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SPRING MESSAGE OF THE SCIENTIFIC DIRECTOR

Distinguished Readers and Friends,

It is a pleasure to continue publishing the papers presented at the BSEC **Workshop on Family Businesses and SMEs** held last October in Istanbul. This event was organized by the Turkish Representative of the Kondrad Ardenauer Foundation within the framework of Black Sea Economic Cooperation. ERENET had been requested to nominate speakers through publicity across its extensive international network. The collection of reports has now been gathered into a printed publication. The preparation is now complete and the volume will be available at the next BSEC-KAS-ERENET workshop. This will focus on Microcrediting for SMEs and will be held during the second quarter of 2014 in Bucharest.

The subject of microfinance and SMEs is particularly relevant at the present time. In recent years, it has been increasingly recognised that those at the 'bottom of the pyramid', the global poor are gridlocked. Without access to capital however limited with financial inclusion in society they cannot move forward and work to take responsibility for their lives. Increasingly Governments and decisionmakers see this as the major obstacle to social and economic prosperity. These concepts encompass the need for more financial and non-financial products and services, new delivery channels and more players (including banks, transfer agencies, mobile companies, etc.). It calls up the need for more business education and support for entrepreneurship.

The Microcredit Centre based in Warsaw recognises the need for action. Their 17th Annual Conference entitled "**The New World of Financial Inclusion: What Role for Microfinance?**" will be held in Istanbul in May 2014. The Conference offers an important opportunity for all those seeking an end to poverty. It addressed the role of the microfinance industry of not only to the concepts of financial inclusion and access to finance but to social and economic development.

ERENET has a busy programme for the second quarter of 2014. We are preparing for the International Scientific Conference on "**International Entrepreneurship and Internationalization of Firms in Visegrad Countries V4**". This will be held in Kraków (Poland) on 3 April 2014. The Conference is supported by the International Visegrad Fund and promoted within their Research Project no. StG-21310034. In 2013-2014 this addressed **Patterns of Business Internationalization in Visegrad Countries – In Search for Regional Specifics**. The upcoming the **12th International Conferenc on Management, Enterprise and Benchmarking (MEB2014)** will be organized by the Keleti Faculty of Business and Management at the Óbuda University (Budapest) in cooperation with the ERENET.

The current conflict between an Interim Government in Ukraine and the Russian Federation, with the Crimea is of concern. The current rhetoric from the US and the EU has resuscitated the language of the Cold War where opposing philosophies of communism and capitalism confronted one another. The Autonomous Republic of Crimea with its population less than 2 million geographically is not integrated with Ukraine. If we consider the right of people to self-determination, that it morally is more important than any former political and state agreement. Europe is in need of Russia and vice versa. Prior to take any decision I kindly call the Western policy-makers to study the history from the medieval state of the Kievan Rus, how Ukraine became under the rule of the Golden Horde, GrandDuchy of Lithuania and the Kingdom of Poland, how the people voted in the 17th century to join Moscow, and after the partition of Poland how this country became a plaything between the Russian Empire and Austria until 1849, the Russian-Ukrainian civil war, how Ukraine became a founding member of the USSR, that the genocide of Ukrainians in 1932-33: the Holodomor, the II WW, how Ukraine became a founder member of the UN, and why in 1954, the Crimea Peninsula was given as a gift to the Soviet leader Nikita Khrushchev. This is why I seriously warn Western and EU policy-makers to make sharp judgement on the situation. If we consider the right of people to self-determination, then it is morally more important than any former political and state agreement. Europe is in need of Russia and vice versa. We must all hope that the ongoing discussions will lead to a satisfactory resolution and go on working for a better future.

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CHARACTERISTICS AND MANAGERIAL BEHAVIOR OF GERMAN FAMILY BUSINESSES**ABSTRACT**

Among Family businesses in Germany one can often find hidden champions with an outstanding performance over a long period of time. One key success factor is the professional management of the company as well as the owning family. Therefore an adequate governance structure for both business and family is mandatory to preserve the characteristic spirit of entrepreneurship as a source of success. In this context the changing role of the family in Germany affect some of the key challenges of family businesses like for instance the management of succession.

Keywords: family business, governance of family businesses, family business models, German family firms

JEL Classification: L21, L26, M12

1. FAMILY BUSINESSES IN GERMANY: A LOOK-AROUND

Family businesses in Germany actually face a number of challenges. To name but a few, family businesses are challenged by the ‘big and interconnected world’. Having internationalized very early, German family businesses most recently managed to build a transnational position. Transnationality in this respect implies being active in a number of different countries and integrating the activities in the respective countries much more than in previous times. Insofar, networks of internal units and qualified external partners emerge under the umbrella of the transnational family business. In this vein, the family businesses develop new governance structures. These governance structures give much more discretion to regional and local units than ever before. Moreover, German family businesses go partnering in international value chains. Once again, the ‘old’ governance structures are no longer adequate. Networks of internal subsidiaries and external partner companies, as outlined above, are to be managed. This very often implies a shift from a more hierarchical mode of governance to heterarchical ones.

Another core challenge of German family businesses is the volatile world we are living in. This volatility necessitates higher levels of corporate responsiveness. Such flexibility can often only be provided by developing new modes of leadership and governance. Different from developing corporate responsiveness German family businesses look out for new ways to set standards in competition. Since the volatility in the business environment very often changes the rules of the game, there are, in fact, new ways to do the business that are different from before.

Most German family businesses are simultaneously small and medium-sized companies. As such they need to bring other resources at the fore compared to bigger businesses. In this sense, they often build long-lasting relationships with customers that are based on trust, commitment, and reliability. Reputation and brand-awareness are other crucial factors that put German family businesses into favorable positions on world markets.

Against this background, it is evident that German family businesses operate in a particular business environment. They simultaneously face social developments such as the diminishing role of the family and business developments such as the need for professionalization. The former issue is a core challenge when it comes to business succession.

All in all and on a global scale, German family businesses are said to be highly competitive. It is not

the intention of this article to prove that. However, the next sections are dedicated to set some light on the peculiarities of these companies.

2. FAMILY BUSINESSES IN GERMANY: THE LOOK INSIGHT

The list of internationally renowned German family firms is rather long. To name but a few, Aldi, Metro, BMW, Lidl, Heraeus, Tengelmann, Viessmann, Dr. Oetker, or Miele are some prominent examples. Against this background a few questions arise: First – is there an old, ‘methuselah-like’ family business model in Germany? If so, what are the core peculiarities? Second, how far is the influence of the family as an instrument of decreasing significance in German society? Third, is the successful German business model outdated?

Before a deeper analysis starts some tempting answers are given. First, the German family business landscape is changing, indeed. However, the changes are slight and more evolutionary rather than revolutionary. Second, new ways of governance replace the former ones. This implies that the influence of German family businesses remains – but in a different way. Third, a multitude of new governance modes accompanies the older ones. Strength of German family businesses will be kept and somehow renewed.

It was up to Hermann Simon to coin and introduce the term ‘Hidden Champions’. [1] Referring to the German landscape of small businesses and family businesses, Simon pointed out a number of different reasons for the strength of these companies. The reasons for the current situation of German small and family businesses are traced back to a situation two centuries ago. In the nineteenth century there has not been a unified German national state. Rather than that, Germany consisted of a huge number of different countries forming a loosely coupled network. Internationalization of smaller companies and coping with borderlines was, therefore, more or less taken for granted. Against this background, German companies internationalized very early and developed considerable skills and capabilities in internationalization. Besides this, the structured rebuilding of the destroyed economy after World War II especially in the western parts of Germany formed also a fertile environment for newly founded family businesses to grow. The so called “Wirtschaftswunder” years are somehow another reason for the strong position of many German family businesses more recently. Closely related to this, these companies developed a number of traditional skills that are still relevant to the business today. For instance, the specialization and the know-how transfer in regional networks nurtured the development of these skills.

Basically, in Germany, the local and regional units very often have been rather powerful. The strong influence of a capital like Paris, London, or Moscow, could, apart from a few years, never be observed. Insofar, economic development was very often locally and/or a regionally driven. Local and regional clusters such as in Baden-Wuerttemberg or Western parts of Germany (e.g. Bergisches Land region, Sauerland region), became very powerful and motors of innovation. Due to first-mover advantages and a consequent development in later times, these regions are still ‘strongholds’ of Germany in economic terms. Another reason for favorable positions in competition is Germany’s central position in Europe. These macro- and meso-factors provide small- and family businesses in Germany with particular strengths in international markets.

Other factors, located on the micro-level, accompany these afore-mentioned issues. Among them we find a very strong manufacturing base of these companies and a rather strong focus on innovation and experimentation. Another reason is the particular way of human resource management in companies backed up by an education system that is called ‘dual-education system’ in Germany which is different from the education systems in other countries in Europe.

In line with this debate, we can now better understand the particular profile of family businesses in Germany. This profile is particularly characterized by the following factors: a passion for technology and a related focus on intellectual property rights, a strong commitment to social values, and a focus on social embeddedness of companies and their owning families, a strong emphasis on developing strong brands and reputation on international markets, a strong international orientation, and finally an entrepreneurial orientation and mindset.

If we want to understand the very nature of German family businesses, there are two basic parallels to be addressed. One parallel is the *governance system*, the other one is the *entrepreneurial orientation*. In the next two

sections we address governance and entrepreneurial issues one by one.

3. FAMILY BUSINESSES IN GERMANY: A GOVERNANCE PERSPECTIVE

There are several different definitions of family businesses employed in German and also international family business research. [2] One was developed by the Institute for Small Research in Bonn, the “Institut für Mittelstandsforschung Bonn”. Family businesses in this vein include the unity of ownership and leadership. Up to two persons and their families own at least fifty per cent of the shares.[3] Different from that, the Institute for Family Business Research of Witten/Herdecke University (WIFU) characterizes family businesses as owned by at least one or several families that govern the firm’s issues considerably. [4] The responsibility of the family is reflected in leadership or board membership at least in the supervisory board. Over and above this, family business is characterized in a specific way by the ‘trans-generational prospect’, i.e. a real family business involves business succession from one generation to another.

Davis and Tagiuri define family businesses as follows: “(...) any business, large or small, public or privately owned, whose ownership is controlled by a single family and where two or more members of the same family significantly influence the business through their kinship ties, management and/or governance roles, or ownership rights.” [5] All these three definitions contribute to our understanding of family businesses henceforth.

The question arises whether there is only one type of family firms. Although the answer is not that easy, we can identify a good number of different family businesses. Drawing upon the work of Gimeno, Baulenas and Coma-Cros [6], two different dimensions come to the fore when different clusters of family businesses are to be delimited - namely the complexity of the family and the complexity of the business or the firm, respectively. Based on these two dimensions, German family businesses and other family companies worldwide develop certain organizational structures in order to cope with both external and internal challenges and with structural risks. Based on a survey among 1,500 Spanish companies, six different types of family businesses could be identified. Next, we regard four of these family business types one by one. Thereby, we should be aware of the fact that there is no real development or evolutionary path from the first over the second or the third to the fourth type. The types reflect the underlying mental model of the family business and these models may change in every direction. Nevertheless, there are in fact examples from business practice where such evolutionary steps can be observed.

The first type is the so-called “patriarch” (or matriarch). This *patriarch model* rests on a very complex family business situation inside the firm and a very complex situation of the entire company. The governance structure is influenced by the thought that at least someone must be the leader of the family and the company as well. In this vein, the patriarch is the dominant person of the firm and manages all strategic and, very often, a lot of tactical issues as well. By a clear line of command, this patriarch or emperor type is useful to cope with a high level of complexity and uncertainty the family and the firm is confronted with. There are lots of family businesses such as Heraeus, Würth, or in the meantime the bankrupt firm Schlecker employing explicitly this role model. This model is typical for family businesses in the founder generation.

The next type is the model of the *family team*. In this model the patriarch as a person is replaced by a team that consists only or predominantly of family members. The involvement of the family is to some extent penetrating the entire company. This implies not only strategic decision-making, but an operational involvement to a large extent as well as board memberships. High levels of the complexity of the company and a medium complexity of the family characterizes this type of family business we can find very often in Germany and in other regions of the world. In this model, the managerial discretion is bound to a number of people of the family who need to align their activities and their strategic moves. Insofar, coordination is not that easy. Examples from German family businesses are for instance Miele, Dr. Oetker, and Boehringer.

The professional family model is role model number three. This model can roughly be characterized by a family ownership accompanied by external leadership. Insofar, the family business explicitly invites external know-how. Managerial discretion is given to external managers for the sake of increasing the professionalism of the whole company. The influence of the family, however, in this model, is rather limited. It is mostly restricted to monitoring issues. When the complexity of the company is in the range between

middle and high, and if the complexity of the family is rather high, then this role model often is chosen. Family businesses with success in financial markets, particularly in international capital markets, often favor this model. Here the family is to some extent able to separate her identity from the company. Companies such as Merck, Haniel, Weiland, Brose, or Schaeffler, have adopted this professional family model.

The fourth and last considered role model here is the *family investment group* one. The role model is not restricted to a certain range of complexity of the company or complexity of the family, respectively. In this type, the family acts as a 'portfolio manager' and decides for instance on buying and selling companies and shares within the scope of a holding. Return on capital employed is one of the key performance indicators family members typically employ. The family is no longer involved in operational issues and even most of the strategic decisions are made by managers not belonging to the family. In the model, the family influence still exists, but does not play a considerable role anymore. Keeping the family assets or providing a vital source of family's wealth are prior objectives. Companies such as Steinbeißer or Heindl belong to this particular type of family businesses.

As already mentioned, there is no logical flow we can empirically observe from the patriarch model over the family team model and the professional team model to the family investment group type. Nevertheless, some family businesses in Germany and in other countries as well exactly follow(ed) this path. More important is the question which particular circumstances favor the different types of family businesses. Insofar, it is a managerial task to identify the analytical situation of family businesses thoroughly and then to make a decision which of the role models is the best fit overall. Such decisions are frame-giving for the entire governance structure.

4. FAMILY BUSINESSES IN GERMANY: AN ENTREPRENEURSHIP PERSPECTIVE

Governance and entrepreneurship issues are often closely related. In family businesses it is often the entrepreneur her-/himself who takes full responsibility for managerial action. In large firms, however, the situation is much different. Managers are appointed and do their work in principal-agent relationships. As agents they are monitored by the owners. Insofar, their managerial discretion is limited.

What makes the difference in entrepreneurship? In reply to this question it will be necessary to define and to structure what entrepreneurship is. Entrepreneurship theory provides us with many systematizations. One of it is the entrepreneurial orientation concept developed by Lyon, Lumpkin and Dess (2000) [7]. Besides this, entrepreneurship theory developed a set of entrepreneurial functions. Whereas Lyon et al.'s (2000) entrepreneurial orientation construct is solely explorative in nature, the system of the entrepreneurial function consists of both, explorative and exploitative features. Based on Freiling (2008) [8] we next outline the cornerstones of the entrepreneurial function concept that consists of four functions. The first two functions, namely innovation and risk management are explorative in nature. That means that these two functions are required in order to renew businesses. Innovation is understood according to Schumpeter (1912/1934) [9]. Schumpeter stresses that innovation can be a process of 'creative destruction'. This implies that proven concepts in competition are replaced by better solutions. In German family businesses this thinking in terms of creative destruction is often nurtured. An innovative culture can be observed in many of these companies. Another feature of the innovation function is the so-called "non-linear thinking". Non-linear thinking is about pro-actively questioning the status-quo and to look for solutions beyond our typical way of thinking. This non-linearity can be fostered if there is enough room for strategic moves and a low dependence on capital market. With increasing capital market dependence, however, the pressure for quick results increases. Hence, there is not much room for ideas with a return in much later years. Innovation itself rests on different innovative sources. The most prominent sources are product innovations, process innovation, organizational innovations, market innovations, purchasing innovations, and business model innovations. To make a process of creative destruction happen, the development of more than one innovation is required. Moreover, the innovative sources should be well aligned. For family businesses in Germany it is not easy being that innovative. This can be explained by the limited set of resources formally devoted to research and development. Nevertheless, smaller family businesses are in the privileged position of having little obstacles to innovation.

The innovation function is accompanied by the risk management function for the sake of triggering explorative moves. The risk management should provide innovative moves with a belt of protection. It rests

on the recognition of risks, a thoughtful assessment of them, a distribution of identified risks, and finally, if necessary, a transfer of risks to other parties. Once again, the situation of family businesses is not that easy as professional risk management systems are often simply not available. Moreover, in order to cover the risks of a business, it is important to accumulate a certain financial strength and corporate reliability. This, however, is very often not given in smaller family businesses in Germany.

There are several examples from German family business practice. To name but a few, Hipp, Delo, Schmitz Cargobull, or the Schreiner Group illustrate the alert connection of innovation and risk management. Let us briefly introduce what Hipp as a company did in terms of exploration. Hipp is a manufacturer of baby food. As a company in this industry, Hipp is fully aware of the solicitude of young parents. Insofar, they have the need to be perceived as a manufacturer of baby food at highest quality and in a very reliable manner. At the same time, these companies are challenged by introducing innovative products every once in a while. Hipp responded to these challenges by developing a new approach of managing the entire supply chain. Hipp introduced the principle of contract manufacturing as first mover in the industry. The firm only collaborates with partners they are well aware of and with whom they have collaborated with over a very long time so that these companies are trustworthy to a large extent. With these selected suppliers, Hipp carefully develops production and development concepts. By regular on-site visits, Hipp permanently monitors the value-added processes of their selected partners. Insofar, Hipp is in a position to guarantee highest quality of the products and services provided. Besides this, Hipp invests a lot of their budget in research and development. Based on considerable experience, Hipp belongs to the first movers of the entire industry. Insofar, Hipp became innovation leader in the market. All the moves of Hipp are accompanied by an innovative brand and reputation management. Particularly the reputation management puts Hipp into a situation where they connect in a highly credible manner from the customers' for interview. As a result, Hipp is market leader in a huge number of different European markets.

Entrepreneurship does not involve only creating new businesses. Reaping the benefits of newly established businesses is an important task as well. In this vein, exploitation comes to the fore. It consists of internal coordination of the entire value-added system and arbitrage in terms of Kirzner (1973) [10]. Internal coordination and arbitrage go hand in hand because the former is an internal task whereas the latter is an external one. Both are functions interconnected are of utmost relevance to the sales and cost situation of a company.

To begin with internal coordination, this function is about setting up the entire value-added process of a company, and their orchestration within the firm. In the light of the so-called 'liabilities of smallness', resource allocation is a very important point of internal coordination as well. Finally, internal coordination implies the motivation of the employees and a set of sense making initiatives to fully exploit the potential of the human resources. More than that, this potential should be nurtured and developed over time. For family businesses in Germany, the notion of the so-called 'lean production', well-known from Womack et al. (1990) [11] is a good benchmark. To unfold creativity and motivation among the people working for the family business, personal relations and a challenging corporate culture are vital. Internal coordination in family businesses is favored particularly by the low structural complexity of companies of this kind and the dominance of informal structures. An example for a company with a sound internal coordination system is the Schreiner Group. The Schreiner Group managed to build a rather challenging organizational culture. Moreover, they focused upon talent orientation and respect good personal relations and employer branding.

Arbitrage is about making profitable transactions in markets. For arbitrage it is necessary to have a good guess what markets really need and how to connect supply and demand. Arbitrage focusses business opportunities, i.e. identifying promising exchange partners, building valuable customer relationships and making most of a transaction by negotiation and bargaining. Another issue is to develop market-related assets that put the firm into a favorable position. Such market assets are, for instance, brands, reputation, etc. A core advantage of family businesses is very often their high level of responsiveness to external changes and their niche orientation that allows a higher level of specialization. At the same time, family businesses are often dependent on collaboration partners and lack bargaining power. Among German family businesses, Sennheiser is a very good example of companies with a very sound market making system. Sennheiser has global market access with 85% of the turnover realized in international markets. Moreover, their value system is rather globalized. Sennheiser employs very selective distribution channels and practices the involvement of

external parties by realizing a heterarchical network.

We can learn from this discussion that it is not enough to focus only on one or two entrepreneurial functions. It is much more required to conduct all the afore-mentioned entrepreneurial functions and to relate them to the challenges faced in markets. Figure 1 portrays this dynamic interplay of entrepreneurial functions and pinpoints that this interplay constitutes what we understand as entrepreneurship. Furthermore, there is a strong positive impact of entrepreneurship in this understanding of financial performance.

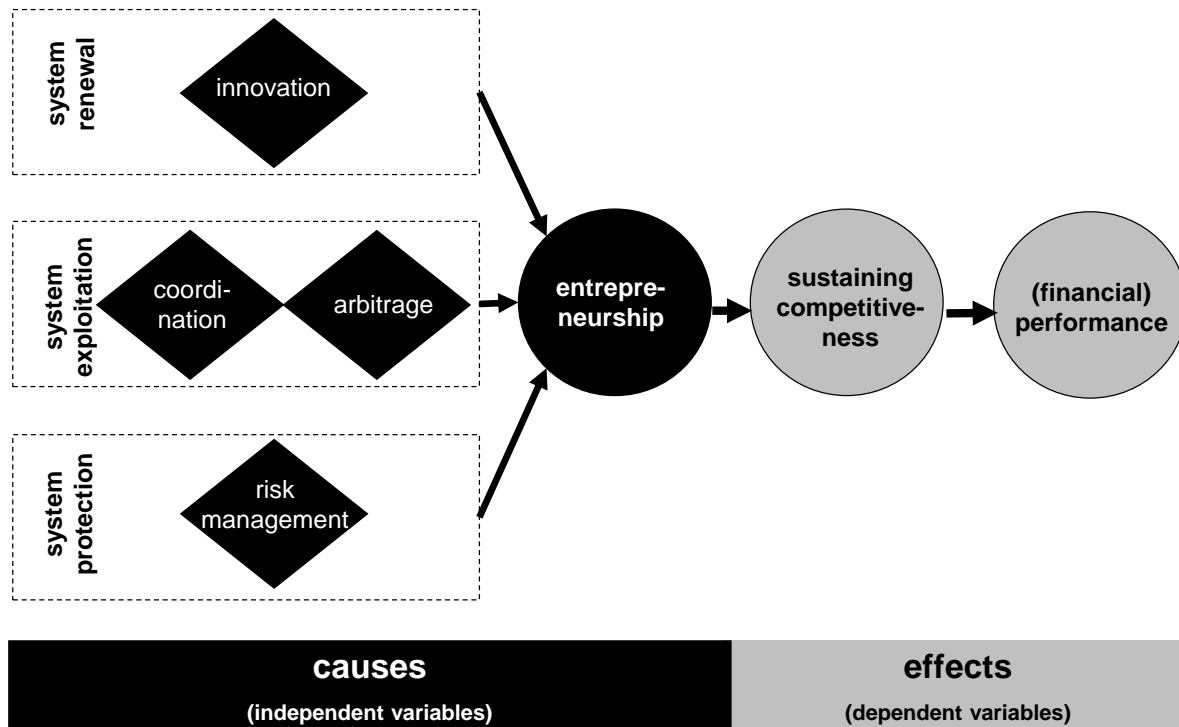


Figure 1. Entrepreneurial Functions and Performance (Source: Freiling, 2008: 16)

5. SUMMARY AND OUTLOOK

When analyzing the phenomenon of the hidden champions we can see that it is, by far, not a riddle. It seems that those family businesses with outstanding performance over a longer period of time managed to professionalize their companies as well as their families comprehensively. Once again it depends on governance and entrepreneurship as well to increase the professionalism of the company. In terms of governance, professionalism implies an involvement of both, family members as well as external expertise. This can be arranged in almost every four types of family businesses in terms of governance solutions. As for entrepreneurship and entrepreneurial behavior, professionalism depends on activating creativity, implementing coherence in the entire organization, and activating the entrepreneurial forces. In future times, entrepreneurial and governance issues come to the fore in case of very many business successions. There is empirical evidence that between 2010 and 2014 approximately 110,000 family businesses in Germany will undergo a business succession process. This equals 3% of all German businesses according to a recent survey of the IFM, Bonn (2010) [12]. This means that for 22,000 businesses with approximately 287,000 employees a new solution and, thus, successors are to be found. We can expect that the prime reasons for business successions are as follows: 86% of successions are caused by seniority. 10% of successions are caused by the death of the entrepreneurs. 4% are caused of the successions are caused by diseases. The intra-family business succession will still be the dominant type in the near future. 54% of all business successions will be handled internally. 29% of all

successions will be business externally-driven and 17% are about solutions found within the firm (employees, managers).

Whether this will hold true in the more distant future is rather unclear. We can expect that in Germany the role of the families will be decreasing. This could also imply that the patriarch model will be questioned in the next couple of years. This can go along with more or less hybrid solutions of family governance, i.e. the involvement of external parties in case of governance. Finally, the aging society and the human resource bottleneck will exert pressure on family businesses in Germany. Insofar, the issue of business succession in Germany is set into new light. Family businesses, to date, have to handle real problems with legitimation in the society. Nevertheless, corporate social responsibility (CSR) is a topic pervading businesses in almost every kind. For family businesses this does not need to be a crucial challenge as family firms very often have done a lot for social purposes and are to some extent even standard setters in CSR activities. Against this background, the future of German family businesses will not be that easy. However, it is clearly evident that family businesses are drivers of the economic development and thus are an indispensable part of our business world. Insofar, there is a certain pressure to renew governance standards and to appear in new light with new strength.

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FAMILY BUSINESS IN ALBANIA**ABSTRACT**

Albania ranks among the Balkan countries with the highest economic growth. Albania ranking also comparable to other West Balkan countries. The SME sector gives an important contribution to the economic growth and employment. To improve the financing environment of SMEs, measures have been taken by the Governments in regard to the introduction of credit guarantee schemes for SMEs.

There is no official definition of family businesses in the regulatory framework. For practical reason are considered as a proxy for family business all the self-employed, assuming that each of this self-employed employee relatives in their business. The statistics show that 62% of the total active enterprises are self-employed or business family.

The paper presents three family business cases on Vila Borsh guest house, Wintergarten Bar-Restaurant and Flutura.

Keywords: family business, SMEs, doing business in Albania, Albanian family firms

JEL Classification: L25, L26, M13

1. MACROECONOMIC OVERVIEW

Before the global financial crises, Albania ranks among the Balkan countries with the highest economic growth of 6% and with a satisfactory macroeconomic performance, which was supported by the rapid growth of domestic demand and the consolidation of the banking system. Meanwhile the increase in consumer prices has been stable at low levels, close to 3%, contributing as such to the strengthening of the macroeconomic stability and of the financial sector. During this period, due to import-oriented consumption, the current account deficit has widened, representing one of the main vulnerability of the Albanian economy.

After 2008, macroeconomic indicators show a visible slowdown of economic growth. The first sign of the global financial crises in Albania has been transmitted as a lack of public confidence toward banks, when during the period of 2008Q4- 2009Q1, it has been experienced a bank run. Due to liquidity constraints, banks have strengthen the lending standard and have been more reluctant in lending, slowing considerably their intermediation activity. The strengthening of the lending standard associated with high uncertainties perceived by the economic agents and together with sluggish economic growth have been reflected in lower credit demand, which has contributed to the further slowdown of the private consumption and investments. Thanks to the coordinated measures taken by the Government and the Bank of Albania, the confidence crisis was quickly recovered. However, being a small open economy, Albania is highly exposed by the performance of the global economy and particularly the Eurozone. Eurozone countries, especially Greece and Italy are its main economic and financial partners. The deterioration of Greek debt crisis, which quickly turned on in a European crisis, has affected further the performance of the Albanian economy. The economic growth has slowdown even further signing 1.6% in 2012 against 3% in 2010- 2011. The new shock from the external environment has increased substantially the uncertainty for the future and contracted even further the private consumptions and investments. Meanwhile the public sector has provided a positive impetus in 2009. After 2009, it has followed a consolidated fiscal policy, aiming to address the high level of the public debt to GDP ratio, which has remained one of the main vulnerability of the Albanian economy.

Table 1. Macroeconomic indicators

	2006	2007	2008	2009	2010	2011	2012
Real GDP growth (in %)	5.4	5.9	7.5	3.3	3.81	3.12	1.63
Employment (in thousands)	935.1	939	974	909.7	895.7	948	964.4
Unemployment rate, %	13.8	13.2	12.7	13.6	13.8	13.1	12.8
Inflation rate, % (y-o-y, average)	2.4	2.9	3.4	2.3	3.6	3.5	1.5
Budget balance (incl. grants, in % of GDP)	-3.3	-3.5	-5.5	-7	-3.1	-3.6	-3.4
Public debt (in % of GDP)	56.2	53.5	54.7	59.4	58.5	59.5	61.5
Current account (excl. official transfers, in % of GDP)	-7.3	-11.3	-15.9	-15.6	-12.1	-13.3	-11
FDI/ GDP	3.5	5.9	6.9	7.9	8.9	7.8	7.6
Remittances/ GDP	13.1	12.1	9.4	9	7.8	7.3	7.1
Export/ GDP	8.8	10	10.3	8.6	13.2	15.4	16
Average exchange rate, ALL/USD	98.1	90.4	83.9	95	103.9	100.84	108.24
Average exchange rate, ALL/EUR	123.1	123.6	122.8	132.1	137.8	140.34	139.02
Credit to economy (In % to GDP)	22.2	30.4	36.4	38.4	39.5	42.3	41.7

¹Semi-finale; ²Flash; ³Based on quarterly publication, ⁴Figure are the Q1 2013; Data sources: MOF, INSTAT, Bank of Albania

The services sector is the most vital sector of the Albanian economy, which has provided the main contribution to economic growth in the last years. Within this sector, trade and financial services are the major contributors, which are closely linked with the consumption-driven economic growth model. Meanwhile, the manufacturing sector has reflected the negative contribution of construction and the good performance of the export-oriented industry sector.

Meanwhile, the positive economic growth has been supported by the good performance of net exports. Albanian exports during 2010-2012 have increased annually on average by 28.2%, reflecting positive performance of minerals, energy and industrial processors products. In overall, domestic demand has been sluggish driven mostly by lower consumption, due to precautionary behavior of the household. In the same time, remittances have been declining considerably¹, which has reduced the consumption financing sources. The consumption behavior has been reflected initially in slowdown and then in shrinkage of the imports in annual term (in 2012 imports have shrunken yoy 3.4%). This performance is translated into a correction of the current account deficit from 15% to roughly 10% of GDP during this period.

The current account deficit is financed by foreign investment inflows, not only relating to the privatization of state enterprises, but also in economic sector such as banking and hydropower energy etc..

¹ For 2012, remittances recorded almost EUR 675 million, or close to 7 % of GDP, declining by almost EUR 300 million in comparison to its pick of EUR 952 million in 2007, or 12.8 % of GDP.

Foreign direct investment in 2012 amounted to EUR 727 million, or close to 9 % of GDP. The introduction and the implementing of some structural reform from Albanian government, has helped to improve the business climate in the country, supporting as such the ongoing foreign direct investment inflow. However addressing the handicap on the ensuring of property rights and the enforcement of law contract will influence positively the international investors' image for Albania.

2. DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES AND THE FAMILY BUSINESS IN ALBANIA

2.1 Current development at SME sector

According to the Albanian legal definition of SME, are considered Small and Medium enterprises, the one that have less than 250 employees. More in e detail in the law No. 8957 of date 17.10.2002, changed in 2008, the definition of SME according to the number of employees is the same with the EU definition, such as: microenterprises have 1-9 employees; small enterprises have 10-49 employees and the medium enterprises have 50-249 employees. Meanwhile the definition of SME according to the turnover is different from EU definition, because it has been en suited to the Albania economy. Regarding the second criteria microenterprises are define as business that generate an annual turnover less than ALL 10 million (EUR 0.08 million); Small enterprises generate less than ALL 50 million (EUR 0.4 million) and Medium enterprises generate less than ALL 250 million (EUR 2 million). Furthermore, the definition for family business is absent in the Albanian regulatory framework. For practical reason are considered as a proxy for family business all the self-employed, assuming that each of this self-employed employee relatives in their business.

The SME sector gives an important contribution to the economic growth and employment in Albania. The official data of INSTAT 2013 show that at the end of 2012, the number of active enterprises was close to 104.275 ². In comparison to 2005, this number is almost 72% higher. The number of the enterprises that are managed by female represents 27.4% of the total. Overall the contribution of SMEs is estimated close to 73% of the GDP and more than 71% of employment in the economy.

Figure 1. SME-by size

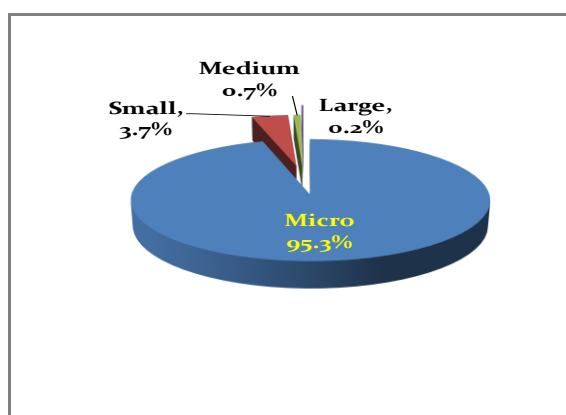
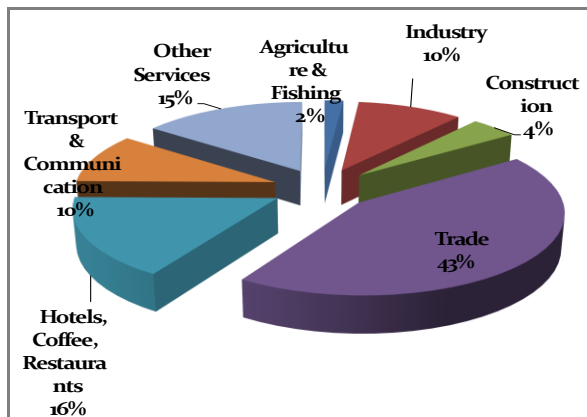


Figure 2. SME-by economic activity



Source: INSTAT, Register of economic enterprises 2012

The active enterprises in 2012, according to their structure are dominated by micro enterprises with 1 to 9 employees, which represent **95.3%** of the total number of active enterprises. The small enterprises represent 3.7% of the total active enterprises, and the medium enterprises with represents only 0.7% of the total number of active enterprises. Meanwhile the large enterprises which have employed more than 250

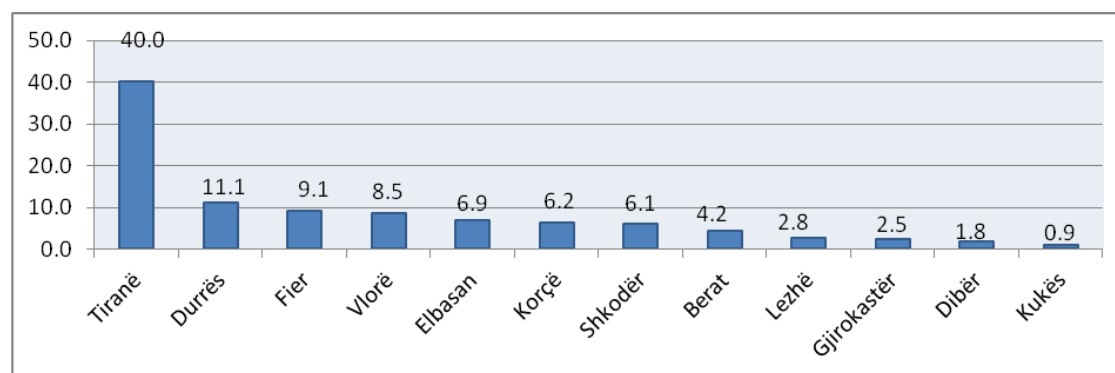
² These data do not include: Public administration (NVE/NACE 75); OJF (NVE/NACE 91); International Organization (NVE/NACE 99);

persons represent only 0.2% of the total number of the active enterprises. The statistics show that 62% of the total active enterprises are self-employed or business family.

In 2012, according to the economic activity the distribution of the active enterprises in Albania is: trade 43.4%, hotels & restaurant 16.2%, transport & communication 9.9%, industry 9.6%, construction 4.3%, agriculture and fishing 1.7% and other service represents 14.9%. Especially trade, hotels and restaurants sector are dominated by the domestic entrepreneurship, but in the last years it has been noticed a slight shift toward the international trade, especially during summer months which is closely related to the high season of tourism.

In the most developed region of the country, Tirana and Durres, operate over **50%** of active enterprises. A very slight increase of the number of enterprises has been noticed in the prefecture of Elbasan, Diber and Korca and the rest of the regional distribution of the active enterprises has remained almost unchanged to the previous year. Predominance of service producers is a common phenomenon in all the prefectures.

Figure 3. SME-by region



Source : Register of Economic Enterprises - INSTAT 2012

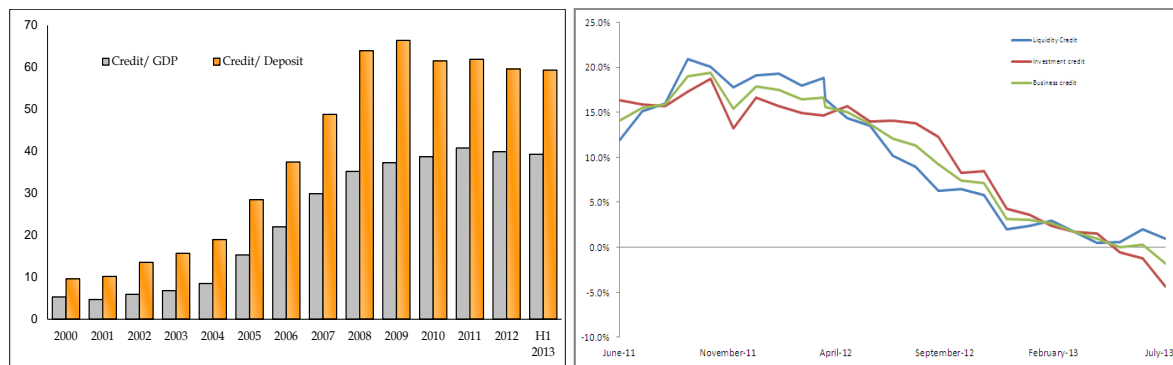
2.2 Financial Facilities and Credit

According to Doing Business World Bank 2012-13, Albania is ranked 23rd in the world for credit facilities, which is considered one of the best performances in the selected criteria of the doing business report.

The banking system is the main actor of the financial sector. Its role as financial intermediation has increased substantially after 2004, when the largest state-owned bank of the system was privatized by the Raiffeisen international group. After this year, banks have been involved more in the credit to the private sector, mostly business. Before the beginning of the financial crisis the credit activity has accelerated considerably (in average by 56% yoy), not only due to foreign support of the parents' banks, but also due to high domestic demand and GDP growth. After 2008 crisis the credit activity has slowed down considerably (in average at 14.5%), reflecting initially the tightening of the lending policy (conservative lending policy dictated also from the group policy) and then the sluggish domestic demand (Suljoti and Note 2013).

According to Annual report of Bank of Albania (2012), the ratio of credit to economy as percentage to GDP was 41.7%, slightly lower in comparison to 2011. The annual growth rate of the credit portfolio to the private sector has slowed down to 2.4% at the end of 2012, and has turned negative in the first half of 2013. The credit portfolio is dominated by credit to businesses and in foreign currency, which represent respectively almost 73% and 61% of the lending portfolio. After the financial crisis, lending in domestic currency has gained momentum, in order to address the fund scarcity in the international market and also higher awareness for exchange rate risk (especially to unhedged borrowers). The credit to business is almost equally disbursed for investment and liquidity purpose. Especially after the crisis the lack of initiative to invest almost has stopped the financing for investment purpose. During this period banks have mostly financed for liquidity purpose. Especially after 2011 the main concern for the banking system remains the deterioration of the credit quality and the high ratio of the non-performing loans to total loans. However the banking system, up to the end of 2012, has remained profitable well capitalized and with buoyant liquidity, contributed to the financial stability in Albania.

Figure 4. Financial intermediation and credit development



Source: Bank of Albania

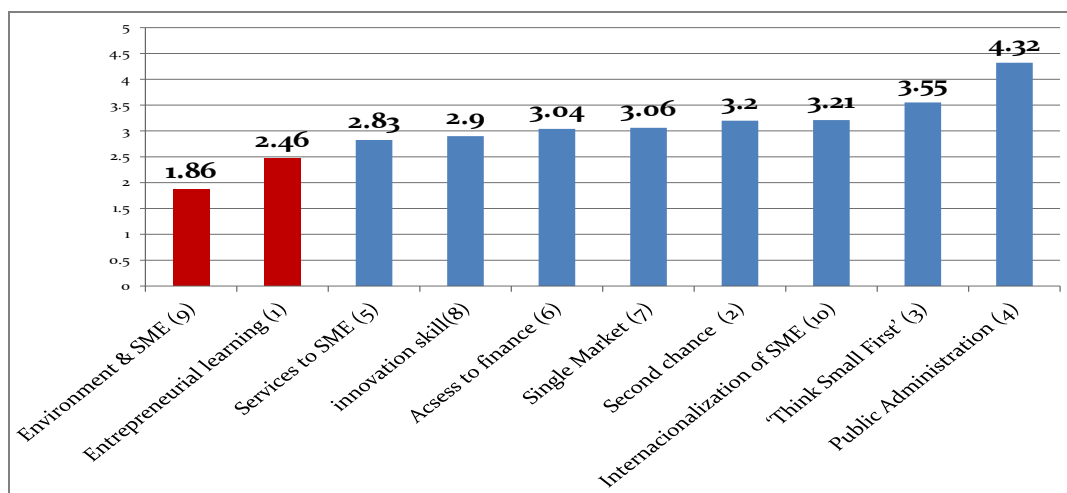
To improve the financing environment of SMEs, in the recent years some measures have been taken from the governments in regard to the introduction of credit guarantee schemes for SMEs.

- Implementation of SMEs credit scheme with the support of Italian government. With the official launch of the program in January 2009 lasting until September 2013, the credit loan for SME of an amount of EUR 25 million has funded 79 projects with a value of EUR 17.4 million, 10 projects from which were start-ups. During the same period, a guarantee fund of EUR 2.5 million was available as part of the program for the SME development that guaranteed bank lending
- European Fund for Southeast Europe (EFSE). EFSE has provided a loan of EUR 20 million for the National Commercial Bank (NCB). **EUR 23.8 million** of loans for about **332 clients** have been granted so far providing funds to businesses in many different cities and for different purposes such as: working capital, inventory, and fixed investments assets. The outstanding status for these loans is EUR 17.9 million, while they have a very satisfactory repayment performance.

2.3 Small Business Act for Europe (SBA)

According to OECD 2012, SME Policies Index, the SME development in Albania is estimated 3.01 points (by a maximum of 5 points), which is only slightly less than the average of the region 3.07 points.

Figure 5: SME policy index for Albania, year 2012



Source: OECD 2012

The evaluation has been made on the 10 dimensions, according to the Small Business Act (SBA³). The performance of the Albanian policies during the 2007-2011 periods has been impressive. If we compare the 2009 Index of SME policies, there are improvements in 6 dimensions: especially, in the area of business climate policies (such as the registration of companies, licensing of companies, regulatory reform, financing access and promotion of exports). Meanwhile, areas that require improvement are: SME development of human capital and technological capacities as well as the improvement of payment infrastructure of the commercial transactions.

2.4 SME contribution to the Albanian economy

According to INSTAT (ASN 2011), the SME gives an important contribution to the total employment in non-agricultural private sector, by employing 81.4% of the total employer. Meanwhile they contribute to 46.8% of the exported value and represents 68.4% of the total value added in the economy. The contribution by size of enterprises shows that: micro firms contributed to 44.8% in employment in non-agricultural private sector, 7.7% in export and 27.2% in value added. Small enterprises contributed 20.0% to employment, 15.4% in export and 25.6% in value added. Medium enterprises contributed 16.6% to employment, 23.7% in export and 15.6% in value added.

Table 1: Contribution of SME to economic activity

	Size of enterprises				
	Micro (1-9)	Small (10-49)	Medium (50-249)	Large (250+)	Total
No of employees	44.8%	20.0%	16.6%	18.6%	100%
Added value	27.2%	25.6%	15.6%	31.6%	100%
Exports	7.7%	15.4%	23.7%	53.2%	100%

Source: INSTAT

3. DOING BUSINESS IN ALBANIA

The annual report of the World Bank "Doing Business" evaluates and ranks countries according to 10 indicators performance, including the speed of registering a business, obtaining construction permits, electricity supply, getting credit, protecting investors, paying taxes, registering property, cross-border trade, enforcing contracts and closing a business.

Starting a business

When entrepreneurs draw up a business plan and try to start a business, the first difficulties that they encounter are the required procedure to incorporate and register the new business before they act legally. To start a business in Albania are required 4 procedures, 4 days and costs are estimated close to 22.1% of income per capita. According to Doing Business 2013, Albania is ranked 62, by lowering with 2 positions in comparable to the previous year. However in comparable to Doing Business 2007 ranking, it has made significant improvement, when the country was ranked 121 positions.

Obtaining construction permits

Another performance, which is assessed by the doing business, are the time of obtaining construction permits on the construction sector. Construction companies are under constant pressure from the

³ In June 2008 the European Commission adopted the Small Business Act, (SBA), as an important policy document. The effective implementation of this principle is one of the most important obligations of the Albanian government, because as this is considered part of the Stabilization Association process with the EU.

government as regard to the high frequency of inspections, with licensing and safety regulations, from customers to be quick and cost effective. According to Doing Business 2013 and 2012 there have been no practical building permits in Albania, thus ranking the country at the end of 185. As result this performance indicator is evaluated as the worst indicator.

Power energy supply

Power supply is a new indicator that is included in the Doing Business 2012. For businesses it is vital to have safety and affordable electricity. In contrast, if the power supply is not constant, many firms in developing economies have to rely on self-supply, often at a very high cost. According Doing Business 2013, Albania ranks on 154 positions on the power supply and are required 6 procedure, 177 days and it costs 537.7% of income per capita.

Property right

Ensuring formal property rights is fundamental for a market economy to function properly. Part of this is the effective administration of land. If formal property transfer is too costly or complicated, formal titles can become informal again. In the overall property registration Albania is ranked 121, with a drop of two places compared with 2012 and a significant decline from 2007 when it was ranked in 76th place. According to Doing Business 2013, to register a property in Albania requires 6 procedures, 33 days, and costs 11.4% of property value.

Access to finance

According to the “access to finance”, evaluation performance, overall doing Business 2013 ranks Albania in 23 by holding the same position as a previous year.

Investitures’ protection

Strong investor protection is an important factor for the capability of companies to increase the required capital and be more competitive.

According to Doing Business 2013, Albania ranks in the 17th position for the protection of investors and money, and in the first position in comparable to the Western Balkan countries. Protection of investors Index is 7.3 with a significant increase compared to 2007, where it was only 2.7. Albania is increased with 145 seats compared to 2007 and primarily it reflects reform in 2008, the law on commercial companies, which is almost in full compliance with the CE directives and it ensure better the protection of shareholders minority.

Tax payment

Taxes are necessary to provide public goods, infrastructure and services that are crucial to a well-functioning of the market economy.

Albania has taken steps backwards in relation to the tax payment. According to Doing Business 2013, Albania is ranked 160 on the tax payment, downgrading by five places compared with 2012. The tax payment is evaluated that it takes 357 hours, are 44 different taxes and tax burden is 38.7% of the profit.

External trade

Cross border trade between countries is becoming more e more important now a days. The requirement of excessive documents, burdensome customs procedures, inefficient port operations and inadequate infrastructure lead to additional costs and delays for exporters and importers. According to Doing Business 2013, Albania ranks at 79 position for facilities in the foreign trade, down one position lower in comparable to 2012. Albania has improved compared with 2007, when the country was ranked 101. In 2012 it reduced the time and cost to export and import in Albania. Thus to export are required 7 documents, 19 days and a cost of USD 745/container. To import are required 8 documents, 18 days and a cost of USD 730/container.

Contracts enforcing

Albania is ranked 85 on enforcing contracts, for 2013, standing in the same position compared with 2012, but with an improvement compared to 2007 when it was ranked in 99th place. Enforcing contracts requires 390 procedures, 35.7 days and the cost is 39% of the expected profit from this contract.

Closing a business

Of particular importance are the procedures and timing of closing a business or liquidation. According to Doing Business 2013, Albania is ranked in 66th position, down by one position in comparable to 2012, but with a significant improvement compared to 2008, when has been ranked 181. Reforms made during 2006-2007 with the establishment of the National Business Registration as a one stop shop for business registration, made it possible not only to reduce the time of registration of a business, but also by lowering the time for the cancellation or liquidation of the business. For closing a business is required 2 years an average, at a cost of about 10% of the property and a return coefficient of 39.7 cents per USD invested.

Albania ranking in comparable to other countries in the West Balkan

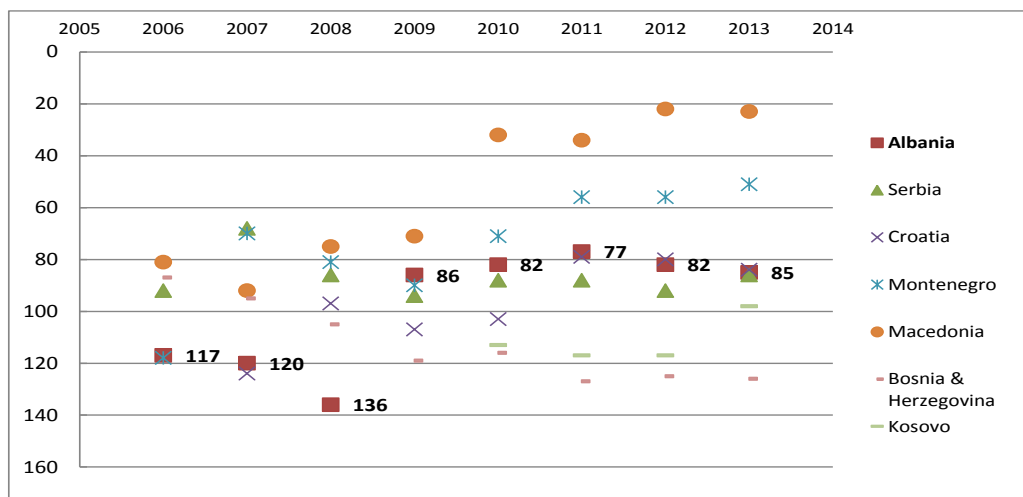
Macedonia is ranked first among the countries of Western Balkans, in the 21 position, having a significant improvement (by 69 places) in comparable to 2007. Furthermore, Macedonia ranks first in the Western Balkan region also for specific performance criteria: to start a business (5), for licensing in construction (65), in access to finance (23) and in the payment of taxes (24). For more detail refer to the table 2.

Table 2: Ranking of the countries in the Western Balkan region according to Doing Business 2013 in 10 areas

	Ease of Doing Business	Starting a business	Dealing with licenses	Getting Electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a Business
Macedonia	23	5	65	101	50	23	19	24	76	59	60
Montenegro	51	58	176	69	117	4	32	81	42	135	44
Croatia	84	80	143	56	104	40	139	42	105	52	97
Albania	85	62	185	154	121	23	17	160	79	85	66
Serbia	86	42	179	76	41	40	82	149	94	103	103
Kosovo	98	126	144	116	76	23	100	44	124	138	87
Bosnia Herzegovina	126	162	163	158	93	70	100	128	103	120	83

Source: Doing business world bank 2013.

Figure 6: Ranking for the countries in the Western Balkan region according to Doing Business (2006-2013)



Source: Doing Business 2006-2013 and authors' calculations

Montenegro is ranked 51 and the second in the Western Balkan region. Montenegro is ranked in the first position for the region in obtaining credit (4), in cross-border trade (42), at the close of business (44). Croatia is ranked 84th position and third in the Western Balkan region. It ranks first in the Western Balkans for the power supply (56) and in enforcing contracts (52).

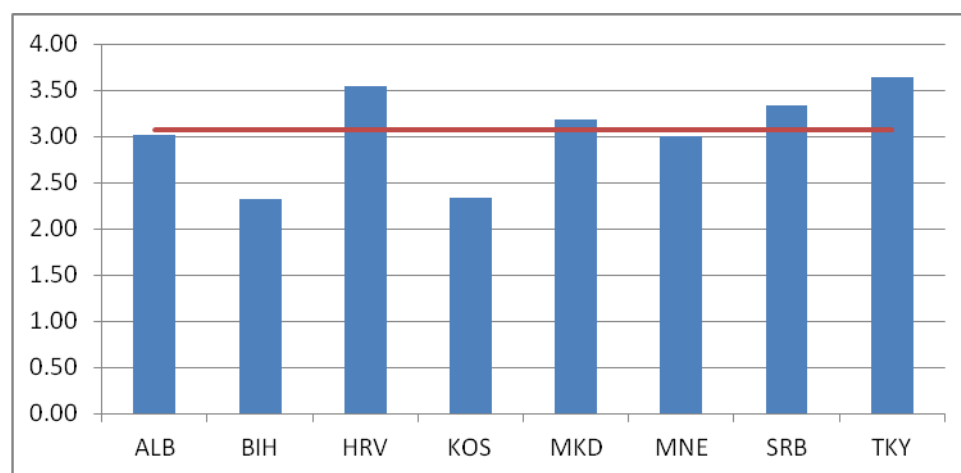
Albania is ranked 85th and fourth in the Western Balkan region. It ranked first for the region in investor protection (17) and access to finance (23). But it appears weak in the field of construction licenses, which ranked last in the overall standings as well as in the Western Balkans, the payment of taxes (160) and registering property (121), which ranks among the last places for the Western Balkans, and for the power supply (154) it ranks one position before the last one for the region.

Kosovo and Bosnia & Herzegovina ranked last in the region for most of performance criteria of evaluating “Doing business”.

Comparable analyses of policy index on SME for Albania in comparable to 2009

According to index policies for SME 2012 (OECD 2013), Albania is estimated to 3,01 point (by the highest 5 points) which is slightly less than the regional average of 3,07 point. In comparison to 2009 SME policy index, it shows an improvement of 0.24 points (2.86 in 2009). Looking in more detail the performance criteria, in the assessment of 10 dimensions it seems that Albania has made improvements in six of them. Meanwhile it seems that it deteriorate in access to finance dimension and in commercial transactions and payments one.

Figure 7. SME policy index in Albania in comparable to other countries in the region



Source: OECD 2012 and authors' calculations

The developments in the each of the 10 dimension are analyzed in more detail as it follows:

1. *Entrepreneurial learning and woman entrepreneurship.*

According the SMEs Card for 2009, Albania is estimated to 2.25 for these criteria. In 2012, the Small Business Act for Albania shows a slight improvement to 2.46.

2. *Ensure that honest entrepreneurs, who have faced a failure, to have a second chance*

This dimension is a new concept for estimating Albania in 2012, and its assessment in SBA is 3.2 point.

3. *Draft rules according to the principle 'Think Small First'*

In 2009, Albania's SMEs' European Cards is estimated 3.5 point, and remained almost unchanged at the same level in assessing the SBA in 2012, with 3.55 point.

4. *Making public administrations responsive to SME needs-*

Albania is estimated at 4.5 points for 'start-up with low cost and with minimal time" in the SME Card in 2009. It has continued to hold the same rating for the company registration in Small Business Act in 2012. Meanwhile the E-government was assessed with 3 points in 2009 and has increased slightly in 3.3 point, according to the SBA for 2012.

The highest estimation for these criteria in 2009 has reflected the significant improvement that the Albania government has made as a result of deep reforms to reduce administrative barriers to start up a business such as:

- The establishment of the National Register Centre, NRC as a one stop shop. Since September 2007, business registration is done in one day at NRC and at a minimum cost of ALL 100 (less than EUR1).
- The establishment of the National Licensing Center, NLC as a one stop shop. NLC works under the principle of silent is consent⁴. Licenses group I and II given by the NLC within 2-4 days. Licenses group III, which followed the related ministries, the grant of the license is 10-30 days.

5. Electronic signature (as well as support services for SMEs)

At the European Cards for SMEs in 2009, Albania was rated with 2.5 points for successful business models. This criterion has improved to 2.8 point in the assessing of SBA 2012.

6. Facilitating SMEs' access to finance and develop a legal and business environment supportive to timely payment in commercial transactions.

Albania was rated with 3.5 points in 2009. In the assessment of 2012 shows a deterioration of these criteria to 3.0 point, especially to access in finance.

7. Supporting SMEs to benefit more from the opportunities offered by the Single Market

In 2012, Albania shows higher rating for these criteria at 3.06 point, in comparable to assessment of 2009, by 2.75 points. However it should be noted that the evaluation sub indicator for this dimension are different from those of 2009.

8. Promoting the skill improvement and all type of innovation

According to European Cards in 2009, the availability of skills has been assessed by 2.0 points. In the latest evaluation of SBA of 2012, it has shown significant improvement to 3.3 points.

9. Making it possible for SMEs to turn environmental challenges into opportunities-

This is a new dimension evaluated for the first time for Albania in the SBA 2012, and is estimated 1.86 points.

4. ALBANIAN FAMILY BUSINESS- SOME SUCCESS STORIES

"Vila Borsh"-guest house in the beach (Case 1)

“Vila Borsh” is one of the newest hotels in the beautiful beach of Borsh, in south Albania. It has begun to be constructed in 2010, and has been open to the public in 2012. Vila Borsh is a 2 flat hotel with a total of 8 rooms that offer comfortable condition for families during the summer time. It offers the possibility to cook and eat in the studio apartments which are equipped with the necessity furniture to provide pleasant vacations. Its owner Koco Cito is an Albanian emigrant that has gone in Austria 20 years ago. During this period, he together with his wife and 2 sons has been adapted to the new Austrian style of living, working hard especially to assure to his oldest son a good graduate study. His son has been graduated for information technology and also has followed one year master degree in America. Early in 2000, Koco and his wife with their life saving come in Borsh and bought a small house and its land around, from old couple living there. During the global financial crises, Koco and his family have faced considerable difficulties in finding job in the Austrian labor market. For this reason they decide to come back in Albania and to invest in the property they

⁴ Meaning that after finished the official period, in case of no answer from the register, the license is approved automatically

have bought years ago. After working intensively for 2 years and facing a lot of procedural challenge of the Albanian institutional environment in the real estate market, he succeeded to construct a very beautiful hotel, with a lot of up-to-date furniture. The knowledge of his wife on running a guest house together with a lot of experience they have had in Austria, helped them to construct a quality tourist house.

The opening year, summer of 2012, was quite difficult period for Koco, because it was not enough just to supply beautiful place with all the facilities for vacation, but also the infrastructure and the around environment was very challenging and a lot of people prejudge the condition offer by a new emigrant in such underdeveloped tourist place. However Koco was always optimistic and hoped and fight for the best. Together with his son and his wife they reached to introduce the benefit of spending the vacation at villa Borsh, not only for the very beautiful nature that this place was characterized, but also for the full facilities that the owner of this hotel can provide to the vacationer. With the help of the knowledge of their son in informatics they constructed a webpage, and provide a lot of detailed on the vacation in Vila Borsh. They also provide the information with a lot of photos, in three languages and also the possibilities of booking online. This summer they collect the fruit of this intensive work, and they hosted in the hotel not only Albanian family, but also a lot a family from Italy, Poland Czech and other European countries. The successful experience of this year has supported them financially to pay back some of the loan that they have taken in Austria and to their Albanian friends. In the meantime they are intensively working to improve the condition in the villa and also they are cooperating with other business around, (with e new restaurant open by a Greek emigrant), to provide more facilities to the vacationers. They also continue to advertise further and to promote Vila Borsh, not only through Google engine but also through social network. In this network, Koco provides a lot of photos and opinion of the persons that have experienced Vila Borsh, but also a lot of comment and detail for the future vacationer. His aim is not only to promote the value of Vila Borsh, but also to make sure that the people will come back again and they will be so pleased with the vacation surpassed at Borsh. www.vilaborsh.com

"Wintergarten" ltd- Bar- restaurant close to the center of Tirana (Case 2)

Bar- restaurant "Wintergarten" is a nice restaurant in the embassy street close to the center of Tirana. It has been established in 2000, and since the beginning it looks like a small quite authentic German restaurant. The owner of this business is Tatjana Karcanaj. Before it has functioned as a supermarket in foreign representative neighborhood, but with the time has begun to degrade due to high humidity and careless maintenance. The company has been created by a well educated couple and their son, who has come back in 2000 after has worked for 8 years in Guest house in Germany. The son has come back together his wife, a German citizen, which owned a license in gastronomy. The knowledge and the experience of the new couple on managing a restaurant, combined with the knowhow of the parents for good opportunities in the market, was incorporated to begin successful this entrepreneurship. They began to run the restaurant with their saving and also by taking a small loan of USD 5,000 to a nonbank financial institution. Due to quite high interest rate, they planned very carefully the financing source. And time after time they took others loan to banks institution trying to lower the financing cost. In 2003 the second son of the family joined the other members, and all together they took care not only for the management of the restaurant, but also about the cooking and to introduce traditional receipt from Germany, Austria or Italian. The knowledge of the traditional German cuisine and lifestyle helps this business family to adapt to special needs of their clients, and also to offer specific traditional dishes. The existence of a core stable clientele is a good indicator that they succeed successfully to compete in the market.

Overall the business has been successful, increasing time after time. For the moment they have employed 13 persons, which are well paid and also trained continuously for the specific/ feature of the product offer by the restaurant. But with visa liberalization they suffer the reduction on their turnover, due to diminishing of the people that come in the foreign representative neighborhood. For the moment they are also struggling with lower spending attitude of their client, especially after the crises. As the both sons are well trained and have good knowledge in information technology, they are becoming more active in advertising the restaurant and their specialties it offers in website or in social network. As a small business they feel the lack of government protection and of specific strategic to support them in struggling with the increasing competition and the consequences of the economic crises in Albania.

Private Institute of Flutura and son-translating and juridical service (Case 3)

“The private institution Flutura and sons” is one of the first offices which offer translating and juridical service since 1992. The owner of this foundation, Mrs. Flutura Xhabija, at that time was a French lecture in Foreign Language University of Tirana, which with the change in the regime has remained unemployed. Due to her optimistic spirit and as a bright tough woman she took a writing machine and stood all day long before the law-court building to offer/ supply translation from French, Italian, English and Russian to the interested person. After the first months of struggling to get new clients, she rent a small room in an old Tirana traditional houses and offer all service related to translation such as photocopy, scanning faxing etc. She began to run her business with limited financial source due to very low accumulated saving. After 3 years she got her first loan of 6 thousand DM from a German bank that works with micro enterprises. Due to high interest rate, she paid back the loan quite quickly and took another from a microfinance institution. Time after time she has invested in the latest Hi-tech equipment with the aim to supply the latest and modern service to her clients. Some years later his son and daughter began to work with her. They were graduated for jurisprudence and foreign language, and as such bringing new value to the institute. With the years they expand their activity and also the building that they provide services supporting time after time by banks’ financing.

Since the beginning, Flutura offer an image of an office that can fulfill every request, and will succeed on serving rightly, on time and with high professionalism. For the moment the institute is run from the Flutura and her son together with her daughter in law. In time of overloaded activity, her daughter works as part time employee. She have employed 10 employee and has adapted the institute as a place to make internship for the foreign language students. During all this long period, that Flutura run her entrepreneurship has learned that she needs to be persistent, self-confident and to look forward. In the last years, Flutura says that she is struggling to find new client, and to face the increasing competitiveness. Her son is looking for new way to promote the institute and offer new up to date product. He is planning to use more intensively the internet and the social network to promote the real value of such old institute.

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REQUIREMENTS OF MANUFACTURING SMALL BUSINESS TO ENHANCE PRODUCTIVITY⁵

ABSTRACT

Generally SMEs are struggling to adopt the changing business environment and this is why they need assistance from experiences professional. The key of today success is productivity. The paper presents how entrepreneur could gain information and what are the tasks in improving business performance. Durably reconsidered, long-term calculated task measures must be carefully introduced and maintained to ensure the company's survival and safety of its jobs.

Keywords: Productivity, business efficiency, SMEs

JEL Classification: J24, L25, L26

Rather than ever before small and medium-sized businesses (SMEs) are compelled to operate in the hardly clear context of a dramatically changing environment in which they face increased cross-border competition rendered more difficult by general rise in prizes. The SMEs struggle to adapt to the changing conditions they are in need of help of assistance from experienced professionals such as management consultants, business associations, finance institutes, public authorities, research bodies, economic publications. Additionally technical conferences and recurrent trainings have proved themselves as directive information resources as well as fairs or exhibitions.

For those business people who can successfully reply to the many challenges there will be new opportunities to overcome possible bottlenecks. Regardless of how and where they operate all companies depend on reliable information about their in-house structure, on the one hand, and about the market developments especially in view of the behaviour of their suppliers and customers, on the other hand. Therefore, it is advisable to arrange partnership agreements with competing firms in order to compare promising terms of cost-effective management actions.

If the Head, either owner or manager, of a small business lacks adequate information and for that reason reacts inappropriately above all to an uncertain development with unaccustomed market demand, than bankruptcy will follow without any delay.

Thus, taking into account the gained information it is substantial to introduce company-suited progressive productivity strategies such as business process re-engineering, quality-centre measure and participative workforce culture. But even permanent efforts to enhance productivity will have to go beyond the usual attempts to cut costs. The focus must be on leadership visions and ongoing dynamism to attain sustainable benefits for all persons concerned.

There does not exists a single best way to assess productivity. International, national, regional, local, economical, technological, cultural and historical influences provide opportunities or set limitations.

Commonly used rations, such as output per hour or percentage of saved expenditure can misleading in the age of high technology and wide-spread digitalisation within the enterprises. What really matters at the estimation of productivity results is the extensive utilization of all corporate resources including the modernity of organization and company layout, of the office and production equipment, of business planning, in-house communication, of innovation projects and its financing, of connections with credit institute and public subsidies, of non-polluting environment prevention, of sparingly energy consumption, of safety and workforce health provision as well as goal-oriented entrepreneurial engagement including the respective future-determined mission.

⁵ Paper presented at the 10th SME Summit of the Turkish Small Business Foundation (TOSYÖV) on 13-14 February 2014 in Istanbul

SMEs, mostly family-owned, have been established to realize their independently designed objectives, one of which is self-interested continuity of existence. Therefore, durably reconsidered, long-term calculated task measures must be carefully introduced and maintained to ensure the company's survival and safety of its jobs. Responsible small business bosses should never think and act too obstinately. The formula for acknowledgement lies in a strong foundation of bold entrepreneurial spirit and staunch conviction.

Many of the arising challenges that SMEs in particular have to face again and again evolve from changes in political and socio-economic circumstances such as the intensified opening of many country borders, internationalisation of commercial liaisons, improves possibilities of information network and last but not least alteration of consumer desires.

Contemporary society is becoming more and more complex because of migration respective integration proceedings. Many of the habits that prevailed in a country are disappearing. New situations in view of variable customs and precarious perspectives put matters in different expectations and ask for a revision of practised courses of management. In such a context productivity improvement aims become so to speak a holistic element that calls for the operation of an adapted business that is lean, mean, clear and even green.

In order to be always familiar with the state of business efficiency it remains indispensable to investigate without adjournment whether the clarity of the concept of entrepreneurial targets is lasting conscious to everybody involved and around the company's activity sphere.

These SMEs only that are capable of benefiting from directive management and leadership behaviour to articulate and transpose their needs of best practice solutions will succeed in driving productivity enhancement and overall stability and finally growth.

The unpainted answering of several questions can stimulate the identification of factual, not planned occurrences and forces the incessant removal of failures that further losses can be avoided. Such questions read as follows:

- How big is the company in view of number of employees (full-time, part-time)?
- How does an entrepreneur appraise his/her leadership?
- What kind of people are hired as workforce?
- What kind of relationship exists between management and employees?
- What has been achieved in the past three years: financially, product or service delivery in due time, etc.?
- What are the most important products-lines and who are most long-standing clients?
- Who are the customers? How could the relations with them be arranged?
- What are the most noteworthy characteristics of the company in the meaning of the market-partners?
- How do suppliers, banks, public authorities rate the individual firm?

Taking the items mentioned above into account, then a proper working basis is at everybody disposal to meet the productivity requirements as the key to profitability in competitive economy. That's it!

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FAMILY BUSINESS IN ARMENIA**ABSTRACT**

There is neither legal definition nor targeted family businesses in Armenia. However, very strong family ties and reliance on family determines this tendency, which comes to prove the accepted axiom that the major pre-requisite of a successful family business is the family itself. Different organizations are using different definition of family businesses for their purposes. According to expert estimates 80-85% of the SMEs are Family businesses.

The Author describes the definition of SMEs and present the Government structure of supporting entrepreneurship. The characteristics of family businesses are presented in the context of Human, Social, Financial, Survivability capitals as well as in Lower costs of governance.

The paper presents challenges for succession and make recommendations for Government. Finally it introduces two case Armenian family business studies.

Keywords: Family business, history of family businesses in Armenia, characteristics of Armenian family businesses, succession, SME support infrastructure

JEL Classification: L25, L26, M10, M13

INTRODUCTION

Similar to the majority of BSEC member countries, in Armenia as well there is no targeted policy with regard to family businesses. This is especially upsetting given that the overwhelming majority of medium and small businesses in Armenia are family businesses with their specific challenges and limitations to their development. Interestingly, it should be noted that support to SME is considered a priority in Armenia.

Studies and discussions around the issue of family businesses (further used as FB) aim to stir a dialogue with the decision makers and bring family businesses into their specter of their priorities. It is expected that these activities will lead to elaborating policies and putting in place targeted FB development plans.

Since Armenia does not have a formally accepted definition of a family business and does not maintain their statistical registry, the presented figures and findings represent expert opinions. They are mostly derived from SME-related studies, extensive experience and observations from developing and implementing SME interventions at the state-supported and international SME programs.

The main findings of the due diligence in this stage are presented below:

1. Family businesses are characterized by business-specific advantages/strengths and weaknesses, opportunities and challenges.
2. Policies in support of FB and FB development programs should be closely viewed solely within the bigger SME context.
3. The economic legislations should contribute to increased FB efficiency and promote the number of family businesses.
4. Decision makers should be in constant contact with the entities representing FB interests, including the public sector.

5. The public should save no effort to enhance the image of the family businesses.

HISTORY OF FAMILY BUSINESSES IN ARMENIA.

Armenian families have a strong tradition of passing on the skills and craftsmanship of the familial trade from generation to generation. Some Armenian families specialized as doctors, goldsmiths or lawyers are known around the world. Very strong family ties and reliance on family determines this tendency, which comes to prove the accepted axiom that the major pre-requisite of a successful family business is the family itself. Before the Soviet era there existed several well-known family businesses including large ones that operated not only in Armenia, but also outside.

Throughout the dominance of public property during the 75 years of Soviet rule the private business, including the family business, was non-existent.

One exception relates to the era of Perestroika, when introduction of private ownership was allowed in some industries. It was back then that the so called "Cekhaviks" (small production owners) emerged and they were mostly family businesses.

The third Armenian Republic (1992) has been supporting and promoting the private sector since the country's independence.

Legal foundation for engaging in private enterprises was established almost immediately in 1992, when the privatization of agricultural land started. This laid the basis for emergence of privately owned farms. Every citizen of legal age received his/her share of agricultural land. As a rule, the rural families in Armenia consist of 3-4 adults and their land slots were pulled together and farmed jointly by the family. It was back then that the first private family farms were formed.

Vouchers were used in 1993 - 1997 to privatize stores, small productions or service entities. In this case, the ownership of businesses was granted not to family members, but to the employees of that particular institution. To illustrate, an institution that occupied 250 square meters was privatized among 15 employees with equal shares.

Thus, the discussion of the legacy of family business in Armenia is limited to the last 15-20 years with both small and medium size family businesses emerging in the most recent years that they play a significant role in the country's economy.

1. DEFINITION OF FAMILY BUSINESSES IN ARMENIA.

There is no officially accepted legal definition of family business in Armenia. The only legislative regulations connected with family members are related to company registration and tax system. The reason for this is the absence of state level policies addressing family businesses.

Consideration of the definitions of a family business used by different organizations allows to assume that they overwhelmingly include the following components:

- The Family Business is an economic unit that functions commercially with the intention of making a profit;
- Majority ownership of the enterprise rests with a member or members of a one family;
- Management of the enterprise is exercised in whole or in part by a member or members of a single family;
- The strategic of the enterprise is determined in whole or in part by a member or members of a single family.

The most common definition of family businesses used by different organizations, which perform Family Business support programs are: A family business is a business which is actively owned and/or managed by more than one member of the same family. According to expert estimates 80-85% of the SMEs are Family businesses.

SMEs are defined under the RA Law on Support to Small and Medium Enterprises. According to that Law:

➤ Micro Business

Average number of annually employed – not more than 10 persons
 Revenue from operations of the last year - not more than Armenian dram (AMD) 100 million (US 250,000).

➤ **Small Business**

Average number of annually employed – not more than 50 persons

Revenue from operations of the last year - not more than AMD 500 million (US 1,250,000)

➤ **Medium Business**

Average number of annually employed – not more than 250 persons

Revenue from operations of the last year – not more than AMD 1,500 million (US 3,750,000)

Thus, the majority of registered and operational businesses are family businesses and the policies applied to SMEs are relevant to micro, small and medium sized family businesses.

Importance of family businesses in the national economy of Armenia.

Since Armenia does not have a formally accepted definition of a family business, there is no statistical registry system. However, our observations indicate that:

- 80-85% of registered local companies are Family Businesses, which provide sustainable development.
- The majority of family businesses work more effectively than other companies,
- Family businesses are a good and necessary pre-requisite for the formation of a middle class.
- Almost 90% of family businesses solve social problems in the country, providing jobs for family members.

Number of enterprises in Armenia	161,492
out of them family businesses	Approximately 130,000 (80%)
out of them SMEs	158,260
individuals - solo proprietors acting as FB	95,520
Number of employees	1,138,000
out of them in private sector (business)	1,010,000
out them in FB	Approximately 750,000
out them is SMEs only	423,000
individuals - solo proprietors acting as FB	Approximately 85% - 81,200
Share of contribution of the SME to GDP in %	43%
Share of contribution of the SME FB to GDP in %	Approximately - 38,4%

2. CHARACTERISTICS AND UNIQUE QUALITY OF FAMILY BUSINESSES.

Human capital: Additional knowledge and skills of the family members to serve business interests.

Social capital: The family members bring valuable social capital to the business in the form of networking and other external relationships.

Financial Capital: The family business typically has financial capital in the form of both equity and debt financing from family members.

Survivability capital: Family businesses are managed by their survivability capital, and family members' willingness to provide free labor or emergency loans.

Lower costs of governance: The family business manages its ability to hold down the costs of governance. In non-family firms, these include such costs as special accounting systems, security systems, policy manuals, legal documents and other mechanisms to reduce theft and monitor employees' work habits. The family firm can minimize or eliminate these costs because employees and managers are related and trust each other.

Clearly delineating these unique family resources and leveraging them into a well-coordinated management strategy greatly improves your business's chances of success compared to non-family-owned companies.

3. INSTITUTIONAL ACTORS, SUPPORT POLICIES AND INITIATIVES. ARE

GOVERNMENTS SUPPORTING FAMILY FIRMS?

Family businesses in support of SME support programs. In fact, talking about family business support systems must be submitted to the SME support system.

It is divided into two main levels:

1. Policy Making
2. Policy Implementation

The National SME Council is the core structure created for improving the SME environment. It is led by the Prime Minister of the Republic of Armenia and is made up of experts of international organizations and representatives of the enterprise associations.

The Ministry of Economy of the Republic of Armenia has the lead role in the process of elaborating the state policy on SME development. This structure is responsible for developing policies and evaluating the effectiveness of programs based on the policy.

The Ministry of Education and Science. There, the importance of business education is already on the agenda, but its implementation on different levels necessitates further capacity building.

POLICY MAKING LEVEL			
	DIRECTION	MAIN STRUCTURES	ATTENDANT STRUCTURES
1	Environment, Lobbying, and Dialogue	National SME Council	International Organizations and Banks
		Ministry of Economy	Local and regional governments
		Chamber of Commerce and Industry	Business Associations
2	Accessible Business Services	Ministry of Economy	International organizations
3	Accessible Finance	Ministry of Economy	Central Bank of Armenia Banks IFIs
4	Accessible Education	Ministry of Education	Local Governances

POLICY IMPLIMENTATION			
	DIRECTION	MAIN STRUCTURE	ATTENDANT STRUCTURES
1	Accessible Business Services	<ul style="list-style-type: none"> • SME DNC of Armenia 	<ul style="list-style-type: none"> • Accredited mentors, • Busibness centers and asociacions
2	Accessible Finance	<ul style="list-style-type: none"> • SME Invest 	<ul style="list-style-type: none"> • Brenchies of Banks, • Universal Credit
3	Accessible Education	<ul style="list-style-type: none"> • Universities • Colleges 	<ul style="list-style-type: none"> • Accredited mentors, • Busibness centers and asociacions

SME Development National Center of Armenia (SME DNC of Armenia) is governed by Board of Trustees headed by the Minister of Economy. SME DNC carries out its activities through the well developed network of regional branches and representative offices covering all regions of Armenia coordinated by the central office in Yerevan.

SME Development National Center of Armenia's activities are targeted at:

- Increasing efficiency and competitiveness of SMEs
- Ensuring availability of business development services for SMEs
- Expanding the financial opportunities for SMEs
- Promoting innovations and R&D activities of SMEs
- Assistance for establishment of new SMEs
- Supporting internationalization of SMEs' activities.

SME Invest Universal Credit Organization closed joint-stock company. The main function of SME Invest is to finance SME's functioning in priority directions of economy.

The purpose of the organization is - to support small and medium-sized business development and consolidation of economy of Armenia becoming a reliable and trustworthy partner for small and medium-sized entrepreneurs, as well as to keep and to consolidate the credence of present customers, make the crediting process for potential customers easy and available.

SME DNC of Armenia is the only shareholder of SME Invest.

Accordingly, From the standpoint of SME Development Strategy in Armenia, the list of organizations directly supporting enterprises includes:

- The branches of the SME DNC;
- The regional chambers;
- The business centers;
- Non-governmental organizations, unions, and associations;
- Crafts colleges;
- Universities;
- Branches of banks and universal credit organizations; and
- Accredited mentors

4. CHALLENGES OF SUCCESSION OF THE FAMILY BUSINESSES.

- There is no special support policy for Family Businesses, which is rather disappointing given the majority of small and medium enterprises are family run businesses and their regulation requires a unique approach.
- Projects supporting family businesses are carried out within Small and Medium Business Development Programs as special projects and initiatives. Oftentimes they are superficial and are not grounded in the in-depth understanding and research of issues of family businesses.
- Family members involved in management of the firm do not always have the necessary knowledge and skills to manage the business. Oftentimes, this is true not only about lack of skills, knowledge and experience in business management, but also lack of competence in the specific business direction such as tourism, small production units, services, or others.
- Most of new established Family Businesses are start-up's. They have all challenges of Start-up businesses, such as lack of knowledge and skills, the insurmountable red tape, lack of access to financing and business services, and others.
- Separation of the family often leads to the destruction of the family business. As much as we emphasize the fortitude of Armenian families, the percentage of divorces has increased significantly in the recent times. This reality had a negative impact on the efficiency of family businesses, sometimes even challenging their mere existence causing their liquidation.
- As a rule, family businesses founded by the first family generation prove to be more stable than those managed by the second or third generation. The main reason for this is that oftentimes the younger generation has a waning interest toward the business activity that was undertaken by their grandparents and parents.

5. SUGGESTIONS WHAT YOUR GOVERNMENT AND THE CIVIL SOCIETY SHOULD

DO IN ORDER TO RECOGNIZE AND SUPPORT FAMILY BUSINESSES.

The first and foremost condition is the need to legally define the Family Business and key their registry. Micro, small and medium size business support projects should be developed taking into account the specific features of FB. The following components should be incorporated:

- **Education:** Short term specialized training on tourism, restaurant business, food processing, trade, IT, new technologies and other areas.
- **Business trainings:** Management, communication, marketing, business relations, accounting and tax reporting.
- **Business consulting:** Financial and human resources management, accounting and taxes.
- **Financing:** Preferential loans, loan guarantees.
- **Networking:** Business relations, cooperation, Value Chain projects.
- And last but not the least efforts to improve the image of family businesses.

CONCLUSION

In any society family is viewed as the key foundation for its stability. Sound families are an important pre-condition for a successful family business and visa versa. Generally, those societies where families are strong and sound, family businesses have more chances to succeed.

Family businesses, more specifically small and medium sized family businesses have a need for support. With regard to bigger family businesses, those are established enterprises with large opportunities available to them. Many of them hold a monopolistic position in Armenia and dictate their condition in the market. These businesses do not need a targeted support and are able to overcome their issues independently.

Generally, national/state level policy support should be extended only to the priority areas and businesses of the country's economy. In case of Armenia, small and medium entrepreneurship falls under this category alongside with informational technologies, tourism and others.

Enhanced family business enhances the country and its founding block-the family. Well-grounded, financially stable families become one of the foundations on which a middle class is formed.

FAMILY BUSINESS PORTRAITS

Gourmet Dourme Chocolate Production (Case 1)

Gourmet Dourme is a brand of chocolate founded in Armenia by two brothers - Pierre and Diran Bagdadyan. The idea of this Austrian Armenian "maison de chocolat" was to produce high quality chocolate packed in exceptional boxes. The chocolates are mainly packed and produced by hand with plenty of care and attention. The word "Gourmet" means epicure in French, while the word "Dourme" means chocolate in Armenian. Next to its own collection, Gourmet Dourme also creates special models for companies.

Pierre and Diran Bagdadyans returned to their homeland, Armenia in 2005. They came from Lebanon where they also had a successful packaging business. It took them two years to make their minds and in 2007 they established their family business in Ashtarak, a small town not far from capital Yerevan. Their father's words guided their business from the very start, a message that said "two brothers, one business, one pocket". Money is not that important, what really matters is the brilliant implementation of an excellent idea, thinking in tune and saving the seeds of kindness through work. From the very beginning these were the guiding principles that became the foundation of the P&D Group Ltd that represented the Gourmet Dourme brand started by the two brothers. The brothers are the founders and the only owners of the business, who are also in charge of managing the business. Pierre is responsible for the logistics and financial management while Diran is in charge of marketing and coordinating the boutiques. Their children, who are still small, already express interest toward their parent's business.

Back in 2007, they started with producing seven types of high quality handmade chocolate. Five years later the assortment of chocolate has reached 170 and they supply chocolate to the Armenian president. They have two boutiques in Armenia and some stall in duty free shops at Zvartnots airport.

P&D Group Ltd representing the Gourmet Dourme brand is an excellent example of a family business. During the five years of the business operation they were able to create a well known brand in Armenia and occupy their stable place in the market. What guarantees their business success is also the approach by which they introduce a new produce to the market every 2 months.

The company plans to start the export of their chocolate to targeted markets in Russia and Europe.

www.gourmetdourme.am

Melikyan Alvina Sole Proprietorship (Case 2)

Alvina Melikyan lives in village Miasnikian. Along with her husband and son she initiated her own business of semi manufactured food production and delivery in 2006. This growing family business now produces, packs and delivers lunches and dinners for different organizations. As professional development and continued training of family members involved in the business are considered very important by the owners, they participated and benefited from various programs supporting micro and small businesses. At present the following members of Alvina's family are involved in the business: Alvina's husband Khachatur Vardanyan as a Strategy Developer and Financial Manager, Alvina's son Ara Avetisyan as a Manager and Alvina's grandchildren Sargis and Khachatur Avetisyans as Distributors. In addition, there are 5 more non family member employees working with the family.

Alvina and Khachatur believe the main prerequisites of their success are solidarity, serious and responsible attitude of their family members towards their business. Over the past 4 years total turnover of the business has increased over 10 times while the profitability increased over 4 times.

Due to the high quality of produce, accuracy and honesty of the owners several large companies including "Zvartnots" International Airports and "Tierras de Armenia" have already established long-term partnership with Alvina's business.

Among further plans of the company is establishment of a refrigeration unit, which will allow procurement of fresh vegetables and fruits to the clients throughout the year.

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FAMILY BUSINESSES IN GEORGIA**ABSTRACT**

Family business is one of the most frequent forms of business in Georgia. The research remarked that family businesses play an important role in the country as a major contributor to economic growth. Family businesses are very important for economic growth, for creating jobs, improving productivity, and promoting growth. Small and medium-sized enterprises (SME) play important role as a key engine for further economic growth and employment in the country. Family Business can be found in almost every sphere of activity, but the most widespread is in agriculture (agribusiness). Georgia is an agrarian country and half of the population live in rural areas and are involved in agricultural activities. Another sector which involves family businesses in Georgia is tourism. 40% of operating hotels in Georgia are family businesses.

Main business legal forms of family businesses in Georgia are Individual enterprises and limited liabilities companies. Such businesses usually include micro and small business categories. Small and medium-sized enterprises (SMEs) play an important role as key engines for further economic growth and employment in the country.

In order to better understand main characteristics of family business, their unique quality, major problems and challenges and their needs and advantages, a survey was conducted among family businesses in Georgia. The survey was conducted by the author of this report. The quantitative part of the survey included 20 companies. The paper presents several important findings.

Keywords: family businesses, SMEs, agrobusiness, tourism business, Government support for SMEs

JEL Classification:

Family business is one of the most ancient and widespread organizational forms in the world. Nowadays, a lot of world-renowned firms and corporations are the results of the most successful family business development.

Family business is the common in Georgia. Business legal form of family business is individual enterprise (in rare cases, Limited Liabilities Company);

Gallup World Poll Knowledge Center asked business owners why they started a business. Business owners in Georgia reported the top two reasons as sensing an opportunity to make more money and wanting to be one's own boss. The best way to be one's own boss is to begin a new business with minimal exercises. The desire to be self employed is not driven only by necessity or at least not by necessity alone (so-called survival entrepreneurship). [8]

➤ ***Definition of Family Business***

Generally, Family Business is a business organizational form, where governance and decision-making rights are in the possession of individuals who established the business. Family members and relatives are employed as staff of such businesses and management is carried out by the same family unions. There is no legal definition particularly for Family Business in the country.

Revenues in family businesses are a relatively small volume. Such businesses usually include micro, small, medium-sized business category in rare cases.

According to the Law on "The National Investments Agency of Georgia," Small and Medium Enterprise are classified as an enterprise with average number of annually employed not more than 20 persons and annual turnover not more than Georgian Lari (GEL) 500,000 (small), and an enterprise with average number of annually employed – not more than 100 persons and annual turnover not more than GEL 1,500,000 (medium). [9]

➤ ***Main Characteristics of Family Business***

Family Business is the particular direction of business (not distinguished in many sectors simultaneously). Such businesses are focused on specific market segments. In most cases, the starting capital is the savings of family members.

In most cases, such businesses suffer from a lack of working capital, and this deficit is filled with loans (banks, micro finance institutions more often or private sources). [10]

➤ ***Importance of Family Business***

Family Business can be found in almost every sphere of activity in Georgia, including Agriculture (agribusiness), Wine Production, Tourism (Hotels, restaurants), Handicraft etc.

Family Business is the most widespread in agriculture (agribusiness), due to several factors: Georgia is an agrarian country; agricultural lands are distributed to families living in rural areas, and virtually every family owns at least 0.5 - 1.25 hectares of land. However, only a small business can be organized in that size of and.

That is why the most common form of agribusiness in Georgia is family business. [10]

According to the Statistics, approximately 50% of Georgian population is involved in agriculture, among them only about 3% are employed officially in Agriculture, hunting and forestry. So, 47% of population is involved in agricultural activity individually and most of them are family businesses.

In 2012, share of agriculture in GDP was 8.4%. In 2010 this indicator equaled to 10.7%. In 2013 the share of agribusiness in the total economy is 16.1%, while in 2006 the share constituted almost 20%. [11]

Endowed with fertile soils, clean water and favorable climate, Georgia produces a broad range of agricultural products. The products include: wine, fruits, nuts, live cattle, tea, mineral water, dairy products, juices, grains, fish, flour. The main export markets are: Ukraine, EU countries, Armenia, Kazakhstan, Azerbaijan, Belarus, Russian Federation, Turkey, USA, and more recently Middle Eastern countries. [12]

Undergoing major transformation, the agribusiness sector offers a wide range of investable areas: wine and spirits, mineral and table water; nuts (5th largest exporter of in-shell hazelnuts and 3rd largest for shelled hazelnuts); grains (wheat, barley, corn), flour products and animal feeds; organic farming, tea, aromatic and medicinal plants; green house growing of vegetables (tomatoes, onions, peppers, cucumbers); fresh, dry and canned fruits (grapes, citrus, clementine, apple, pear, blueberry), juices, jams, honey; fresh, frozen and canned fish (anchovy, trout) and sea products (mussels, oysters); pedigree poultry, hatching eggs, snail farming, live cattle, meat, integrated dairy production. [12]

Another sector which involves family businesses in Georgia is tourism.

The New York Times has listed Georgia 6th among 41 best countries for the tourism destination in 2011. The magazine focuses on Georgia's high mountain resorts, writing: Tucked between the Black and Caspian seas and smattered with mountains, Georgia has the kind of terrain adventurous skiers yearn for: peaks reaching 16,000 feet, deep valleys and largely untouched slopes. Known best for spectacular off-piste and heli-skiing, Bakuriani and Gudauri — each a short drive from Tbilisi. [13]

Georgia takes 3rd position in The Friendliest Countries in the World 2013 Ranking (Hubpages). According to the Hubpages: Jammed between Europe and Asia, this contrasting South Caucasus nation is home to people who have been put through many tough times over the decades, something which has resulted in a witty sense of humor and politeness, combined with a keenness to spread the word about their little known country through good deeds and remarkable hospitality.

As the backpacker word begins to spread, travel to Georgia and experience its friendly people first hand before the resulting hoards of tour buses arrive, and experience everything from the Caucasus Mountains and the cosmopolitan capital Tbilisi, to the Black Sea beaches and holiday city of Batumi. [14]

There are 1,060 hotels operating in Georgia, among them 40% are family businesses (hotels). Family hotels are spread to all Georgian territory. 23% of family hotels are located in Kakheti region, 20% - in Samtskhe Javakheti, 17% - in Samegrelo Zemo Svaneti, 10.1% - in Imereti, 9.6% - in Mtskheta Mtianeti, 6.1% in the capital of Georgia Tbilisi, 5% - in Racha Lechkhumi etc.

Among the total hotels located in Racha Lechkhumi region 74% is Family hotels. According to the share of family hotels in the total number of hotels is following: Racha Lechkhumi region - 74%, Samegrelo Zemo Svaneti – 72%, Kakheti – 68%, Shida Kartli – 64%, Qvemo Qartli – 63%, Mtskheta Mtianeti – 55%, Samtskhe Javakheti – 54%, Imereti – 47%, Guria – 27%, Tbilisi – 20%, Ajara – 4%. [7]

The Share of Tourism in Gross Output of Country's Economy is almost 7% in 2012, which is grew

by 2 percentage points compared to the previous year. [11]

In 2012, the number of non-resident visitors' arrivals at national borders of Georgia equaled to 4,389,256, which is 56% higher compared to the data for the previous year. In January-December 2012, visitors' arrivals from Europe (excluded CIS) amounted to 1,738,766 (39.6% of visitors), which is 92% higher compared to the same data for the previous year. In 2012, from CIS there were 2,451,971 visitors (55.9% of visitors), which is 37% higher too compared to the previous year's same data.

In mentioned period, visitors from America reached 33,737 (0.7% of visitors), with 16% yearly growth. Visitors from Asia countries constituted 123,385 persons (2.8% of visitors), with 44% yearly growth. Number of African visitors equaled to 6,974 (0.2% of visitors, 84% yearly growth), number of visitors from Middle East amounted to 17,046 (0.4% of visitors, 3 times more compared to the same data for the previous year) and from other countries - 17,377 visitors (0.4% of visitors, 6.2 times more compared to the same data for the previous year).

In ten month of 2013, the number of non-resident visitors' arrivals at national borders of Georgia equaled to 4,556,110, which is 24% higher compared to the same data for the previous year. [7]

INSTITUTIONAL ACTORS, SUPPORT POLICIES AND INITIATIVES, GOVERNMENT SUPPORT TO BUSINESSES

Governments play an important role in providing high-quality framework conditions by removing bottlenecks in the general business environment that impede able entrepreneurs with good ideas from starting a new venture and creating jobs. These conditions include well functioning institutions, competitive markets for inputs and outputs, a predictable system of taxation, and bankruptcy legislation that facilitates resource reallocation while protecting creditors.

The government thus facilitates a conducive business environment that allows failure and company exit as a necessary part of entrepreneurial learning, provides company incentives that favor entrepreneurs with good ideas, introduces instruments that enable entrepreneurs to access capital for startups, and ensures flexible labor market policies that enable firms to expand by attracting the best talents from outside the firm or the country.

The government implemented reforms in a range of areas to support a liberal business environment. Most noticeably, the government has reduced bureaucracy, improved tax policies, fought corruption, and liberalized labor regulations. Reforms in tax law, customs law, employment law, and legislation governing licensing have made it much easier to start and run a business. [8]

In the direction of promoting the development of private sector and enhancing sustainable economic growth, important step by Government of Georgia was Liberalization Tax Code – number of taxes and rates as well were significantly reduced. There were 21 different taxes in Georgia. Numbers of taxes and tax rates have been gradually decreased. At present, only 6 taxes left out of the original 21: Value Added Tax (0% and 18%), Personal income tax (20% flat), Corporate Income Tax (15%), Import tax ((0%, 5% and 12%) (only on agricultural products and construction materials), Excise (depends on the type of good) and Property tax (up to 1%).

Out of six taxes in Georgia, five (Personal Income Tax, Corporate Income Tax, Value Added Tax, Excise Tax, and Import Tax) are state-wide, and one (Property Tax) is a local tax. There are no capital gains, inheritance, wealth, property transfer, social, branch remittance, or other taxes imposed in Georgia.

Unified Revenue Service was established in Georgia. Revenue Service merged into one tax, customs and financial police agencies. Since then, taxpayers have only one single governmental agency to deal with regarding tax issues.

New "Tax Code" was elaborated in Georgia which is in force from January 2011. New "Tax Code" provides more simplified procedures for of doing business and special treatment (incentives) for micro and small businesses that will serve as an additional incentive for business development and overall economic growth. The new Tax Code aims to increase confidence towards the Georgian tax system and enhance trust in the Georgian tax authorities, by improving communication between taxpayers and tax authorities, by protecting taxpayers' rights, by making administration more efficient, and by harmonizing the Georgian laws with the best international tax practices. The new Tax Code offers low tax rates on existing taxes, or increased exemptions. Micro and Small Business status shall reduce overall administrative and tax burden on individual taxpayers. The simplified rules for obtaining a residency status of Georgia is an opportunity for "high net

worth” individuals, as they can become Georgian residents without their actual presence in Georgia.

Extended filing periods, automatic refunds, and simplified taxation on imports comprise the constantly expanding list of benefits offered to taxpayers. Income and gain received from listed securities and Government bonds have been exempted from taxation for both corporate and individual taxpayers. Noteworthy, that Georgia already started convergence to European tax standards, in that it has recognized the technical regulations of the Organization for Economic Cooperation and Development (OECD), and has introduced the generally accepted transfer pricing rules within the new Tax Code. This fact will consequently promote the development of the business environment and cross-border trading. Georgian tax legislation offers another unique opportunity to serve offshore companies in the most efficient and least costly way. International Financial Company, a financial institution established in accordance with Georgian tax legislation, carries out most of its services with parties outside of Georgia. [15]

As was previously mentioned, that new “Tax Code” provides simplified procedures for Micro and Small businesses. According to the New “Tax Code” Micro and Small businesses are covered by special tax regimes. The status of Micro Business is given to a physical person who is not using hired persons work and is conducting economic activity independently from which annual total income doesn’t exceed GEL 30,000.

The Ministry of Finance of Georgia is responsible for giving and abolishing the status of Micro Business. Tax authorities are responsible for giving a certificate for the Status. Since the New “Tax Code” came into force, 4,575 new micro businesses were registered with ministry of finance of Georgia from January till June 2011.

A physical person who has a Micro Business Status is free from income tax and current taxes. The status of Small businesses is given to a physical person/an individual/sole entrepreneur whose annual total income from economic activity doesn’t exceed GEL 100,000.

Small Business is taxed with one single tax. Tax rate for Small Business is 3% or 5% of revenue. Removing requirements of book keeping in conformity with international standards. In case of 5% tax rate Small business is obliged to run only simple “purchases and sales journal“ and cash registers. In case of 3% tax rate 60% of their income falls on expenditures/consumptions, proved by documentations. [16]

Georgian State Commission for Regional Development is responsible for innovation policy schemes to support new technologies and entrepreneurship. The commission is supported by a task force for regional development and seven working groups. The working group on innovation, new technologies, and entrepreneurship brings together experts and policymakers and makes recommendations for innovation policy.

The Georgian Chamber of Commerce and Industry, the Business Association of Georgia, the Employers’ Association of Georgia, the International Chamber of Commerce, and the Tax Ombudsman’s Office all provide information and business services to help Georgian enterprises.

The Georgian National Investment Agency has been playing that role in Georgia by helping SMEs access international trade fairs to showcase their products.

Trade expansion and diversification is one of the main priorities of the Government of Georgia. The new government of Georgia has recommitted to expanding exports into new products and markets as a key component of the economy’s continued growth. [8]

Georgian foreign trade turnover is characterized with upward tendency that is supported by the liberal trade policy provided in the country. Competitive trade regimes in Georgia: Free Trade Regime – with CIS countries and Turkey (since 1 November 2008); Most Favored Nation Regime (MFN) – with World Trade Organization (WTO) member countries; Preferential Regime (GSP) – with USA, Canada, Japan, Switzerland, Norway; Preferential Regime (GSP+) – with EU (7200 items) since 2005.

The European Union has been identified as one of the main targets for trade diversification and expansion. Between 2005 and 2012, the share of exports going to the European Union dropped from 25 percent to 15 percent. At the same time, the share going to the Commonwealth of Independent State countries increased from 47 percent to 52.4 percent. As of 10 months of 2013, share of EU in total export constitutes 19.9 percent, while the same indicator for CIS is 55.5 percent. At the same time, export to Turkey is also increasing. As of 10 months of 2013, share of Turkey in total export is 6.6 percent.

In order to further deepen trade relations with the EU, Government of Georgia and European Union negotiated Deep and Comprehensive Free Trade Agreement (DCFTA) which is the part of the Association Agreement. Negotiations were successfully finalized on July 22, 2013. This Agreement is different from other free trade agreement, which Georgia has previously concluded. It covers not only trade in goods, but also

trade in services. Also DCFTA envisages gradual approximation of Georgian legislation to European legislation. This will be a step forward to further European integration for the country.

Due to the implemented liberal reforms of the Government of Georgia, enhanced relations with partner countries and new bilateral treaties, Georgian foreign trade diversified. Georgia has concluded double taxation treaties with 45 countries and has bilateral treaties on investment promotion and protection with 32 countries.

Georgia remains strongly committed to the World Trade Organization (WTO) as the primary basis for its trade policy. Georgia firmly believes that the best way to meet challenges facing an increasingly globalized world economy is trade liberalization.

The basic objectives of the trade policy of Georgia are: integration into the world economy, which implies implementation of obligations undertaken by joining WTO and other international agreements; trade policy liberalization, including simplification of export and import procedures and tariff and non-tariff regulations; diversification of trade relations by concluding free trade agreements with main trading or regional partners. Georgia has a very liberal trade regime with simplified trade procedures; there are no quantitative restrictions on export/import and no tariff quotas. There is also effectively no tariff escalation nor any tariff peaks.

In accordance with the Georgian legislation, no tariff duty is applied to export or re-export from Georgia. Export is exempted from Value Added Tax (VAT) as well. Georgia does not use minimum export prices and export subsidies. There are no non-tariff restrictions (prohibitions, licensing) in international trade included in the Georgian legislation except those cases where health, security, safety and environmental issues are concerned. The share of goods subject to non-tariff restrictions constitutes about 1% of the whole nomenclature. Due to the reforms carried out by the Government of Georgia, the barriers to foreign trade decreased tremendously, resulting in increased volumes of export and import flows.

To improve the skills base and facilitate better alignment of labor force skills with the enterprise sector, education targets for the country include increased training in natural science disciplines. A technology university in Batumi is being established to develop a scientific training center that will focus on engineering, information technology, and agriculture and emphasize commercialization of scientific findings. Medium- to long-term policies need to reorient the higher education system to produce more industry-relevant skills. [8] State Program “Employment for small and medium business development”, in 2007, aimed growth of population employment, regional economic infrastructure and economic activity development in the tourism sector of small and medium-sized family businesses by improving access to credit resources.

Based on the program's partner commercial bank – “ProCredit Bank” in the amount of 5 million loan was allocated from the state budget, which was issued on 17 June 2007 in the small and medium - sized enterprises.

The annual interest rate on the loan is given to enterprises - 12%, which was significantly cheaper than the market price. Grace period was 5 years.

An entrepreneur could use the loan to pay the 1 year grace period, and a maximum loan amount of GEL 50,000. The bank credits the beneficiary granted to small and medium- sized enterprises, mainly family businesses which are aimed at the tourist infrastructure (hotels, agro - tourism facilities, restaurants, catering facilities, etc.) in the development of business and tourism-related activities (touring equipment rental, handicrafts, etc.).

The program also provided training and consultations to the beneficiary free enterprise managers on their business specificity and tourism sector - plans for improvement, as well as training in marketing, management and financial management.

Program involved free trainings for financed businesses. Training programs have been drawn up in the following areas: general information, management, marketing, financial and human resources management, tax liability issues, specific information on business, marketing etc.

There were more than 1,000 proposals presented; the bank has approved nearly 200 applications. 20% of financed businesses were startups and 80% - existed businesses. Almost 2 500 persons were employed.

The agricultural sector is important to the Georgian economy. Recent years have seen agriculture gain greater prominence in the Georgian political agenda. State budget law for 2011 earmarks a 78% increase for the Ministry of Agriculture. Huge steps have been made in terms of attracting FDI to this specific sector. Entities willing to establish agricultural processing enterprises will be able to acquire agricultural land for only 20% of the market price. There is 0% property tax on

small plots of land (less than 5 ha), 0% property tax on property transactions, 0% VAT on primary supply of agricultural products 0%, import duty on agricultural and other equipment Opportunity for privatizing agricultural land (75% of all agricultural land is state-owned), 100% depreciation allowance on investments, liberal labour regulations. [17]

To support workers in the agricultural sector, since the spring of 2013, “Preferential Agro-Credits Project” is carried out, which provides access to financial resource, funds in the form of preferential agro credits. The project involved 12 banks and 2 Micro financial organizations.

With the support of Prime Minister, Ministry of Agriculture has developed a “Preferential Agro-Credits Project”, which was financed by the “Rural and Agricultural Development Fund” and implemented by the “Agriculture Project Management Agency”.

The project started in March 2013. Based on consultation with the banking and credit institutions and suppliers of agricultural production means, there is identified three components of the project:

1. Commodity interest-free credit for small farmers - 0%;
2. Agro preferential credits for medium and large farmers - more than 8% - the (current assets and short-term financing of the purchase of stock)
3. Preferential credits for rural agro - industrial enterprises more than 3% - the (long-term financing for fixed assets and technology).

“Agriculture Project Management Agency’s” Spring Agricultural Program offered agricultural cards to the Small Landowner Farmers. In the framework of the project, 710 000 farmers (possessing up to 5 ha land) over whole country received agricultural cards with amount of 195.8 million GEL (119 million USD). Totally, 700 million GEL were mobilized in agrarian sector this year 200 million of which is dedicated for small land owner farmers supporting project. [18]

Different organizations, institutions, agencies, schools, companies, association etc. provide free training courses for family businesses in Georgia. During 2009-2012, those training were provided by the following organizations: Georgian National Tourism Agency, the Academy of the Ministry of Finance of Georgia, Marketing House, Center for Professional Development, Touristic company Caucasus Travel, Biological Farming Association “ELKANA”, Tourism association. The training courses involves those topics: “Networks and associations to creation/development”, “Practical accounting and taxation”, “Internet Marketing”, “Practical accounting”, “Family hotel owners and tour - operators of successful cooperation”, “Financial Planning and Marketing”, “Business planning and management”, also “Practical Skills Program for Family Hotel Managers”, Computer Courses, Different courses on English Language, Business Basics and etc.

Ministry of Economy and Sustainable Development (MoESD) Launch the SME guide “How to start a Business” in 2011. The business guide covers the ten steps on how to set up a business in Georgia. It presents the most useful information on forms of business entities, required registration and permits/licenses, applicable taxes, trading and fees, access to finance and business consulting, the market analysis and finally presents an excellent guideline on how to prepare a business plan. It also provides contact information which public entity/agency should be addressed in order to receive different services and what specific procedures should be followed.

Pilot survey was conducted for family businesses in Georgia in September, 2013. The purpose of the survey was to collect primary information, report of the current demands and develop conclusions and recommendations also for better understanding family business main characteristics, their unique quality, major problems and challenges. Survey consisted investigating and analyzing existing data, collecting new information and combining existing and new information with an understanding family business development in the country, identifying priorities in order to elaborate conclusions and recommendations for family business further development.

For the survey, main sectors represented family businesses were selected. Family businesses in the country mainly involves: agriculture, tourism, handicraft. Agriculture (included winery), tourism (family owned hotels, restaurants, cafes), handicraft were selected for a pilot survey. To study these fields several qualitative and quantitative methods were used. Key players were identified in each sector, such as large businesses, main exporters, regulatory bodies, training centers etc.

The quantitative part of the survey included 20 companies. The sampling frame was taken from the Georgian National Statistics Office and National Tourism Administration database of active and registered businesses. In some sectors, for example in agriculture, the companies were selected with some limitations, as many of family businesses there are not registered. Almost 50% Georgian population lives in rural areas and is

involved in agricultural activities. Simple Random Sampling (SRS) of companies was used for the survey. For tourism sector selected companies included family owned hotels, family restaurants and family cafes. The survey was carried out through telephone calls. If after three attempts the selected company did not answer the phone then the selected company was replaced with the next one from the sample until 20 companies were reached in each sector. The questionnaire with open-ended questions and multiple-choice questions was used as an instrument for phone interviews.

FINDINGS AND CONCLUSIONS

Survey results identified following findings and Conclusions:

- ✓ 55% of Family Businesses consider themselves as successful in Georgia;
- ✓ Majority of them (45%) started their businesses less than 5 years ago and half of the companies employed 3-5 persons;
- ✓ 90% of registered family businesses are Individual Enterprises;
- ✓ 70% of family businesses attended trainings, courses in foreign languages are most required training among family Businesses;
- ✓ Main problem is identified as lack of financial recourses (55%), then follows lack of education (25%) and lack of technology (10%);
- ✓ 45% of investigated businesses consider financial aid essential for family business further development, while 25% considers free trainings important;
- ✓ Majority of family (75%) businesses are using internet as a method of advertisement;
- ✓ Many SMEs, especially micro and small enterprises, are Family Businesses;
- ✓ Family Businesses are very important for a country as 94% of registered enterprises in the country are SME's, while 83% - are small businesses;
- ✓ Family Businesses in Georgia are mainly operating in agriculture, tourism and handicraft;
- ✓ Free training courses for businesses create new opportunities;
- ✓ Government's effort to create favourable environment for Family Businesses, including simplification of company law, reducing bureaucracy, easing taxation and providing financial resources have a positive effect on business development.

FAMILY BUSINESS PORTRAITS

➤ *"Iago's Wine"*

The company's primary business activities are ecological wine-growing and wine-making. The company was founded in 2003 and 5 family members are involved in Business.

The company received a bio-certificate for vineyard and for enterprise. The enterprise owns 1 ha of vineyard and a small wine cellar (marani) in village Chardakhi, Mtskheta Region. The vineyard is situated on Mukhrani valley, which is one of the best and historically well-known sites in Georgia.

At present, the company produces approximately 1,200 - 1,500 bottles of dry white wine named "Chardakhi".

The company performs all winery and wine-making operations only by traditional and environmentally pure methods. Wine is made with one of the best Georgian wine species "Chinuri". Wine is pressed by a traditional method, with feet in the wine-press. Then, the wine is fermented and stabilized in the clay pitchers, which are 3 centuries old.

In 2006, Italian company, which is involved in natural production got interested in the production of the enterprise and the first export was made to Italy in the same year. Subsequently, wine "Chardakhi" has been exported to Italy by the assistance of the company. Iago's Wine exports its production to USA and England as well. At present, company desires to expand its business.

➤ ***Family Hotel “Samtsikhe”***

Family Hotel “Samtsikhe” is located in the heart of Dartlo village, Tusheti region, Georgia. Located in the northern slopes of the Greater Caucasus Mountains, in Tusheti (protected territory), there is a church which enters into the checklist of UNESCO World Heritage.

Hotel was founded in 2008 with the World Bank assistance. 3 family members are involved in the business and the hotel consists of 5 guesthouses. About 40 travelers are able to check in the hotels simultaneously.

➤ ***Family Hotel “Bakuriani”***

Family Hotel Bakuriani was founded in 2001.

Hotel is located on a ski resort on the northern slope of the Trialeti Range, at an elevation of 1,700 meters (5,576 feet) above sea level.

The business benefitted from the government’s support as part of a state program 2007. 4 family members are involved in the business.

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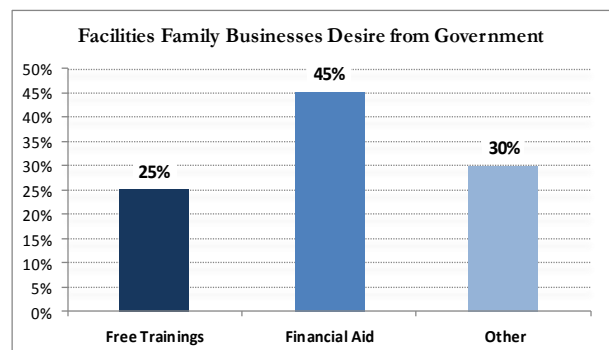
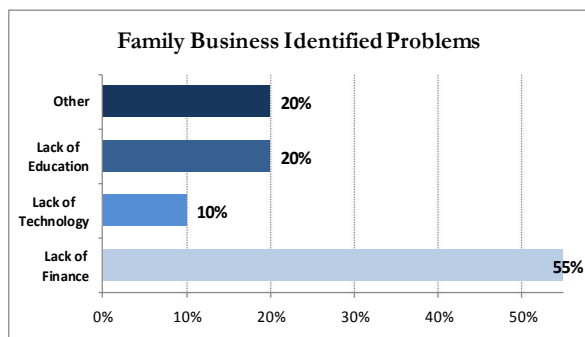
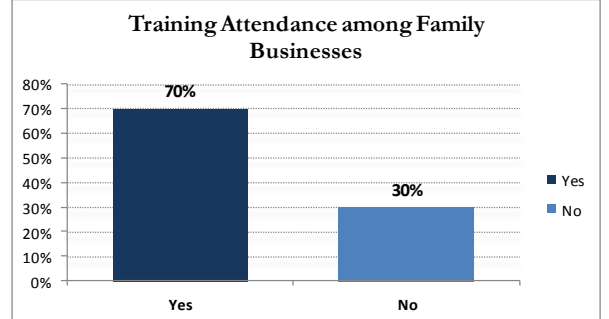
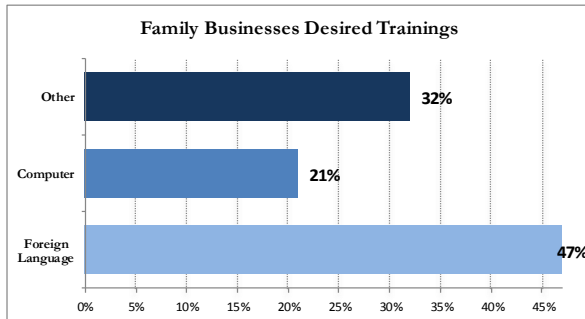
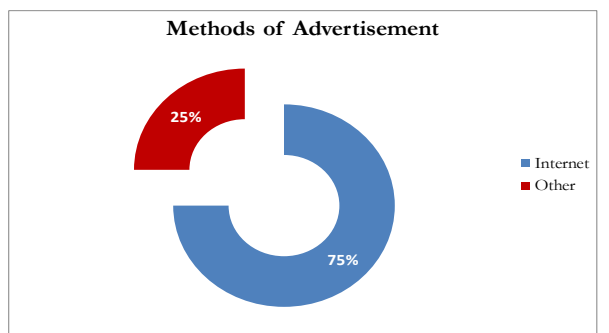
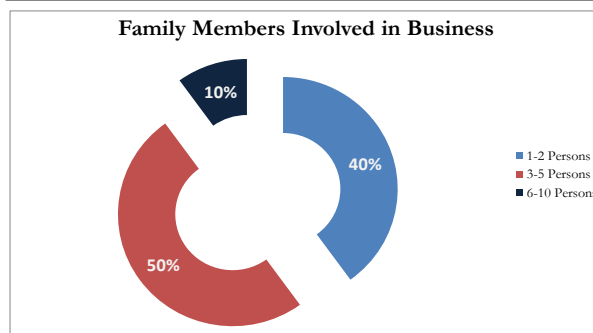
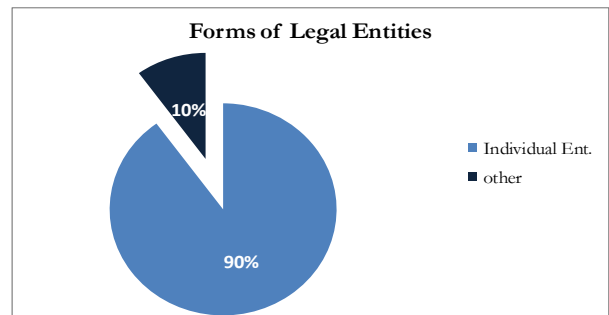
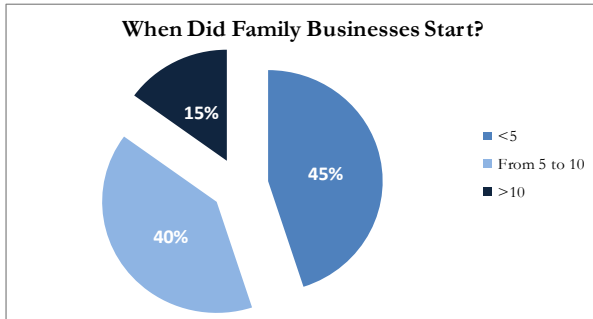
ANNEX 1

Number of enterprises in your country	54,324
out of them SMEs	50,983
individuals - solo proprietors acting as FB	24,593
Number of employees in your country	1,724,000
out them is SMEs only	229,057
individuals - solo proprietors acting as FB	48,353
Share of contribution of the FB to GDP in %	N/A

Data of National Statistics Office of Georgia

ANNEX 2

Pilot Survey results



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THE MORAL AND SPIRITUALITY LIKE A SOURCE FOR INNOVATION MANAGEMENT**ABSTRACT**

There can be observed many phenomena in Slovakia, characteristic for unsustainable management: autocracy, bureaucracy, incompetence, manipulation, cupidity, exploitation etc. They follow directly from mainstream instrumental and utilitarian (materialistic) economics paradigm and are included in the management (leadership) praxis. The main consequence of such “practice” is unsustainable and malfunctioning management. It destroys the profitability of companies and the trust of stakeholders. We would like to introduce and to offer an inspiration for better practice: *the moral and spirituality* as a worthy different way. These metaphysical invisible variables, like inner source, bring a new creativity, innovation, change and mainly quality. They can be viewed as human and sympathetic behaviour to all beings and more sustainable profit for everybody. The main contribution for innovation is creation of decentralized and non-hierarchical structures and the leaders as autonomous decision-makers. The validity of our approach can be proved easily by observation and by experiences; outcomes are visible and measurable.

Keywords: Unsustainability, the moral, spirituality, innovation, quality, management

JEL codes: A13, M14, O32, Z12

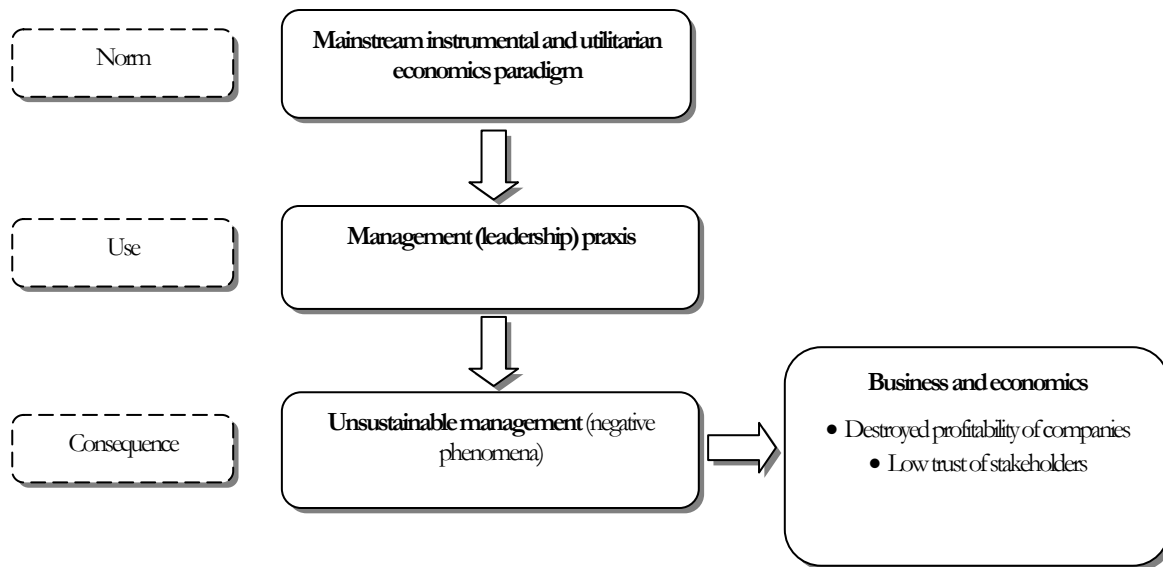
INTRODUCTION

We live in times of rapid changes and transformations. Radical economics and society transformation are observed in Slovakia. We are going from the socialistic totalitarian regime to capitalist democratic establishment. European and global economic crisis raises our situation. This ongoing crisis is inherently not bad because it wants to say us, that the world changes: the industrial age terminates and the information society starts (Lyotard 1984). The process has begun slowly after World War II and accelerates today. For this reason, what played the role in industrial age, today don't work anymore (e.g. mass production, material actives, management and hierarchical organisation etc.). However, the information society prefers production of information, services, education, decentralisation, brainwork etc. (Toffler 1990). The change is not without the pain because the industrial mentality still resists. The consequence is unsustainability. We would like to reflect and identify some signs of current unsustainable management in this paper. Then we will offer the inspiration for change and sustainability – the moral and spirituality. The information society could have a potential to be spiritual because the information is not material but is invisible and untouchable and its presence is existentially important. It is analogical with the moral and spirituality. Both invisible metaphysical realities bring visible and measurable innovations for management. Their contribution for innovation-driven management, structure and leaders, is very fruitful.

UNSUSTAINABLE MANAGEMENT

We would like to present an actual context (Figure 1) and some signs (Table 1) of the current unsustainable management. This will be a start point for our next reflections.

Figure 1 Context of unsustainable management



The “soul” of capitalism (Etzioni 1988) and still dominant point of view (Bouckaert, Zsolnai 2011) is the instrumental and utilitarian rationality, seen as the mainstream norm. The instrumental rationality (Wikipedia 2013a) is the specific kind of thought, focusing on the most efficient or cost-effective means to resolve problems without the participation of normative-affective factors. This type of thinking reduces the mind to the instrument, which is value-free. This “instrumentation” prefers the processes of measurement and control. The utilitarian rationality (Wikipedia 2013b) is based on the concept of two sovereign masters affecting human – pleasure and pain. The empirical man in Bentham philosophy maximizes utility (Bentham 2007); it means maximizing happiness and reducing suffering. Everything is reduced to physical feeling; and the moral reality is reduced to the utility. Bentham introduces a method of calculating the value of pleasures and pains – hedonic calculus. This attitude is naturalistic and radical. Simply spoken, these two mentioned rationalities are using everything as instrument and utility. Their merger, instrumental and utilitarian paradigm, is anti-metaphysical, empirical and materialistic; oriented only to visible and measurable entities. This paradigm became the mainstream in economy during the industrial age (19th and 20th century - capitalism, socialism).

The mainstream economics paradigm and its mentality (Table 1) are present in management (leadership) praxis. We could define some typical lines in this praxis, observed in companies (Table 1).

The unsustainable and malfunctioning management with its negative phenomena (Table 1) come out from this paradigm, mentality and praxis.

It should be emphasized, that *destroyed profitability of companies* and *low trust of stakeholders* are the main consequences of unsustainable management practice for business and society.

The next step is to look at the signs of current unsustainable management (Table 1). The first column is mainstream economics paradigm characterized by its mentality. This paradigm is transformed into the management (leadership) praxis, which is visible and can be observed in companies (the second column). The third column, unsustainable management and its characteristic negative phenomena, follows from these two characteristics.

Table 1 Signs of current unsustainable management

Mainstream economics paradigm and its mentality	Management (leadership) praxis	Unsustainable management and its negative phenomena
<ul style="list-style-type: none"> • materialistic drive 	<ul style="list-style-type: none"> • empirical quantification, • money at any cost 	<ul style="list-style-type: none"> • reducing people to numerals
<ul style="list-style-type: none"> • self interest 	<ul style="list-style-type: none"> • domination, • power, • usage of people 	<ul style="list-style-type: none"> • autocracy, • incompetence, • exploitation
<ul style="list-style-type: none"> • cost-benefit calculation 	<ul style="list-style-type: none"> • only profit maximizing 	<ul style="list-style-type: none"> • cupidity, • misery
<ul style="list-style-type: none"> • techno-rationality 	<ul style="list-style-type: none"> • technocracy, • bureaucracy 	<ul style="list-style-type: none"> • control, • manipulation, • unfreedom, • pollution, • corruption

The first line: The materialistic drive is one of the essential characteristics of mainstream economics paradigm. There is no metaphysical dimension, only visible and empirical reality. The industrial age is tied with the materialistic vision of the world (Marx 1992). The human being like *homo oeconomicus* or *homo ludens* is oriented to conspicuous consumption, to “spend more” mentality, to profit maximizing and to desires (Etzioni 1988). The value of human life is measured only by material goods. The money became almighty. The empirical quantification and “money at any cost” praxis, presented in management (leadership) praxis, are the consequence of this anti-metaphysical approach. If there is no metaphysical reality, nothing after death, no future, no moral, no hope for better live, it remains only cold presence of pleasures and pains. The unsustainable management does not see people in the society and the employees in business as living beings; but they are reduced into the numerals (statistics, indicators, graphs, percentage, and parameters) and they are used as a source of profit.

The second line: The highest priority of today is just self-interest, manifested in radical individualism. Winners, presented by a mainstream media with their successful story, are the strongest people, targeted to self-interest (Forbes 2013). It radically destroys the relationship and community. Visible manifestation of this mentality can be observed as domination in leadership praxis. Supervisors perform authority over subordinates very severely. Everybody wants to rule. Desire to have a power is an engine of the career rising in this power struggle. Summing it up, it necessarily leads to autocracy and incompetence. There are many incapable and incompetent autocrats without moral in the structure of unsustainable management. Only such people are able to maintain the static bureaucratic structure. Moreover, worst of all, the autocrats use people for their interests, exploit their and then throw them.

The third line: The other characteristic of the mainstream paradigm is the cost/benefit or input/output calculation (Lyotard 1984) which is dominant approach of the empirical utilitarian man. He calculates everything by cost/benefit, input/output, profit/lose, pleasure/pain mode. The management praxis is utilitarian and inspired by Win/Los strategy oriented to only profit maximizing. Where is no potential profit, there is no action. The altruism and sacrifice are madness from this point of view. The cupidity is the main driving force for profit maximizing in management, which is not sustainable. It destroys relationship, human beings, and companies; and produces misery of thousands people over the world. The illusion is that we often see only few successful rich people, but misery of thousands, behind the scenes, does not (Ziegler 2002).

The fourth line: New techno-rationality is a new episteme of our epoch and is becoming a mainstream paradigm. It means radical epistemological, ontological and socio-material changes of economics and society. The post human high-tech culture predominates (Haraway 1991). Rapid growth of information and

communication technologies creates new hegemonic economies/corporation/leaders of knowledge/power (Weber 2010). Because of this, technocracy becomes a part of management praxis, and is closely related to bureaucracy where the personal approach is missing and the autonomous people are not needed. The people are under the control and manipulation of technocratic management. It causes unfreedom for masses (e.g. debt slavery) and we become the societies of control (Deleuze 1992). The corruption is *modus vivendi* in this type of hierarchical or technocratic companies. The technocracy produces pollution of nature but also of human life, which could be observed everywhere (Vladykova 2012).

THE MORAL

We would like to introduce and to offer one of the inspirations for better practice – *the moral*. It could be answer to unsustainable management of nowadays. The main question is what we consider under the moral. In history, there can be seen many philosophical, ethical and religious theories concerning the moral and its cognition and applications. The moral could be understood better by looking for answers and differentiating by the use of theological methodology (*positive* and *negative theology*)ⁱⁱ. This method will be modified for our goal. Our limited mind would like to capture the moral by the human terms, still more redefined and sophisticated. However, it is never the whole reality, only one part. The first step is to negate all attributes and labels of all ideas and concepts we create about the moral. The next step is the reflection about the moral by the means of limited reason and contact with reality. Mind creates visible, representative symbols and images, whose themselves are in the form of elusive - metaphysic. These both steps are complementary each other.

At the beginning, using our methodology, we have to ask two questions: *What the moral is not? What the moral really is?*

The first step is to tackle the simple question: what the moral is not?

Particularly, the moral is not a *law*. From the age of Enlightenment (18th century), the morality has been reduced to law. Civil law, approved by legislative power (parliament), occupies larger and larger space. It is the big mistake, because the moral is much profound than civil law. Many examples in modern history, that law can be amoral and against human morality (e.g. Nazism and communism in 20th century) can be observed. For this reason, law has to be based on morality and not to take competencies instead of the moral.

The moral is not *humanism*, *altruism* and *philanthropy*. Executive and companies usually consider this attitude adequate. The establishment of foundations and supporting charities are very good way how to become moral, but it do not suffice. The moral is much more complex and profound.

The *sentiments* and *emotions* are not the moral. This obvious reduction appears in the works of many authors and ethical theories (eudemonism, enlightenment, utilitarianism etc.). Something such volatile and unstable as “feeling” cannot be the base of the moral judgement. Famous philosopher I. Kant was strictly against the presence of “feeling” in the process of moral reasoning (Kant 1997).

Nowadays, the moral is more and more frequently replaced by *ethical* or *social construct* (sometimes based on an agreement). The evolutionary and socio biological ethics constitute the mainstream. Just a little smart observer quickly realizes that is not the true. The essence of evils (e.g. murder, theft, pillage, rape, lie, war etc.) and of goods (e.g. love, true, justice, responsibility, dignity, life, trust, nature, beauty etc.) was and still is the same. It does not matter whether it was Antiquity, Middle Ages, Modern Times or Information society. In the last century, the existence of the people, who practised good in hell Nazi concentration camp or soviet gulag, could be the confirmation, that the moral is common for human nature. The source of morality, good and humanity was not destroyed neither by the brutal tyranny of Nazi and communist killers (Fest 2001; Knopp 1998; Marie 2001).

In addition, the last point, the moral is not *any simplification*. Many people degrade the moral into simple commands and prohibits, and then it is necessary just to obey but not to think. The totalitarian systems and their autocrats love obedient and passive attitude of such people. Obviously, the moral is much more complex and requires critical thinking and decision-making. Hence, this approach is nothing else but reduction and simplification.

In a second step, we want to answer another question: what the moral really is? The moral as profound phenomenon, could be seen in four aspects.

The moral is *basic invisible metaphysical reality*. It means something behind visible physical (empiric) reality (Aristotle 2000; Aquinas 1981). We do not see it, could not touch it; it is non-material. Nevertheless, it

works; the effects are tangible and visible. For example, values as love, trust, and true are impalpable, but life and relations became nightmare without them. It is our everyday verifiable experience. Denial of metaphysical invisible reality and reliance only on physical visible reality causes the problem of the today empirical human. This is completely materialistic drive approach, which is disastrous for us.

Natural construction and constitution of human being testify that the moral is *basic element* of human being. It means that the moral is the component of the inner structure of human (moral intelligence). The moral intelligence (MQ) implies moral critical thinking and moral acting. This is based on our inner structure (being), not on exterior factors (Hass 2002).

The other aspect views the moral as an *inner source of critical judgement*. People, regardless of the size of their intelligence, decide and invent value judgements in everyday life. They know very clear, what “murder”, “theft”, “corruption”, “lie” etc. means. The existence of these moral judgements in praxis (not at the academic papers only) confirms that human nature has the ability to decide and judge and has some kind of the inner source of morality.

Our last aspect shows us the moral as the *ability to distinguish between good and evil*. We use the words “good” and “evil” not “ethical” and “unethical”, because people generally do not use “it was unethical” or “it is ethical” or “this man is ethical man”. They simply say “it was wrong” or “it is right or good” or “this man is good man” in the real life. Normally, people wish each other not “ethics” but “goods”. We are able to identify good and evil and distinguish between them. Clarity of this differentiation depends on the ability of the internal reflection and self-reflection (Aquinas 1981).

SPIRITUALITY

Spirituality could be the other inspiration for better practice and solution for unsustainable management. Spirituality is not mainstream paradigm but it is an alternative path for our future and us. It is very difficult to introduce the phenomenon of spirituality into management and corporate praxis today. It is caused by many empirical, utilitarian approaches based on anti-metaphysics and materialistic drive, which has, became mainstream paradigm during many decades of the industrial age. It is complicated to abandon materialistic theories and praxis, which do not work in economy. Big confrontation, between materialism and spirituality, was notable in the 20th century. Materialistic and anti-metaphysic systems (Nazism, socialism, and communism) brutally destroyed everything spiritual. They denoted it as unscientific, reactionary, against reason and humanity (d’Encausse 1998; Marie 2001; Knopp 1998). Religion was considered the opium of the people (Marx 1977). It was necessary to “set them free” by terror destroying books, symbols and churches. “Enlighten” communists persecuted, tortured and killed many “diehards”. And result? Dictators and their hangers-on died or were murdered and materialistic systems failed (they ended up on scrap heap of history). However, spirituality and faith are still present in 21st century and there is a huge hope for the future victory of spirituality.

In our reflection, the concept of spirituality of the SPES Forumⁱⁱⁱ will be useful. This concept is rich, intercultural and multilayered. The working definition is: *Spirituality is people’s multiform search for a deep meaning of life interconnecting them to all living beings and to “God” or “Ultimate Reality”* (Bouckaert, Zsolnai 2011, p. 7).

According to Bouckaert and Zsolnai, the spirituality functions as a) a suitable platform for *interreligious dialog*; b) a *public and vulnerable good*; c) a *profane good*; d) an *experience-based good*; and e) a source of *inspiration* (Bouckaert, Zsolnai 2011, p. 7).

We can find some elements, which are common in most definitions of spirituality in worldwide:

The first element is that spirituality is the *reconnection to the inner self* (searching for inner identity). The human being is not only body (flesh) or machine, but it is also a soul (inner self). Our inner identity is our personality. Agree with personalism (Wikipedia 2013c), the human being is a person living in relationships.

Search for universal values that lifts the individual above egocentric strivings is another element. Everybody could agree that our interests are so much often selfish and egocentric. Spirituality could help us to overstep these characteristics. Humanity, honesty, decency etc. - universal values are the consequences of this transition.

Deep empathy with all living beings is very important element of spirituality. This connectedness follows from the inner spirituality and experience. Fraternity of St. Francis of Assisi is very good and still actual example. His fraternal approach to all living beings (people, nature, animals, flowers, and whole creation) could be great inspiration for us (Celano 1988).

The last element is spirituality as *desire to keep in touch with the source of life*. This transcendence is the base

for our *élan vital*, for better practice and meaningful life. We can see many internal and external “source of death” which paralyze us in our everyday life. For this reason is very important to be in touch with the source of life.

Before passing further, we still have one more remark related to *validity* and *reliability* of the moral and spirituality. We have to take into account following three observations:

- 1) The moral, spirituality, virtue or value *is not* measurable in its metaphysics form.
- 2) However, their presence, outcomes, consequences are *visible* and *measurable* in management and financial status of the companies (SME companies or generally).
- 3) This can be verified by *data collection* and *analysis* using quantitative and qualitative methods.

INNOVATION FOR MANAGEMENT

As we have seen, the moral and spirituality are invisible metaphysical variables and inner source. We will show that they bring visible innovation for management: *change*, *creativity*, *quality*, *human behaviour*, and *sustainable profit*. We want to mention briefly each proposed innovation.

Change

By the applying of the moral and spiritual approach, the change could be seen in these levels (Sustainability 2012):

Mentality:	Unsustainability → sustainability
Leadership praxis:	Selfish management → transformative leadership
Practice of economics:	Materialistic drive → value-driven economics

Creativity^v

Nowadays, creativity is one of the most necessary features in business, where everything is changing. Do we really know what it means to be creative?

An *enriched perception* of the reality is its main expression. This perception rejects every technocratic and empirical reduction and stimulates a looking for new approaches. Reality is more complex and richer in possibilities, than we can imagine. We can see not only numerals, graphs and statistics, but we are able to see living human beings with their potentiality behind these indicators. Similarly, static structure of managing systems or software is replaced by flexible changing corporate processes.

Creativity brings *new view of matters* and *new thinking*, as it can be seen among artists. It seems that artists and managers do not pass together. Chaotic, emotional and uncontrollable life, often without money is usually regarded as typical for the artist. On the other hand, successful manager is somebody in expensive suit, with the cold and unemotional mind, earning a lot of money. Our ideas about the artists and managers are blocking (Nemcova 2013). If the manager wants to become a leader, he needs to be creative, to think by the new ways.

New behaviour, *communication* and *empathic relations* are the consequences of creativity and its new approach. If the manager is able to see that employee is not numeral but is a living being, then the behaviour, communication and relation could be much more empathic and personal. We need more emotions in management not just cold calculations. To be in a relationship with someone, this requires creativity, since the conditions are under permanent change. The communication means personally unification (from Latin: *comunicare*).

Quality

Our today world is missing quality. If somebody acts according to the moral or spirituality, then it is eminently visible.

Then quality is present in *relations between employees*. They do not need external ethical tools (e.g. ethical code) regulating their behaviour. Many forms of discriminations (e.g. mobbing, bossing) are eliminated before they grow out. Employees do not need strict control, because moral acting is natural for them. They become autonomous moral subjects.

The other manifestation of new quality is visible in *relations to clients* (customers). The client is no longer a source of income, but the employees start to respect him. The client is not misleading and robbing anymore, but he is reliably informed about the products or services. The relation and trust between employee and client, who feel the satisfaction in human and professional approach, rises.

The very important is quality in corporate *processes* and quality of sold *products* and *services*. Amoral totalitarian systems have the opaque and complicated structure and processes. The evildoer is always hiding and those systems allow him to do this. Morality and spirituality bring more transparency and simplicity. Corporate processes and products could be more human, qualitative and transparent.

In general, quality in *corporate culture* is a great advantage. Corporate (company) culture influences every stakeholder (e.g. employee, customer, environment, state, government etc.). Companies have thousands of employees and clients. For this reason, corporate culture is really important. If this culture is moral, it gives goods and makes people satisfied. On the other side, if amoral practice is taken as “normal” (e.g. corruption, riding on state etc.), then the morality and justice become destroyed in the society.

Quality in *environment* could be the last, but not the negligible, benefit. It can be seen in two dimensions: environment as workplace and as ecosystem. The issue of workplace is important, because employee spends daily a lot of time in a work. Hence, the visual quality and quality of the workplace atmosphere have to reflect moral and spiritual standards (Kolodinsky et al. 2008). The ecosystem is not only a space where the employee is living, but also the balance between work and private time (human ecology).

Human behaviour

We can observe many visible and simply identifiable changes by applying the moral and spirituality in human behaviour.

The first change is creation of *respect* and *trust*. Only moral and spiritual approach can create these values, which are crucial in relationship, and relations will not work without them. Business is impossible without trust. Everybody would like to be respected by others, as well as he needs someone to give him trust (Covey 2008).

Another change is *free* and *easy respect to leaders*. Leader should be respected for their professional, human and moral qualities. Then it happens naturally and spontaneously. Leader does not have to abuse his authority. She/he does not need command or coercive means as selfish autocrat, because the co-workers can easily see, that their goodness and success are wished.

The moral approach causes great change in employee behaviour – *loyalty*. Nowadays, this issue of employee’s loyalty is a big problem (Elegido 2012). Managers, owners and companies call for loyalty but it still absents. They expect the loyalty from employees but they are not loyal to them. There is one question: if the employee has not good condition for work (e.g. low salary, no benefits, unethical environment, stupid and arrogant boss, no work contract etc.) what should be the motivation to be loyal? Inherently, the loyalty is reciprocal psychological contract, which have to be mutually building.

The next change is *customer satisfaction*. The moral standards are essential during the sale process. Many unethical problems rise from the amoral sale. A salesperson, without the moral, or company, which robbes customers and then disappears, is clearly not human approach. Only if salesperson is moral and meets customer as important client, then the satisfaction is rising on both sides. Salesperson will have many loyal customers, a lot of sales and more profits. In addition, the customer will have desired product or service on a good price and will feel like a human being, not thing.

Sustainable profit

The maximum profit, often the short-time, is worthless. Amoral approach causes law sales and bankrupt in the end. The moral approach creates *sustainable profitability* of company, which is better in long-term view, rather than one great amoral profit (Ameer, Othman 2012).

The sustainable profit includes *more sales*. It is true that also amoral salesperson or company can earn a lot of money, but only once or during the short-time. The customers are not total idiots; they will not repeat unprofitable business. Only moral approach should cause long-term success. Eventually, this means more sales, more money and more sustainable profit.

Sustainable profit influences the *stakeholders* and underlines their *trust* towards the company. Look at this example: company worked for ten years with tax holiday in particular region and then moved to the place, where cheaper labour force is. How it will attract the people, mainly the ex-employees, living in forsaken and exploited region? Could the stakeholders build a trust into such company?

Sustainable profit supports the *credibility of company*. Only sustainable company has the credibility and profound loyalty of customers. The company may have a profit but not at any price and at the expense of others. Where the credibility is missing, there are no sales, no customers and no profit. Sustainable

management helps to build the credibility of company.

The moral and spiritual approach cause not only sustainable profit but also *long-term success* of company's maintenance. Evil always has short duration and destroys itself and that is the reason, why the amoral companies have no long-term success.

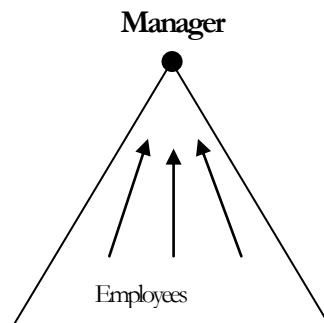
CONTRIBUTION FOR MANAGEMENT

The moral and spirituality are not only the inspiration for management but can make visible contribution for nowadays management. It touches two aspects of management – institutional and individual. The contribution for institutional aspect is *creation of decentralized and non-hierarchical structures*. Moreover, the individual aspect is *leader as autonomous decision-maker*. This contribution is real, visible, radical and necessary for better practice in 21st century.

Creation of decentralized and non-hierarchical structures

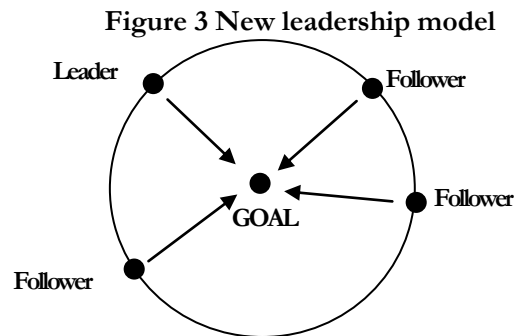
The introduction and brief description of obsolete management model (Figure 2) is necessary for better understanding of new nascent leadership model (Figure 3). Why it is so important? Because we cannot do new things in a usual way, as it was during the industrial age. Management of industrial age works no longer in the information world in 21st century.

Figure 2 Management model of industrial age



As we can see, it is a pyramid, which symbolizes centralized and hierarchical structure. The employees are at the bottom and may rise up systematically by career levels. They watch a manager who is on the top of pyramid, as a “king”. He monitors, plans, decides, manages and controls everything. This structure is keeping together by the bureaucracy and obedience, its main virtue. Autonomy or invention does not have place there, only static and stable operation. The employees are not substantial, they are quickly replaceable, because essential is the structure itself. This model was mainstream paradigm in 19th and 20th century in business (capitalist and socialistic industry) and government (e.g. British Empire, Bismarck, Nazism, and Stalinism). The problem is that it is not finished, yet. Many signs of this non-functional model are still observe in management of many corporations and government (e.g. Slovak republic, European Union). There are always many managers and politicians, who do not understand (are unable to understand) that it does not work like this, anymore.

New leadership model is a circle, without beginning or end, without sides or corners; it symbolizes the unity, wholeness and infinity. Employees are now followers and collaborators and are equal along the circumference of the circle. The leader is one of them. He is their servant and not superior because he is *primus inter pares*. The leader, together with the collaborators, is looking for common goals. The moral (ethics) and spirituality form the base of this model. The personal example of new catholic pope Francis could be the excellent inspiration. Unfortunately, this leadership model is not the mainstream paradigm, but there are many owners and companies who understand, that decentralized and non-hierarchical structure is needed for “change and innovation” in the global world. We would like to present shortly some signs of this new leadership model:



Decentralized and non-hierarchical structure *eliminates bureaucratic approach*. Bureaucracy is one of the worst disasters for the management, entrepreneurship and society. It kills change, innovation and life. This is not cliché, but experience coming out from history (Austro-Hungarian, socialistic and European). If we eliminate bureaucratic approach then there arises more innovation, change, autonomy, flexibility, and life generally. Some SME and family companies are successful through the elimination of bureaucracy.

Less control and formality is characteristic for decentralized structure. Where the self-motivation for common good or goal is, there is control not needed. It is a big difference among “have to do” and “want to do”. Who is self-motivated, does not need external control. She/he controls herself/himself. It can be tested that where is no pressure of bureaucracy, hierarchy, and control, there everybody is less formal. Some companies prefer part of work from home or less formal workplace and dress code. If people feel comfortable in a pleasant work environment then they work better.

The trust is growing between the leader and his collaborators achieving the goals. Non-hierarchical structure is *building trust* by elimination of bureaucracy, less control and formality and supports the personal relations in the workplace (teambuilding activities).

Flexible team approach is the last mentioned sign. For this leadership model to work, we need small and flexible team. The best team contains around 10 – 15 persons. Only in this autonomous team, the individuality of each person and good of community can be developed at the same time. Today, we have many examples in different businesses that teams with small number of collaborators are very flexible and operational. We would like to mention one excellent example from our Czechoslovak business history – Bata Company in 30s years of 20th century. Bata divided company for hundreds of autonomy flexible teams that interconnect together. The employees and teams participated in the profits and losses of the company. The consequence was the economic miracle (Bata 1992).

Leader as autonomous decision-maker

Ethical critical thinking used in this issue has following method:

1. Freedom is necessary condition for existence of moral judgement.
2. The autonomous moral subject is the subject of moral decision-making.
3. Conscience and consciousness are the last instance of moral decision-making of the autonomous moral subject.
4. The moral and spirituality, as the inner source, shape and cultivate the conscience and consciousness.

Based on these steps, it is necessary that the leader will be autonomous decision-maker. How this autonomous and moral leader could be characterised?

First, leader is *oriented to the principle*. Leader focuses on identifying the universal principles and values and incorporates these virtue-based (Aristotelian) principles into corporate culture. He follows higher ideals for becoming a better person and obligation to create a more moral corporation and society (Aristotle 2000; Covey 1999; Caldwell et al. 2011, p. 5-6).

The autonomous leader became a *servant* who cares about others. There is a big difference between manager, who governs and abuses everyone for his self-interests, and leader, who serves others and pursues the needs, desires, interests, and welfare of others. We can be inspired by Jesus' words: *Jesus called them to him and said to them, “You know that among the gentiles those they call their rulers lord it over them, and their great men make their authority felt. Among you, this is not to happen. No; anyone who wants to become great among you must be your servant, and anyone who wants to be first among you must be slave to all. For the Son of man himself came not to be served but to serve, and to give his life as a ransom for many.”* (Mark 10: 42-45). One who serves does not lose anything from its identity. On

the contrary, leader who serves stakeholders is more successful in creating wealth and value, and company became more profitable (Caldwell et al. 2011, p. 6).

The moral leader is *humble*. Many executives and managers think that humble attitude is degrading; their honour will suffer. However, this is not true. Humility is the main value for successful management because it accepts reality as it really is, without cognitive mistakes. Pride causes delusion and mistaken seeing of reality. Humble leader is always opened for everything new and real. St. Francis of Assisi symbolises humble and poor servant (Celano 1988). His spirituality persists 800 years and he has still thousands of followers and sympathizers worldwide today. Deep personal humility and humble approach is the sign of the great humanity.

The autonomous leader has *authentic* and *charismatic influence*. Charismatic leader creates a strong personal bond with followers. She or he is paying attention, inspiring hearts, touching souls and helping followers and companies to fulfil their potential. This authentic and charismatic leader inspires and empowers others in the pursuit of a great ideal or goal (Caldwell et al. 2011, p. 3-4).

CONCLUSION

We have no doubt that the observation, experience, data collection and analysis could confirm the validity of the theses, which we have discussed in this paper. The most important are:

- Utilitarian and materialistic economics paradigm, which is included in the leadership praxis and in the malfunctioning management, is just unsustainable;
- The moral and spirituality are inner sources and inspiration for better practice – for innovation in management;
- The moral and spirituality are the base for sustainability of organizations today;
- They bring innovation: change, creativity, quality, human behaviour and sustainable profit;
- The autonomous leaders and decentralized non-hierarchical structures are the main contribution for Innovation Management.

We know that change does not occur suddenly and established management will not change by itself. Any system (management) is not unchangeable and absolute. How impersonal and anonymous the system seems, it is formed by human beings, as each structure in human society. Only human beings can think critically and make moral or amoral decisions. Managers, leaders, owners, entrepreneurs, employees, followers are autonomous moral subjects and system depends on their actions. To conclude, the choice is up to us: to maintain the unsustainable management, economics and world or to start building a new sustainable economics and world which will be better for all living beings in this Earth.

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NEWS



**WORLD COMPETITIVENESS CRITERION OF THE MONTH
JANUARY 2014**

Most countries complain that “under education” is a major hindrance to their competitiveness. The latest PISA report conducted by the OECD outlines again the strong performance of Korea, part of China, Switzerland and Finland on students achievement in sciences. The criterion of this month corroborates the same trends, although taking a wider scope on education and competitiveness. But could “better” be an issue? Are we now – sometimes – overeducating the next generation? Competitiveness does not rely solely on university graduates but also on an apprenticeship system. Germany, Switzerland or the Netherlands which rely on such a dual track education have some of the lowest unemployment levels.

Education 4.5.11

EDUCATIONAL SYSTEM

2013



» Click here to see the complete list (pdf)

Detailed information and ranking for CEE see at http://www.imd.org/uupload/dm/files/WCC/overall_ranking_pdf-Jan14.pdf

IV International Conference "Innovation as a Tool for Social and Economic Changes"

Geneva, CERN
November 21 -23, 2013

Innovations sector has got the presence of highly talented entrepreneurs. But they need a helping hand at various stages of their growth, so that many of them could graduate into micro, small and medium sized enterprises and grow further contributing much more to the economic growth and development, as formal enterprises in the economy. However, an innovation-focused policy approach is needed, as that only would argument their competitiveness and enhances their employment and wealth generation capacity. Further, there is a need to address issues such as green technologies. Also, training and capacity building needs to be addressed along with creating an institutional mechanism that provide various services to them such as hand holding, mentoring, technology & finance facilitation and providing information to innovation sector at each of the community bloc level. These were some of the recommendations emerged out of a conference organized by **International Investment Center (IIC)**, on 21-23 November 2013 at CERN conference hall, Geneva. IIC is a Russian-based international non-profit organization working for the promotion of sustainable development and international cooperation globally. CERN is a European Organization for Nuclear Research.

The discussion was attended by representatives of UN agencies, universities, businesses, NGOs, micro finance agencies, government agencies and innovation sector entrepreneurs. On 21 November 2013 a visit to CERN facilities was organized by Russian-Swiss Science Association – RSSA (Switzerland). Dr. Yuri Ermolin, President of RSSA, made a presentation about scientific research, conducted in CERN.

Mr. Vincent Subilia, Economic Development Officer, Department of Regional Affairs, Economy and Health, Canton of Geneva (Switzerland), delivered the keynote address. In his address, Mr. Subilia highlighted the need for an international cooperation while dealing with innovation sector enterprises, as that would be crucial in order to enable and empower them to reach out to the global market addressing issues related to quality and competitiveness. He also highlighted the importance of economic development and talked about government initiatives and schemes.

There were more than 15 presentations from different sectors by experts and representatives from associations and chambers. Mr. Andrei Generalov, President (IIC), who moderated the discussion, called for an enterprise focused approach. He said, challenges faced by innovation sector enterprises need to be viewed as a matter of industrial policy and enterprise development strategies. He highlighted the need for a mechanism called Innovation Network to be set up at international level, to reach out to the innovation-focused universities, NGOs and enterprises at the time of crisis to extend a helping hand.

Others who made presentations were Mrs. Chitra Radhakishun, Manager, UNCTAD Project on Dispute Settlement in International Trade, Investment and Intellectual Property, who highlighted the importance of UNCTAD efforts in this field; Prof. Riccardo Crestani from Padova University (Italy), apart from giving a macro overview of the innovations sector, addressed specific economic development project on community level. He also talked about other initiatives by NGOs involved in the innovations sector. Dr. Michel Léonard from Geneva University (Switzerland), talked about Smart Cities Initiative. He explained how this approach could empower and help people and contribute towards the sustainable development. Dr. Sorin Axinte, General Director of MINATECH (Romania), talked about how training programs and other opportunities offered by business incubator would be of use to innovation entrepreneurs. He also talked about innovation sector enterprises reaching out to global market by enabling them to export their products and services. Services and consulting support that are available at MINATECH would be of use to international initiatives, he added.

Professor Emmanuel Tsesmelis, Senior Physicist of Director-General Unit at CERN, had presented objectives, vision and mission of CERN to the participants. Mr. Enrico Chesta, Head of CERN Technology Transfer and Intellectual Property Management Section, introduced brief innovations and technology transfer activities report of CERN.

Also, those who talked and participated in the discussions were Dr. Andrey Kuznetsov, Moscow State University (Russia); Mr. Gilbert Chopard, Head of SATOM Ltd (Switzerland), Dr. Yury Gorshkov, Vice-Rector of Moscow Institute of Physic and Technology (Russia); Mrs. Stephany Tsomakaeva,

Director of Ost-West Ltd (Germany); Dr. Yury Alekseev, Head of Research Center and New Technologies Organization "Optima-Project" (Russia); Ms. Dina Melnikova (Microfinance Project, Russia), Mr. Sergey Lesin (Russian State University of Oil and Gas), and others.

Earlier on the day, Mr. Evgeniy Vakulenko, Second Secretary of the Permanent Mission of the Russian Federation to the UN Office in Geneva and other International Organizations welcomed the audience as a representative of Russian government and talked about the importance of international cooperation.

Mr. Andrey Generalov, while concluding, put across recommendations and suggestions that emerged apart from what was prominently repeated in the discussions. All participants, in their final remarks, highlighted important points discussed and adopted the conference resolution. **The Vth conference on innovation development and international cooperation will be held in Geneva in April 2014.**

CONFERENCE RESOLUTION

From 20 to 23 November 2013 at the European Organization for Nuclear Research (CERN, Geneva, Switzerland), was held the IV International Conference "International Cooperation: Innovation as a Tool for Social and Economic Changes."

The conference was conducted by the International Non-profit organization in special consultative status with ECOSOC UN "International Investment Center" (Russia) and the Russian-Swiss Science Association (Switzerland) supported by Russian Ministry of Foreign Affairs, European Organization for Nuclear Research (CERN, Switzerland), Marketing Research Foundation (Russia), Research Center and New Technologies Organization "Optima -Project" (Russia), ERENET - Entrepreneurship Research and Education Network among the Central - and Eastern European Universities. The conference was attended by participants from 14 countries, including representatives of the Permanent Mission of the Russian Federation to the United Nations and other international organizations in Geneva, CERN, United Nations Conference on Trade and Development (UNCTAD), the Government of the Canton of Geneva, University of Geneva (Switzerland), Padua University (Italy), Moscow State University (Russia), Moscow Institute of Physics and Technology (Russia), Russian State University of Oil and Gas, named after Gubkin (Russia), etc.

The purpose of the conference to discuss actual problems of innovative development in the economic and social spheres in Russia and the world on the basis of modern forms of integration of science, education and industry, as well as the expansion of scientific relations between Russian and foreign specialists by sharing knowledge and scientific achievements.

The conference was conducted in three fields:

1. NGOs and their work with the UN system
2. Innovations and modern trends in the development of territories: technoparks, technopolises
3. Protection of intellectual property and commercialization of innovations
4. Social innovations.

The conference was attended by representatives of government, public organizations, institutions of higher education, business, international and non-profit organizations.

Conference included the following forms: a plenary session and round tables. Conference participants noted the high level of presentations.

The conference noted that the innovative development is a key element in the development of modern society, able to overcome the technological and social gap between countries at different levels of economic and social development and correlates with the Millennium Development Goals (MDGs), announced by the UN.

In the developing world engineering education is aimed at developing future professionals in the field of engineering and technology and does not provide only certain knowledge and skills, but also specific competencies focused on innovation-oriented career in high-tech industries in various industries.

Amid the global economic downturn transition to nanotechnology, "green" energy and other forms of innovative development there is an urgent need to establish a fundamental practice-oriented training through continuing education.

According to the results of the conference the following decisions were taken:

1. To thank Ministry of Foreign Affairs of the Russian Federation, Permanent Mission of the Russian Federation to the United Nations and other international organizations in Geneva , European Organization for Nuclear Research (CERN , Switzerland), Marketing Research Foundation (Russia), Centre for research and new technologies "Optima -Project" (Russia), ERENET - Entrepreneurship Research and Education Network among the Central - and Eastern European Universities (Hungary) for their support for the IV International Conference "International Cooperation: Innovation as a Tool for Social and Economic Changes", held at CERN on 20-23 November 2013.
2. To ensure the continuity of the scientific community in the preservation of the older generation of research and transfer of knowledge to the younger generation of scholars and practitioners.
3. To appeal to international organizations, like UNESCO and other relevant UN bodies on the question of establishing a data bank (intellectual property depositary) in Geneva.
4. To hold a Vth conference on innovation development and international cooperation in April 2014 and notify in advance potential participants of the conference, to form a section of speakers at previous conferences with a view to increasing the applied nature of knowledge obtained at the conference.
5. Enlarge amount of invitations to the next conference and invite people from the non-profit sector, working in similar areas of public life.
6. Publish a collection of conference presentations in Russian and English languages.
7. Share conference presentations in the public domain at the Internet.
8. To consider the issues of joint development and international cooperation as one of the topics of the following conferences.
9. To schedule a conference on the legal regulation of international activities (WTO and dispute resolution).
10. To attract the attention of mass-media to organization and results of the conferences.
11. To direct resolution of the IVth conference to international organizations to the UN Commission for Scientific and Technological Affairs, UNESCO, UNCTAD.
12. To exchange information on a regular basis between the participants of all IIC conferences in innovations
13. To create a steering committee for preparation for the next conference
14. To suggest replacing the phrase "intellectual property" in the context of the use of open access to the expression "information domain".

For more information, please contact at:



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PRESS RELEASE Brussels, 5 March 2014

Cyprus Business Communities committed to back up the re-launch of the negotiation process



From left to right: Günay Çerkez, Arnaldo Abruzzini and Phidias K.Pilides

Following the re-launch of the Cyprus negotiations on 11 February 2014, the President of the Cyprus Chamber of Commerce, Mr Phidias K.Pilides and the President of the Turkish Cypriot Chamber of Commerce, Mr Günay Çerkez met today in Brussels under the auspices of EUROCHAMBRES' Secretary General, Mr Arnaldo Abruzzini. The two Chambers are committed to discuss how they could together concretely contribute to the success of the negotiations.

The following joint statement has been adopted at the end of the meeting:

JOINT STATEMENT

The Cyprus Chamber of Commerce and Industry and the Turkish Cypriot Chamber of Commerce being the leading representatives of business and economic activity in Cyprus met today in Brussels in the presence of EUROCHAMBRES and have reaffirmed their conviction expressed in their recent joint statement that a comprehensive solution of the Cyprus problem will bring considerable benefits to all sectors of the economy and consequently enhance the welfare and prosperity of all Cypriots.

In this direction they applaud the agreement of the two leaders to resume the talks for the settlement of the Cyprus problem based on their joint declaration of 11 February 2014. The status quo is indeed unacceptable and its prolongation will have negative consequences for the Greek Cypriots and Turkish Cypriots. The Chambers agree that a settlement would have a positive impact on the entire region, while first and foremost benefiting Turkish Cypriots and Greek Cypriots, respecting democratic principles, human rights and fundamental freedoms, as well as each other's distinct identity and integrity and ensuring their common future in a united Cyprus within the European Union.

Finally the two Chambers reiterate their commitment to contribute to the process and are ready to support the efforts of the political leadership. They can particularly contribute to the creation of a positive

atmosphere and the efforts of implementing confidence building measures, as these are areas the two Chambers have been working on for some years now. We have ahead of us a great opportunity to achieve a lasting, **just**, viable and functional **solution to the Cyprus problem** and we owe it to the future generations of our country to do so. The two Chambers will do their utmost not to fail them.

Further information: Mr Arnaldo Abruzzini, Tel. +32 2 282 08 51, abruzzo@eurochambres.eu

Press contact: Ms Susete Sampaio, Tel. +32 2 282 08 66, sampaio@eurochambres.eu

All EUROCHAMBRES' press releases can be downloaded from
<http://www.eurochambres.eu/Content/default.asp?pagename=Pressreleases>

Connecting **business to Europe**

EUROCHAMBRES – The Association of European Chambers of Commerce and Industry represents over 20 million enterprises in Europe – 98% of which are SMEs – through members in 43 countries and European network of 1700 regional and local Chambers.

MICROENTERPRISES IN THAILAND



Photos © by Antal Szabó



EIB CONTINUES SUPPORT FOR EUROPEAN SMEs – STRONG FOCUS ON INNOVATION

Release date: 13 March 2014

The European Investment Bank continues its strong support for small and medium sized businesses (SMEs) and mid-cap companies in the European Union. The EIB also puts strong emphasis on investments in innovation. EIB President Werner Hoyer stated: “SMEs are the backbone of the European economy and the main provider of jobs. They will remain a top priority for the EIB Group this year.” He also said: “Given the global competition, Europe has to enhance its long-term growth potential by supporting investments with strong positive external effects like research, development, innovation and infrastructure. Europe must unlock its bottlenecks to sustainable growth.”

The EIB’s Board of Directors today approved loans worth up to EUR 5.6 billion for the benefit of SMEs and Mid-Caps. This brings total EIB support for SMEs and Mid-Caps so far in 2014 to EUR 6.8 billion.

In the field of innovation and broadband infrastructure the Board approved loans for projects worth up to EUR 1.4 billion to strengthen the competitiveness of European business. This includes a loan of up to EUR 750 million for the roll-out of high speed public broadband telecommunication networks throughout France. Another example is the loan of up to EUR 100 million to Gruppo Sorin for financing research and development activities in the fields of cardiac surgery, rhythm management and innovative medical devices addressing heart failure.

Regarding other key priorities of the bank, loans of up to EUR 700 million were approved for strategic infrastructure projects. Up to EUR 455m will go to the area of renewable energy.

At the European Investment Fund, the Board of Directors approved on 12 March 11 new operations through which the EIF will further reinforce its support for SMEs. These deals represent EIF commitments of EUR 388 million and are expected to leverage EUR 1.2 billion of capital.

With these new approvals, the number of EIF deals approved in 2014 amounts to 17, with commitments in the order of EUR 487.5 million and an expected overall leverage of EUR 1.5 billion. The total volume of EIB Group, comprising EIB and EIF, in support of SMEs in 2014 amounts to EUR 7.3 billion.

Press Office

press@eib.org

Phone: +352 4379 21000

Source: <http://www.eib.org/about/press/2014/2014-054-eib-continues-support-for-european-smes-strong-focus-on-innovation.htm>

INSTITUTIONAL PROFILE



EUROPEAN UNIVERSITY

in Barcelona, Geneva, Montreux and Munich

Established in 1973, **European University** (EU) is a triple-accredited, multicampus, international business school. In addition to small, dynamic **classes offered in English**, EU students also enjoy an **international environment** while getting the best of both North American and European academic curricula.

EU offerd innovative **Bachelor** (BBA), **Master** (MBA) and **Doctorate of Business Administration** (DBA) programs, with majors in Business Administration; Communication & Public Relations; Leisure & Tourism Management; Business Finance; Sports Management; International Relations; Entrepreneurship; and E-Business among others. We also offer a one-year **Business Foundation** (BF) program, which prepares students for our subsequent bachelor's programs.

EU Business School has a **global network**, with main campuses in **Geneva** and **Montreux** in Switzerland; **Barcelona** in Spain; and **Munich** in Germany. We offer programs and dual degree programs in United Kingdom, Russia, Kazakhstan, Taiwan, Malaysia, Thailand, U.S.A. and China.

Our 100+ nationality average gives students a truly **multicultural learning environment** and **excellent networking opportunities**.

All courses are taught by highly-qualified faculty members with a wealth of practical experience in their fields. EU faculty works with students on an individual basis to create a cooperative and caring learning environment in which human values flourish. **We provide student-oriented, flexible and personal education programs** for all students.

Our pragmatic approach to **experiential business education**, with emphasis on the **case-study method**, is proven to effectively prepare students for leadership positions in the modern business world.

EU faculty members are leading innovators who work both inside and outside of the classroom to guide our business students' education. European University's high-caliber faculty is made up of full-time academics with doctoral degrees as well as part-time instructors who are also current members of the international professional community. They possess experience as entrepreneurs, consultants and business leaders. This combination of the academic and business worlds supports a unique and exceptional quality of learning.

Source: <http://www.euruni.edu/euruni/About-us/About-Us.html>

RUSSIAN MICROFINANCE CENTRE



The Russian Microfinance Center (RMC) was established in July 2002 in response to the need for an organization which represents and advocates for the interests of the entire microfinance community. While expanding economic opportunities for the low-income households in Russia for poverty alleviation purposes through the development of private businesses and supporting entrepreneurial initiatives, the RMC is actively engaged with charity associated with the enhancement of standards of living in Russia.

The longstanding efforts have received the support of such international recognized charity and development agencies such as United Way International, Citigroup Foundation, the Consultative Group to Assist the Poor, United Nations Development Programme, the World Bank, CAF-Russia and others. In cooperation with them the RMC delivers annual charitable award "Russian Microentrepreneurship Contest" as well as manages scholarship fund for Russian MFIs and low-income households and also implements training programs on financial literacy for aforementioned target group.

In the framework of its charitable activities the RMC is closely cooperating with the UN Advisers Institute on microfinance development which contributes to the integration of the Russian microfinance industry and MSEs into the formal sector of economy.

The RMC's mission is to promote a strong and sustainable microfinance sector in the Russian Federation, facilitate access to financial resources for SME and low-income people, create jobs and improve living standards of the poor.

RMC serves as a resource center for Russia's microfinance industry and a national forum for its interaction with the government, public, and investors; it advocates for an enabling legal environment for microfinance; offers training and professional consulting services to microfinance institutions, and promotes national microfinance standards.

RMC sees its role in promoting the development of the entire Russian microfinance market and consequently, all types of microfinance providers. The Center achieves this by working in the following main areas:

- improve the legal and regulatory environment, taking into account the needs of all legally established forms of microlending;
- develop the industry support infrastructure to facilitate training, promotion of effective methodologies, and involvement of institutions in the sphere of microfinance;
- develop national microfinance standards and promote transparency and investment attractiveness of the industry;
- facilitate information exchange to create a shared information space for microfinance in Russia; organize National and International Microfinance Conferences;
- promote social and economic development by supporting microfinance programs in the regions.

The RMC's key partners include bank associations (the Association of Russian Banks, the Association of Regional Banks), credit cooperative associations (the National Union of Organizations for Mutual Financial Assistance, the League of Credit Unions), business associations (the Russian Chamber of Commerce and Industry, OPORA Russia), and academia (the Higher School of Economics, the Academy of National Economy under the RF Government, the Academy for Management and Market). As of the early 2007, the RMC served a total of about 400 banks and non-bank microfinance providers.

The Center actively engages with international organizations which share the RMC's strategic focus on microfinance as a development priority. These include CGAP, SEEP, USAID, Citigroup, DAI Int., the World Bank, EBRD, the European Union, Barrick Gold Mining, the European Microfinance Network (EMN), MFC, and many other key strategic partners. The RMC Supervisory Board currently includes representatives of 22 major Russian microfinance institutions and their networks (associations), with a combined total loan portfolio of USD 170 million and about 120 thousand active customers.

Source: <http://www.rmcenter.ru/en/about/>

WROCLAW UNIVERSITY OF ECONOMICS

Source: <http://www.ue.wroc.pl/en/>

Wrocław University of Economics is ranked among the top economic schools of higher education in Poland, and an important centre of science and research. Its activities are aimed at maintaining and strengthening the position of the university on regional, national and international levels, improving competitive advantage, and shaping its image of a modern institution, open and friendly to its employees, students, and the environment.



The Wrocław University of Economics provides fields of study as follows:

- Economics
- Finance and Accounting
- Informatics and Econometrics
- International Economics Relations
- Business Informatics
- Management
- Management and Productions Engineering
- Economic Analytics
- European Studies
- Logistics
- Spatial Economy
- Tourism



The students can choose from 40 specializations within the range of courses offered by the faculties.

Education

The educational system at WUE follows the requirements of the Bologna declaration. We apply the European Credit Transfer System (ECTS) and issue Diploma Supplements. The exchange of academic staff and students is carried out under the Erasmus and Leonardo da Vinci programmes. In the academic year 2012/2013 there are more than 100 courses offered in foreign languages to Erasmus students. WUE has 115 Erasmus bilateral agreement and about 60 general cooperation agreement with foreign partners. The courses organized by the University of Economics, which are divided into semesters, are run in one or two level systems and can be attended as full-time day courses, part-time weekend courses and in the form of evening classes. The University is authorized to run an Executive MBA Program for graduates, and is available in a Polish or English language version, and is organized in conjunction with universities from Belgium, France, Ireland, Germany and Great Britain.

Curricula realized in the University include foundation subjects, general and specialist subjects and ensure full complementarity with other European universities curricula, which enables our students to participate in academic exchange and to study abroad as a part of their course. Foreign graduates are accepted here to complete their bachelor, master and doctoral degrees.

The University offers free Polish language courses for the exchange students. The courses are provided during each semester and have two levels for the student to choose: beginners and intermediate. The course content will also help you to get acquainted with the Polish culture.

Key Facts:

- More than 17 000 students
- More than 780 academic teachers
- More than 73 000 graduates
- More than 300 foreign students each academic year

NEW COMING EVENTS AND CALL FOR PAPER



**27-28 MAY 2014
ISTANBUL**

The **17th Annual Conference of the Microfinance Centre** titled **"THE NEW WORLD OF FINANCIAL INCLUSION: WHAT ROLE FOR MICROFINANCE?"** will be held in Istanbul at the WOW Istanbul Hotel and Conventional Centre. The Conference will tackle the implications for the microfinance industry of the concepts of financial inclusion and access to finance.



The starting point will be clear definition around terminology, and what means by the concepts of *access*, *financial inclusion* and *microfinance*. Question will be discussed how these terms relate to each other, what are the policy implications of these definitions and how these play out in practice across Europe, Asia and the rest of the world.

In recent years, access to finance and financial inclusion - rather than microfinance - have increasingly been come to seen as paths to social and economic prosperity. These two concepts encompass more financial and non-financial products and services, new delivery channels and more players (including banks, transfer agencies, mobile companies, etc.). The conference will provide a critical opportunity to debate how microfinance sits alongside these concepts. It will also discuss any threats and new opportunities that can be explored by microfinance.

For registration please go to

<http://www.mfc2014.com/registration-and-accommodation/registration/>

Should you have any question, please contact mfc@guarant.cz or by Phone +420 284001444 and ask fro Grezegorz Galusek or anybody from the MFC Team.

Source: <http://www.mfc2014.com/>



MEB 2014
**12th INTERNATIONAL CONFERENCE ON MANAGEMENT,
 ENTERPRISE AND BENCHMARKING**
30-31 May 2014, Budapest

MEB 2014 is an international conference to provide a forum for presentations and discussions of scientific, economic and business areas. This year we would like to focus on the management, development and competitiveness of small and medium enterprises.

TOPICS within the scope of the conference will include:

- Theoretical studies, modelling and adaptive approaches;
- Analyzing measure, structure and organizational parameters;
- Examining the connection between marketing methods and benchmarking;
- Management and competitiveness of small and medium sized enterprises

REGISTRATION

Prospective participants are kindly asked to fill in the online registration form which can be found on the website.

SUBMISSION OF PAPERS

Authors are asked to submit electronically a full paper by E-mail. After notification please send your camera-ready paper of maximum 15 pages according to the paper format to Tímea Edöcs by e-mail (edocs.timea@kgk.uni-obuda.hu). Acceptable file formats are rtf or doc. Please check the website regarding the paper format.

PRESENTATION

OHP and data projector will be provided for oral presentation. Authors are asked not to use their own laptop, but bring the presentation on pendrive.

AUTHOR'S SCHEDULE

Deadline of registration	31 March 2014
Deadline of paper submission	31 March 2014
Deadline of notification	15 April 2014
Deadline of final paper submission	1 May 2014

Organized and sponsored by **Keleti Faculty of Business Management of the Óbuda University** (Hungary) in cooperation with the **ERENET Network**

For further information see at <http://kgk.uni-obuda.hu/MEB>



FIRST ANNOUNCEMENT!
THE 7th ANNUAL MEETING OF THE ERENET
WILL BE HELD DURING THE MEB 2014
preferable Morning on 31 May



THE GLOBAL BUSINESS PROGRAM FOR INDIVIDUALS AND TEAMS

Who

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- Anticipate global business trends
- Boost your performance
- Broaden your perspectives and expand your global network
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Duration **6 days**

NEW OWP IN SINGAPORE

For the second time in 2014, the program will be offered in two locations: Lausanne and Singapore. In Singapore, the program is based on the same winning format, but focuses more specifically on the needs and challenges of executives and companies operating or planning to operate in Asia.

When: **Program Session 2014**

OWP1 15-20 June 2014, Lausanne

OWP2 16-21 November 2014, Singapore

Fee : CHF 12,000 for the first participant. CHF 9,500 for each additional participant from the same management team and for IMD alumni.

Further information see from the web-site:

<http://www.imd.org/executive-education/owp-home/>

BOOK

QUEST: LEADING GLOBAL TRANSFORMATIONS

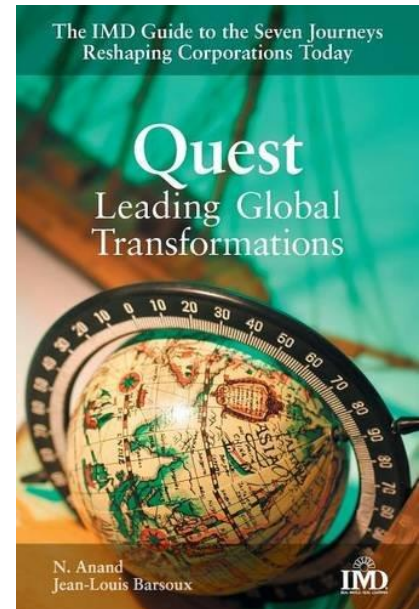
by

N Anand and Jean-Louis Barsoux

"In the past the idea was to make more and better products. Now, we do not provide a product to customers, but a solution. In the past, selling the item was the end of the sale process. Now, selling an item, is the *beginning* of the sales process. Eventually, we want to turn Haier from a product manufacturer to service provider."

Zang Ruimin, CEO of Haier

(**Haier Group** is a Chinese multinational consumer electronics and home appliances company headquartered in Qingdao, Shandong)



In a fast-moving world like ours, there are very few companies that don't undergo transformation. As experts in developing global leaders, the faculty at IMD have accumulated a wealth of knowledge on how companies transform. Today, they share this insight with you.

In the new book launched by IMD "[Quest: Leading Global Transformations](#)," you will learn of the seven transformation journeys, or "quests, that are reshaping corporation today:

- 1 - The Quest for Global Presence,
- 2 - The Quest for Global Value Generation,
- 3 - The Quest for Global Leadership Development,
- 4 - The Quest for Global Solutions,
- 5 - The Quest for Global Agility,
- 6 - The Quest for Global Co-innovation, and
- 7 - The Quest for Global Sustainability.

And for your own development quest or for those of teams, explore the benefits of IMD's [Orchestrating Winning Performance program](#) (further information see at http://www.imd.org/executive-education/owp-home/?MRK_CMPG_SOURCE=webletter-issue02-14&utm_source=DM&utm_medium=em&utm_campaign=webletter-issue02-14).

Source: Real Learning @ IMD Newsletter, Issue 02:2014



The address of the ERENET Secretary sees below:

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