eu

²⁴ http://www.transparency.org/policy_research/surveys_indices/cpi/2010

The situation of the SME sector was not working out favourably in the past few years and this critical status was deepened even more by the economic recession. This fact is confirmed by the results of the researches set up by the Mozgalom a Magyar Vállalkozásokért (MMV).²⁵ 71 companies filled the questionnaire, in which we were trying to find the answer to how the situation of the Hungarian companies changed between 2002 and 2009. Knowing the results the above question can be answered with three words: it got worse!

The domestic small and medium enterprises were already not in a surpassingly good position, but these companies had more and more difficulties as a result of the economic crisis, and today a lot of them consider their situation hopeless. A more intensive policy is needed from the government for the development of the small enterprises, since without a more effective SME sector we won't have much chance to try to improve the competitiveness of the national economy.

The survey was a nationwide research program, the ones who filled the questionnaire represented all the regions and they had various scope of activities.

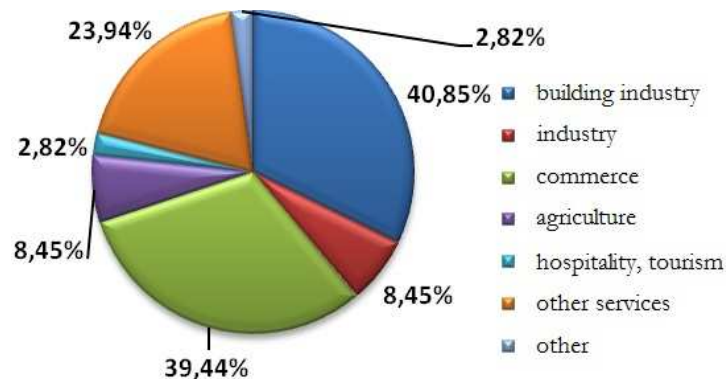


Figure 10: The scope of activities of the enterprises

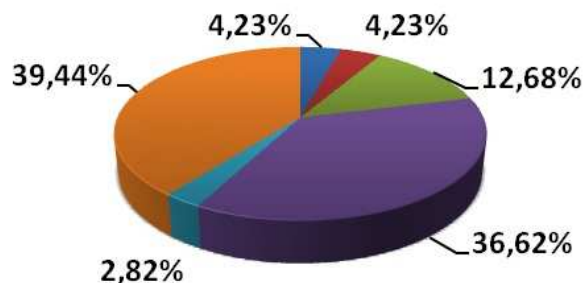
Souræ: MMV research programme (Mozgalom a Magyar Vállalkozásokért)²⁶

Due to the extension of the study I would emphasize only the most significant questions. By the effect of the recent years' bad economic policy the domestic enterprises went into liquidation en masse. The questionnaire also asked how the situation of the domestic small and medium enterprises changed in the past few years in Hungary and how the economic crisis affected their operation!? The results are shown on the following graph (figure 11).

It reads well that the economic circumstances got worse in the recent years at the majority of the approached enterprises, and positive changes can only be noticed at very few of the companies. Since the research was not representative, the main thesis of my study – the continuous, up to this day deterioration of the domestic SMEs – is not based solely on its results. I build on other researches as well, during which much more enterprises answered the questionnaires and we made much more interviews and case studies..

²⁵ Research leader: Prof. Magdolna Csath – Kodolányi János University of Applied Sciences – head of department; the project was supported by Mozgalom a Magyar Vállalkozásokért (MMV)

²⁶ Research leader: Prof. Magdolna Csath – Kodolányi János University of Applied Sciences – head of department; the project was supported by Mozgalom a Magyar Vállalkozásokért (MMV)



- The enterprise was able to grow in spite of the negative economic processes in the recent years
- The company stagnated, it didn't have to book a significant loss
- The amount of business trades decreased in the recent years
- Significant decrease in trade flows, which endangered the operation of the company
- The company became bankrupt, but this didn't endanger the family's living
- The company's situation substantially endangers private property and subsistence

Figure 11: The situation of the enterprises today under the effect of the economic policy and the crisis

Source: MMV research programme (Mozgalom a Magyar Vállalkozásokért)

The economic policy is not the only thing that obstructs the domestic enterprises, the economic environment itself is not appropriate for the companies either. The respondents had to decide in the questionnaire whether the certain statements characterize the operation of their company or not. The statements were the followings:

"1. Due to the crisis it's harder to get entrepreneur loans.

2. The operation of my enterprise is set back by bureaucratic obstacles

3. I am struggling with daily liquidity problems because of the unpredictable paying terms.

4. Because of my receivables I had to take a loan out to pay my business partners.

5. I had to make significant cut-backs due to the decline in trade flow.

6. I can hardly redeem my previously taken entrepreneur loan, or cannot redeem it at all.

7. I can hardly carry out the running conditions – job creation, trade flow – of the previously won tender, or I cannot carry them out at all.

8. The tax recovery practice of APEH is/was causing serious difficulties in my company's operation.

9. It has occurred in the past (even more than once) that I had to provide financial consideration to win a certain work/service.

10. Due to the constantly changing economic environment and entrepreneur conditions I feel it's impossible to match the expectations of the authorities. "²⁷

The answers could be 'yes' or 'no' depending on the choices being typical to the enterprise or not. The results are summarized on the following graph. It is apparent that the most typical statements of the Hungarian companies were number 1, 2, 3, 8 and 10. (figure 12)

On the grounds of this we can say that Hungarian companies feel it too that the economic conditions are changing continuously, and because of this they cannot match the authorities' expectations. The bureaucratic operation of the Hungarian economy is confirmed by the domestic enterprises as well. Bureaucracy forms such a perceptible obstacle for building competitiveness that makes it difficult for the

²⁷ Source: MMV research programme - research leader: Prof. Magdolna Csath – Kodolányi János University of Applied Sciences – head of department; the project was supported by Mozgalom a Magyar Vállalkozásokért (MMV)

enterprises to focus their resources for other fields by the principle of simplicity. Significant number of the enterprises struggle with daily liquidity problems.

The tax authority was considered an obstructive factor for the excessive rigour and the persistent supervision. The excessive complexity of the Hungarian tax system and the lack of transparency of the tax laws were also emphasized. All these are making the operation of the Hungarian SMEs impossible. The economic crisis had an unambiguous negative effect on the operation of the Hungarian companies. They didn't just lose markets; it also became more difficult for them to obtain the sources of financing.

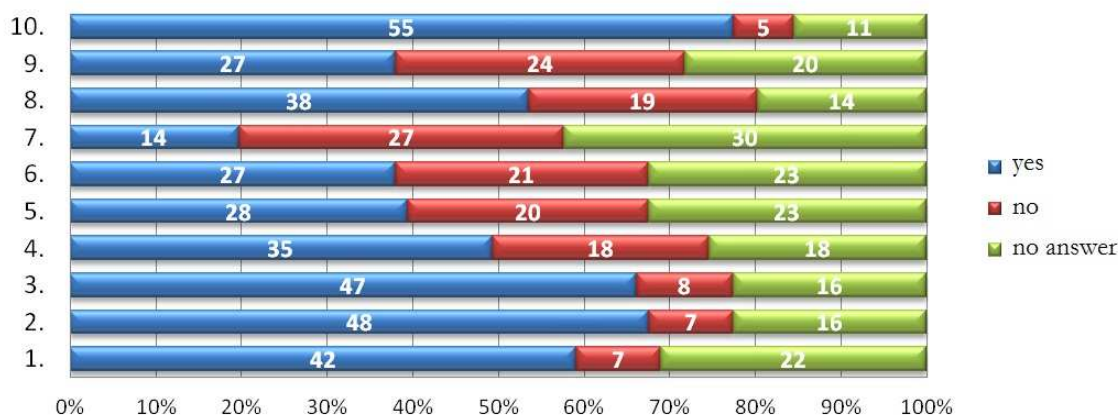


Figure 12: Factors affecting the operation of the enterprises

Source: MMV research programme (Mozgalom a Magyar Vállalkozásokért)

During the period of the research a bit more than three-quarter of the enterprises had receivables. The amount varied by companies; the most typical answers were within the category of 1-50 million Ft, but there was a company whose receivables were even above 1 billion forints. These receivables arose and accumulated for the companies in the past few years.

The size of the receivables was increased even more by the economic crisis, and the circular debts represent a more and more determining problem for the domestic small and medium enterprises.

Among others the spread of the circular debts, the high level of corruption and the blooming of the black economy are the factors and reasons why the levels of social capital and reliance are described to be so low in the domestic business life. The national economic policy should help the more competitive operation of the domestic enterprises through – among other things – eliminating and solving these problems.

The experts expected to see the economy-stimulant effects of the New Széchenyi Plan by the end of 2011 or by the first half of 2012, but we couldn't witness any serious economic booms so far. Acquiring a loan itself will not bring the opportunity of development, it can only mean a temporary solution. We also must emphasize that it cannot be an opportunity for all the companies, since the conditions of getting a loan are still hard to establish for the enterprises, and in addition bureaucracy and uncertainty are floating in front of the entrepreneurs' eyes too.

The majority of the domestic SMEs' expected a more spectacular boom and a more effective help from the New Széchenyi Plan. They were hoping for a help with which they can manage to find their feet and achieve economic results again.

In the questionnaire we asked a question about the New Széchenyi Plan as well:

The economy-stimulant programs of the New Széchenyi Plan can begin in the spring of 2011, and according to the experts we will start seeing its effects at the end of 2011 or in the first half of 2012. In your opinion will you be able to survive without the appropriate state provisions until the programs start up? Please underline the answer that applies to you!

The ones who filled the questionnaire had 7 choices for deciding which statement describes the operation of their company the most. The possible answers were the followings:

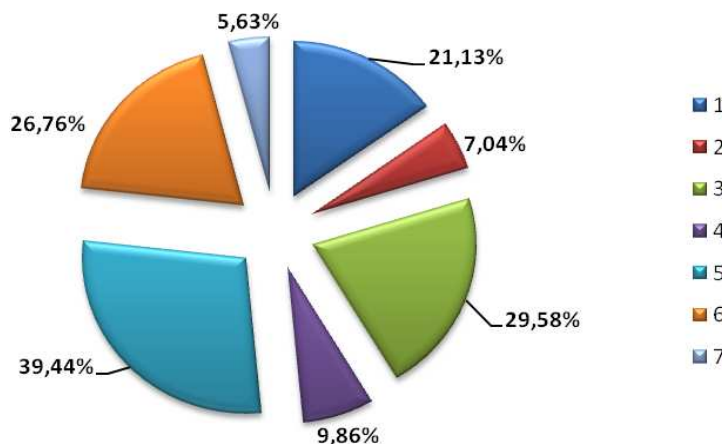
1. *yes, we will be able to stay on our feet by reducing our costs or possibly by taking a loan*
2. *yes, we have enough amount of purchase orders, so the period we have to face till the start of the economy stimulation won't*

- cause us problems.*
3. *provided at least part of our receivables return and we get paid for our pending works, we will be able to survive till spring 2011*
 4. *as long as we don't get help for collecting our receivables, we will have no chance at all to survive the following months*
 5. *our future is completely uncertain, we don't have enough purchase orders, so we are just hoping to survive*
 6. *we can only enterprise on such a low price with which we cannot finance the operating costs of our company, so we are only able to plan a few days ahead maximum. It will be solely luck if we can survive the period in question*
 7. *unfortunately we have no chance anymore, our company is under liquidation'²⁸*

Figure 13: Prognosis of the company's prospective future

Source: MMV research programme (Mozgalom a Magyar Vállalkozásokért)

According to 39,44% of the companies the future is uncertain, they don't have enough purchase orders, so they only hope to survive. Another significant rate of the companies thought that it would be solely luck if they survived the period in question.



However there are more optimistic opinions as well. In 21 questionnaires the entrepreneurs answered that provided at least part of their receivables returned and they got paid for their pending works, they would be able to survive till spring 2011.

Many of them think that they will be able to stay on their feet only by reducing their costs or possibly by taking a loan. Figure 13 unambiguously shows that the domestic SMEs will not be able to survive without a help from the outside. In spite of this the domestic economic policy has made only very weak steps so far in order to help the sector.

The respondents even had the opportunity to draft the steps the national economic policy should take for the sake of the small and medium enterprises so they can stay on their feet in the future.

The vast majority of the domestic enterprises emphasized the following tasks:

- *explicit provisions by the state to eliminate the chain debt issues*
- *setting up a state-run claims management institute to collect the "frozen" receivables of the enterprises*
- *taking sanctions against abnormally low prices in every enterprising sector. Introducing the notion of the unfair price. The price is unfair when it doesn't cover the operating costs and doesn't include profit, because it is not making the honest operation and employment possible.*
- *allocating orders for companies that do the substantive work and employ the workers during state orders and public procurements; the elimination of the project companies*
- *immediate review of the public procurement procedures (prices, tender conditions, etc.)*
- *immediate payment of the small volume orders at state or council works, while at bigger projects the immediate payment of the advance money and the delivered goods.*
- *some way of reimbursement of the VAT that was paid during the last 10 years after bad debts*
- *immediate rearrangement of the EU payments to support the domestic small enterprises*

²⁸ Source: MMV research programme - research leader: Prof. Magdolna Csath – Kodolányi János University of Applied Sciences – head of department; the project was supported by Mozgalom a Magyar Vállalkozásokért (MMV)

- *working out a nationwide economic strategy to help the development of the domestic small enterprises*²⁹

Figure 14 shows how inadequate the economic circumstances are. We were trying to find an answer to the question of how the enterprises see their own market environment. Most enterprises talked about unfair market conditions, emphasizing black economy and corruption. However corruption is present not only in business relationships but in politics too, as it was alluded to in 34 of the answers.

We could already see in the previous point that according to most of the company leaders there is no such economy strategy in Hungary that aims the development of the small enterprises. This is where the national economic policy should start to make the first step to begin the resuscitation of the SME sector with a well formulated strategy. In this economy strategy they could work the solutions out that could also mean a treatment method for the problems stated on figure 14.

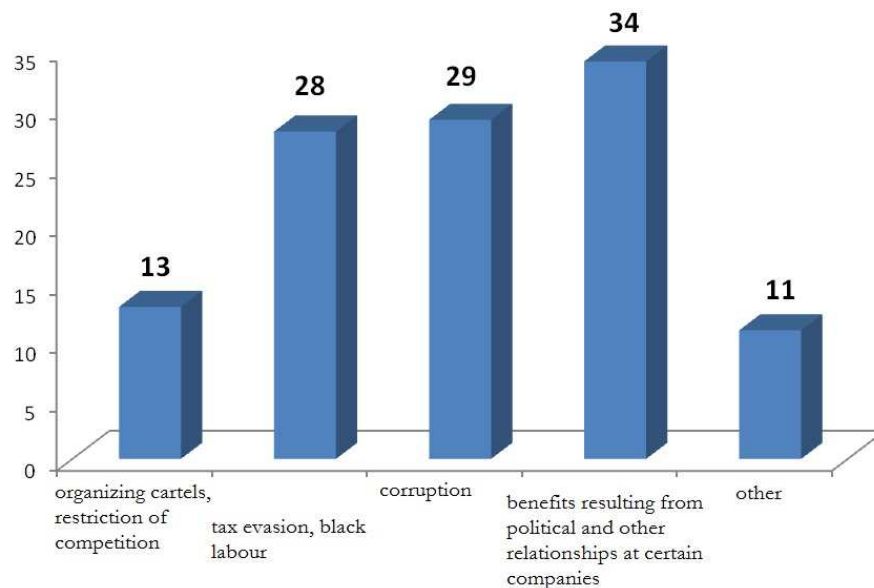


Figure 14: Some typical characteristics of the companies' market environment

Source: MMV research programme (Mozgalom a Magyar Vállalkozásokért)³⁰

The domestic companies are trying to maintain their operation on a long term, but under certain circumstances the business activities cannot be maintained anymore. The questionnaire even asked the question of how will the company leaders be able to run their enterprises successfully on a longer term!?

There were various answers to that question, but we need to highlight the following ones:

- *we need to introduce new products or services*
- *we need to find new markets*
- *we have to reduce costs*
- *we should apply new technologies*
- *we would have to renew the leadership methods*
- *we will need loans*

It is clearly seen from these answers too in which fields the domestic SMEs should be helped. Searching for novelties and creating new things are only possible by innovation, strategy making and the continuous management of the changes.

²⁹ Source: MMV research programme - research leader: Prof. Magdolna Csath – Kodolányi János University of Applied Sciences – head of department; the project was supported by Mozgalom a Magyar Vállalkozásokért (MMV)

³⁰ Source: MMV research programme - research leader: Prof. Magdolna Csath – Kodolányi János University of Applied Sciences – head of department; the project was supported by Mozgalom a Magyar Vállalkozásokért (MMV)

The rate of the Hungarian companies' proceeds spent on innovation and R&D is one of the lowest in the European Union. No wonder the western-European enterprises that are consciously spending more on renewal and changes are more developed, since these companies already realised that the sources of competitiveness reside exactly in those factors.

Our arrears in the innovation competition have been demonstrated well by the graphs at the beginning of the study. Figure 15 shows which countries we are mentioned to be in the same group with in respect of the innovation activity of the young enterprises. The figure also shows which countries are trying to compete with innovation and which ones seek after efficiency and cheapness.

The countries on top in innovation are all ahead of Hungary regarding competitiveness, economic development and the standard of living. I have to emphasize of course that the economically more developed state is caused not only by this factor, but it significantly contributes to it. In the middle group on figure 15 besides Hungary there are countries like Trinidad and Tobago, Columbia, Costa Rica, Peru, Chile, Mexico or Uruguay. Basically there are no EU countries there. No wonder we are under the EU average not only in the aspect of innovation but competitiveness as well. It should be one of the priorities of the economic strategy for the economic policy to move from the middle group to the right one, since today everybody sees and understands the necessity of being innovative. Unfortunately we are behind in this competition too and we haven't made the specific steps yet.

"The Declaration of ERENET (Entrepreneurship Research and Education Network of Central European Universities), adopted in 2010 in Győr, endeavour to provide solutions for the more effective handling of the SME sector's problems in the widest possible scope. This declaration summarizes the trends in 10 points that could be targeted by the domestic economic policy for developing a strategy dealing with the SMEs. The biggest problem in Hungary is still not having a well defined strategic line that would set the support of the SME sector as its most important aim. The declaration of the ERENET network might be able to give us help and a base to find the guidelines by which we can start the development for the domestic small enterprises to create a more favourable business environment. The Győr Declaration of the ERENET drafts statements for the most significant fields distressing the SMEs, thus it makes proposals – among others – for reducing the administrative burdens, supporting the innovative enterprises, developing the enterprising society and for the governmental SME policy. The study also draws attention to these problems, since it can clearly be seen from the primer and secondary data that it's exactly them that form the biggest problems for the development of the Hungarian SMEs. In this regards the proposals of the Győr statement are correct and vocationally valid. The only other thing needed is the proposals like this to reach the political decision makers who- building upon these initiations – could draft solutions for the actual and real problems. The Győr Declaration stated the following guidelines for the development of the SMEs: the administrative burdens must be reduced, deliberate and comprehensive changes are needed in the tax system. The number and the extent of the payments of taxes and contributions must be reduced, the returns of entrepreneur taxes and contributions must be contracted and the taxation system must be made transparent. A new supporting system must be made for the innovative and competitive starting enterprises. The government shall set the propagation of the enterprising culture and the strengthening of the enterprising skills and cognitions as its aims. Equal opportunities must be provided for the enterprises regardless of the forms of ownership, the size of the company or other features. The financial and supporting system of the SMEs must be significantly reformed. Apart from these the entrepreneur society must be established and the entrepreneur culture must be enhanced. The governmental SME policy must be transparent and calculable on a long term, and the regular social conversations between the representatives of the SME sector, the economic-political decision makers and the non-economic communities must be intensified. The use of the principles and putting them into practice can help the economic development, since a more effective and more competitive SME sector could develop in Hungary by taking all these proposals into consideration."³¹

³¹ The Győr Declaration of Entrepreneurship Research and Education Network of Central European Universities (2010): Proposals of the Hungarian ERENET section for a new small and medium-sized enterprise development policy, march 27th, 2010

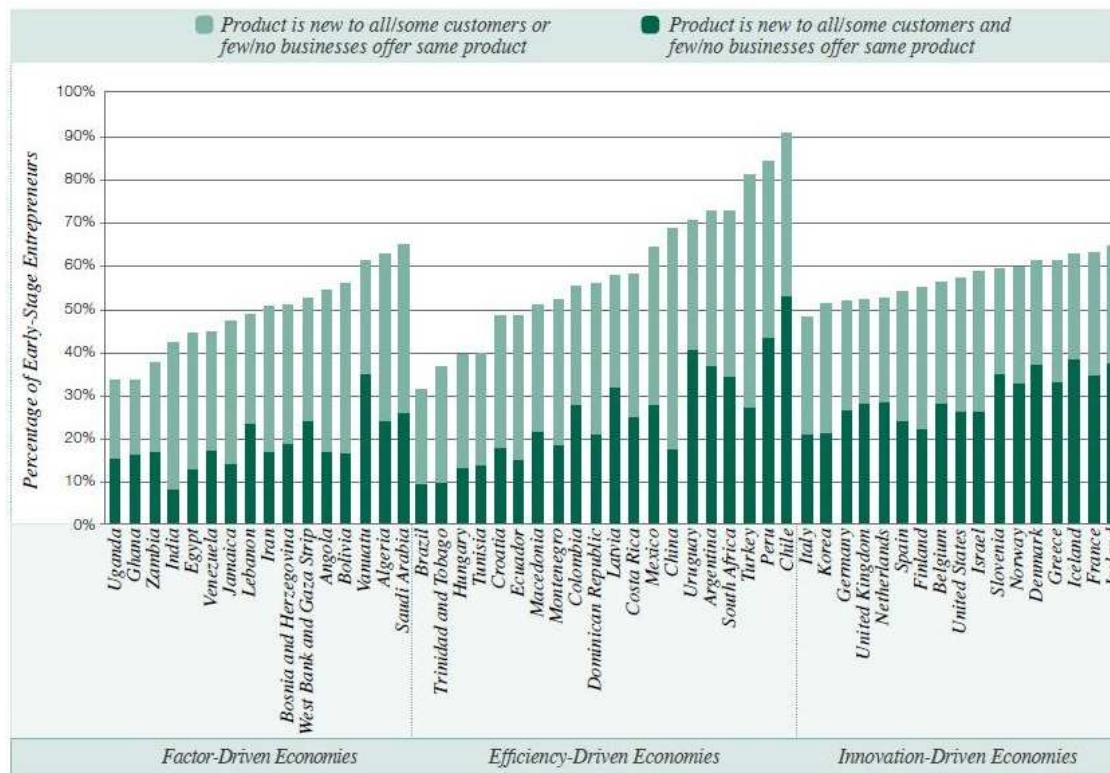


Figure 15: Innovation activity at new enterprises, 2008-2010

Source: GEM - Global Entrepreneurship Monitor, The Global Report 2010

4. CONCLUSIONS AND SUGGESTIONS

Many research, dissertation, study or thesis dealt with the situations and problems SMEs already. My study cannot be considered a novelty in that respect, but its actuality is still indisputable. The national economic policy couldn't solve the SME sector's long lasting problems up to this day, so we will have to deal with this question as long as we make an effective proposal for the solution.

My study tries to draw attention to the fact that the situation of the domestic SMEs' became problematic on such fields that could be the sources of their competitiveness. Leaving these fields untouched they might not be able to improve their situation by themselves without support and help.

The New Széchenyi Plan is trying to help the Hungarian enterprises mostly with loan opportunities. The availability of the loans doesn't mean that the enterprises have been supported in the most efficient way, since we still should break many obstacles down for their operation and success. A line of provisions from cutting the bureaucracy back to establishing a favourable tax system should be made that could help the operation of the Hungarian SME sector. Moreover we should deal with the soft factors of our competitiveness as well; we need to build on knowledge, innovation and quality. The results of the various researches and studies show clearly which fields we have arrears in, and on which fields the SME sector should have a spectacular development. We have to be able to create the appropriate background and the supporting economic and business environment for this, and it must be the responsibility of the all-time economic policy.

With more cooperation, with the full scale charting of the problems and with a new intellectuality such an economic environment can develop, in which the situation of the SMEs could be sensibly improved as well. The SMEs should have a significant priority in the national strategic programs. Until it doesn't come into realization, a surpassing support system and an appropriate business environment cannot be established for the domestic companies.

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CHARACTERISTICS OF ROMANIAN SMEs STRATEGIES AND POLICIES IN 2011

ABSTRACT

The complex economic development in recent years require some thorough studies and analyses in order to formulate actual strategies and policies for entrepreneurship development. Within this context, the 9th edition of the 2011 Romanian SMEs White Charter shows a particular utility in studying the status and perspectives of the Romanian entrepreneurial phenomenon, alongside the stimulus of the SME sector development. The current paper is an extract from Nicolescu O. (coordinator), White Chamber of Romanian SMEs 2011, Esigma Publishing House, Bucharest, 2011.

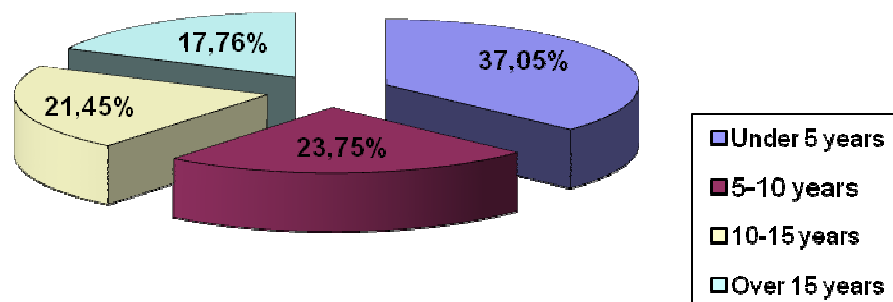
Keywords: White Charter on SMEs, entrepreneurship, national economic policy, SMEs

JEL Code: D0, L26, M21, R1

1. SMEs STRUCTURE AND DIMENSION

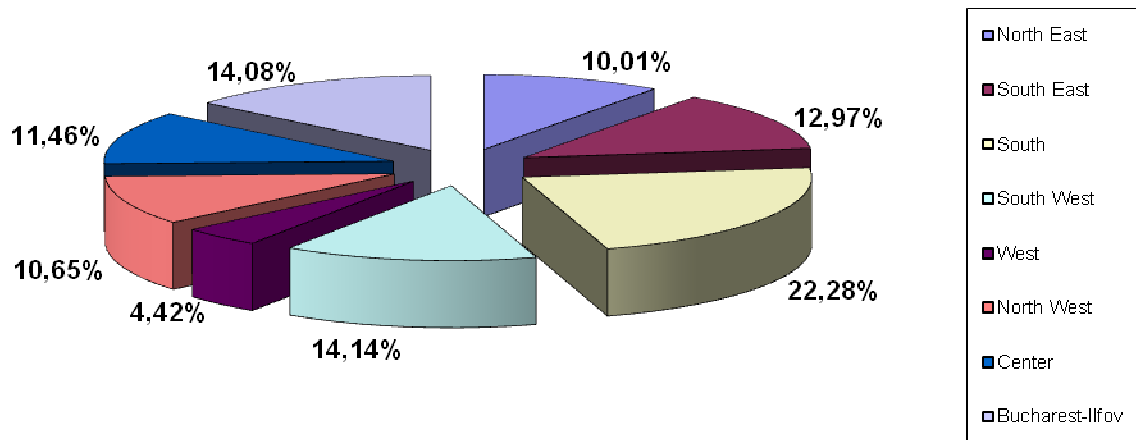
The study has been conducted by questioning a sample of 1,723 companies – micro – small and medium – sized – from all fields of business activity, age categories and development regions, the latter sample being deemed as representative for the study objectives, as well as for the status of Romanian SMEs sector.

Whereas the age of such SMEs (picture no. 1), most of the enterprises having made up the object of the aforementioned study are somewhere below 5 (37.05%), being followed by those companies with an age between 5 to 10 years (23.75%), those between 10 to 15 (21.45%) and the companies whose existence is somewhere over 15 years (17.76%).



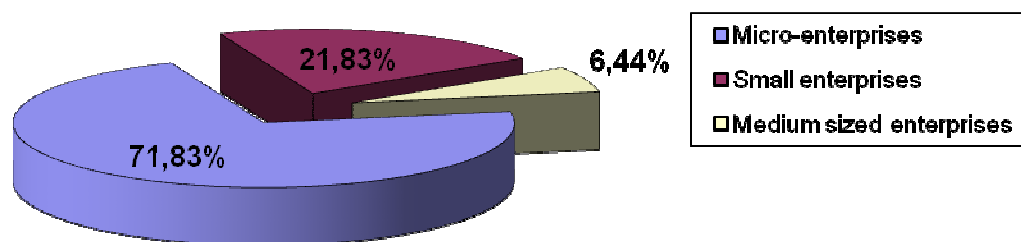
Picture 1. - Sample Structure subject to Companies Age

The distribution of small and medium – sized enterprises as per Romanian development regions is as follows: the Southern Region – 22.28%, the South – Western Region – 14.14%, Bucharest – Ilfov Region – 14.08%, the South – Eastern Region – 12.97%, the Central Region – 11.46%, the North – Western Region – 10.65%, the North – Eastern Region – 10.01% and the Western Region – 4.42%. See Picture 2.



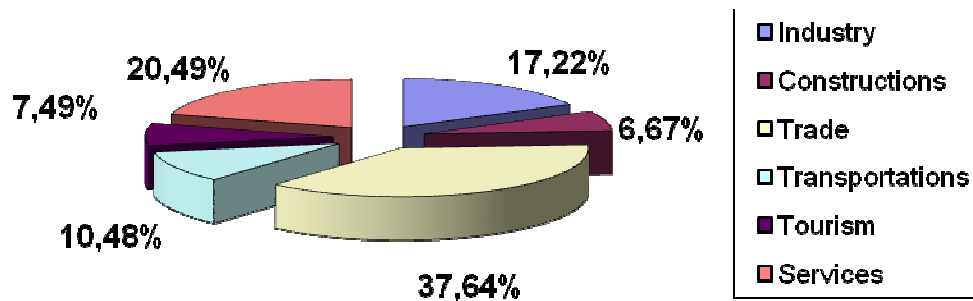
Picture 2. - Sample Structure as per Development Regions

Whereas companies dimension, as one may very well notice in pictures 1. and 3. as well, micro – enterprises stand for 71.83% of the total of SMEs under investigation, small companies weigh 21.83%, and medium – sized ones hold a percentage of 6.44%.



Picture 3. - Sample Structure subject to SMEs dimension

If we are to classify companies as per fields of activity, the SMEs sample shows the following structure: 37.64% of the companies act in the trade field, 20.49% act in services field, 17.22% are industrial companies, 10.48% conduct their business activity in transportations field, 7.49% operate in tourism and 6.67% act in constructions field. Many of such companies cover more such fields of activity, due to the fact they focus on identifying and turning business opportunities to good account, which fact stands for a basic characteristic of such SMEs both in Romania and in other countries as well. We hereby mention the fact that for each and every single such company, one has considered the NACE code of the main activity field. The graphical representation of the distribution of enterprises, as per fields of activity is displayed in Picture 4.



Picture 4. - Sample Structure as per Activity Fields

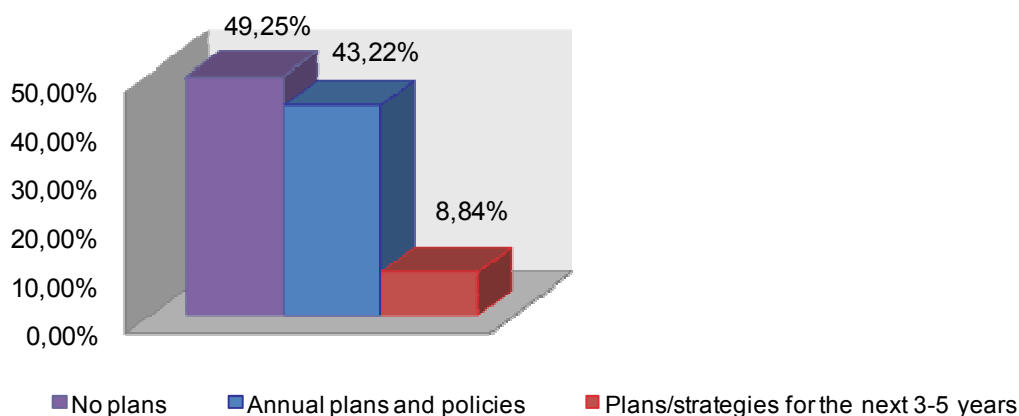
The elements being shown point out the main characteristics of the sample under investigation, which make it representative for Romanian SMEs sector.

2. DRAWING UP OF PLANS, STRATEGIES AND POLICIES WITHIN SMES

Since companies' operation and efficacy are strictly conditional upon the latter's capacity to anticipate and get ready for the future, the presentation of the planning and predicting activities being carried out within small and medium – sized enterprises, is highly relevant, in order to make up an overall picture of Romanian SMEs sector. Our study results show that in 43.22% of the total of companies under investigation, such annual plans and policies are carried out, in 8.84% of SMEs, one elaborates 3 – 5 year strategies, and in 49.25% of the enterprises, one conducts no such planning activities whatsoever* (Picture 5). If we consider the fact that – according to a broad study on EU small and medium – sized enterprises – one of six such SMEs draws up and operationalizes such strategies, we find that in terms of the frequency of strategic approaches, small and medium – sized companies in our country are somehow on the same page as their homologues from developed countries, despite the pretty big time gap existing in terms of competition. An explanation to this may be given by the fact that a significant part of entrepreneurs, managers and specialists within Romanian SMEs are used to such planning activities, as imposed by the centralized economy from the former communist period.

One should underline the fact that recent years studies, as conducted in the European Union, point out the fact that a higher and higher percentage of SMEs feel the need to draw up formalized entrepreneurial strategies. Also, the rapid and intense processes of internationalization of the activities in general, and of the economic activities, in particular, substantially increase the need for drawing up and implementing such strategies from an international perspective, for all categories of enterprises.

*The sum of percentages of SMEs, where one conducts or not such annual plans/policies and strategies does not have to be 100%, since there are companies, where one draws up both annual plans/policies, and strategies. Surprisingly, only a small amount of entrepreneurs/managers have indicated the accomplishment of both, although plans and strategies lay the foundation for strategies elaboration.



Picture 5. - SMEs structure, subject to predicting activities, as carried out

The analysis of companies subject to regional appurtenance (Table 1) has led to the following conclusions:

- If we refer to those enterprises, where one elaborates 3 – 5 year strategies, SMEs from the Centre Region register the lowest percentage (2.05%), and the ones from the Western Region hold the highest percentage (19.18%);
- In terms of the SMEs, where one makes such annual plans and policies, the companies from the North – Eastern Region register the highest percentage (59.76%), and enterprises from the Centre hold the lowest percentage (34.87%);
- If we consider small and medium – sized companies, where one conducts no such planning activities, the companies from the Centre Region hold the highest percentage (64.10%), while SMEs from the North – Eastern Region register the lowest percentage (34.91%).

Table 1

Differentiation of SMEs predicting activities,
Subject to development regions

Current no.	Within the company, one draws up	SMEs grouped as per development regions							
		North □ East	South □ East	South	South □ West	West	North □ West	Centre	Bucharest □ Ilfov
1.	Annual plans and policies	59.76%	43.89%	39.20%	43.52%	42.47%	48.33%	34.87%	43.04%
2.	3 – 5 year strategies	7.69%	12.22%	9.07%	8.29%	19.18%	6.11%	2.05%	10.00%
3.	No plans	34.91%	45.70%	52.00%	50.26%	38.36%	46.67%	64.10%	49.13%

Studying the SMEs, subject to the latter's size (Table 2) we hereby draw the conclusion that the percentage of companies, where one draws up such plans, strategies and policies is increasing directly proportional to the latter's size, since upon enlargement of the size and, implicitly, of the activities involved, there is a more and more stringent need for conducting planning activities and for the substantiation,

elaboration and implementation of strategies.

Table 2

**Differentiation of the activities of drawing up plans/policies
and strategies, subject to SMEs' size**

Current no.	Within the company, one draws up	Companies' Size		
		Micro enterprises	Small enterprises	Medium sized enterprises
	Annual plans and policies	37.28%	57.46%	63.81%
2.	3 – 5 year strategies	6.75%	12.96%	19.05%
3.	No such plans	56.79%	31.83%	20.95%

If we are to group small and medium – sized enterprises, subject to the fields the latter activate in, the following aspects stand out:

- SMEs from the constructions and industry fields register the highest percentage of companies, where one draws up such strategies (11.46%, respectively 11.31%), due to the fact that their company profile usually imposes an anticipatory vision with respect to how business shall be run;
- The companies from the trade field hold the highest percentage of enterprises, where there is no planning of activities (56.27%) and the lowest percentage of SMEs, where annual plans and policies are operationalized (37.07%);
- Companies from the tourism field stand out by the lowest percentage of enterprises, where strategies are drawn up (6.43%).

Further information may be found in Table 3.

Table 3

**SMEs' activities relating to the drawing up of plans/policies and strategies,
subject to the field of activity**

Current no.	Within the company, one draws up	SMEs, as per fields of activity					
		Industry	Constructions	Trade	Tourism	Transportations	Services
1.	Annual plans and policies	43.06%	48.96%	37.07%	45.71%	50.00%	48.84%
2.	3 – 5 year strategies	11.31%	11.46%	7.41%	6.43%	6.48%	8.31%
3.	No plans	47.02%	41.67%	56.27%	49.29%	43.52%	45.18%

The subtle differentiation of the analysis, subject to the performances achieved by SMEs in 2010, as compared to 2009, points out the fact that those enterprises with superior results register a lower percentage of companies, where one elaborates no such plans, which proves that activities prediction usually generate better performances. However, what comes as a surprise is the fact that those companies, which have had identical performances, register a slightly lower percentage of companies, where such strategies are drawn up (7,99%) than the companies which have had poorer results (8,88%) and even much poorer results (8,39%). Details may be found in table 4.

Table 4

Differentiation of SMEs' predicting activities
Subject to performances achieved in 2010, as compared to 2009 in %

Current no.	Within the company, one draws up	Company's performances in 2010, as compared to 2009				
		Much better	Better	Identical	Poorer	Much poorer
1	Annual plans and policies	52.50	53.11	43.81	41.31	40.56
2	3 – 5 year strategies (plans)	10.00%	11.20	7.99	8.88	8.39
3	No plans	37.50%	37.76	49.23	51.16	53.15

3. SMALL AND MEDIUM SIZED ENTERPRISES' OBJECTIVES

In terms of Romanian SMEs' objectives for the following two years, our study results show that in a large number of companies (52.38%) one has set as such an objective, the moderate expansion of the business activity, in 37.14% of the enterprises, the major aim is represented by maintaining the business activities within existing size limits, in 5.91% of the companies, one wishes for a fast expansion of the business activity, 2.15% of the entrepreneurs aim at reducing any such business size, 1,34% have set their mind to close down the business and 1.07% intend to sell their business. These facts are hereby graphically displayed in

The classification of companies, as per classes of size (Table 5) points out the following aspects:

- Keeping activities at the same level and closing down the business are indicated in a percentage that is inversely proportional to the companies' size;
- the business moderate expansion, the business sale as well as the rapid development of activities are more frequently met, by the increase of the companies' size;
- the enterprises, where one aims at reducing the business size, hold a higher percentage among micro-companies, which is quite a surprise! (2.43%);
- Medium sized enterprises register no such companies, where there is any intention to close down the business.

Table 5

Differentiation of SMEs' objectives, subject to the latter's size

Current no.	Companies' objectives	Companies' size		
		Micro enterprises	Small enterprises	Medium sized enterprises
1	Reducing business size	2.43%	1.63%	2.17%
2	Maintaining business within the current size limits	39.90%	30.39%	25.00%
3	Business moderate expansion	49,81%	59,80%	60,87%
4	Business rapid expansion	5,15%	6,54%	10,87%
5	Business sale	0,97%	0,98%	1,09%
6	Business closing down	1,75%	0,65%	0,00%

Studying the SMEs, subject to the field the latter activate in, mainly points out the following aspects:

- The companies from the transportation field hold a higher percentage of SMES, whose objective is represented by the keeping of the business activities at the same level (43.28%) and the reduction of the

business size (5.22%), but also register the lowest percentage of enterprises, where one aims at a moderate expansion (43.28%) and the closing down (0%) of the business;

- SMEs activating in the industry field register the highest percentage of companies, where one aims at a moderate expansion of the business (60.09%);
- The companies from the tourism field hold a higher percentage of companies considering selling the business (4.04%), as well as the closing down of the business activity (4.04%).

See table 6.

Table 6

**Differentiation of SMEs' objectives,
subject to the field of activity**

Current no.	Companies' objective	SMEs, as per fields of activity					
		Industry	Constructions	Trade	Transportations	Tourism	Services
1	Reducing business size	0.94%	1.30%	2.68%	5.22%	1.1%	1,19%
2	Maintaining business within the current size limits	28.17%	40.26%	41.44%	43.28%	38.38%	29.76%
3	Business moderate expansion	60.09%	53.25%	49.48%	43.28%	49.49%	58.33%
4	Business rapid expansion	7.51%	3.90%	4.74%	7.46%	3,03%	9.13%
5	Business sale	1.88%	0.00%	0.62%	0.75%	4.04%	0.00%
6	Business closing down	1.41%	1.30%	1.03%	0.00%	4.04%	1.59%

By correlating the objectives aimed at by SMEs, with the performances achieved by the latter in 2010, as compared to 2009, one may notice the fact that those enterprises with much better results hold a higher percentage of companies having set as their objectives the rapid expansion of the business (18.42%), while the companies with much poorer results register a higher percentage of SMEs where one aims at closing down the company and selling the business. Details may be found in table 7.

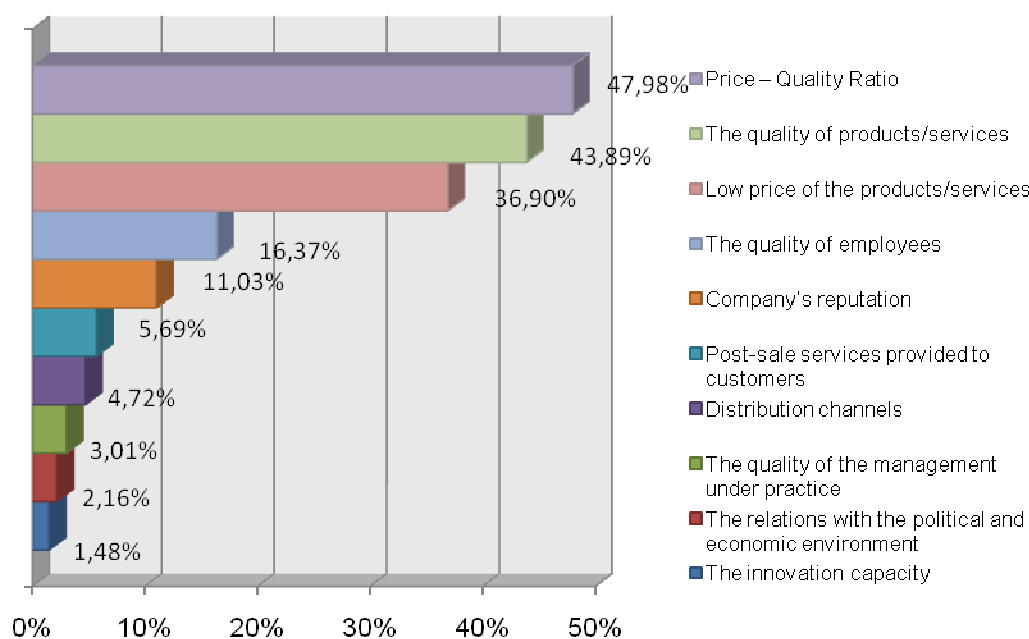
Table 7

Correlation between SMEs' objectives and the latter's 2010/2009 performances

Current no.	Companies' objective	Company's performances in 2010, as compared to 2009				
		Much better	Better	Identical	Poorer	Much poorer
1	Reducing business size	2.63%	0.00%	1.17%	1.26%	6.32%
2	Maintaining business within the current size limits	10.53%	19.53%	41.40%	44.21%	40.89%
3	Business moderate expansion	65.79%	71.63%	50.73%	49.68%	39.03%
4	Business rapid expansion	18.42%	8.84%	5.54%	3.58%	4.46%
5	Business sale	2.63%	0	0.87%	0.21%	4.09%
6	Business closing down	0.00%	0	0.29%	1.05%	5.20%

4. SMEs' COMPETITIVE ADVANTAGES

Whereas the competitive advantage the companies make for themselves in relation with the market is decisively conditioning the latter's performances and functionality, it is highly relevant to point out the main competitive advantages, that SMEs' decisional factors believe to have in relation to their competition. According to our study results, 47.98% of the entrepreneurs have indicated as a competitive advantage the price – quality ratio; 43.89% - the quality of the products/services, as provided; 36.90% - the low price of products/services, as provided; 16.73% - the quality of employees; 11.03% - company's reputation; 5.69% - the post sale services, as provided to the customers; 4.72% - the channels of distribution, as used; 3.01% - the quality of management, under practice; 2.16% - the relations with the political and economic environment, and only 1.48% have indicated the innovation capacity as a main competitive advantage. One finds that most SMEs are oriented towards the quality – based differentiation of products, services, as provided and/or towards the latter's commercialization at convenient prices for customers. See **Picture 6**.



Picture 6. - SMEs' main competitive advantages

The grouping of companies, subject to the latter's regional appurtenance (table 8), points out the following differences, in comparison with the sample average:

- The competitive advantage represented by the quality of products/services, as provided, is registered in a higher percentage by those enterprises from the South – Eastern Region (56.50%) and in a lower percentage by the companies from the Centre Region (38.58%);
- The price – quality ration is registered in the highest percentage by the companies from the North – Western Region (67.21%) and in the lowest percentage by the companies from the South – Western Region (33.33%);
- The low price of products / services, as provided by SMEs, is indicated as such a competitive advantage in a higher percentage by the companies within the Centre Region (54.82%) and in a lower percentage by the companies from the South – Western Region (24.28%);
- The competition generated by the distribution channels, as used, is registered in the highest percentage, among companies from the South Region (7.57%) and in the lowest percentage by the SMEs from the North – Western Region (1.09%);
- The highest percentage in terms of the post – sale services, as provided to customers, may be seen in companies from Bucharest – Ilfov Region (9.50%), and the lowest in the companies from the North –

- Western Region (0.55%);
- The innovation capacity has been found in a higher percentage among the companies from the North – Eastern Region (2.91%) and it has not been mentioned at all among companies from the Western Region;
- The quality of employees stands for a competitive advantage that is more frequently met among companies from the Centre Region (23.35%) and in a lower percentage at those companies from the South – Eastern Region (10.76%);
- The relations with the political and economic environment are indicated in a higher percentage by the SMEs from Bucharest – Ilfov Region (4.55%) and very little by the enterprises from the Centre Region (0.51%);
- A company's reputation is deemed as such an advantage in relation to competitors in the highest percentage by the companies from the South Region (17.75%) and in the lowest percentage by the SMEs from the North – Western Region (2.19%);
- Enterprises from the Centre Region register a very small percentage of companies, where the quality of management is deemed as a competitive factor (0.51%).

Table 8

**Differentiation of SMEs' competitive advantage
Subject to the development regions the latter are part of in %**

Current no.	Competitive advantage	SMEs grouped as per development regions							
		North □ East	South □ East	South	South □ West	West	North □ West	Centre	Bucharest □ Ilfov
1	Low price of the products/services, as provided	29.07	34.98	39.43	24.28	30.26	48.09	54.82	31.40
2	The quality of products / services, as provided	48.26	56.50	41.78	38.68	46.05	39.89	38.58	39.26
3	Price – Quality Ratio	43.60	51.57	48.56	33.33	59.21	67.21	44.67	38.43
4	Distribution channels, as used	4.65	5.38	7.57	2.88	6.58	1.09	3.05	4.55
5	Post – sale services, as provided to customers	5.81	8.07	5.48	3.70	7.89	0.55	4.57	9.50
6	The quality of employees	14.53	10.76	15.67	15.23	19.74	10.93	23.35	15.70
7	The relations with the political and economic environment	1.74	1.35	0.52	4.12	3.95	0.55	0.51	4.55
8	The quality of the management under practice	4.07	3.59	3.39	5.35	5.26	0.55	0.51	1.65
9	Company's reputation	10.47	8.52	17.75	10.29	3.95	2.19	9.14	11.57
10	The innovation capacity	2.91	1.79	1.57	0.41	0.00	1.09	0.51	2.07

The studying of the competitive advantages of SMEs, subject to the latter's size points out the following relevant aspects:

- The percentage of companies having as a competitive advantage the low price of products/services, as provided, is dropping directly proportional to the enterprises' size;

- The percentage of SMEs being more competitive, as a result of the quality of products / services, as provided, the relations with the political and economic environment and the quality of the management under practice, is increasing by the enlargement of the companies' size;
- The competitive advantage, as generated by the distribution channels being used and by the company/s reputation, is more frequently met among medium – sized enterprises;
- Small enterprises hold a higher percentage of companies getting a competitive advantage by the price – quality ration, the post – sale services, as provided to customers, the quality of employees and the innovation capacity.

Further information is hereby presented in Table 9.

Table 9

**Differentiation of SMEs' competitive advantage,
subject to the latter's size in %**

Current no.	Competitive advantage	Companies' Size		
		Micro enterprises	Small enterprises	Medium sized enterprises
1	Low price of the products /services, as provided	41.59	28.73	20.00
2	The quality of products/ services, as provided	41.26	47.97	54.55
3	Price – Quality Ratio	47.31	47.97	45.45
4	Distribution channels, as used	4.64	3.79	7.27
5	Post – sale services, as provided to customers	5.05	8.13	5.45
6	The quality of employees	14.75	18.70	12.73
7	The relations with the political and economic environment	1.57	2.17	2.73
8	The quality of the management under practice	2.49	3.79	5.45
9	Company's reputation	10.36	9.76	12.73
10	The innovation capacity	1.24	1.90	0.91

By classifying the SMEs, as per fields of activity (see table 10) one finds the following aspects:

- Whereas the quality of the services/products, as provided, the highest percentage is registered among small and medium – sized enterprises from the constructions field (50%), and the lowest percentage is registered among SMEs from the transportations field (36.77%);
- In terms of the price – quality ration of the products/services, as provided, the highest percentage is registered by the companies from the tourism field (52.73%), and the lowest percentage is registered by the enterprises from the transportations field (38.06%);
- If we consider the competitive advantage generated by the low price of products/sevices, one notices that the highest percentage is registered among enterprises from the tourism field (45.05%) and the lowest among SMEs from the constructions field (27.55%);
- The competition generated by the distribution channels being used has been registered in the highest percentage with the companies activating in the transportations field (7.10%);
- The highest percentage in terms of the competitive advantage represented by the post – sale services provided to customers is registered by the companies from the constructions field (11.22%), and the lowest percentage is registered by the companies from tourism (3.64%);

- In terms of the innovation capacity, one finds that the enterprises from the industry field hold the highest percentage (2.36%), and the ones in the transportations field are not concerned with innovation;
- The quality of employees has been indicated in a higher percentage within the companies from the services field (21.45%) and in a lower percentage within the companies from the transportations field (10.97%);
- In terms of the quality of management, the highest percentage is noticed in the case of the companies from services field (4.62%);
- The relations with the political and economic environment stand for a competitive advantage in a higher percentage for the companies from the constructions field (7.14%) and in a lower percentage for those from the transportations field (0.65%);
- If we consider a company's reputation, one may notice a higher percentage in terms of those companies from the trade field (13.06%) and a lower percentage in terms of those companies from transportations field (6.45%).

Table 10

**Differentiation of SMEs' competitive advantage,
subject to the field of activity**

Current no.	Competitive advantage	SMEs, per branches of activity					
		Industry	Constructions	Trade	Transportations	Tourism	Services
1	Low price of the products/services, as provided	34.65%	27.55%	44.01%	36.77%	45.45%	29.37%
2	The quality of products/services, as provided	48.43%	50.00%	39.36%	36.77%	40.91%	47.52%
3	Price – Quality Ratio	48.43%	46.94%	48.66%	38.06%	52.73%	46.53%
4	Distribution channels, as used	5.51%	1.02%	5.55%	7.10%	1.82%	3.30%
5	Post – sale services, as provided to customers	4.33%	11.22%	4.29%	5.81%	3.64%	5.28%
6	The quality of employees	11.81%	17.35%	13.95%	10.97%	13.64%	21.45%
7	The relations with the political and economic environment	1.57%	7.14%	1.61%	0.65%	1.82%	1.32%
8	The quality of the management under practice	3.15%	3.06%	2.15%	1.94%	1.82%	4.62%
9	Company's reputation	9.84%	12.24%	13.06%	6.45%	9.09%	8.25%
10	The innovation capacity	2.36%	2.04%	0.54%	0	1.82%	2.31%

By a subtle differentiation of the analysis, subject to the companies' performances in 2010, as compared to 2009, we mainly find that:

- SMEs having achieved much better results register a higher percentage of competitive advantages, as generated by company's reputation (20.00%), the distribution channels being used (12.50%) and the quality of the management under practice (10.00%);

- The companies with better results stand out by the higher percentage of SMEs having indicated as such a competitive advantage the quality of products / services being provided (47.15%), the quality of employees (19.11%), the relations with the economic and political environment (3.25%) and the innovation capacity (2.03%);
- The companies with overall identical performances hold a higher percentage in terms of the post – sale services provided to customers (6.84%);
- The companies with inferior results in 2010, as compared to 2009 stand out by a higher percentage of enterprises focused on the low price of services/products being provided (42.,16%) and on the price – quality ratio (53.,54%).

See information in Table 11.

Table 11

Differentiation of SMEs' competitive advantage, subject to the latter's performances in 2010, as compared to 2009

Current no.	Competitive advantage	Company's performances in 2010, as compared to 2009				
		Much better	Better	Identical	Poorer	Much poorer
1	Low price of the products / services, as provided	30%	39.84%	35.44%	37.87%	42.16%
2	The quality of products / services, as provided	45%	47.15%	45.82%	45.90%	45.75%
3	Price – Quality Ratio	47.5%	44.72%	47.34%	53.54%	45.42%
4	Distribution channels, as used	12.5%	4.47%	4.30%	3.17%	5.88%
5	Post – sale services, as provided to customers	5%	6.50%	6.84%	6.34%	3.59%
6	The quality of employees	10%	19.11%	18.48%	15.86%	12.09%
7	The relations with the political and economic environment	2.5%	3.25%	2.53%	2.24%	1.31%
8	The quality of the management under practice	10%	4.47%	2.53%	2.99%	1.63%
9	Company's reputation	20%	11.79%	11.65%	9.14%	11.44%
10	The innovation capacity	0%	2.03%	2.03%	1.31%	1.63%

5. MANAGERIAL PRIORITIES WITHIN SMEs

Companies' performances are to a large extent conditional upon the priorities, the latter's entrepreneurs and managers focus on. According to our study results (see picture 8), the most frequent managerial priorities, as registered within Romanian SMEs, are: the enhancement of the marketing activity (in 53.61% of the companies), the purchase of new technique (39.11%), the intense training of the employees (34.00%), production diversification (31.15%), activities informatization (29.51%), construction of buildings (27.86%), introducing modern quality management systems (22.57%), tools replacement (22.11%), the actions of fighting / limiting pollution (22.00%), and managerial restructuring / modernizing activities (17.96%).

By distributing SMEs, as per development regions (table 12), we find a series of differences that are bigger than the sample average:

- Tools replacement (30.26%), managerial restructuring and modernizations (21.05%), fighting/limiting pollution (34.21%) activities informatization (39.47%) and intense training of employees (46.05%) are most frequently met among those companies from the Western Region;
- The purchase of new technique (52.33%) and production diversification (42.44%) register the highest percentage in the case of those companies from the North – Eastern Regions;

- The enhancement of marketing activity has been identified as a priority, particularly by the companies from the North – Western Region (69.40%).

Picture 7. - Strategic priorities

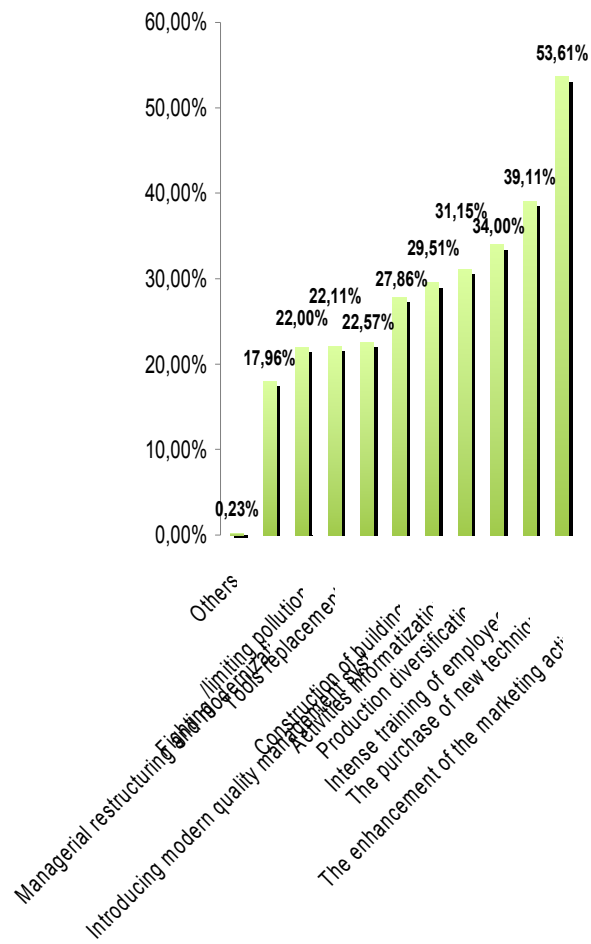


Table 12

Differentiation of the development priorities, as per development regions in %

Current no.	Measures for the enhancement of economic activity	SMEs, grouped as per development regions							
		North □ East	South □ East	South □	South □ West	West	North □ West	Centre	Bucha- rest □ Ilfov
1	Tools replacement	30.23	24.22	24.28	23.46	30.26	16.94	11.68	18.18
2	Construction of buildings	28.49	33.18	27.15	23.05	31.58	26.78	26.40	30.58
3	The purchase of new technique	52.33	43.05	36.55	39.51	48.68	29.51	35.03	38.43
4	Production diversification	42.44	34.53	30.55	34.57	35.53	27.87	21.83	24.79
5	The enhancement of the marketing activity	55.81	46.19	42.82	46.09	53.95	69.40	61.42	62.81
6	Managerial restructuring and modernizations	19.19	17.04	17.5	19.75	21.05	15.85	17.77	16.12
7	Introducing modern quality management systems	19.77	19.28	24.28	20.99	26.32	25.68	18.78	26.45
8	Fighting / limiting pollution	18.02	20.18	24.28	15.23	34.21	22.95	18.78	25.21
9	Activities informatization	33.14	26.01	23.50	24.69	39.47	36.61	27.41	38.02
10	Intense training of employees	39.53	27.80	33.94	28.40	46,05	42.08	28.43	33.47
11	Others	0	0.45	0.26	0	0	0.55	0.51	0

As one may very well also notice in Table 13, the impact of companies' size on activities development actions is significant, with the usual pointing out of an increase of the latter, by the enlargement of the SMEs' size.

Table 13

Correlation between SMEs' size and development priorities intensity in %

Current no.	Measures for the enhancement of economic activity	Companies' size		
		Micro □ enterprises	Small enterprises	Medium □ sized enterprises
1	Tools replacement	17.48	31.17	42.73
2	Construction of buildings	24.44	38.75	31.82
3	The purchase of new technique	34.13	50.95	56.36
4	Production diversification	26.76	40.92	49.09
5	The enhancement of the marketing activity	53.11	55.28	58.18
6	Managerial restructuring and modernizations	15.16	23.85	35.45
7	Introducing modern quality management systems	18.31	31.44	42.73
8	Fighting / limiting pollution	19.30	27.91	37.27
9	Activities informatization	25.60	37.13	48.18
10	Intense training of employees	29.41	44.17	56.36
10	Others	0.33	0	0

If we group the companies, subject to the latter's field of activity (table 14), we notice the following significant aspects:

- SMEs from the constructions field occupy the first position in terms of tools replacement (40.82%), the purchase of new technique (57.14%), managerial restructuring and modernizations (27.55%) and they are less numerous in terms of the enhancement of the marketing activity (43.88%);
- Production diversification (47.64%), the introducing of modern quality management systems (32.28%) and the fighting / limiting of pollution (33.07%) have been registered in a higher percentage in case of the companies from the industry field;
- The enhancement of the marketing activity (68.18%) and the construction of buildings (46.36%) have been more frequently indicated in the case of companies from the tourism field;
- The activities of informatization and intense training of the employees have been more often pointed out by those SMEs, from the services field (40.92%, respectively 49.17%).

Table 14

Differentiation of development priorities, subject to the field of activity in %

Current no.	Measures for the enhancement of economic activity	SMEs, as per fields of activity					
		Industry	Constructi ons	Trade	Trans- portation	Tourism	Services
1	Tools replacement	35.83	40.82	16.64	19.35	24.55	17.16
2	Construction of buildings	30.71	31.63	26.12	26.45	46.36	25.74
3	The purchase of new technique	54.33	57.14	29.34	34.84	41.82	47.52
4	Production diversification	47.64	35.71	25.04	24.52	34.55	31.02
5	The enhancement of the marketing activity	52.36	43.88	51.16	50.97	68.18	65.35
6	Managerial restructuring and modernizations	18.50	27.55	15.56	14.19	11.82	20.46
7	Introducing modern quality management systems	32.28	30.61	17.89	20.65	27.27	24.75
8	Fighting / limiting pollution	33.07	32.65	20.93	21.94	21.82	16.50
9	Activities informatization	32.28	32.65	24.15	28.39	38.18	40.92
10	Intense training of employees	42.13	40.82	25.58	23.23	44.55	49.17
11	Others	0	0	0.18	0	0	0.66

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THE ROLE OF CLUSTERS IN SLOVAK REGIONS

ABSTRACT

Successful regional policy depends on partnership between national, regional and local institutions. Clustering is one part of successful regional development. Since the time when the Slovak Republic accessed the European Union the issues of regional policy within public policy and the main objectives to eliminate differences between regions have become a very important discussed point. Another goal is to promote competitiveness of businesses and companies while creating clusters. The paper analyses the situation in clusters in Slovak regions. Possibilities to create and develop clusters are analyzed by means of a coefficient of localization so that they can aid development of Slovak Regions.

Key words: cluster, cluster initiatives, the region, innovation

JEL Classification: R11, C38

INTRODUCTION

Last two decades are significant with social and economic development. Its results reflected in the field of economy and social life. The most important changes were made in the economic policy and in the system of economy in the 90-ies when in the middle and Eastern Europe and in the countries of the former Soviet Union the centrally planned economy was transformed. The system of planned economy was replaced by the system of market economy. These changes have had impact on conditions of running businesses, of economy and management in companies. The prevailing agricultural sector and huge share of steel production and engineering have been slowly changing in their nature. They have been replaced by businesses where knowledge, invention and qualifications are preferred. Nowadays the changes in economies and companies have been made due to the depression, the debt crisis all over the world causing recession in economic sectors. However there are chances for unions, so called clusters that are created as a significant means of winning and strengthening positions in global competitiveness. The clusters can be created temporarily, for specific purpose or from a strategic point of view.

CLUSTERS DEFINITION

In 1998 in the journal Harvard Business review „Clusters and the New Economics Competitions“ Porter says that clusters are geographic concentrations of related industries that occur in particular fields. Clusters encompass an array of linked industries and other entities important to competition. They include, for example, suppliers of specialized inputs such as components, machinery, and services, and providers of specialized infrastructure. Clusters also often extend downstream to channels and customers and laterally to manufacturers of complementary products and to companies in industries related by skills, technologies, or common inputs. Finally, many clusters include governmental and other institutions—such as universities, standards-setting agencies, think tanks, vocational training providers, and trade associations—that provide specialized training, education, information, research, and technical support [20, p. 34].

According to the OECD clusters are a network of interdependently connected companies, institutions, producing wisdom, bridging institutions and customers joint into a production chain that creates added value. The concept of clusters is more than networking companies' cooperation because it encompasses all forms of knowledge exchange and goes beyond the traditional sector analysis [20, p. 35].

The European Commission defines clusters as "groups of independent companies and affiliated institutions cooperating and competing, are locally concentrated in one or more regions although they can have global range, they specialize in one real industry and are accompanied by mutual technologies and skills and are divided into knowledge or traditional" [20, p. 35].

TYPES OF CLUSTERS

„Clusters“ represent local concentrations of related industries that are horizontally and vertically connected. They specialize on similar fields of business with supporting organizations [23, p. 1]. Concentrations at horizontal level are economic subjects doing their business in the same production or field. Concentrations at vertical level (production chain or a chain store) are clusters of former and subsequent production or business stage [8, p. 131-132].

According to Prno there are following types of clustering:

1. *Clustering based on a set of values* – generally defined as networking the suppliers. E.g. automotive cluster is usually developed along the backbone in the set of values that connects a car producer to its suppliers that may be connected to producers of specialized industrial equipment, electronics, plastic materials, rubber and textile parts.
2. *Clustering based on competences* – focuses on a real area of technical expertise or competences within a region, like research or educational competences. This type does not represent key suppliers relations in the sector; it is employing knowledge and expertise in diverse economic activities. An example for this can be information technology and software; their geographical concentration is obvious but their employment and clients are very diverse for these competences. [18, p. 315]

CLUSTERS IN THE SLOVAK REGIONS

In the Slovak Republic there are several dozens of clusters, but not all of them are active. Following chapters analyze summarize information about clusters in Slovak regions.

Table No. 1 includes information about Slovak clusters, the region where the cluster is located in, date when the cluster was formed and whether the cluster is active (A) or no information about its activity is available (N). The table also includes brief information who initiated the formation of the cluster and which kind of members are involved at present.

Slovak clusters concentrated in regions can be divided into three groups: technological cluster initiatives, clusters of tourist industry and knowledge related clusters.

It is seen that fifteen clusters have been created in the Slovak Republic; most of them are concentrated in the Trnava Region (4), and in the Region of Zilina (4). No information about any clustering in the Trenčín and Prešov Regions has been known although there have been some regional plans on innovation in the field of clustering in these regions.

Table 1. - Cluster in Slovak regions. Source: Own processing.

Region	Cluster Title	Launched into operation	A/N	Establishing Members	Current members
Bratislava Region (BA)	Danube knowledge-oriented cluster	30/7/2010	A	University, municipality, private and non-public sector	University, municip., private and non-public sector
Trnava Region (TT)	Automotive cluster – Western Slovakia	7/12/2007	A	Self-governing region and municipality	Public admin., education system, enterprise, company, non-public sector
	Electro-technical cluster – Western Slovakia	23/5/2008	A	Self-governing region and municipality	Public admin., private sector
	Energetic cluster	2/12/2009	A	Self-governing region and Union of municipalities	University, education system, enterprise, company, public and non-public sector
	Cluster for tourist industry – Western Slovakia	1/12/2008	N	Self-governing region and municipality	Public admin. cluster, Union for tourist industry and agencies
Trencin Region (TN)	-	-	-	-	-
Nitra Region (NR)	Slovak plastic production - oriented cluster	23/3/2009	N	No info available	University, education system, enterprise, company, public and non-public sector
Zilina Region (ZA)	Z@ ict	30/6/2008	A	Private and academic sectors, public admin.	Private, academic sectors, public admin.
	Cluster Liptov tourism associations	8/8/2008	A	Public admin. and private sector	Public admin. , private sector
	Cluster Orava – tourism associations	5/8/2008	A	Public admin. and private sector	Public admin. , private sector
	Cluster Turiec – tourism associations	7/7/2009	A	Public admin. and private sector	Public and private sector
Banska Bystrica Region (BB)	1 st Slovak cluster in machine engineering	4/1/2008	A	University, public admin., company	University, municipality, enterprise, company, public admin.
	Balnea Cluster - tourism associations	6/6/2008	A	Public admin., national and private sector	Public sector, national and private sector
Presov Region (PO)	-	-	-	-	-

following of the table No 1.

Kosice Region (KE)	BITERAP cluster	30/11/2004	N	Public admin. and private sector	Public admin. and private sector
	Cluster AT+R	14/7/2010	N	University, municipality, company, public admin.	University, private sector, public admin.
	Kosice IT Valley, association of legal entities.	6/3/2007	A	Private and academic sector and public admin.	Private and academic sector, public admin. and education system

The cluster BITERAP in **Kosice Region** was the first one, followed by the cluster Kosice IT Valley (2007) and by the Cluster AT+R (2010) in the same region, they are all inactive. The cluster Kosice IT Valley focuses on three-sector cooperation - public administration, education system and businesses in the field of communication and information technologies.

The cluster initiative in the Kosice Region was followed by **Trnava Region** in which automotive cluster – Western Slovakia (2007) has operated. During next two years another cluster initiative, Cluster for tourist industry Western Slovakia (2008) started to conduct its activities, unfortunately nowadays it seems to be inactive. Electro-technical cluster Western Slovakia (2008) focused on fostering development of electro technical industry and technology-oriented companies and the Energetic Cluster (2009) aimed at development of energetic industry and technology-oriented companies.

The year 2008 was significant for clustering, cluster initiatives also in some other Slovak regions. Another cluster located in the **Zilina Region** was Z@ict (2008). In this region other clustering in the field of tourist industry was performed. Clusters Orava, Liptov (2008) and Turiec (2009) were created to aid the regional development and to promote tourist industry as a regional branch.

In the **Region of Banska Bystrica**, in June 2008 a new cluster “Tourism Association Balnea Cluster” was formed. It was the first cluster unifying spa places to promote tourism development in the region. Another clustering occurred in this region in 2008 – 1st Slovak machine-engineering cluster was launched into operation.

The **Nitra Region** clustering resulted in forming one cluster – Slovak plastic production-oriented cluster that was active till the year 2010 and is ranked among the Slovak inactive clusters.

The last cluster initiative analysed in our paper is the Danube knowledge-oriented cluster (2010) in **Bratislava Region**. The cluster is ranked among the knowledge-oriented clusters in our analysis, because the cluster is determined to promote transformation towards regions based on knowledge and wisdom.

According to the results gained in our analysis it can be concluded that in **Trencin Region** and **Presov Region** there have been no active cluster initiatives. No information on existence of active clusters is available.

LOCALIZATION COEFFICIENT

In most cases clusters are promoted and supported as tools for regional development. Clustering in regions can result in many useful synergic effects in regional development; it can be joint purchase, research and development, better resistance to market instability, joint export and placing products at new markets. Advantages of clustering lie in faster implementation of new technologies, cooperation with other companies or labour force migration thus supporting indirectly development in other regions.

To identify the subject localization more statistic methods are utilized, e.g. cluster analysis or output and input analysis or analysis with clear connections of suppliers and clients that is based on Leontieff’s models. The paper describes the analysis that is carried out by means of coefficient “Location Quotient – LQ”.

The method of localization coefficient can be ranked to methods analyzing the vicinity of companies. The search is carried out by means of following data: number of employees in the sector, sector classification of economic activities. The classification is compatible with the classification NACE and SIC [8, p. 126 -127].

A calculation for LQ defines the relation:

Formula No.

$$LQ_i = \frac{z_i/z}{Z_i/Z}$$

Source: [8, p. 127],

Where:

- LQ_i Localization coefficient for the branch, sector i
 z_i Number of employees in the branch, sector, in the region
 z Total number of employees working in the region
 Z_i Number of employees in branch/sector also at higher level
 Z Total number of employees at higher level

The value LQ higher than 1 shows the regional specialization, it means that the given branch employs people that have larger share in the regional labour force than they are at the level of region

The value LQ below 1 means reverse

Developing regions especially diminishing regional disparities depends on how the regional potential is utilized and it also depends on preparing conditions and prerequisites for this process [7, p. 27].

By means of localization coefficient the cluster core is identified, determined and then possibilities for creating and developing the entire cluster are searched.

In the table No.2 the localization coefficient in Slovak regions is calculated for selected types of profession. :

- Employees performing in services and business;
- Qualified employees in agriculture, forestry and in affiliated industries;
- Craftsmen and qualified producers, processors and maintenance workers (except operators);
- Operators;

The data are given for companies and businesses with 20 and more employees. Doing calculations we referred to regional data and the entire Slovakia is considered to be the higher level of administration. We have selected only four branches to illustrate only the method but on the other hand the calculations results can lead to general conclusions as the economic activities done and prevailing in a region are conditioned by its historical development, by labour power migration rate and the quality of transport infrastructure

Table 2 - Localization coefficient: Employees in Slovak Regions □ selected areas of job classification, 2010. Source: Own calculation based on data from the Statistical Office of the Slovak Republic

Region	Employees in services and business	Qualifications of employees in agriculture, forest management and affiliated sectors	Craftsmen and qualified producers, maintenance workers	Operators
BA	0.9	0.4	0.5	0.6
TT	0.9	1.7	1.2	1.1
TN	0.9	0.8	1.4	1.4
NR	0.9	2.0	1.2	1,1
ZA	1.2	0.7	1.2	1.0
BB	1.1	1.2	1.0	1.1
PO	1.1	1.1	0.9	1.0
KE	1.1	0.8	1.0	1.1

The **Bratislava Region** none of the indicators reached the value above 1. The branch of services and business is very near this value. The Bratislava Region proves the best conditions for clustering in the selected branches, because the value representing the goods and services demand is above the industrial production.

Referring to our calculations done for the **Tmava Region** clustering in the field of agriculture or forest management or in other affiliated branches is possible. By Fabus [6, p. 25], at present the agriculture employees only 16 % of the population living in this region. Danube lowland and Zahorska lowland form larger area of this region. This is a good prerequisite for clustering in this branch to support the regional development.

The **Trencin Region** has a potential in clustering in the field of engineering and small and medium enterprises in crafts work because the region possesses a well developed engineering, textile and chemical industries (rubber, tyre industry) and the transport infrastructure is of a good quality.

In the **Nitra Region** agriculture prevails. The localization coefficient amounts the value 2.0. It can be concluded that the region does not utilize its prerequisites to support the regional development. Results show that stationery, chemical and engineering industries are quite well developed. The only one cluster is the one plastic-n production-oriented cluster that n, according to our research results, is not active. The potential of the Slovak University of Agriculture and the existence of the Slovak Danube Lowland located in the south of the region have not been utilized. The transport infrastructure is developed; the region is connected to international roads. Utilizing the above mentioned attributes of this region in a form of agricultural clustering would help develop the region and decrease the unemployment rate that is rather high in this region. The unemployment rate amounted 11.7% in 2010.

For the **Zilina Region** calculations prove that clusters created have good prerequisites to achieve their goals if they develop their activities. The localization coefficient in services and businesses amounts 1.2. The same value of the coefficient is achieved in the field of crafts work, processing and repairs; it means that existing clusters could extend their activities so that higher synergy can be reached and the regional potential can be utilized.

In **Banska Bystrica Region** the potential for clustering is in forestry and agriculture because this region is mountainous and in the southern part of the region there is lowland. The region has a predisposition to create clusters. In Zvolen there is the Faculty of forestry at the Technical University.

In **Presov Region** the coefficient shows that the prevailing position is taken by services, business,

forestry, agriculture. The region does not utilize its potential to create clusters. The region is mountainous, in its western part there is the most famous area, the Slovak National Park Vysoké Tatry and clustering in this region can promote and support development of business, trade, services. The existence of universities in this region and their connection to industries can help develop food, chemical, engineering and textile industries.

In Kosice Region the values of the localization coefficient are 1.1 in two fields business and services and machines operators. This is based on the industrial structure of this region (metallurgical, chemical and electro technical industry). Clustering has focused on strategic companies but did not reach the estimated level and quality.

CONCLUSION

Clustering is an inseparable part of the innovation process. Creating and supporting the cluster initiatives that already exist is included and described in different strategic documents aiming at innovation.

The material "Innovation Policy for the years 2011 – 2013", the Slovak Ministry of Economy is responsible for, defines its basic goal to create supporting mechanisms within the innovation policy so that innovation structures and innovative companies, partnership and cooperation of companies and universities and research institutions can improve competitiveness of Slovakia.

The objective is emphasized by the fact, that Slovakia belongs to countries where the innovation efficiency is the lowest one. Referring to the evaluation published by the European Innovation Scoreboard EIS 2010 Slovakia took the 23rd position out of 27 European countries.

From regional point of view Slovakia is differentiated at social and economic levels. This development can be reasoned by following facts:

- Insufficient infrastructure in some regions causes difficulties in accessing the region;
- Different distance and access to international transport infrastructure;
- Some regions are not sufficiently diversified in their structure;
- Economic subjects in regions are insufficiently interconnected;
- Ineffective competitiveness, low quality of products and services offered;
- Different quality of technology employed;
- Different quality of education and qualifications of labour force, some educated and qualified people living in less developed regions leave their homes, the regions lose their potential. Regions where the economic standards are low, lose again their potential;
- Age structure of labour force;
- Climate. [6, p. 23.]

As a result of our analysis we can conclude that in Slovakia there are tens of cluster initiatives. Results of the localization coefficient prove that clustering in Slovakia supports regional development but on the other hand regions do not utilize their potential. There are more facts for this:

- People responsible for regional administration are not fully aware of all the possibilities they have to promote and develop their region, when they create clusters;
- Lack of experience in this field;
- Weak elements in national supporting mechanisms;
- Lack of qualified personnel, etc.

Options that companies and other cluster members have are multiple and support regional development. Also interconnection between secondary schools and universities and practice can help develop the region. Regional self-government, companies, access to bank credits, cutting costs and some other measures are of

great support in regional development.

It can be concluded that in line with the programme for the years 2014-2020 Slovakia is recommended to improve the results achieved in regions, to support clustering and cluster initiatives in regions.

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SPRING IN THE AIR

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EDUCATION AND TRAINING: EMPHASIS ON EMPLOYABILITY

How can education and training support the EU's strategy to promote growth and jobs, and how, in particular, can they contribute to reducing youth unemployment? Those were the main topics discussed at the Council meeting on 10 February.

The numbers of unemployed in the EU are very high. Youth unemployment averages more than 20 %, reaching nearly 50 % in some member states. During their policy debate, education ministers put a clear emphasis on employability. It was regarded as essential to include practical and vocational elements alongside more theoretical and academic education to ensure a smooth transition from education to the labour market.

Many ministers agreed that one important way of improving the link between the worlds of education and work was to strengthen the practical elements in education and training programmes. An example is the dual approach which combines education and work experience, with internships as an integrated part of higher education. Furthermore, cooperation with the social partners should contribute to making curricula more relevant.

A number of ministers said that efforts were being made in their countries to increase substantially the number of apprenticeships and traineeships for young people in cooperation with the social partners. Some added that improving the recognition of skills and competences acquired through formal, non-formal and informal education and learning could also contribute to enhancing an individual's job prospects.

Finally, a large number of Member States emphasised the need to mobilise available resources under EU funds and programmes, in order to help more young people get into work or training and to enhance their mobility.

Ministers adopted the 2012 joint report from the Council and the Commission on cooperation in the field of education and training in the years 2009-2011, and established priorities for the next cycle 2012-14. The report assesses progress over the last three years and establishes the priorities for the next work cycle (2012-2014), which are aimed to a large extent at mobilising education and training in support of the EU's strategy for growth and jobs.

The report presents a mixed picture of progress, with some positive indications, but also much that still needs to be done to improve Europe's skills base, further reduce rates of early school-leaving and improve the employability of those leaving the education and training system.

ENTERPRISES MUST BOOST INNOVATION AS GLOBAL COMPETITION BECOMES STRONGER

Almost all Member States have improved their innovation performance according to the Innovation Union Scoreboard 2011. However, innovation performance growth is slowing down and the EU is not closing the persistent gap with global innovation leaders US, Japan and South Korea.



The largest gap for the EU27 remains in terms of private sector innovation. The EU still maintains a clear lead over the emerging economies of China, Brazil, India, Russia, and South Africa. However, China is improving its innovation performance and is catching up progressively.

Within the EU, Sweden confirms its position at the top of the overall ranking, followed closely by Denmark, Germany and Finland (see complete ranking below). Firms' innovation activities stand out as an important factor to achieve top positions at EU and international level.

European Commission Vice-President *Antonio Tajani*, Commissioner for Industry and Entrepreneurship, said: *"This year's results are a clear warning that more efforts to boost innovation are needed. If we want to close the gap with our main economic partners and to overcome the current crisis, innovation deserves all our attention. In particular I count on enterprises as they have proven to be the key to success in innovation. But successful start ups in other parts of the world show that some lessons are still need to be learnt in Europe."*

"We need balanced national research and innovation systems that provide an innovation-friendly environment for business. The Scoreboard also identifies a gap with the US in terms of top-end research. We urgently need a European Research Area to inject fresh competition, generate more excellence, and attract and retain the best global talent", said *Máire Geoghegan-Quinn*, Commissioner for Research, Innovation and Science.

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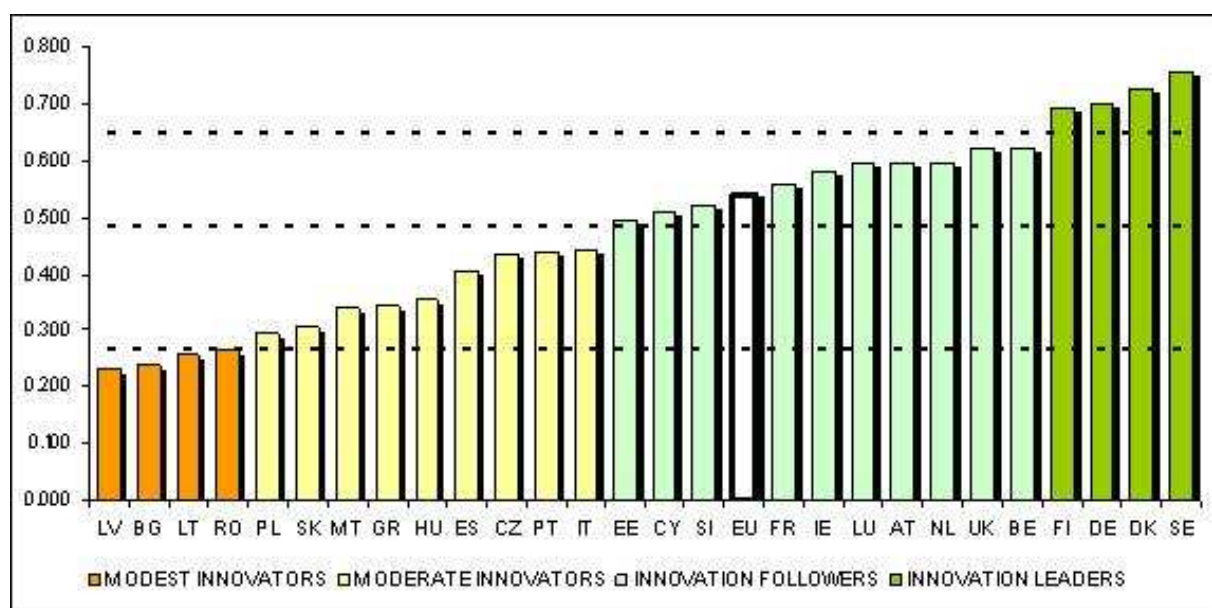
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Who are the innovation leaders in Europe?

The 2011 Innovation Union Scoreboard places Member States into the following four country groups:

- Innovation leaders: Sweden, Denmark, Germany and Finland.
- Innovation followers: Belgium, the UK, Netherlands, Austria, Luxembourg, Ireland, France, Slovenia, Cyprus and Estonia with a performance close to that of the EU27 average.
- Moderate innovators: Italy, Portugal, Czech Republic, Spain, Hungary, Greece, Malta Slovakia and Poland perform below that of the EU27 average.
- Modest innovators: Romania, Lithuania, Bulgaria and Latvia are well below that of the EU27 average.

EU Member States' innovation performance



Note: Average performance is measured using a composite indicator building on data for 24 indicators going from a lowest possible performance of 0 to a maximum possible performance of 1. Average performance in 2011 reflects performance in 2009/2010 due to a lag in data availability.

What makes innovation leaders successful

Countries at the top of the ranking for the composite innovation indicator share a number of strengths in their national research and innovation systems with a key role of business activity and public-private collaboration.

While there is not one single way to reach top innovation performance, it is clear that all innovation leaders, Finland, Sweden, Denmark and Germany, perform very well in R&D expenditures, including of firms. Most of the innovation leaders also perform very well in other innovation indicators related to firm activities.

The top EU innovation performer Sweden dominates in three out of 8 innovation dimensions: Human resources, Finance and support, and Firm investments; while Germany and Denmark perform best in two innovation dimensions each (linkages & entrepreneurship and intellectual assets vs innovators and economic effects). European top innovators also score highly in the commercialisation of their technological knowledge.

The EU in international comparison

As last year, the largest gap appears in the "Firm activities" category where the EU27 lags behind in terms of business R&D expenditures, public-private co-publications, and, with the US, in terms of excellent and attractive research systems. Better framework conditions for innovation will not suffice if the EU cannot attract a much higher share of the top researchers and best young scientific talents worldwide.

Background

The 2011 Innovation Union Scoreboard draws currently on 24 indicators that are grouped into three main categories and 8 dimensions:

- "Enablers", i.e. the basic building blocks which allow innovation to take place (Human resources, open, excellent and attractive research systems, and finance and support);
- "Firm activities", which capture innovation efforts in European firms (firm investments, linkages & entrepreneurship, and intellectual assets); and
- "Outputs" which show how this translates into benefits for the economy as a whole (innovators and economic effects, including employment).

For further information

- **Specific country research related data**
http://ec.europa.eu/research/horizon2020/index_en.cfm?pg=country-profiles
- **R&D Scoreboard: top EU firms increase investment in innovation, but lag behind global competitors**
<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1205&format=HTML&aged=1&language=EN&guiLanguage=en>
- **2011 "EU Industrial R&D Investment Scoreboard- frequently asked questions"**
<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/705&format=HTML&aged=1&language=EN&guiLanguage=en>
- **Innovation Union**
http://ec.europa.eu/research/innovation-union/index_en.cfm
- **Europe 2020**
http://ec.europa.eu/europe2020/index_en.htm

Source:

European Commission Enterprise and Industry
http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item_id=5743&lang=en&tpa_id=0&displayType=news&nl_id=1015

INSTITUTIONAL PROFILE

STEN K JOHNSON CENTRE FOR ENTREPRENEURSHIP

Advancing entrepreneurship and entrepreneurs through knowledge

In the beginning of the 21th century Lund University made a larger concentration on entrepreneurship and innovation. Since 2004, systematic work has been carried out in order to build an educational structure within the field of entrepreneurship at Lund University. The development work has been successful and an extensive number of courses and programmes have been introduced at the university, involving several faculties.

During the academic year of 2007-2008 an international Master's programme in Entrepreneurship was launched at the Lund University School of Economics and Management. In June 2009, the Swedish government appointed the programme as one of two cutting-edge programmes in entrepreneurship and innovation in Sweden and funds were allocated for further development of the entrepreneurship activities.

The government funds have allowed us to strengthen our educational and research portfolio in accordance with the announced ambitions. The time limitation of the governmental allocation of resources has required a focus on creating long-term funding. In the spring of 2011 the donation from Sten K Johnson enabled long-term investments and allowed us to continue building a lasting entrepreneurial arena formed as a centre for entrepreneurship.

The center organisationally is part of the Lund University School of Economics and Management. The educational activities will however still be executed via the School's Department of Business Administration.

Mini-biography Sten K Johnson

Being an alumnus from the Lund University Master's programme in Business and Economics, Sten K Johnson is closely connected to the School of Economics and Management and its' activities. Sten K Johnson started his career via Trelleborg AB, Sonessons and by holding the position as vice-chairman of Swedish Shareholders' Association. He has also worked as a finance consultant and a stock columnist.

Sten K Johnson has held leading positions within Skåne-Gripen and Midway Holding, the latter in which he still serves as chairman of the board and group chief executive.

In the spring of 2011 the donation from Sten K Johnson enabled long-term investments and allowed the institute to continue building a lasting entrepreneurial arena formed as a centre for entrepreneurship.

The vision of the Sten K Johnson Centre for Entrepreneurship at Lund University shall be realised by achieving the following goals.

Education – The centre will provide education in, about and for entrepreneurship targeting national and international stakeholders, including students from all faculties and educational levels, as well as external partners.

Research – The centre shall conduct cutting-edge research within two research areas; entrepreneurial learning and education and business creation.

Strategic networks – The centre shall initiate and develop established strategic contacts, encouraging reciprocal exchange with both national and international universities, alumni, partners from the industry and other entrepreneurial stakeholders.

Source: <http://www.entrepreneur.lu.se/en/skjce/background>

CALLS □ EVENTS □ NEWS



3EP – EUROPEAN ENTREPRENEURSHIP EDUCATION PROGRAMME

Dear Madam/Sir,

Josip Juraj Strossmayer University in Osijek, Faculty of Economics in Osijek, together with international partners (National Centre for Entrepreneurship in Education from United Kingdom, Turku School of Economics from Finland, Aarhus Entrepreneurship Centre from Denmark) organizes six-day international summer school from **26-31 August, 2012**. The summer school is intended for teachers of higher education institutions who teach entrepreneurial courses or who want to incorporate content that builds entrepreneurial competence into their courses.

This summer school is part of European Entrepreneurship Educators Programme (3EP) project which is co-financed by the European Union CIP Programme funds in the 2010-2012 period. Its objective is to improve the image of entrepreneurship in the society, attractiveness of entrepreneurship as a business career, as well as to encourage creativity and innovation in education and training.

This is the third summer school, after Finland and Denmark, at which participation of up to 60 teachers from the European Union and Southeast Europe countries is foreseen.

In hope that you will recognize the opportunity for personal advancement in this summer school, we invite you to join us in Osijek. Also, please forward this notice to your colleagues and everyone for who you believe will find the topic in question helpful in their further professional advancement. More details about the 3EP and international summer school in Osijek can be obtained at: www.3ep.eu, +385 31 224 426 or email julia@efos.hr.

Sincerely,

Prof. Slavica Singer, Phd.



**"SUSTAINABLE GROWTH WITH INNOVATION:
BUILDING COMPETITIVE SME NETWORKS"
- UNLOCK THE DOOR -**

**8th INSME Annual Meeting
22 - 25 May 2012
Daejeon, Republic of Korea**

Source:

<http://www.annualmeeting2012.insme.org/>

The International Network for SMEs (INSME) aims at promoting the internationalization of the national innovation systems. The network encourages and facilitates transnational cooperation among innovation stakeholders worldwide, with a view to fostering SMEs' access to existing knowledge.

The INSME Annual Meeting is the right place to take stock of the main Network achievements, to increase **knowledge sharing** among INSME Members by **learning from other Members' experiences** and from their case studies, as well as to encourage and accelerate cross border cooperation activities on a voluntary basis among them.

But the Annual Meeting is much more than this: for all innovation stakeholders and practitioners as **policymakers, international organizations, academic experts, business intermediaries and knowledge networks** it represents a perfect occasion to meet the right players, to discuss the right topics and to potentially identify the right talents, partners, clients, sponsors and investors for future activities as marketing their services, projects and ideas by reaching the appropriate professional audience.

As new INSME Secretary General appointed since January 2012 I am very much looking forward to **welcoming you in Korea**, learning more about your priorities and joining forces to create a more SME-friendly and innovative eco-system.

Meet you in Daejeon!

Ms. Christin Pfeiffer

www.insme.org

secretariat@insme.it



INSME Secretary General

pfeiffer@insme.it



isbc2012**INTERNATIONAL SMALL BUSINESS CONGRESS****JOHANNESBURG – SOUTH AFRICA****“Fostering Small Business in New and High-Potential Industries Worldwide”****INDICATIVE PROGRAMME****Pre-Congress Forum: Fostering entrepreneurship and small business in Africa.****Plenaries**

1. Fostering small business in new and high-potential industries
2. Stabilising the fragile global economy - what role for entrepreneurship and small business?
3. Competitiveness and growth through sustainability: Can small businesses show the way?
4. Africa, the next economic frontier – positioning entrepreneurs and small businesses to reap the benefits of growth.

Tracks

1. Enterprise support institutions
2. Enterprise support practice
3. SME business strategy
4. Inclusive development strategies and SME crisis recovery

Other highlights

1. Exhibition: Support programmes and SME products
2. Youth Business Congress
3. Social activities and entertainment

WHO SHOULD ATTEND?

- Entrepreneurs • SME bodies • Policy makers • SME agencies • Academics and researchers
- International agencies • Financiers

For registration see <http://www.isbc2012.org/registration-of-interest.html>



PUBLICATIONS - NEWS - BOOKS



New tool to boost eco-innovation in SMEs

The EU-funded LiMaS project has developed a web-based tool to facilitate eco-innovation in SMEs, leading to the development of products with an improved environmental performance.

Many small and medium-sized enterprises (SMEs) have a limited knowledge about environmental regulations or tools they can use to improve the environmental performance of their products. The LiMaS project helps to overcome this by providing a simplified and user friendly approach to addressing different environmental issues during the product design process.

“Essentially, the project tries to fill the gap between companies that are not so aware about environmental issues and those that already use specialised tools to improve the environmental performance of their products,” explains **Juan Carlos Alonso**, LiMaS project coordinator. “The main advantage of the LiMaS tools is that they are user-friendly. The tools that have been developed are designed to be used by technicians, without the need for environmental experts.”

The project, which receives funding through CIP Eco-Innovation Programme, has initially targeted SMEs which manufacture energy-using products as well as electric and electronic equipment. For such businesses, the new tools facilitate:

1. A first analysis of legislative requirements – the Waste Electrical and Electronic Equipment, Restriction of Hazardous Substances and Energy-related-Products Directives and Registration, Evaluation, Authorisation & restriction of Chemicals Regulation – using specific questionnaires;
2. An assessment of the environmental performance of a specific product, considering its complete life cycle – ecological profile;
3. An assessment of the main environmental impacts of the enterprise – such as energy consumption and air emissions. This step is particularly needed for implementing an environmental management system such as the European Eco-Management and Audit Scheme or ISO 14001;
4. The tracking of the hazardous substances used in the product; and
5. Information about the alternative means of communicating the environmental performance of the product – for example eco-labelling or environmental product declarations.

The data required is collected by means of a questionnaire. A shortened version – about 20 questions – allows users to carry out a first assessment of these issues. Different modules can then be used to adjust the initial data and develop more detailed assessments.

The support tools are currently available in desktop format. A desktop software tool, EuPecoprofiler, allows users to assess the environmental performance or ecological profile of a product. It then facilitates a comparison of different product design alternatives, using 16 different environmental indicators. Separate spreadsheet applications cover the other environmental aspects outlined above. These tools are currently available free of charge as downloads on the LiMaS website.

The long-term goal is to commercialise the final tool, LiMaS WebSuite. The application will be web-based and integrate all the functionalities in a single tool. The release of a beta-version is expected sometime before the end of 2011. This will be offered for free to promote its use and to collect feedback from the users. This feedback will be used to improve the final commercial version.

More information:

LiMaS project funded through CIP-Eco-Innovation Programme: <http://www.limas-eup.eu/>

VIENNA CLUSTER MANIFESTO

USING EXCELLENT CLUSTERS TO STRENGTHEN AND RESTRUCTURE EU INDUSTRY

Recommendations issued following the European Cluster Conference 2012

European economic prosperity requires resilient industrial structures. Strengthening the European industrial base is a key priority for Europe and competitive clusters have a major role to play in this respect. At the same time, industrial transformation through innovation is vital for all countries in Europe, especially for those which are currently struggling to modernise or rebuild their economies in order to create or renew competitive advantages at global level.

To respond to the current crisis, a mixture of different policies and practical instruments must be used and combined appropriately. Ad-hoc interventions are necessary to fix urgent difficulties quickly but, in parallel, policy makers at all levels are requested to design long-term strategies for developing robust industrial structures that can be used to build leadership in areas that have high economic potential and great impact for companies and regions. Clusters are particularly important for implementing research and innovation strategies for smart specialisation taking into account the different needs and priorities of the regions.

Due to their inherent capacity to easily mobilise different competences, build cross-sectoral linkages through cooperation, and promote innovation, clusters can be instrumental to facilitate and support the emergence of new and globally competitive industries in Europe, which may result from key enabling technologies, radically new business models and cross-sectorial linkages. Embedded in and supported by national and regional innovation strategies and programmes, emerging industries depend on favourable conditions and specific actions that will be developed and which will help them to grow and prosper in the future. This should be encouraged by strengthening, among others, experience sharing and know-how transfer not only among European clusters but also with non-EU based clusters.

Cluster excellence is key for renewing and strengthening EU industry

To achieve and maintain a globally competitive industry in Europe, excellence matters. Striving for excellence at all levels is a key not only for creating more world-class clusters in Europe, but also for raising the performance of all clusters and networks. Excellence cannot be partial, and achieving excellence is a moving target. Continuous efforts are necessary at all levels to make cluster organisations professional by promoting top-quality cluster management which is a precondition for developing high performing clusters. The European Cluster Excellence Initiative (ECEI) is a breakthrough initiative. It has developed top-quality training materials and a benchmarking methodology that will help cluster organisations to improve the quality and professionalism of cluster management and offer better services to their clients, especially to SMEs.

The ECEI partners have recently decided to pursue these efforts in a more sustainable and inclusive way by establishing a “European Foundation on Clusters and Competitiveness” that will maintain the ECEI training materials and further offer train-the-trainers seminars creating a level

playing field for clusters in Europe. These training materials have to be targeted and 2 tailored to help cluster organisations improve, and regions should have the overall responsibility to further implement training activities in their territory.

Furthermore, a “European Secretariat for Cluster Analysis” is being set up to follow up the benchmarking activities started under ECEI, and manage the certification process for issuing the quality labels to award excellent cluster organisations. Such quality labels will be a major incentive to steadily improve the quality of cluster management and to provide cluster firms with even better services in the future. Such awards will also increase the visibility and international recognition of European clusters and help programme managers make more efficient use of regional and national budgets supporting clusters and their activities, which needs to be supported by branding and marketing activities that make European clusters more visible on the global cluster map.

Clusters and Networks are Key for Promoting SME Internationalisation

The increasing competitive pressure from Europe’s main competitors and the establishment of new global value chains to design, produce and distribute new products and services, have a tremendous impact on the way SMEs operate today. However, many innovative SMEs in Europe are struggling to identify potential international partners and reach global value chains. Clusters organisations and business networks can play an important role in identifying and supporting innovative SMEs which have the potential to access international markets and then assisting them to develop successful international strategies.

The partners responsible for developing the European Cluster Collaboration Platform that aims at promoting cluster cooperation across Europe for the benefit of SMEs, have decided to follow up these efforts in a more sustainable and inclusive way by establishing a European Cluster Association. This Association will be responsible for assisting cluster managers in their efforts to cooperate with other clusters and provide improved services to their members such as cluster profiling, by maintaining the current European Cluster Collaboration Platform and facilitating networking between cluster managers.

The European Cluster Association will be also responsible for organising specific activities in support of the different Memoranda of Understanding that have been signed so far between the European Cluster Collaboration Platform and international partners with a view to assisting cluster managers develop international strategies and facilitate international partnerships and market access. To support these activities the two Handbooks on Cluster internationalisation and cluster marketing & branding, prepared by the TACTICS INNO-Net in the framework of the European Cluster Alliance, should be fully taken into account.

It is recommended that:

1. The Danish Presidency shall inform the Competitiveness Council (for Internal Market, Industry and Research) about the Vienna Cluster Manifesto and take the necessary steps to reinforce the role of clusters and cluster excellence for competitiveness, innovation and SME internationalisation in the Horizon 2020, the COSME as well as the new EU Cohesion Policy programmes.

2. The Commission and national and regional governments shall explore possibilities how to better integrate excellent cluster organisations in their strategies and business support programmes with a view to make a more efficient use of national and regional budgets and provide SMEs with better support services. Close cooperation with the European Enterprise Network (EEN) and other industry networks and associations shall be ensured.

3. The Commission shall further support the statistical analysis of clusters as provided in the framework of the European Cluster Observatory. More emphasis should be given to emerging industries and specific policies that could be developed in this context. The European Cluster Observatory should develop and offer customised services that should help regions to fully capitalise on clusters and networks in preparation of their research and innovation smart specialisation strategies. Member states and regions should, with support from the Commission, continue their policy dialogue on cluster policy matters to further develop and adapt cluster policies to newly emerging needs and challenges and exchange knowledge and experience on the evaluation and impact assessment of cluster programmes.

4. The Commission shall pursue, in close cooperation with national governments and regions, its efforts to support through the “European Foundation on Clusters and Competitiveness” the maintenance and update of the repository of training materials as developed by the ECEI and the organisation of further “train-the-trainers” activities in particular with the view to facilitate the efforts of all cluster organisations across Europe to improve their performance and reach excellence.

5. National governments and regions shall further promote, with the support from the European Commission, the benchmarking activities between cluster organisations as well as the training activities in support of cluster excellence. Specific emphasis should be paid to facilitate cross sectoral cooperation in support of emerging industries and SME internationalisation through clusters.

6. The Commission shall pursue, in close cooperation with national and regional governments, its efforts to support SME internationalisation through clusters. The European Cluster Association should be a privileged partner to facilitate international partnerships and access to global markets for SMEs. In this respect, the cooperation between the cluster organisation and other industry networks, including export organisations, should be strengthened.

7. The Commission shall facilitate in cooperation with national and regional governments, the development and implementation of international cluster cooperation agreements, notably with Brazil, India, Japan, South Korea, and Tunisia as well as with other countries such as Canada, China and the USA.

Vienna, 19 April 2012

Source:

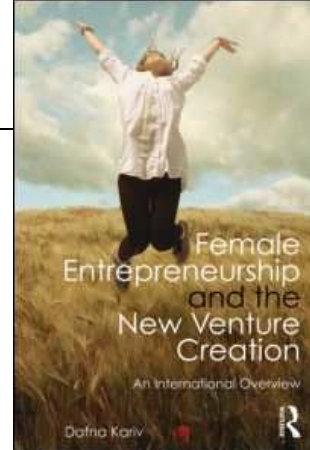
http://ec.europa.eu/enterprise/newsroom/cf/_getdocument.cfm?doc_id=7456

FEMALE ENTREPRENEURSHIP AND THE NEW VENTURE CREATION

An International Overview

Dafna Kariv

To Be Published on 16 July 2012 by Routledge – 544 pages



Women represent the fastest growing group of entrepreneurs today. Despite the enormous economic contributions of this group, female entrepreneurship remains under-explored and inadequately covered in academic literature.

Female Entrepreneurship and New Venture Creation aims to address this gap by shedding light on the unique aspects of female entrepreneurship. Tracing women's journey along the venture creation process, Kariv's book:

- highlights the creatively different ways in which women approach the entrepreneurial enterprise
- takes into account different environmental and cultural constraints that impact female entrepreneurship
- provides a theoretical framework for the venture creation process that is practical, and broadly applicable
- includes in-depth case studies drawn from contributors around the world

This book captures the diversity of female entrepreneurship and provides a valuable synthesis of the insights that emerge from the stories of women entrepreneurs around the world. Accompanied by an array of online resources, this book will be valuable for students of entrepreneurship, as well as professionals.

CONTENTS

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2. The Female Entrepreneurial Realm through Global Lenses

Part II: The Pre-Venture Stage

3. Motivations to Become Entrepreneurs: Women's Perspectives
4. Personal Core Competences to Start a Business
5. Women's Entrepreneurial Paths: Preparation, the Idea and the Vision

Part III: Preparation: Idea and Vision to Implementation

6. Creativity among Women Entrepreneurs
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8. Vision and New Venture Creation

Part IV: First Steps in Venture Creation

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Part V: The Future of Female Entrepreneurship

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13. Breaking Down the Risk Barriers

AUTOR BIO

Dafna Kariv is a senior lecturer, researcher and the director of the TempusBiz project and 'Young Entrepreneurs' at the College of Management, Academic Studies, Rishon LeZion, Israel. She is also a member of the Chair of Entrepreneurship at HEC, Montréal, Canada. Her research interests include entrepreneurship, gender and cross-national research.

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ERENET PROFILE

ISSN 1789-624X