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## CONTENT

<b>WINTER MESSAGE</b>	2
<b>PAPERS</b>	
<b>History, Development and Characteristics of Family Owned Businesses in Turkey</b> Meltem Ince Yenilmez	3
<b>Kurtsan Holding</b> Meltem Kurtsan	11
<b>How Can Enterprises Grow and Shrink in Sustainable Ways?</b> Professor Francisco Szekely and Zahir Dossa	13
<b>The German Experience in Microfinancing</b> Silke Mueffelman	15
<b>Entrepreneurship Education in Israel: Theory and Practice</b> Tamar Almor - Sybille Heilbrunn	29
<b>State Support Policy for SMEs in Ukraine</b> Natalia Kasapska	49
<b>Works Council Agreements as Indicators of Regulated Industrial Relations</b> Béla Benyó	60
<b>NEWS</b>	
• INSIST - Intergenerational Succession in SMEs' TRANSITION	61
• Lessons from 4th Global Innovation Forum, London	64
<b>INSTITUTIONAL PROFILE</b>	
• Kinneret College on the Sea of Galilee	65
<b>NEW EVENTS – CALL FOR PAPERS</b>	
• BSEC-KAS Workshop on SMEs and Small Farms in Agribusiness, Chisinau (Moldova)	66
• MEB 2015 - 13th International Conference on Management, Enterprise, Benchmarking	69
• International Scientific Conference on Corporate Social Responsibility and Human Resource Management in V4 countries, Nitra (Slovakia)	70
• 11th International Conference of ASECU, Cracow (Poland)	71
• Call for Publication by the Gdańsk University of Technology, Faculty of Management and Economics,	72

## WINTER MESSAGE OF THE SCIENTIFIC DIRECTOR



**Distinguished Readers and Friends,**

The New Year begun and brings with it opportunities challenges and expectations. **His Holiness, Pope Francis** in his message to **celebrate the World Day of Peace** as of 1 January 2015 made it clear that "the globalisation of indifference, which today burdens the lives of so many of our brothers and sisters, requires all of us to forge anew worldwide solidarity and fraternity capable of giving them new hope and the help essential to advance with courage to confront the problems we all face. At the same time a welcome must be given to new horizons and the opportunities they offer which which God places in our hands."

Despite the good start there are many serious problems. First, a new plague has appeared in the civilised world in the form of Radical Islam. Its most serious expression is known as the Islamic State of Iraq and al-Sham (ISIS). Their stated intention is to reintroduce the Caliphate, replaced by Turkey at the end of World War 1. ISIS ideology is the most severe form of Muslim conservatism legitimising the beheading and burning alive of prisoners. Iraq and Syria have known the major outbreaks of violence. The message has attracted many European young to volunteer and travel to the war zones. Such propaganda has enhanced racial tensions in industrial countries with the murder of Charlie Hebdo cartoonists in Paris, attacks on ethnic minorities in the UK and Denmark. It carries heightened tension over religious value systems outside Europe as seen in Pakistan and the murder of over a hundred school children by fanatics. Unhappily, it seems there are certain nation states fishing in trouble waters who financially support those who would foment the violence

Poverty, the financial crisis and denial of human rights fuels the endless refugee crisis. The exodus comes from Africa, the Middle East and Kosovo. They come via the sea on rubber boats to Italy and Spain as well as walking through the green Serbian, Hungarian and Austrian borders. At the same time the ending of the Cold War can be seen as temporary. If the Western world unanimously accepted separation of Kosovo from Serbia, it has to acknowledge that Crimea rejoining Russia based on respect for the principle of equal right and self-determination of all peoples according to the Charter of the United Nations. The EU sanctions against Russia over Ukraine crises and Russia's reaction to EU sanctions created hysteria and instead of maintaining peace and good neighbourly relations stirring up feelings of dissatisfaction

As far as ERENET is concerned, we celebrate the 10 year Anniversary this year. Unfortunately, following the lost of one of our founders, Prof. Péter Szirmai, the Small Business Development Centre at the Corvinus University of Budapest is not able to organize a jubilee Annual Meeting. However it is my pleasure to inform you, that on 20-30 May 2015 we shall be co-organizer of the **13th International Conference on Management, Enterprise and Benchmarking MEB 2015** with will be held at the ÓBUDA University in Budapest. See Call of Papers in this issue. We kindly invite our founding members as well as other experts from CEE and CIS countries as well as from the American continent to join us and present the achievement of entrepreneurial education and entrepreneurship development in their institutions, countries during the last decade.

It is also my great pleasure to inform you, that we finished the compilation of the Book on Microcrediting for SMEs in the BSEC Region, which will be printed by the Konrad Adenauer Foundation. Furthermore we are preparing the next BSEC-KAS Workshop on Small and Medium-sized Enterprises and Small Farms to be held in 15-18 April 2015 in Chisinau (Moldova).

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## **HISTORY, DEVELOPMENT AND CHARACTERISTICS OF FAMILY OWNED BUSINESSES IN TURKEY**

### **ABSTRACT**

**This article considers the results of research carried out in the area of family businesses in Turkey which is crucial issue. While much attention has been assigned to analyzing how the characteristics affect entrepreneurial activities, how development of family businesses affect succession process. This study analyzes family businesses with the aim of understanding from the perspective of its characteristics and the issues of family businesses in Turkey. The study also combines supportive policies with challenges of succession family businesses face. The study also considers the top family-owned businesses and hence draws a general picture of this subject in Turkey. In the study the family business definition, the importance of these businesses to the national economy with their characteristics are examined in the first part. Later, types of family-owned businesses with their challenges and opportunities are analyzed since family business generally is subject to change hands in the next years or the ones that has changed hands in Turkey. Than the big family entrepreneurs are analyzed with their unique qualities and the results are discussed.**

**Keywords:** Family-owned Business, Business Success, Family Control, Entrepreneurship

**JEL Classification:** F23, J21, L21, L22, L26

### **THE PHENOMENON OF FAMILY BUSINESSES**

Family businesses is a unique form of business organization and consist of different forms. But the two of these forms are very important which are the family and the structure of the business. Since these two dimensions have quite different rules and values, the companies should form the family businesses in order to use the power of members of the families. In the many researches of family businesses worldwide, it is defined in several ways, but the main point is indicating the business is family oriented. Further, family business is directly related to family's role itself. On the other hand, there is indeed no clear compromise in relevance to the definition of family Business. The contents and purposes are the mutual points of the family business definitions. Ownership, family involvement, family power and control with transferring the family business to the next generation are the common issues whilst analyzing the purpose of family businesses. In brief, families are the business owners(e.g. Donckels and Frohlich, 1991), business managers (e.g. Dunn, 1996) and/or workers (e.g. Shanker and Astrachan, 2003). Due to Bowman-Upton (2009), the control of the business are under the family members whilst Chrisman et al. (2005) states that ownership, management and the succession of the family businesses are directly depending on controlling the firm's behaviours, resources and power which are the components of family involvement. Churchill and Hatten (1987) indicate that the younger family member will get the control of the business from the elder which is the distinctive characteristic of family owned businesses.

Family businesses' performance shows a better performance and financial stability rather than non-family businesses'. Therefore, the share of family members and their authority influences the performance of the business in terms of profitability and stability (Allouche et al., 2008). As the role of family control on financial stability and profitability is inevitable, the most effective management system in terms of succession and sustainability in the business is the key point of the family owned firms. If the family business is controlled by the founders, the business is more efficient due to the research by McConaughy et al. (2001). In addition to this, if the members are also the stock owner of the business and/or family members participate in

management, the firm shows better performance than non-family businesses. Because those firms are better off in profitability and development. On the other hand, since family businesses rejuvenate the market in many ways, it could be regarded as the main figure in the economy of the countries. Indeed, the family businesses are accepted as the most important actors for their contributions to the economy thanks to the fact that they have strong entrepreneurial activities (Lazear, 2002: 1). Most of the researchers from Hayek (1946) to Bianchi and Henrekson (2005) have pointed to the importance of family owned businesses.

In Turkey, the definition of family business does not simply differ from other terms. Companies who employ 1 to 50 are small-sized entrepreneurs whilst 50 to 150 are considered as medium-sized entrepreneurs. However, Karpuzoğlu (2004) defines the family businesses as companies that keep the family together in order to control the business and the positions of the firms in general are controlled by the family members. On the other hand, Koçel (2006) states in his research that family members are the founders of the business and the firms are managed by the members which is also transferred to the next generation. Moreover, since the family is one of the most important association of the society in Turkey, the relationship within the family also affect the business structure. As businesses are classified small and medium sized enterprises, nearly 99,5 percent of SME's in Turkey are mainly family owned or controlled and called as micro-enterprises (Erdoğan; 2007).

For all the definitions for the family business mentioned above express that there are common points and the most used ones in the literature are: the business is started by an entrepreneur from a family, family members are included to the firm later. It has its own cultural, economical, social and ethical form which affect the business as well as the family. The main subject is to control the management of the firm. To sum up, ownership, management and business are the general terms consistent to the family owned businesses.

### CHARACTERISTICS OF FAMILY BUSINESSES IN TURKEY

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

Table 1: Development stages of family businesses in Turkey

	<b>First Generation Family Businesses</b>	<b>Growing And Developing Family Businesses</b>	<b>Complex Family Firms</b>	<b>Family Businesses Achieving Continuity</b>
<b>Ownership</b>	founder/owner	siblings	family and professionals	family and to many professionals
<b>Organization Structure</b>	simple/centralized	simple/ semi-centralized	complex	complex
<b>Decision Taking Mechanism</b>	founder/owner	in the siblings	professional managers and family members	committee consisting professional managers, consultants and family members
<b>Communication</b>	horizontal	horizontal/vertical	horizontal/vertical cross	multi-dimensional
<b>Values</b>	family and entrepreneur values	entrepreneur values	business values	internal and external market values

Source: Karpuzoğlu, 2004 (pp: 124).

If the business is founded by the entrepreneur, it turns out to be a family business. The decision taken here by the entrepreneur is integrating the family members to the firm either for management control or to work in the firm. But the clear point here is that the founder is the owner of the firm and the control of the firm for the crucial decisions is in his/her hands. The main characteristic of this stage is starting up the business by the founder with the members of the family and getting the control over for the wealth of the business. The growing and developing family businesses are the next stage of the family businesses. The business shows an expansion and the decisions are taken not only by the founder, the siblings also get the control and enter to the management. The ownership can be a bit different in this stage due to the number of siblings and their abilities in the firm. The entry of the siblings to the business may result in with the challenges as financial, psychological or emotional. In addition, the future of the business depends on this stage relevant to the career path they want to follow. All in all, it is clear that the siblings of the firm have to withstand the problems faced during the development process and create new opportunities for the next generations in order to be in the business. If family business comes to this stage somehow, that business overcomes most of the challenges. The firm becomes a multi-generational and more complex company that it is more difficult to manage this type of companies than the previous ones. However, the opportunities the firm faces increase the succession which brings loyalty to the firm. As a result, more policies with new innovations and disciplines are taken into consideration for a more successful business. The last stage of the family business is the ones that achieve continuity in the business. The firm is older than many of the family members and the firm already leaves behind the maturation stage. The succession brings along the institutionalization to the business and the business values become more important than the family values. The strategies and plans must be given carefully and dimensionally.

However, the family businesses studies in Turkey are quite less since companies can not pass over the first three stage and collapse in any challenge they face. That is the reason of being only regional or small enterprises. There are four types of family businesses in Turkey:

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

### **THE ECONOMIC IMPACT OF FAMILY BUSINESSES IN TURKEY**

The family businesses that are founded before 1900s and continue their activities until today are just 18 enterprises and do not have more than 100-200 years old history. The life cycle of the family businesses are unfortunately very short in Turkey. The oldest known family firms have reached the fourth generation. When the 50 generations of the oldest family firms are examined, 21 of them have reached the secondary generation, 26 families have reached the third stage whilst just three of those old families - Çağaloğlu Hamamı (1471), Hacı Bekir (1777) and Çukurova Gıda Sanayi (1789)- have reached the fourth generation level.

The companies that started as small enterprises now lead the Turkish economy. There are 3 family-owned businesses that are in the world's biggest enterprises- Sabancı Holding, Dogus Group and Koç Group. Most of the small and medium companies are in the first generation and pass on the management to the next generation. Since Turkish family businesses have a large proportion compared to the world average, they have a strong effect to the national income and the economy.

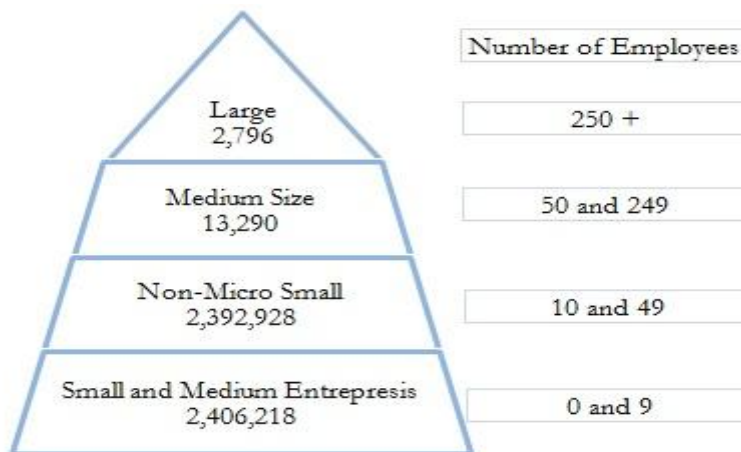
- In 2011, there were almost 3,5 million family businesses in Turkey or four in five of all private sector enterprises.
- The vast majority of these were SMEs, with approximately 3000 large scale family firms.
- 23.4% of family businesses are in Istanbul.
- Yet in the last decade, family firms increase their role in exports by almost 60 percent with a value added contribution of 75 million euro (55,5 percent) to the Turkish economy.
- Family businesses make up of 65% of total production and pays 52% of the wages of the workers.



- Family businesses employed nearly 7.7 million people, accounting for three in five of all private sector jobs.

In Turkey, 43% of the family-owned businesses are in automobile and trade sector, transportation sectors take the part of 16.5%. The construction sector is approximately 14% whilst manufacturing sector is following with a ratio of 13%. Very small number of SMEs take part in health and media sector (2 percent only). There is no family business directly conducted with public sector in Turkey. On the other hand, 49% of family-owned firms receive consulting services whilst giving strategic decisions for the business and 51 percent of firms find it useless. In family-owned businesses, senior managers (44%) gives importance to personal development trainee where only 36% of the middle managers may benefit from those opportunities. 64% of the board of directors are meeting regularly to control the business with healthy decisions whilst 34% of the rest do not. 45% of the members of the business are men and 23% of the members of the business are women. The most important criteria for family-owned business in Turkey is that one of the members of the family has to control the decisions and others/workers (Ince, 2012).

Figure 1: Number of family businesses by size of family firm in 2011

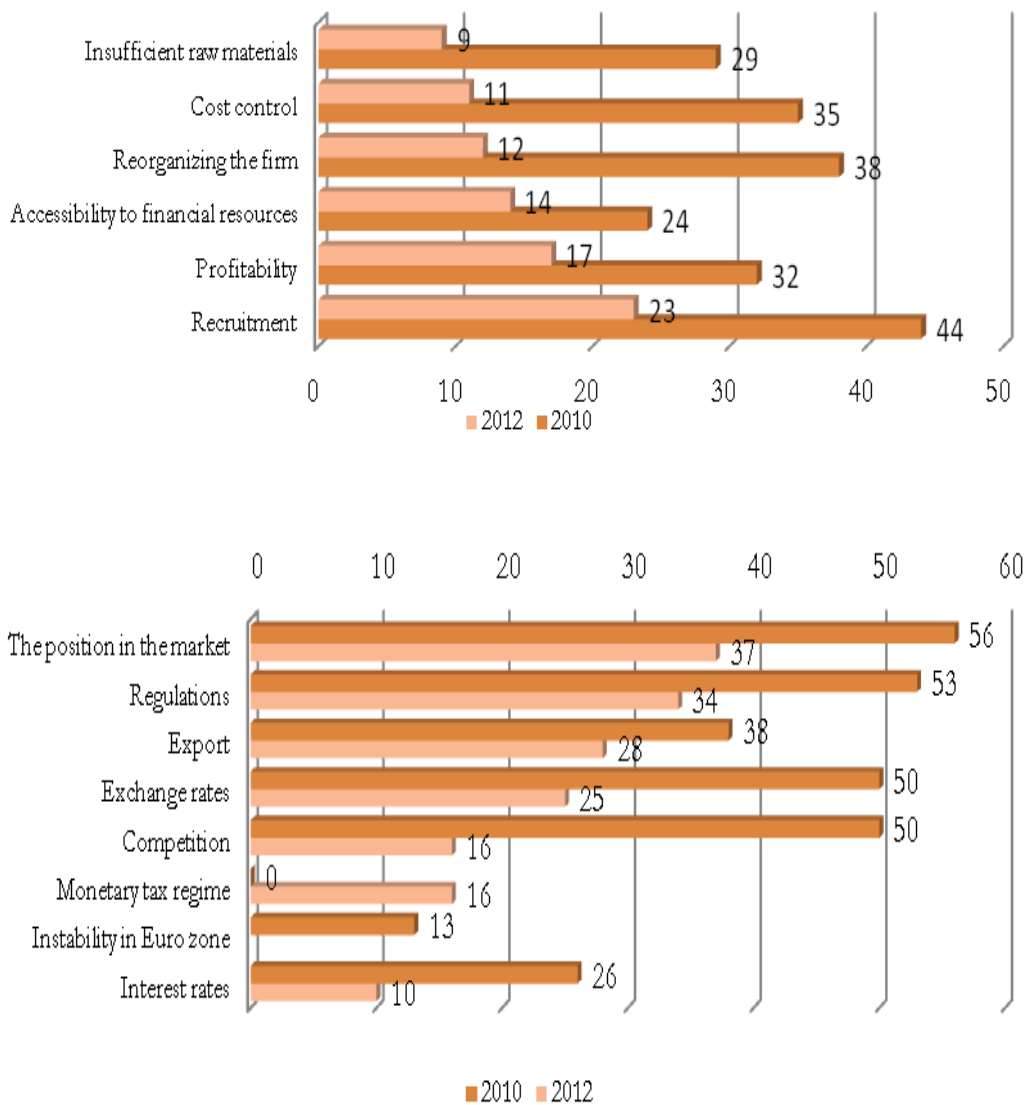


Source: OECD and the Turkish National Statistical Office, compiled by Cambridge Econometrics

## THE CHALLENGES FACED BY FAMILY BUSINESSES IN TURKEY

The Turkish family businesses increased the growth in sales by 81% last year whilst this ratio was just 65% at global level. Only 9% of the total family businesses faced with a decline in sales and the ratio was 19% at worldwide. All the businesses at global level today face the various challenges due to market conditions, however, the family owned businesses in Turkey are concerned less about the economic situation in 2012 compared to 2010. Family firms at global level defined by three external elements: market conditions with 37%, government policies/regulations with 34 percent and competition with 16%. This gives confidence to Turkish family businesses in order to do business abroad (PwC, 2012).

Figure 2: The challenges family businesses face both at national and international level

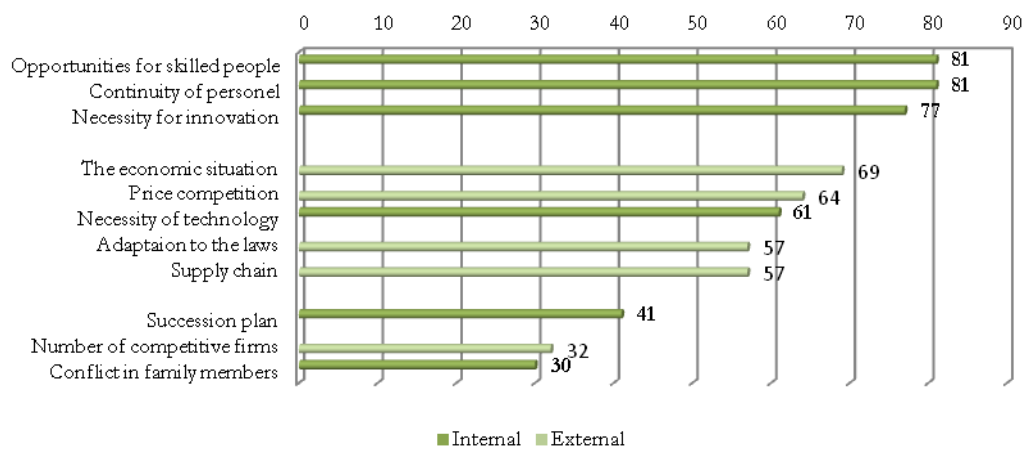


Source: PwC Global Family Business Survey – Results of Turkey, 2012.

41% of Turkish family founders think that handing over the firm to the next generation will cause problems whilst that ratio is 32%. 30% of Turkish family businesses accept the conflict between family members as a natural result and the ratio is 9% in worldwide. However, 63% of the family businesses in global market evaluate themselves as entrepreneurs compared to other companies whilst the proportion is 69% in Turkey. In addition to this, 54% of the family businesses think that they are ready to take on more risks and the ratio is 39% at global level. Family businesses in Turkey give special importance on supporting employment even in crisis environment. They take on serious decisions to prevent the social chaos in the labor market which provides a faster way to overcome the problems crisis causes. 81% of the family owned businesses also agree that social responsibility is important and businesses should increase their participation on these social initiatives. The key issue emerged regarding to the management of the company is innovation. That is 77% in Turkey and it needs priority. Necessity of technology is another area that Turkish family businesses should give special attention. Lack of technical skills, inadequate fundings for projects and

insufficient resources weaken their technological process. In order to be competitive in the global market, innovation and technology are the two vital components to have sustainable and significant growth.

Figure 3: The main challenges expected in the next five years



Source: Science, Industry and Technology Ministry General Directorate of Productivity, 2013

Family businesses wish to enhance the technological capacity, however this sometimes can not be succeeded due to the lack of access to credit and equity. In general, younger entrepreneurs are seen as risky businesses, therefore the financial credit or venture capital are not accessible for them. This will cause lack of technological production. On the other hand, the administrative procedures are so complex to do a business or open up a new business in Turkey. All in all, more family business-friendly environment with simple legal procedures and less registration costs are required. In brief, lack of information, insufficient specialization in the production area, scarcity of resources and moral hazard make it difficult for family businesses to continue the doing business.

## THE MOST WELL-KNOWN TURKISH FAMILY BUSINESS IN INTERNATIONAL ARENA

There are three most known Turkish companies in the world's top 100 family businesses. While analyzing the family businesses in Turkey, Koç Group should be particularly highlighted. It was established in 1926 by Vehbi Koç and the group now makes 9% of the Turkey's national revenue, 11% of the export and pays 15% of the taxes in Turkey (Dünya Gazetesi; 22-04-08). On the other hand, Koç holding is now in third generation. Vehbi Koç left the company to his son Rahmi Koç in 1984 and Rahmi Koç left to his son in 2003. After the succession, predecessors remained as the holdings honor president. ([www.koc.com.tr/kurumsal/tarihce](http://www.koc.com.tr/kurumsal/tarihce)). Vehbi Koç as being an entrepreneur, after starting his business, he decided to establish a holding. The primary thought of this action according to the Vehbi Koç was making his companies continue and pass to the next generations. He professionalized the management of the companies and stayed as the president of board of directors. In the third generation, the members of Koç family are in the board of directors of the companies and the holding. However, Vehbi Koç gave importance to development and raising his son as the next success example. Concerning the development of Turkish family businesses the success factors of them are the improved education of the next generations after 1960's and the foreigner shareholders including in the businesses. Instead of continuing only in industrial sector, company decided to institutionalize. The first enforcement was establishing Turkish Education Foundation to provide donations for educational purposes and to support activities in health and culture. To help family health problems people faced, the company established Turkish Family Health and Planning Foundation. It pays special attention to health care. Therefore; American Hospital, Italian Hospital, MedAmerikan Polyclinic, Nurse Fund, the Semahat Arsel Nurse Education and Research Center (SANERC), and Koç University's Higher Education for Health are one of the health areas that it has invested. However, it has supported many students through scholarships and donations. The Foundation of the company built 13 primary schools around the country and transferred them to the Ministry of National Education. It is also the founder of Koç Private Primary School, High School and University. Not only it provides funds for people who need



assistance, but also it creates job opportunities in more than 113 companies, 14,000 dealers and agencies in the country. The fields it is operating are automotive, food and financial sector, energy, tourism, construction, international trade and durable goods. On the other hand, Koç Turkey Holding employs 45,626 employees with US\$ 4.9 billion corporate income. The highest share of employment is in automotive sector. Just only Tofaş and Ford employs more than 9000 people in automotive market. The second sector that the Holding rank foremost among its competitors is durable consumer goods. More than 7000 people are working in Arçelik and Beko. As can be seen from the figures, Koç Holding's contribution to the Turkish economy is very important (<http://www.koc.com.tr>).

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

The last but not the least is Doğu Holding, This company is one of the top three largest family-owned business in Turkey with 32 companies including one of Turkey's largest banks- Garanti Bank; Porsche, Audi, and Volkswagen dealerships, retailing, food stores, media, energy, construction and tourism. It was founded in 1951 by Ayhan Şahenk with investments in the construction sector. After being a leading builder of Turkish roads, ports and hospitals, it started to add tourism, banking and media to its structure. It has used customer-focused and productivity centered management style in its business and provides workforce to over 30,000 people. It also gives importance to social responsibility and sponsorship projects and focuses on child development, education, environment, culture and sports (<http://www.dogusgrubu.com.tr/en>).

## CONCLUSION

Succession process is an inevitable issue for the continuity of the family owned businesses and the plans prevent to collapse of the business. The success factors for a succession process to be successful are what is desired by the businesses. Arising from the literature in the previous parts of the paper shows that the concept of entrepreneurship still needs special attention in Turkey. The literature is very limited and social norms of the society will not let to gather the specific information and data needed. One of the reasons is that in Turkey, many of the family businesses assume to experience the succession in the near future, but regrettably they fail in the second or third generation due to lack of many issues. The support provided by business development institutions can achieve the objectives only if companies are able to shape and decide appropriately their opportunities. On the other hand, perfect information of the market with low costs and support from governments will have positive consequences for the economy. For instance, with intensified competition, expanding market opportunities, distribution channels and increasing products, family owned businesses need managers that can take strategic decisions and to overcome the problems faced. Therefore, the biggest problem of family-owned businesses in Turkey is having problems in performing difficulties. All in all, they are of primary importance.

However, entrepreneurial programmes for family businesses should monitor the industrial, commercial and social policies that are reflecting the priorities of desperate and oppressed people as women, and young cohorts. Furthermore, providing credit subsidies for start-up and on-going businesses should be enhanced with inclusive plans in order to achieve the longevity of the business. Family business structure is different from other businesses in values, emotions, beliefs and culture. It is important to be aware of

embracing accelerated, progressive, loyal and liberty to be successful in business life. These strategies are followed by the biggest family businesses in Turkey and it is seen why 3rd generation is operating these family owned companies such as Koç, Sabancı and Doğuş holdings. All in all, family- owned businesses have to decide whether to incorporate their businesses into competitive markets or to change hands. Since the success is the desired issue, adopt corporate management principles is a must for the continuity of the success.

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## KURTSAN HOLDING

### ABSTRACT

**This paper includes the story of a successful family business operating in health & cosmetic sector in Turkey. It shows the key elements and important points in order to able to grow the business from very beginning; from a pharmacy shop to group of companies in health and cosmetic sector. It emphasizes the importance of institutionalization in a family-owned company and acting as an effective shareholder.**

**Keywords:** family business, foundation, effective shareholder, woman entrepreneur, institutionalization, governance

**Jel Classification:** L10

### OTACI, STORY OF A FAMILY SUCCESS

Niyazi Kurtsan, pharmacist, was a successful entrepreneur who devoted himself to developing medicines and health-care products from herbs in the period of 1950's when the "natural life" and "alternative medicine" concepts were not that prevalent. He was also a creative and productive scientist...

Niyazi Kurtsan was born in Gumulcine, Greece in 1925. When Second World War started, he convinced his family to move to Turkey. He completed the Faculty of Pharmacy in Istanbul University. He got married with Ms. Meral Kurtsan, had two daughters; Meltem and Deniz. Later, Ms. Meral Kurtsan completed her education and became Pharmacist. Meltem and Deniz also followed the family profession and became Pharmacists as well.

He set up his first pharmacy, called Gunes, in Kocamustafapasa. in 1955. In the laboratory of pharmacy, he launched his first products such as tincture of iodine, cologne and gargels. In 1965, he moved Gunes Pharmacy to Sirkeci and renamed it as "Buyuk Pharmacy". In 1969, he established his first factory "Kurtsan Laboratory". At that time, Pharm. Meral Kurtsan took the responsibility of Buyuk Pharmacy and Pharm. Niyazi Kurtsan spent his full time at Kurtsan Laboratory. Mr. Kurtsan started manufacturing pharmaceuticals such as antiemetics, cough syrups, gargels, dermatological creams, corn plasters and continued research-development activities for creating new products.

The reason for Mr. Kurtsan's interest in "herbal medicines" goes back to his childhood days. He always kept in mind the curative effect on his wounds of the traditional medicine developed from natural herbs by his grandfather.

In 1980, the most obvious step on the path to the "Otaci" brand had been taken with production of first "Herbal Throat Pastilles" of Turkey. Pastille production was then followed by shampoos and other herbal products under "Otaci" which is one of the most favorite brands of the Kurtsan Group of Companies, has a meaning of "pharmacist, doctor" in ancient Turkish. In the past, the Otaci referred to people who were pharmacists & doctors and scientist in the same time. Nevertheless this word survived only with our products today.

The company grew out of the laboratory in Sirkeci and moved to its new plant in Merter, Istanbul in 1985 as Kurtsan Pharmaceuticals. In 1988, Kurtsan Medical was established as a joint venture with Paul Hartmann AG, a German Company specialized in hospital supplies. A new production facility was built as 5.000m<sup>2</sup> on the land of 80.000m<sup>2</sup> in Bandirma, Balikesir.

Today, within the Kurtsan Holding the following companies are embraced:

- KURTSAN PHARMACEUTICALS, specialized in dermatological and respiratory tract medicines, herbal and pharmaceutical throat pastilles,
- KURTSAN MEDICAL, producing and distributing medical & hospital supplements, plasters, bandages and band aid products,
- OTACI HERBAL PRODUCTS, the leader of Turkey with its natural and herbal hair & body care products as well as baby care products
- Group production is conducted in plants located in Istanbul and Bandırma, Balıkesir in with the GMP rules and ISO standards; totally 320 employees, more than 150 products, export to more than 25 countries.

Kurtsan Science, Art and Education Foundation was founded in 1993 under the leadership of Niyazi Kurtsan believing that the most important investment an institution can make in people is supporting science and education in order to promote social and cultural development. Since its establishment, Kurtsan Foundation has provided scholarships for more than 400 students chosen preferably among the successful female students from Medical Science, Pharmacy, Chemistry and Dentistry Faculties of the Universities in Turkey.

After Niyazi Kurtsan passed away in 2004, Meltem Kurtsan - who had been active in Kurtsan Family Business Group since 1984 - was elected as the President of Board at Kurtsan Group for the period of 2004-2013. During these years she worked for the professionalisation and institutionalization of the Group of Companies.

Being a successful entrepreneur like his father, she was nominated as Global Leader for Tomorrow by World Economic Forum in Davos in 1999; elected as Woman Entrepreneur of the Year by the UNECE in 2002. She was the Founding President of KAGIDER (Women Entrepreneurs Association of Turkey) in 2002 and was subsequently elected President for 4 years running.

Together with the Professional Team, she had achieved growth in the companies more than the sector's average during that period. In 2013, Family Members who are shareholders as well assigned Professional Board at Kurtsan Group of Companies to guarantee and maintain the continuous improvement of the Family Business. The 3rd generation consists four members got their Bachelor Degrees from the reputable Universities and are working now as professionals in other companies in order to improve their management skills.

Now, Ms. Kurtsan works as an Effective Shareholder and Vice President of Kurtsan Family Foundation; believing the importance and necessity of the institutionalization in Family Business and looking at the macro level in order to create added value. She believes the most important challenge that Family Business Companies face is transferring the business from generation to generation. This could be done only by providing institutionalization in the company. Her focus is to create the healthy environment for sustainable continuous improvement throughout the generations.



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## HOW CAN ENTERPRISES GROW AND SHRINK IN SUSTAINABLE WAYS?

### Lessons from Mondragon

Almost all companies today base their business strategies on the concept of growth, the assumption being that growth is always good. Few enterprises think about strategies for downsizing. So what is the best approach for companies embarking on the sustainability journey? Does growth matter for such firms, and what are the social implications if they shrink? In short, how can companies expand and contract and remain sustainable?



Our research shows that the answers to these questions are hugely important for sustainable enterprises. The cases of Ben & Jerry's, Seeds of Change, and The Body Shop show the challenges that sustainable enterprises face in trying to keep their social mission and core values intact as they get bigger. Likewise, the bankruptcies of ShoreBank and many other sustainable businesses highlight the drastic consequences when such enterprises are unable to deal with periods of decline.

The stakes are higher for sustainable enterprises, because they pursue social and environmental agendas as well as financial goals. Their success therefore hinges upon how well they perform across all three areas, not merely one. Financial success can sometimes jeopardize environmental and social objectives. Similarly, financial decline can threaten the social and environmental fabric that the sustainable enterprise has helped to sew.

### SPANISH LESSONS

An interesting illustration of these challenges comes from the Mondragon Corporation, a cooperative movement in Spain that was started in 1956 by Don José María Arizmendiarieta, known as Arizmendi. Inspired by earlier social movements that empowered local populations through cooperation, Arizmendi developed a network of cooperatives, or worker-owned enterprises, to improve socioeconomic conditions in the Basque Country of northern Spain. In this article we highlight four lessons that sustainable enterprises can learn from Mondragon's experiences of growth and decline.

#### Lesson 1: Diversify

In order to develop a sustainable system, Arizmendi promoted cooperatives across a wide range of sectors including education, manufacturing, banking and retail.

To improve education in Mondragon, Arizmendi founded a technical school in 1943 with 20 students. This school evolved into the Escuela Politécnica Profesional (EPP) in 1952 and the Mondragon University in 1997.

Five of the school's first graduates were hired by the local factory in Mondragon but became frustrated because employees could not purchase stock in the company. So in 1956 Arizmendi advised the group of five to form a new white-goods manufacturing company, which they called Ulgor. This was the first of many industrial cooperatives within the Mondragon network.

To assist the growth of Ulgor and the formation of other cooperatives that would later join the network, Arizmendi helped found the Caja Laboral Popular (CLP) bank. The CLP provided low-interest loans

and consulting services to cooperative members, helped new members form business plans, and established a social security system. Today, the CLP is a full-service bank with over 170 branches, some 1,800 employees and annual revenues of more than €330 million.

In the 1960s the Eroski supermarket chain joined the movement, becoming the first consumer-owned cooperatives—or organizations owned by their customers. Eroski now has over 1,000 supermarkets across Spain and sells products from many of Mondragon's industrial and manufacturing cooperatives.

Through its diversification, the Mondragon movement created a complete, self-sufficient socioeconomic system. Today, the Mondragon Corporation is the 10th largest company in Spain, employing about 74,000 people across 257 organizations.

### **Lesson 2: Achieve economies of scale through business groups**

As sustainable enterprises grow, they often lose touch with their social mission and founding principles. To achieve the economies of scale that larger organizations generally enjoy, Mondragon cooperatives formed independent groups that were not allowed to compete with each other. And to ensure that cooperatives maintained their social missions and had a close-knit community of members, the group established a wage ratio between the highest- and lowest-paid employees. This allowed the Mondragon network to integrate horizontally and vertically without bloating any single business unit.

### **Lesson 3: Ensure the livelihoods of your core stakeholders**

Although the Spanish recession in the late 1970s and 1980s had a sharp impact on various industries, particularly in the Basque Country, Mondragon escaped relatively unscathed. And whereas Spain lost nearly 20% of its workforce within five years, only 0.6% of members in the Mondragon movement were unemployed during the recession.

This was largely due to two important sustainable innovations developed by the Mondragon group. One was an employee transfer program, whereby organizations such as Ulgor that were forced to downsize could transfer members to other cooperatives. The other was an unemployment fund that was financed through a payroll tax and pay cuts for working members to help unemployed members find jobs elsewhere. Along with the diversification of the Mondragon network, this solidarity provided a further cushion in periods of decline.

### **Lesson 4: Accompany growth strategies with downsizing strategies**

The best lesson from Mondragon was one it learnt the hard way. Ulgor, which later became Fagor, expanded rapidly during the 1990s and early 2000s with the increased demand for household appliances from the housing boom in Europe. After acquiring Brandt in 2005, Fagor became the fifth largest white-goods manufacturer in Europe, employing 11,000 people. But after the global recession hit in 2007-08, the Mondragon Corporation was unable to rescue Fagor from bankruptcy without significant ramifications for the other cooperatives in its group. And so in late 2013 Mondragon let Fagor file for protection from its creditors.

The fall of Fagor provides social enterprises with a critical lesson: in addition to a growth strategy, companies with a social mission also need a sustainable downsizing strategy. If a social enterprise can't downsize while keeping its social mission intact, then perhaps it should not pursue too much growth in the first place.

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*Source:* [http://www.imd.org/research/challenges/TC097-14-enterprises-grow-shrink-szekely-dossa.cfm?MRK\\_CMPG\\_SOURCE=webletter-issue01-15&utm\\_source=DM&utm\\_medium=em&utm\\_campaign=webletter-issue01-15](http://www.imd.org/research/challenges/TC097-14-enterprises-grow-shrink-szekely-dossa.cfm?MRK_CMPG_SOURCE=webletter-issue01-15&utm_source=DM&utm_medium=em&utm_campaign=webletter-issue01-15)



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**THE GERMAN EXPERIENCE OF MICROFINANCE <sup>1</sup>****ABSTRACT**

This paper aims to provide a complete picture of German experience in the field of microfinance. This sector has been actively developing in Germany in recent years after the attention and interest from the public authorities have increased. Thus, the purpose of the research is to describe the microfinance model, which is characteristic for Germany, justify the correlation between microfinance and small and medium-sized enterprises (SMEs) and, finally, summarize which lessons can be learnt out of the case. The research is based on the in-depth critical analysis of the most recent works and reports related to Germany's experience in microfinance as well as its actual practice.

The case of Germany is unique not only from the point of view of its historic development, which is distinguished by the predominance of former microfinance institutions in the banking assets (for approximately 50%) nowadays and having the population outreach of 90% (Seibel 2005), but also through its economy's backbone represented by the *Mittelstand*<sup>2</sup> companies. The strong SME sector and its sustainable development are due to reliable access to finance as well as a solid business, tax and labour regulation. However, due to the new expanding target groups such as micro start-ups launched out of poverty or self-employed migrants the situation of access to finance is forecasted to be changing since they face difficulties in obtaining finance (Unterberg 2014).

In the context of the KAS-BSEC-Workshop "Microfinance and SMEs", which took place in Bucharest in November 2014 and gathered together the member states of the Black Sea Economic Cooperation (BSEC), this research is of particular importance and interest since it brings in a comprehensive overview of the microfinance experience, by contrast, in the Western European country. Thus, it broadened the scope of discussion of best practice models to a regional scale among the participants, which is crucial to consider since different European countries adopted different models in microfinance, and when a certain model is a success in one country, it does not mean it will be as successful in another country.

**Keywords:** microfinance, microfinance model, German microfinance experience, SMEs.

**JEL Classification:** G21 Banks, Depository Institutions, Micro Finance Institutions, Mortgages.

**ABBREVIATIONS**

BSEC	–	Black Sea Economic Cooperation
DAX	–	German Stock Index (Deutscher Aktienindex)
DMI	–	German Microfinance Institute (Deutsche Mikrofinanzinstitut)
EC	–	European Commission
EMN	–	European Microfinance Network
EU	–	European Union

<sup>1</sup> This paper was presented at the BSEC-KAS Workshop on Microcrediting for SMEs held on 12-15 November 2014 in Bucharest..

<sup>2</sup> *Mittelstand* refers to small and medium-sized enterprises (SMEs) in German speaking countries.

EUR	– Euro
FSFS	– Frankfurt School Financial Services
GDP	– Gross Domestic Product
HDI	– Human Development Index
JASMINE	– Joint Action to Support Microfinance Institutions
KfW	– Kreditanstalt für Wiederaufbau (German Government-owned Development Bank)
LLC	– Limited Liability Company
MFI	– Microfinance Institution
MSE	– Micro and Small-sized Enterprises
MSME	– Micro, Small and Medium-sized Enterprises
SME	– Small and Medium-sized Enterprises
UK	– United Kingdom

## PROLOGUE

In order to fully understand the specifics of microfinance in Germany, at first, the practice of microfinance formation in the European Union (EU) as a whole should be introduced. The microfinance sector in Europe can generally be characterised as relatively young and having the need in fine-tuning its outreach and performance. The most frequently offered financial service is a microcredit<sup>3</sup>, while savings or micro insurance are barely introduced. According to the EU definition, microloans can further be differentiated according to their purpose into microloans for business and personal consumption.

### Box 1: Categories of microloans

Business microloan – a loan under euro (EUR) 25,000 with the aim to support the development of microenterprises or self-employment.

Personal microloan - a loan under EUR 25,000 with the aim to cover personal or consumption necessities (for example, rent, private emergencies or education).

Source: “Microcredit,” the European Union Web site,  
[http://ec.europa.eu/enterprise/policies/finance/borrowing/microcredit/index\\_en.htm](http://ec.europa.eu/enterprise/policies/finance/borrowing/microcredit/index_en.htm).

It is important to outline that due to a high level of economic development, high financial inclusion rates of population and overall favourable social welfare system, the microcredit model in the EU will differ from those applied globally. Table 1 reflects distinctive features of microcredit loans between developing, transitional and industrialised groupings of countries.

<sup>3</sup> The European Commission (EC) defines a *microcredit* as a loan of less than EUR 25,000 and addresses the need for access to credit by business start-ups, small businesses and the self-employed.

**Table 1: Overview of microcredit loans on a global scale**

	<b>Greatest prevalence</b>	<b>Typical average loan amounts</b>	<b>Number of borrowers/ country</b>	<b>Financial performance</b>	<b>Social goals</b>
Developing countries	South America, Asia, Africa	EUR 50-500	> 2 million	Profitable, in part subsidised	Fighting poverty & promoting self-employment
Transitional countries	Eastern Europe	EUR 500-10,000	> 20,000	Profitable, in part subsidised	Financing for new self-employment
Industrialised countries	Western Europe e.g. UK, France, Germany	EUR 1,000-25,000	> 5,000	Highly subsidised	Growth financing for micro enterprises & financing new self-employment

Note: UK = United Kingdom.

Source: Alexander Kritikos & Christoph Kneiding, “Microcredit: Is there Demand for this Type of Loan in Germany?”, German Institute for Economic Research, vol. 6, no. 14/2010, (May 2010), p. 106.

The table also indicates that within the EU there can be defined differences between the Central Eastern and Western markets in terms of loan sizes, target beneficiaries and intermediaries (Kramer-Eis & Conforti 2009). Thus, in Central and Eastern Europe the major purpose of the microcredit is to increase financial inclusion and sustain the development. In Western Europe, on the other hand, the financial market is highly developed and banks already provide finance to the majority of population including also not risky microcredit applications. As a result, microfinance sector in Western Europe mostly concentrates on the marginalized population (who bear implicitly higher risks) with the emphasis more put to fight social exclusion of people than to make high profits. Table 2 summarises main differences between “East” and “West”.

**Table 2: Key differences between Western and Eastern Europe microcredit market models**

	<b>Western Europe</b>	<b>Central &amp; Eastern Europe</b>
Maturity	Young	More mature
Number of loans	Fewer loans – average of 1,226 loans per institution	More loans – average of 1,575 loans per institution
Average loan size	Volume larger	Volume smaller
Social focus	Those suffering from poverty and social marginalisation	Those excluded from traditional banking service, constituting major obstacle to launch of new business activities
Commercial priority, attention profitability	Grant and donor dependency, with less financial sustainability	Larger presence of commercial intermediaries with more sustainable business models
Microcredit legislation	Little specific legislation	Exists specific legislation, allowing market to be more commercially oriented and sustainable

Sources: Helmut Kramer-Eis & Alissio Conforti, “Microfinance in Europe: A Market Overview”, Working Paper 2009/001, European Investment Fund Research & Market Analysis, (November 2009). The European Commission, “Evaluation of Jasmine Technical Assistance Pilot Phase: Final Report”, submitted by ICF GHK (November 2013), p. 12.

## HISTORIC ROOTS OF MICROFINANCE

German roots of microfinance were traced more than two centuries ago (Seibel 2005). Today there function two large networks comprising the community-owned savings funds or banks, *Sparkassen* (German for a *savings bank*), and the member-owned cooperatives, *Volksbanken* (German for a *people’s bank*) and *Raiffeisenkassen*.

- The origins of the *Sparkassen* date back to the second half of the 18<sup>th</sup> century. Based on the principle that only charity is not sustainable and that there could be a big savings potential among the poorer population, the first institutions were established in Hamburg (as thrift society) in 1778 and afterwards the first municipal savings bank was established in Göttingen (*Sparkasse*) in 1801. It became a role model for the savings banks, which up to now have close ties to local authorities.

With the development of the institutional network and the grown savings deposits, also the *Sparkassen* started to diversify and develop the lending business during the 19<sup>th</sup> century and played an important role in financing the industrialization of Germany. At the beginning the business conducted by the savings banks was limited. In the early 20<sup>th</sup> century the whole system started to evolve and gained the capacity to perform cashless payments and trades in securities. Today they form part of the universal banking system of Germany.

- The other strong movement that underlines the historic dimension of microfinance started after the hunger year of 1846-1847. Starvation was spreading; many farmers lost their plots to moneylenders, and many small enterprises went bankrupt. As a response to this situation, Mr. Raiffeisen created for rural areas, credit associations (*Darlehnskassen-Vereine*)<sup>4</sup>, later known as *Raiffeisenkassen*. Mr. Schultze-Delitzsch started a similar initiative for the urban areas, establishing savings and credit cooperatives among small entrepreneurs. These became later known as the so-called *Volksbanken*.<sup>5</sup> Mr. Raiffeisen realized that charity did not lead to sustainable solutions, and established the first rural credit association in 1864. There have been seen three stages of development: informal start with sluggish development; regulation as special financial institutions which led to rapid growth and worldwide dissemination; and consolidation under the banking law, turning them into universal banks also in Germany.

According to Seibel (2005), nowadays, Germany's financial sector is still dominated by these former "microfinance institutions" (MFIs), which have continued serving MSEs and households. In evidence terms, the Annual Report (2013)<sup>6</sup> of the network of *Finanzgruppe Deutscher Sparkassen und Giroverband* released that it comprised 20,170 branches and advisory centres in Germany, 50 million customers and uniting 590 independent institutions as of 2013. The number of customers of *Bundesverband der Deutschen Volksbanken und Raiffeisenbanken* amounted to 17.7 million customers, while comprising 1,078 member banks as indicated in its Financial Statement for 2013.<sup>7</sup> The two networks both comprised around 44% of all banking assets. The small and local banking is profitable. They still finance  $\frac{3}{4}$  of all SMEs and 80% of business start-ups in Germany.

## ECONOMIC SNAPSHOT

Pursuant to the World Bank indicators, Germany is the world's fourth largest economy and the first in the Eurozone in terms of gross domestic product (GDP) comprising EUR 2.9 trillion in 2013. The GDP growth equalled to 0.43%, which is less in comparison to 0.69% in 2012. The slowdown in the GDP growth (as in the rest of the euro area) is determined by the slide in the business investment due to weaker global demand and recession in the southern part of Europe. It is leading in the production of engineering products, vehicles, chemicals and pharmaceuticals, machinery and automobiles and many other sectors. In 2013 the industrial sector contributed 30.2% to the GDP, while the biggest part of 69% fell into the services sector. The composition of the services sector is as follows: public services (18%), trade (16%), financial and business service (26%), information and communication (5%) and other services (4%). German agriculture is relatively insignificant, contributing only 0.8% of the nation's GDP.

<sup>4</sup> Mr. Raiffeisen established a charity in 1847 where he catered grain from non-affected areas; and within a couple of months this decreased the price of bread by 50 %.

<sup>5</sup> The principle Mr. Schultze-Delitzsch established the first urban credit association was based on a self-help mechanism without charity.

<sup>6</sup> Available at: [http://www.dsgv.de/en/facts/annual\\_report/index.html](http://www.dsgv.de/en/facts/annual_report/index.html).

<sup>7</sup> Available at: [http://www.bvr.de/Press/Consolidationd\\_financial\\_statements](http://www.bvr.de/Press/Consolidationd_financial_statements).

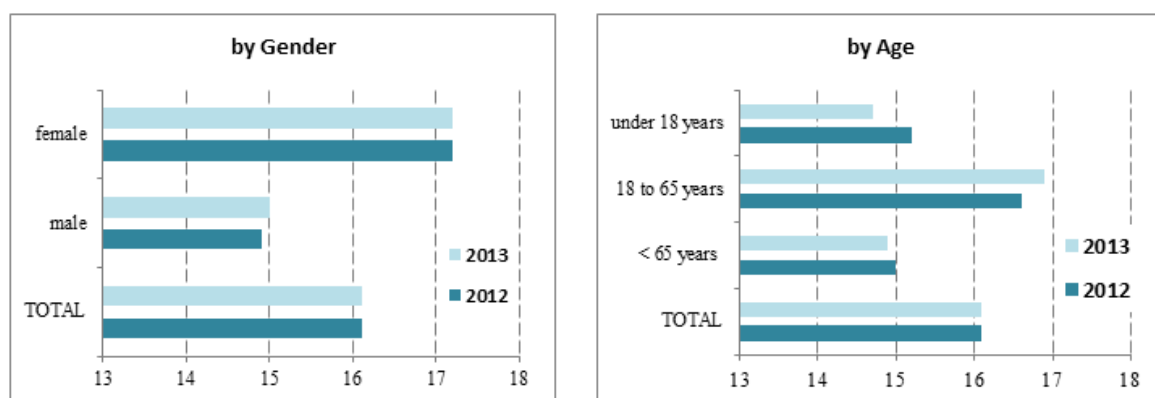
**Box 2: Macroeconomic Indicators (2013)**

▪ Total population:	80,621,788
▪ Urban population:	74.9%
▪ GDP (current EUR):	2914 trillion
▪ GDP growth:	0.43%
▪ GDP per capita (current EUR):	36,146.9
▪ Persons in employment:	43.381 million (2014)
▪ Income category:	high income
▪ Unemployment rate:	6.3% (2014)
▪ People at risk of poverty or social exclusion:	16.1%

According to the Federal Employment Agency (*Bundesagentur für Arbeit*), 43.4 million of German residents were employed as of October 2014, a year improvement of 0.9%.<sup>8</sup> For the same period the number of unemployed people comprised around 2.7 million people, which indicates the unemployment rate at 6.3%. It marks a decrease of 0.2% in comparison to a previous month, which is a usual behaviour during this time of the year. With regards to the youth unemployment in Germany, it accounts for 7.8% (as of May 2014), the lowest result among the EU member countries. The Federal Employment Agency explains it by the successful implementation of vocational trainings.

With regards to the poverty rates, the Federal Statistical Office marked a 16.1% rate of the population in Germany being at risk of poverty<sup>9</sup> in 2013, which is similar to the indicators of year 2012.

**Figure 1: At-risk-of-poverty rate in Germany by gender and by age**  
(percentage share of population)



**Source:** The Federal Statistical Office Web site, [https://www.destatis.de/EN/FactsFigures/SocietyState/IncomeConsumptionLivingConditions/LivingConditionsRiskPoverty/Tables/EU\\_PovertyThresholdRisk\\_SILC.html](https://www.destatis.de/EN/FactsFigures/SocietyState/IncomeConsumptionLivingConditions/LivingConditionsRiskPoverty/Tables/EU_PovertyThresholdRisk_SILC.html), accessed November 2014.

Figure 1 proves insignificant movements in the values of poverty rates from 2012 to 2013. A detailed insight shows that in terms of gender females are more vulnerable to be at risk of poverty (exceeding 17% opposite to 15% for males), while in the age analysis the category of people aged between 18-65 years stands out. The latter follows from the fact that people in the age under 18 or over 65 either get support from their family or receive a pension respectively.

<sup>8</sup> Available at: <http://www.arbeitsagentur.de/web/content/EN/Press/Detail/index.htm?dfContentId=L6019022DSTBAI700177>.

<sup>9</sup> According to the EU definition, the *at-risk-of-poverty rate* is the proportion of persons, who have to make do with less than 60 % of the median income of the entire population.

### CHARACTERISTICS OF THE SME SECTOR

Germany’s *Mittelstand* companies constitute a very important part of the country’s economy. Based on the data provided by the Federal Statistical Office, the so-called SME-backbone comprised 99.6% enterprises out of 3.71 million entities and providing employment to 60% of the working population. As a result, SMEs’ value added for GDP accounted for a roughly 50% share.

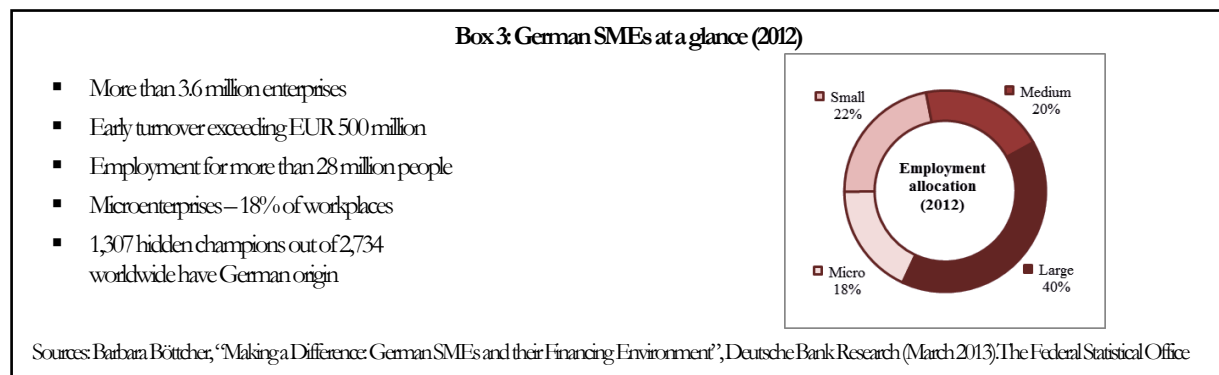
According to the EC, SMEs are defined as companies that have (i) an annual turnover of less than EUR 50 million (or which balance sheet total does not exceed EUR 43 million) and (ii) employ less than 250 workers (Table 3 below). They are further divided into three categories: micro, small and medium-sized enterprises (MSMEs).

**Table 3: Definition of MSMEs**

Company category	Employees	Turnover (EUR)	Balance sheet total (EUR)
Micro	< 10	≤ 2 mln	≤ 2 mln
Small	< 50	≤ 10 mln	≤ 10 mln
Medium-sized	< 250	≤ 50 mln	≤ 43 mln

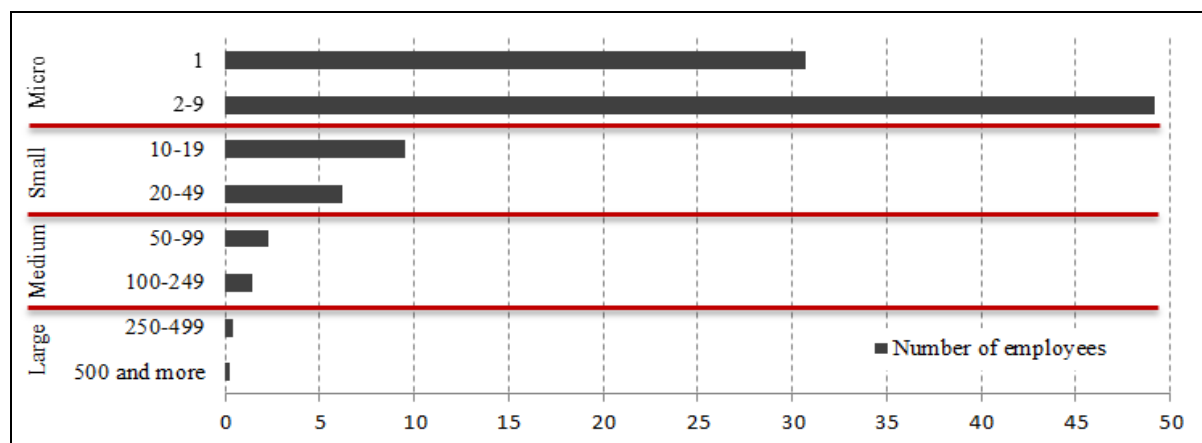
Source: The European Commission Web site, [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm).

The proportion of the employees working in microenterprises accounts for 18%, in small businesses – 22%, while in medium-sized – 20%, which indicates a relatively equal distribution and outstanding importance in job growth (see Box 3 for further reference).



The analysis of SMEs’ concentration in terms of number of employees reveals that the prevailing share of enterprises falls into the category of micro businesses (almost 80%).

**Figure 2: Allocation of companies according to number of employees (2010)**

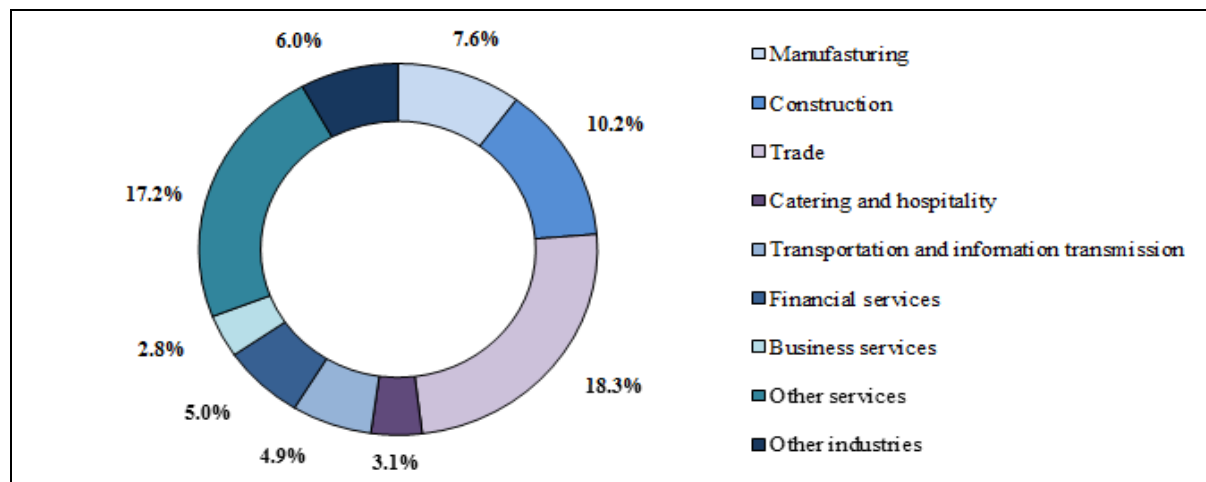




Source: Barbara Böttcher, “Making a Difference: German SMEs and their Financing Environment”, Deutsche Bank Research (March 2013), p. 6.

Figure 3 below illustrates the patterns of the sectoral distribution within the SME sector. A notable observation is the engagement of the vast majority of enterprises in service industries, comprising more than 70%, which is consistent with the GDP structure in Germany (discussed in Section III).

**Figure 3: Allocation of SMEs according to industry (2010)**



Source: KfW (German Government-owned Development Bank) Bankengruppe, Profile the SME Sector in Germany (October 2014), <https://www.kfw.de/migration/Weiterleitung-zur-Startseite/Homepage/KfW-Group/Research/PDF-Files/The-SME-sector-in-Germany.pdf>.

The SMEs’ outline indeed bears evidence of their significance and importance of Germany. Among the key success factors of their performance, there should be considered not only the overall strength of the German economy, but also their own distinctive features. According to the Deutsche Bank research in 2013 (Böttcher 2013), from the strategic point of view, they are innovation-driven and provide high-quality products and efficient services as well as reliability in meeting delivery deadlines. Favourable economic regulation environment related to tax and labour market regulation has also a positive impact on the SMEs development.

However, the EC analysis of SME performance in 2012 revealed a challenge in particular for German SMEs in the ageing demographics. The shortage of young professionals is reported to be already noticeable in certain sectors of businesses. As a consequence, this tendency may bring to decreasing number of entrepreneurs and start-ups, who are direct potential clients of microbanking. A few years ago, the difficulty in obtaining financing was considered to be the major challenge for SMEs. However, according to the conclusions of the Deutsche Bank analysis of financing environment in 2013 (Böttcher 2013), finance was not considered a barrier indicating that SMEs have at their disposal different banking groups offering suitable financial solutions.

## LEGISLATIVE FRAMEWORK ON MICROFINANCE

Contrary to other countries, in Germany the German Banking Act does neither make a difference between providing standard loans or microcredits nor has created some legal framework that includes non-bank institutions allowed to provide specialised loans as these are microcredits. Some authors call this situation as a “banking monopoly” where only banks are allowed to issue loans independently of its character. In Germany, the products related to microfinance are only related to credit products.

That means that German MFIs only have a limited role in form of screening, recommending loans to banks and consulting MSMEs being financed. Credit granting activities are exclusively permitted to commercial banks, *Sparkassen* and *Volks- und Raiffeisenbanken*, the state-owned national *Förderbank* (so-called promotional bank) KfW, as well as by regional promotional banks of the different federal states. These Banking Institutions are either providing directly or indirectly (via MFIs) loans to MSMEs.

#### Box 4: The House Bank principle

The *house bank principle* is a widespread concept applied in Germany. The house bank in Germany implies the bank, which handles all financial transactions of its customer. SME clients usually establish a close relationship with a particular house bank. Large companies such as those belonging to the German Stock Index (DAX), use the "classic" house bank concept only in the area of cash management and payments service.

In the past years, direct lending has been hampered especially for smaller business clients, start-ups asking for loans less than EUR 20,000 and thus the role of an involvement of MFIs have become more important. The MFIs under the umbrella of the German Microfinance Institute (*Deutsche Mikrofinanzinstitut* (DMI)) have been increasingly involved in the so-called "linkage banking" system where the regulated banks issue loans but the MFIs take over the role to screen, analyse and recommend the client to the Bank. The DMI accredits and develops MFIs to provide these services. Based on this scenario, some legal framework also applies to MFIs as follows:

- Nonetheless, MFIs do not directly lending some general consumer protection standards such as the Law on the Execution of the Consumer Credit Directive and the Standard European Consumer Credit Information generally should apply.
- The MFIs can be set-up either as Private Partnership, Limited Liability Company or Partnership. This involves the application and respect of general corporate and tax rules similar to any other company founded under this legal form. Here it is referred to the German Limited Liability Company (LLC) Act, German Trade Code, General Tax Law such as German Trade Tax Act, Corporate Income Tax Act and Value Added Tax Act.
- Also for the crediting activity, the usury rules exists under the Section 138 of the German Civil Code which stipulates the ban of immoral transactions. A ceiling has been set by German case law by defining an interest rate as twice as much as the market interest rate being usury.
- Credit Bureau: MFIs have access to personal information and credit-worthiness data of the clients provided by the *Schufa* or *Creditreform Consumer GmbH* when they have a contractual relationship with these institutions. Otherwise, MFIs can require from their clients to present an extract of the German General Credit Protection Agency (*Eigenschufa Auskunft*) or from the house bank of the clients.

## GOVERNMENT PROGRAM OF SUPPORTING MICROFINANCE

There are different government schemes of supporting microfinance in Germany. Since microfinance (in Germany understood only as lending to businesses) is primarily done via banks with the MFIs serving as front-end, there have been set-up as well different guarantee schemes.

The most prominent promotional program is the Microcredit Fund Germany as successor of the pilot project Microfinance Fund Germany (which was active between 2006 and 2010). The pilot project was initiated by the Federal Ministry of Economy and Technology, Federal Ministry of Labour and Social Affairs, the European Social Fund, KfW Bankengruppe and GLS Bank having a volume of EUR 3 million.

The **Microcredit Fund Germany** was founded and is financed by the Federal Republic of Germany in 2010 with a volume of EUR 100 million. It is as well guarantee scheme. Here, accredited MFIs have the front-end function of analysing, recommending the loans to the GLS Bank and assist the borrower from application to repayment.

There is also a three levelled German Public Promotional Banking System (mostly operating as second tier) supporting the Microfinance Sector as follows:

- KfW, the **National Promotional Bank** has coordinated several dialogues and initiatives for microfinance; it also was one of the first (in the year 2000) to start a nation-wide microfinance scheme (*KfW-Gründerkredit-StartGeld*) mainly for start-ups. KfW works usually as second tier providing funds to the House Banks of the client which passes on the money to the end-client. In case of defaults, KfW bears 80% of the losses meanwhile the House Banks – only 20%. Today, KfW mostly targets

higher end loans (up to EUR 100,000) since procedures turned to become costly and time-consuming for end-borrowers.

- The 15 **Regional Promotional Banks** of the *Länder* (Federal States) started also to establish microcredit programs in the past decade. Meanwhile first they offered as second-tier through the House Banks, nowadays there are initiatives to directly issue loans through simplified procedures directly to microenterprises (as for example practiced by *NRW Bank*, *Sächsische Aufbaubank (ESF-Mikrodarlehen)*, *Investitionsbank Berlin*).
- In addition, there exist **Regional Guarantee Banks** (*Bürgschaftsbanken*) existing in each of the Federal States which offer loan guarantees of up to 80% of the loans issued by banks.
- There are **several initiatives at the local level** as well where municipalities promote microfinance. One example is the “*Frankfurter Gruenderfonds*” where Frankfurt School Financial Services (FSFS) provides the front-end functions. The purpose of the *Frankfurter Gruenderfonds* is to support start-up companies with up to five years of existence in Frankfurt/Main. The Economic Development GmbH Frankfurt, a daughter company of the city of Frankfurt, provides financial means for a guarantee funds with this purpose. The Guarantee Bank of Hesse GmbH issues the guarantee certificates. FSFS as service provider supports high-quality business concepts, checks potential founders that want to participate in this program and recommends applicants for a guarantee certificate based on a rating and an additional evaluation. FSFS further coordinates the activities within the cooperating partners to support the startup business activities in Frankfurt / Main and manages the fund.

As already mentioned above, there are a number of **public guarantee schemes** in place that enable lending to microentrepreneurs via the commercial banking system, which is the only way to promote it. The House Banks have access to guarantee schemes in two ways: either to build it into the loan programs as default guarantees/exemptions from liabilities or through access to separate guarantees issued by the Regional Guarantee Banks or other specialized programs.

## MAJOR MICROFINANCE INTERMEDIARIES AND INSTITUTIONS

According to Mikrokreditfonds Deutschland, there were operating 35 MFIs as of 2014 in Germany. MFIs mostly target with their specific front-end activity non-bankable enterprises (specifically businesses led by young people, migrants, women and start-ups).

The example of the loan portfolio growth of the Microcredit Fund Germany (since it became operational in 2010) gives an idea of the market size of the MFI sector in Germany and its potential. The growth pace of the number of disbursed loans from 1,740 to more than 17,500 loans in total by 2014 outperformed the analysts’ projections and placed Germany among the top five growing microcredit sectors in the Eurozone.

**Table 4: Growth of the loan portfolio of Microcredit Fund Germany**

Year	2010	2011	2012	2013	2014 (accumulated till May 2014)
Number of loans distributed	1,740	4,852	5,853	4,284	17,506
Loan volume (in mln EUR)	9.78	29.57	33.61	24.90	103.25

*Source:* Michael Unterberg, Mirko Bendig, Martin Schellhorn & Ann-Kristin Torkler, “*The German “Mikrokreditwunder”: Lessons Learned – Challenges Encountered*”, Evers & Jung on behalf of GLS Bank (June 2014), p. 7.

The overview of the major MFI players is represented below in Table 5. The first 12 microfinance providers outlined in the table received specialised technical assistance within the Joint Action to Support Microfinance Institutions (JASMINE) program managed by the European Investment Fund.

Table 5: Comparison of German MFIs

№	MFIs	Special offers for target groups	Special features of the offers	Coverage area
1	Goldrausch	founders and entrepreneurs 45 + with an immigrant background health and social	microcredit offer specially for women	Berlin
2	HSZ Consulting	trade and crafts, especially furniture, kitchens, plumbing, electrical, lighting, carpentry	cooperation with different purchasing associations in the kitchen and furniture industry goods and financing for purchases, bonus pre-financing, cooperation with a leasing and factoring company	Baden-Württemberg, Rhineland-Palatinate, Hesse, Bavaria
3	Indaro Mikrofinanz	social and household-related services other services trade crafts and craft related companies gastronomy	in about 90% of requests a loan is granted, of which around 80% without collateral loan decision within 48 hours, very good accessibility	nationwide
4	Kapitalinstitut Deutschland	no special offers general finance for entrepreneurial activities	support for financing of over EUR 10,000, on request: availability of a consultant from our network of consultants	nationwide
5	KIZ Finanzkontor	credit for women creative loans specifically designed for self-employed in the creative and cultural industries liquidity loan specifically designed for going out of the unemployment	uncomplicated application procedure via mail, telephone and fax, feedback within 2 days, current approval rate from the 91%, a large network of consultants to support	nationwide
6	mikrofinanzwerk	no special offers general finance for entrepreneurial activities	-	Southwest Palatinate region Pirmasens, Two Bridges, County Southwest Palatinate, Kusel and Kaiserslautern
7	Mikrokredit Schleswig-Holstein	gastronomy, craftsmen, retail, service companies	microfinance for North Germany: "We finance companies and their ideas!"	Schleswig-Holstein, Hamburg, Mecklenburg-Vorpommern

№	MFIs	Special offers for target groups	Special features of the offers	Coverage area
8	Mozaik	companies with immigrant background	particular focus on lending to businesses with immigrant background (mainly Turkish migrants) lending to members of the cooperative	NRW - East Westphalia-Lippe
9	pro-Unikus	Women, craftsman, restaurateurs, retailer, migrants, creative, service	sustainable financing solutions	NRW
10	Regios	stock companies with expansion projects companies in regional cycles: food, crafts, services, inter alia, "Networker", build together a credit and savings cooperative	approved over 200 microloans in Bavaria, bringing social capital to 120 cooperative members, the core objective is sustainable regional development of economic cycles	Southeast Bavaria and nationwide in areas of cooperation of regional currency initiatives
11	smart Mikrokredit	no special offers general finance for entrepreneurial activities	credit support by cooperating local consultants	Berlin, Brandenburg
12	VS Finance	no special offers general finance for entrepreneurial activities	-	Berlin, Brandenburg
13	Kreativ Finanz Maklenburg	tourism & healthcare, craft, women	regional MFIs, open to all industries, many years working in corporate finance	Ludwig Lust Parchim, Northwest Mecklenburg, Rostock, Mecklenburg Western Lake District (Former district Müritzt), district-free cities: Schwerin, Rostock
14	GLC Glücksburg Consulting	cultural and creative industries, craftsmen, health and social sector service, trade, hospitality & transport industry	short processing time 1-3 days; loans up to EUR 2,000 are possible without collateral; many years of experience as a business promoter	Lower Saxony, Schleswig-Holstein
15	Sportplus	entrepreneurs and start-ups in the private healthcare market as well as leisure and entertainment	specializing in the financing of entrepreneurs in the sports and leisure market; fast credit decision within 3 days; worked nationwide for the sports and	nationwide

<b>№</b>	<b>MFI</b> s	<b>Special offers for target groups</b>	<b>Special features of the offers</b>	<b>Coverage area</b>
		companies	fitness industry	
16	GfM - Gesellschaft für Mittelstandsförderung GmbH	members of professional trade associations / cooperatives / partnerships and similar networks of trade and craft	focus on livelihoods and growth in appropriate networks	Greater Munich - on request location of the composite group
17	Mikrofinanz-manager	women, persons with disabilities, persons with migration background	close cooperation with employment agencies and job centers, towns and cities and the economic development agencies, chambers of commerce commitment rate of over 90%, loan approval 72 hours after the receipt of the documents	Lower Saxony
18	mein-mikrofinanzierer	services, catering and IT entrepreneurs, with Russian-speaking migrant	support for entrepreneurs in realizing their ideas - fast and unconventional	Bavaria
19	Solidarity Finance	entrepreneurs with financial problems, artisans, service providers, traders	specializing in distressed companies, many years of experience in advising and supporting the consolidation of companies	Saxony-Anhalt and Baden-Württemberg
20	Die Regionalen	health food stores, health food shops, organic supermarkets	financing offers exclusively for natural food retailer; financing of the health food store trade	nationwide - in the catchment areas of the ten natural foods wholesaler of REGIONAL
21	Mobil Mikrokredite	no special offers general finance for entrepreneurial activities	loans without collateral on a small scale are possible	Southern Lower Saxony, Northern Hesse
22	BerlinMicro	founders in the IT / internet sector	active founding experience, strong networking	Berlin, Brandenburg, Bavaria
23	Nordhand	no special offers general finance for entrepreneurial activities	Lending only to members of the cooperative	Dortmund
24	MFI Sachsen	no special offers general finance for entrepreneurial activities	-	Saxony / Thuringia
25	DMK Dresdner Mikrokredit AG	no special offers general finance for	partner microfinance for the City of Dresden	Saxony Brandenburg



No	MFI	Special offers for target groups	Special features of the offers	Coverage area
		entrepreneurial activities		

Source: Mikrokreditfonds Deutschland Web site, <http://www.mikrokreditfonds.de/de/mikrokredit-erhalten/mikrofinanzinstitute/mikrofinanzinstitut-angebote.html>, accessed November 2014.

## MODELS OF MICROFINANCE OF SMES

While each financial institution develops their own mission statement, target group clients and corresponding financial products and services, the conditions for providing a microcredit can be summarized as follows: a business loan of a maximum amount EUR 20,000 with an 8.9% interest rate for a maximum period of 36 months (Bendig et al. 2014).

If examining separately MFIs and promotional banks (which offer loans directly) offers, the EMN study shows that for promotional banks the average business loan amount was approximately EUR 18,000 varying between EUR 15,000 and ceiling EUR 25,000 for up to ten years. The banks additionally offered a grace period from 6 to 24 months.

The loans which were disbursed with the front-end support of the MFIs' had an average loan size of EUR 5,700 in 2013. Half of the loan portfolio was distributed to existing entrepreneurs, while 32% to those, who wanted to start up microbusiness to go out of unemployment. Among the clients, 33% of people represented females (since 2010) and 35% had migrant roots.

Table 5 below summarises the actual conditions for obtaining a microcredit offered on average in Germany (as of November 2014).

**Table 6: A microcredit “on offer” as of November 2014**

	Conditions for obtaining a microcredit
Interest rate	as of today <b>8.9% p.a.</b> effective
Loan term	short-term loans, maximum <b>3 years</b>
Loan amounts	generally small amounts; after successful repayment of the first loan – increasing loan ceilings <b>up to EUR 20,000</b> are possible
Repayment	<b>monthly or bullet payment</b> (at the end of the loan term)
Costs	no additional costs

Source: Mikrokreditfonds Deutschland, <http://www.mikrokreditfonds.de/de/mikrokredit-erhalten.html>, accessed November 2014.

## CONCLUSIONS

The lessons learned from the German microfinance experience can be summarized as following:

- The general macroeconomic conditions heavily influence the positive development of microfinance, can prevent or foster its evolution.
- A sustainable development of the SME sector which usually is the backbone of the economies is only possible with reliable access to finance and a solid business, tax and labour regulation.
- Strong banks with orientation towards small transactions with retail and SME customers are important for inclusive financial systems.
- In case only banks can issue loans, a first step in direction to microfinance can be the so-called “linkage banking” model where MFIs fulfil the front-end function.

- Credit guarantee schemes can work well when a developed banking system exists and thus won't have a strong impact in increasing the costs for a credit for SMEs.
- The more developed the economy, the less important is “commercial” microfinance since the conventional financial system takes over that role and leaves “social” microfinance for closing the financial gap for marginalized groups such as unemployed, women, young or entrepreneurs with migrant roots.

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## ENTREPRENEURSHIP IN ISRAEL: THEORY AND PRACTICE <sup>10</sup>

### ABSTRACT

**Entrepreneurship is viewed by many as an engine of economic growth; therefore, the encouragement of entrepreneurial behavior by means of entrepreneurial education is discussed in academic, as well as, in popular literature. Israel is a country that, since the 1990s, has been characterized by a high degree of entrepreneurship, especially in the high tech sector. In this exploratory paper we examine whether the entrepreneurial trends in Israel's high tech sector resulted from academic entrepreneurial education or if development of this education followed the entrepreneurial trend. We examine this question at the macro – country level – and at the micro – the individual student – level. Results show that in Israel, both at the macro and at the micro level, academic entrepreneurial studies follow entrepreneurial behavior. Based on the results of this study, we advise Israeli academia to start investing more resources in entrepreneurship courses and studies to develop the entrepreneurial mindset and behavior both at the academic and at the practical level.**

**Keywords:** entrepreneurship education, entrepreneurship courses, Israel, innovation-driven entrepreneurship

**JEL Classification:** L26, I21, 23

### ISRAEL – START UP NATION

The State of Israel was established in 1948 as a democratic country with an open economy. In 2011 it counted a population of around 7.8 million and had an estimated Gross Domestic Product (GDP) purchasing power parity per capita of about US\$30,000 <sup>11</sup>. Compared to its neighbors in the Middle East, Israel is quite unique. It recently became a member of the Organisation for Economic Co-operation and Development (OECD) and it is considered one of the faster growing economies in the world. Israel mainly exports products and services that are knowledge-based and are considered high tech products and services (Almor, 2011; Dashti et al., 2008; Senor & Singer, 2009).

Data collected from the Statistical Abstract of Israel (various years), which are presented in Figure 1, show the continuous growth of export, which for the greater part, is driven by Israel's high tech industries. While in 1990 about 40% of exports derived from the country's low tech industries, from the year 2000 onward, about 75% of Israel's industrial exports have been accounted for by high and medium-high, technological intensive industries (when excluding diamonds from total exports).

In 1948, when the State of Israel was proclaimed and the War of Independence broke out, the country was forced to build and continuously maintain an army to defend its population, resulting in the

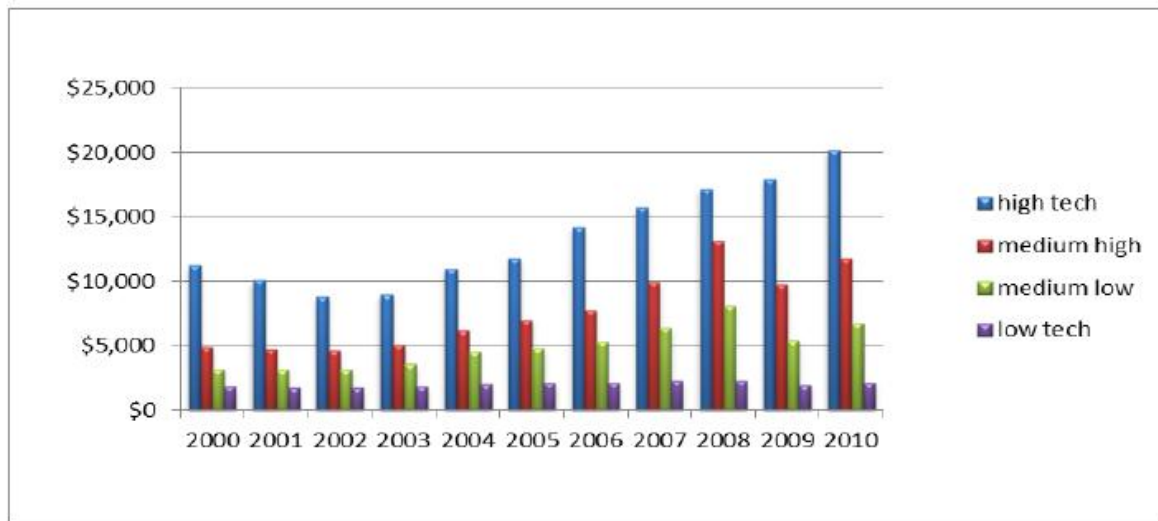
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<sup>10</sup> The paper on Entrepreneurship in Israel: Theory and practice by Almor, T. & Heilbrunn, S. originally was published in the American Journal of Entrepreneurship, Vol. 6, No. 2, pp. 16 – 36. in 2014. ERENET Secretariat expresses its thanks for this publication.

<sup>11</sup> <http://www.investinisrael.gov.il/NR/exeres/75A535CF-BCC7-4A06-9E24-88EAC7EC67C0.htm> Accessed 19/08/12

establishment of the Israel Defense Forces (IDF). The IDF has always been a people's army with compulsory service for all 18 year old men (three years) and women (two years), with some exceptions for various ethnographic and religious groups.

Figure 1 – Israel's export by industry (excl. diamonds) between the years 2000-2010 (in millions USD)



*Source:* Statistical Abstract of Israel, Central Bureau of Statistics, various years. Figure created by the authors.

In 1959, the IDF founded “Mamram” (The Center of Computing and Information Systems), the IDF's central computing system unit, and the School for Computer Related Professions, the main programming, software engineering, and computer users training unit in the IDF (Breznitz, 2002). Since then, many young Israelis have been trained to write code for military purposes during their army service. When they complete their army service and begin integrating into Israel's civilian society, these young men and women, implementing the knowledge and experience gained during their army service, may start their own companies (Bank & Almor, 2013; Senor & Singer, 2009).

During the past two decades, Israel has emerged as an important global center of innovation and growth (Saxenian, 2006; Senor & Singer, 2009). Israel's ability to encourage entrepreneurship at the individual, business and national levels seems to be quite unique and is based, among others, upon the government's decision in the early 1990s, not only to encourage entrepreneurship, but also to establish a venture capital industry (Avnimelech & Teubal, 2004(a), 2004(b); Avnimelech & Schwartz, 2009; Dashti et al., 2008; Pelzman & Shoham, 2006; Schwartz & Bar-El, 2007; Sperling, 2005). In addition, Israel welcomed about a million immigrants from the former Soviet Union during that time. Some of them were able to become entrepreneurs in different technological fields; others found employment in existing start-ups.

Since the 1990s, Israel's government has been actively investing in the development and encouragement of entrepreneurship. It established dozens of incubators, enabling entrepreneurs to start out in a protected environment. At the same time, the government stimulated the establishment of a venture capital industry to encourage financial investments in the budding start-ups. It also set aside a significant budget for the Chief Scientist Office, which in turn allocates funds to subsidize the development of applications of new technologies. Through the establishment of the Israel Export Institute, it funded countless consultants who helped entrepreneurs getting started. In parallel, throughout the past two decades, Israel has seen hundreds of entrepreneurial firms being listed on the American NASDAQ stock exchange, which specializes in high tech companies. Israeli start-ups have also been listed on other, foreign stock exchanges (Avnimelech & Teubal, 2004(a), 2004(b); Avnimelech & Teubal, 2006; Sperling, 2005).

The venture capital industry, which is mostly based on private capital, became one of the fastest growing industries in the 1990s in Israel. The rapid growth was a result of a government initiative offering attractive tax incentives to foreign venture capital investments in Israel (a program named “Yozma”), as well as

the fast increase in number of high tech start-ups looking for venture capital. This industry attracted many international funds as well as a new breed of local investors (Avnimelech & Teubal, 2004(a), 2004(b); Avnimelech & Teubal, 2006). Intensive cooperation between the venture capital industry and the high tech sector allowed Israel to become a leading entrepreneurial country, specialized in high tech entrepreneurship. Israel's entrepreneurial accomplishments have resulted in a robust economy, which has successfully faced the global economic crisis that started in 2008 (Almor, 2011).

During the 1990s and the first decade of the current century, hundreds of startup companies, many of which can be found in Israel's high tech industry parks and business incubators, have benefitted from investments made by various foreign high tech companies -- such as IBM, Intel, Google, Microsoft and Applied Materials -- and from the establishment by these firms of local R&D centers, which employ Israel's young and innovative engineers and other academic graduates (Bank & Almor, 2013; Senor & Singer, 2009).

Since the beginning of this century, Israel is considered one of the largest centers in the world for start-up enterprises (Schwartz & Bar-El, 2007) and reportedly counted had more than 3,850 start-ups in 2008 (Senor & Singer, 2009). A part of these start-ups became the international companies that are currently responsible for the high percentage of high-tech exports.

The Global Entrepreneurship Monitor – GEM – conducts a yearly survey among individuals residing in dozens of countries, measuring their entrepreneurial inclinations. The GEM 2012 report, which included 69 countries, categorized Israel as an innovation-driven economy (Global Entrepreneurship Monitor, 2013). While the Global Report includes comparative data about the different participating countries, GEM also publishes specific country reports and special topic reports. The latest GEM country report on Israel (Menipaz, et al., 2011), showed that while Israel is an innovation-driving country, it did not rank among the highest within this particular group. According to that report, Israel ranked 21st among the GEM countries regarding "early stage activity in the technology sector," in "young businesses using the very latest technology" it ranked 13th, and among "established businesses using the very latest technology" it ranked 11th. Thus, the GEM data seem to suggest that while Israel is named "Start-Up Nation," it is not the most entrepreneurial high tech country in the world.

The 2008 GEM Report (Bosma et al., 2008), focused on entrepreneurial education and presented an analysis of comparative data for 38 countries. Findings reported in the focused 2008 GEM report concerning Israel were somewhat surprising, considering the phenomena and data provided above. Only 13 percent of working age adults in Israel received formal training in starting a business. Notably, this was the lowest percentage in the innovation-driven group, as compared for instance to Finland, which reported 48 percent that received training in starting a business. Among the 38 participating countries in this specific survey, Israel scored very low on voluntary as well as compulsory entrepreneurial training up to the age of 18. Among adults, training was predominantly received through academic institutions, either through informal activities or through course work, however, these activities were relatively sparse.

The Israeli data showed a statistically significant difference regarding perception of good business opportunities between those who had received either voluntary or 6 compulsory training and those who had not. Between those groups, significant differences were also found regarding the perception of skills, knowledge and experience needed to start a business. As such, the GEM data show that while entrepreneurial training is relatively scarce in Israel, it has a significant effect on the proclivity of an individual to engage in subsequent entrepreneurship (Bosma et al., 2008).

Summing up the data presented so far, it seems that while the Israeli government has been investing in the establishment of incubators, in the establishment of a venture capital industry and in attracting international high tech companies to invest in the country, much less efforts and financial means have been dedicated to formal and informal education towards entrepreneurship, even though education seems to encourage people to become entrepreneurs according to the Israeli GEM data.

## ENTREPRENEURIAL EDUCATION AND ATTITUDES

Research has demonstrated that entrepreneurship can be taught (Drucker, 1985; Gorman et al., 1997; Kuratko, 2005). Questions regarding the efficacy of teaching entrepreneurship, center on (1) "what" should be taught and which underlying theory should be used to teach, and (2) the process of "how" it can be taught best (Fiet, 2001; Ronstadt, 1987).

With regard to what should be taught, literature focuses, among others, on entrepreneurial strategies (Hitt et al., 2001), corporate entrepreneurship (Miles & Covin, 2002; Kuratko et al., 2005) and born global companies (Almor & Hashai, 2004; Hashai & Almor, 2004; Jones, 2001; Jones & Coviello, 2005; Knight & Cavusgil, 2004; McDougall et al., 1994). Other topics raised in the same context include the economic contributions entrepreneurs make to job creation, innovation, and economic growth (Eden et al., 2005), theories explaining entrepreneurial drive (McGrath et al., 1992) and special interest groups of entrepreneurs, such as women, migrants and minorities (Chaganti & Greene, 2002; Gundry & Welsch, 2001; Heilbrunn & Kushnirovich 2008; Heilbrunn & Abu-Asbeh 2011; Lerner & Almor, 2002; Lerner et al., 2007).

Solomon et al., (2002), who conducted a comprehensive empirical analysis of entrepreneurship education, examined the "how." In their review of entrepreneurship pedagogy, they stated:

**"A core objective of entrepreneurship education is that it differentiates from typical business education. Business entry is fundamentally a different activity than managing a business (Gartner & Vesper, 1994); entrepreneurial education must address the equivocal nature of business entry (Gartner, Bird, & Starr, 1992). To this end, entrepreneurial education must include skillbuilding courses in negotiation, leadership, new product development, creative thinking, and exposure to technological innovation (McMullan & Long, 1987; Vesper & McMullen, 1988)."**

Ulrich & Cole (1987) report that entrepreneurial learning style preferences tend toward active experimentation with some balance between concrete experience and abstract conceptualization. In a similar vein, Stumpf et al., (1991) argue for the applicability of behavioral simulations to teaching entrepreneurship. Vesper & McMullan (1988) also argue for skill-building courses in addition to knowledge-based courses pertaining to entrepreneurship. Gorman et al., (1997) discuss a framework and methodology for teaching entrepreneurship that includes the following elements: opportunity identification, strategy development, resource acquisition and implementation. Thus, they conclude that entrepreneurship education has to focus on attributes and skills as well as tasks and needs to address elements of concrete experience derived from active participation through projects and the like, as well as, content directed to stage of venture development and emphasizing functional integration.

Whereas much literature regarding entrepreneurial education has examined how to teach entrepreneurship, relatively little research has been conducted regarding the efficacy of entrepreneurial teaching in the business school and if the students become more "entrepreneurial" as a result of entrepreneurial courses taught in the business school. Kirby (2004) suggested that researchers should examine business administration graduates' mindsets, rather than focusing only on the attitudinal intention. In this paper a first step is made in that direction.

## ENTREPRENEURIAL EDUCATION IN BUSINESS SCHOOLS IN ISRAEL

As most Israeli high school graduates first fulfill their compulsory army service, the majority of Israeli students enter college at the age of 21-22. Many undergraduate students need to work for a living during their academic studies, thus gaining practical experience, which complements their university studies. In Israel, the academic education system is overseen by the **Council for Higher Education (CHE)**. The Council has the authority to recognize and accredit institutions of higher education and to allow them to operate academic degree programs (CHE, 2011). While in the 1980s Israel counted only eight academic institutions, in 2012, Israel was home to nearly 70 academic institutions: a total of eight universities, including The Open University, as well as a variety of government funded and nonfunded colleges <sup>12</sup> which have been established

<sup>12</sup> [http://www.che.org.il/download/files/vatat-3\\_1.pdf](http://www.che.org.il/download/files/vatat-3_1.pdf), accessed March 25, 2012.



since the 1990s. Between the years 1990-2010, the demand for undergraduate business administration studies increased and the number of students grew from approximately 5,500 to more than 21,000. The proliferation of colleges developed in tandem with the growth of Israel's high tech industry and the request for business studies during that same period resulting in the fact that in the year 2010/11, nearly 70 percent of all undergraduate business students were college students. Moreover, colleges also provide graduate business studies, in the form of a MBA. In 2000/01 less than 600 MBAs were enrolled in colleges, while a decade later, in 2010/11, approximately 4,700 MBA students were enrolled in the colleges. In addition, about 6,500 MBA students were enrolled in the universities (Bank & Almor, 2013).

During the 1990s the business schools in Israel employed few entrepreneurship professors and the field was considered rather marginal. Consequently, a typical business student at a university or at a college received very little entrepreneurial education.

In 2008 the CHE conducted an evaluation of all business administration programs at Israel's higher education institutions (universities as well as state funded and non-funded colleges). One of the overall recommendations to all institutions was to complement the curriculum with entrepreneurship courses.

Entrepreneurship programs still did not feature prominently in the 2012/13 curricula and academic programs of the various academic institutions. Of the hundreds of courses offered by the different academic institutions, only a few entrepreneurship courses were part of academic programs (See Table 1 for a summary of the number of entrepreneurship courses taught in the business schools in Israel). Thus, while government pro-actively created various mechanisms to encourage entrepreneurial behavior in the business sector, it did not advance entrepreneurship studies in academia. Many academic institutions do have entrepreneurship centers that offer lectures and courses, conferences and workshops, giving entrepreneurs the opportunity to receive practical and professional guidance. Most of these centers, however, do not form the basis for academic courses and research in entrepreneurship. Thus, while hands-on, practical guidance modules are offered by various academic institutions, these same modules are not an integral part of the core curriculum or of the academic program.

It can be concluded that, while business administration is a very popular study and while the demand seems to have grown in sync with a general trend in 10 entrepreneurial behavior in Israel, little development has taken place of specific entrepreneurship courses and fields of specialization within business schools.

The motivations of business students in Israel to choose entrepreneurship courses are examined in the remainder of this paper by sampling undergraduate and graduate students from two well-established and large colleges in Israel which teach entrepreneurship at the undergraduate and the graduate level: the College of Management and the Ruppin Academic Center.

**The College of Management – Academic Studies (COMAS)** is the oldest and largest independent, non-funded, academic institution in Israel with a student body of approximately 12,000. It operates the largest business school in the country, with about 5,500 students enrolled in undergraduate business and MBA degree programs (Bank and Almor, 2013). It is also one of the few academic institutions in Israel that features an entrepreneurial academic division, providing courses at the undergraduate and the MBA level.

**Ruppin Academic Center (RAC)** is one of the oldest government funded colleges, with a student body of approximately 4,000. The School of Economics & Business Administration currently counts some 2,700 students enrolled in undergraduate and MBA degree programs. The business school is the largest of RAC's schools. It does not feature an entrepreneurial academic division, but at the BA level a compulsory course on entrepreneurship is part of the program and students are eligible to choose seminars or participate in „BizTEC" - Israel's leading entrepreneurial competitions.

TABLE 1 - Schools of Business Administration in Israel offering entrepreneurship courses for the academic year 2012/13

UNIVERSITIES	Founded	SCHOOL	Business Education Established	Undergraduate entrepreneurship courses offered	MBA entrepreneurship courses offered <sup>3</sup>
Technion, Israel Institute of Technology	1912	William Davidson Faculty of Industrial Engineering & Management	1958	n/r	3 Entrepreneurship center
Hebrew University of Jerusalem	1925	Jerusalem School of Business Administration	1956	n/r	5 Entrepreneurship center
Bar-Ilan University	1955	Graduate School of Business Administration	1993	n/r	0
Tel Aviv University	1956	Leon Recanati Graduate School of Business Administration	1966	n/r	4 Entrepreneurship center
University of Haifa	1963	Haifa Graduate School of Management	1996	n/r	0 Entrepreneurship center
Ben-Gurion University of the Negev	1969	Guilford Glazer Faculty of Business and Management	1995	0	2
Open University of Israel	1976	Department of Management and Economics	1993	0	0
<b>COLLEGES</b>					
College of Management Academic Studies (COMAS)	1977	School of Business Administration	1984	2	5 entrepreneurship academic division
Ruppin Academic Center	1949	School of Economy and Management	1990	3	2
Ariel University Center of Samaria	1982	Department of Industrial Engineering and Management	1994	n/r	1
Academic College of Tel Aviv-Yafo	1994	School of Management & Economics	1994	6 – entrepreneurship academic division	n/r
Interdisciplinary Center (IDC) Herzliya	1994	Arison School of Business	1995	1	Entrepreneurship center
Peres Academic Center		Faculty of Business Administration	2006	0	n/r
Ono Academic College	1995	Faculty of Business Administration	2003	n/r	1
Netanya Academic College	1996	School of Business Administration	1998	n/r	1

*Source:* Based on information found on institutions' websites visited by the authors on August, 12, 2012. Does not include special programs, only general MBA programs.

## STUDYING ENTREPRENEURSHIP IN AN ACADEMIC SETTING IN ISRAEL

Most business administration students perceive their studies as a way to further their career, to receive better career opportunities and to increase their salaries, which are frequently related to the level of their formal education. The 11 approach professed at both business schools in this study, is based predominantly on the conventional method of studying business. Most courses are classical business courses which teach the basics that are required to be appointed to a managerial position in an average Israeli company. Thus, entrepreneurship has mostly been developed as an add-on or an elective course to the core curriculum of business education.

To better understand the students' mindsets regarding entrepreneurship, they were asked to fill out a short questionnaire that surveyed the student's basic demographics, their entrepreneurial intentions and their evaluation of the courses in terms of encouraging them to become entrepreneurs. To measure the impact of taking part in the courses on entrepreneurial intentions, we administered the questionnaire twice, once at the beginning of the semester and once at its conclusion.

We posed that most students choosing an entrepreneurship course did so either because they were thinking of becoming entrepreneurs or because they had entrepreneurial family/friends or partners. We further posed that studying entrepreneurship, even in an academic setting, would encourage them to become more open to the idea of entrepreneurship at the conclusion of the semester.

## DATA AND METHOD

The courses from which the students were sampled took place during the 2010 spring-summer semester and included a total of 185 students, 110 undergraduates and 75 MBAs. The overall response rate was 81%. Both groups were approached at the same time by e-mail and were asked to fill out a questionnaire in Hebrew. The same students were approached before and after taking part in the respective courses. They were asked to provide the four last numbers taken from their identity card on the questionnaire, so that it was possible to pair the questionnaires (before and after) per student, while preserving his or her anonymity. In addition to basic demographic questions, students were asked about their entrepreneurial intentions, their evaluation of the courses' contribution to entrepreneurial knowledge and the impact of management studies on entrepreneurial success. T-tests were used in order to compare between groups and between answers at the beginning and at the end of the courses. The questionnaire submitted to the students at the end of the semester included two open questions, addressing (1) the extent to which participation in the course had increased a student's personal entrepreneurial propensity, and (2) their opinion how to increase a student's entrepreneurial propensity in general by means of the study program.

Table 2 presents the questions that were posed to the students. Four questions were posed to students at the beginning and at the end of the respective courses and two open questions were added to the second round in order to capture the impact of participating in the course on their entrepreneurial intentions. The questions had a three point scale ranging from 1- not at all; 2- to a certain extent; 3 – to a large extent. While 5-point Likert type scales are most common in surveys, we opted for a 3-point scale. Different researchers have argued that while the 5- and 7- point scales are more common, there is no clear scientific basis for their preference and they take longer to fill out than shorter scales (Dolnicar, et al., 2011; Peabody, 1962; Preston and Coleman, 2000). Employing a 3-point scale also allows for clearer differences between the answers and the ability to measure the impact (or lack thereof) of the courses.

Table 2. Questions posed to students at both institutions before and after participation in the courses

Round 1 – beginning of the course	Round 2 – end of course	Comparison
Q1.1 – To what extent did you consider engaging in entrepreneurship during the last semester (before participating in the course)?	Q1.2 – To what extent did you consider engaging in entrepreneurship before taking the course?	Comparing both rounds and between groups
Q2.1 – In general, to what extent do you think that there is a need to experience the process of entrepreneurship in order to engage in entrepreneurship?	Q2.2 - In general, to what extent do you think that there is a need to experience the process of entrepreneurship in order to engage in entrepreneurship?	Comparing both rounds and between groups
Q3.1- Can business management studies help entrepreneurs to succeed?	Q3.2– Can business management studies help entrepreneurs to succeed?	Comparing both rounds and between groups
Q4.1 – Can more experience in entrepreneurship while studying help you decide to become an entrepreneur?	Q4.2 – Can more experience in entrepreneurship while studying help you decide to become an entrepreneur?	Comparing both rounds and between groups
	Q5.2 – Did your participation in the course help you to understand the significance of entrepreneurship for you?	
	Q6.2 – To what extent are you considering engaging in entrepreneurship now?	Compare with question 1.2 and between groups

**Remark: All questions had a three point scale: to a large extent, to a certain extent, not at all.**

## RESULTS

The sample included 150 students of whom 51 were MBAs registered at an elective entrepreneurship course at COMAS and 99 were registered at a compulsory undergraduate course at the RAC. 91 percent of all students were Israeli born, 47.3% male and 52.7% female, which is representative of the overall dispersion of business students according to gender. It must be noted, however, that this ratio is not representative for the percentage of male and female entrepreneurs in Israel. Data show that in 2010 the overall women/men ratio among Israel's entrepreneurs was 1:1.6; that is, one woman entrepreneur for every 1.6 male entrepreneurs (Menipaz et al., 2011).

Table 3 depicts the demographic characteristics of the sample in this study. Data show that large demographic differences exist between undergraduate and graduate students. It further shows that while about half of the fathers of the students were self-employed (far above the general average in Israel), only six percent of the mothers were so. Most students were employed, 16 percent were self-employed, and about a quarter, were not working. The students in the sample had considerable prior work experience and about half of the MBA students reported managerial experience. Two thirds of the students ranked themselves at average or above average socio-economic status.

Table 4 depicts the comparative data between groups and between before and after participating in the courses. Note that the response rate for the second round was lower for all students ( $n = 104$ , MBAs  $n = 39$  and BAs  $N = 65$ ).

Results presented in Table 4 show that the students in the courses were a priori inclined towards entrepreneurship before and after the course. The course itself did not change their perception significantly regarding their a-priori inclination towards entrepreneurship (Q 1.1. & AQ 1.2). Significantly, answers to Q 1.2 and Q 6.2 however, show a notable difference regarding their willingness to become an entrepreneur, especially among the MBA students. Even one course seemed to make a decisive difference in their perception of entrepreneurship and more importantly, in their inclination to become an entrepreneur.

Table 3 - Demographic characteristics of participants in the study.

	Total N = 150	COMAS (MBA's) Elective course N = 51	RAC (BA's) Compulsory course N = 99	p-values
<b>Gender</b>				
1. Male	71 (47.3)	24 (47.1)	47 (47.5)	ns
2. Female	79 (52.7)	27 (52.9)	52 (52.5)	
<b>Age (mean)</b>	26.5	31.1	24.1	.000
<b>Family status</b>				.000
1. Single	94 (62.7)	15 (29.4)	79 (79.8)	
2. Married or living with partner	56 (37.3)	36 (70.6)	20 (20.2)	
<b>No. of children (mean)</b>	.38	.67	.19	.000
<b>Work status</b>				
1. Self-employed	24 (16.0)	11 (21.6)	13 (13.1)	.000
2. Employed	86 (57.3)	39 (76.5)	47 (47.5)	
3. Not working	40 (26.7)	1 (2.0)	39 (39.4)	
<b>Years of work experience (mean)</b>	2.88	5.08	1.74	.000
<b>Management experience</b>				
1. Yes	33 (22.8)	25 (53.2)	8 (8.2)	.000
2. No	112 (77.2)	22 (46.8)	90 (91.8)	
<b>Socio-economic status</b>				.000
1. well below average	9(6)	0 (0)	9 (9.1)	
2. below average	41 (27.3)	0 (0)	41 (41.4)	
3. average	38 (25.3)	5 (9.8)	33 (33.3)	
4. above average	49 (32.7)	37 (72.5)	12 (12.1)	
5. well above average	13 (8.7)	9 (17.6)	4 (4.0)	
<b>Father self-employed</b>				ns
1. Yes	76 (50.7)	28 (54.9)	48 (48.5)	
2. No	74 (49.3)	23 (45.1)	51 (51.5)	
<b>Mother self employed</b>				.004
1. Yes	9 (6.2)	7 (14.3)	2 (2.1)	
2. no	136 (93.8)	42 (85.7)	94 (97.9)	

Students firmly believed (Q 4.1 & 4.2, Q 5.2) that studying in a business school enabled entrepreneurs to become more successful, and agreed with this statement much more strongly after the courses (Q. 3.1. & Q.3.2.). Significant differences were found between the groups regarding their evaluation of the impact of business management studies on entrepreneurial success. MBA students evaluated this impact higher than BA students. This may be explained by the fact that MBA students were already engaged in the labor market and were, therefore, able to evaluate the impact of academic knowledge much better than BA students.

The students further thought that in general, entrepreneurial experience would encourage them to become entrepreneurs (Q.4.1. & Q. 4.2.); this perception did not change after the courses. This finding was reinforced by the suggestion of students to initiate simulations and hands-on courses. Students answered that more experience in entrepreneurship while studying would increase their personal inclination to become entrepreneurial.

Table 4. between group and before and after comparison of the response on a 3-pont scale

<b>To what extend did you consider engaging in entrepreneurship before taking the course? (Q.1.1 and Q1.2)</b>				
	Before	After	Difference	
			Before/after	BA/MBA
All	2.25 (.78)	2.05 (.69)	T = 2.99 .003	
BA (RAC)	2.15 (.83)	2.03 (.72)	Ns	Ns
MBA (COMAS)	2.10 (.67)	2.41 (.64)	T= 2.93 .009	
<b>In general, to what extend do you think that there is a need to experience the process of entrepreneurship for wanting to engage in entrepreneurship? (Q2.1 and Q2.2)</b>				
	Before	After	Difference	
			Before/after	BA/MBA
All	2.34 (.69)	2.36 (.76)	Ns	
BA (RAC)	2.30 (.72)	2.41 (.76)	Ns	Ns
MBA (COMAS)	2.41 (.63)	2.28 (.75)	Ns	
<b>Can business management studies help entrepreneurs to succeed? (Q3.1 and Q3.2)</b>				
	Before	After	Difference	
			Before/after	BA/MBA
All	2.01 (.72)	2,58 (.63)	T=-6.13 .000	O3.1/Q3.2
BA (RAC)	1.92 (.73)	2.49 (.49)	T= -4.45 .000	T = -2.07 .040
MBA (COMAS)	2.17 (.68)	2.74 (.49)	T= 4.47 .000	T= -1.98 .049
<b>Can more experience in entrepreneurship while studying help you decide to turn for entrepreneurship? (Q4.1 and Q4.2)</b>				
	Before	After	Difference	
			Before/after	BA/MBA
All	2.52 (.55)	2.34 (.77)	T=2.26 .025	Q4.1/Q4.2
BA (RAC)	2.49 (.58)	2.32 (.49)	Ns	T=-2.07 .040
MBA (COMAS)	2.58 (.49)	2.38 (.71)	Ns	
<b>Did your participation in the course help you to understand the significance of entrepreneurship for you? (Q5.2)</b>				
		After	Difference BA/MBA	
All		2.33 (.60)		
BA (RAC)		2.46 (.61)	T=2.82 .006	
MBA (COMAS)		2.12 (.52)		
<b>To what extend did you consider engaging in entrepreneurship before taking the course? (Q1.2)</b>		<b>To what extend are you considering engaging in entrepreneurship now? (Q6.2)</b>		
			Difference	
All	2.05 (.69)	2.24 (.73)	T = -3.26 .001	
BA (RAC)	2.03 (.72)	2.06 (.72)	ns	
MBA (COMAS)	2.10 (.64)	2.53 (.64)	T = -4.25 .000	

A total of 34 students answered the open questions of round two, exemplified below.

**1. Course participation's impact on entrepreneurial propensity:** The majority (22) of students maintained that course participation provided them with an insight into the entrepreneurial process but would not make them more inclined to become 15 entrepreneurs upon graduating. Six students reported that they are now considering - even more than before participating in the course - becoming entrepreneurs. The following is fairly representative of the answers given:

"The course made me understand what entrepreneurship actually is and how to approach it. For me it opened a window - or even a door - to the world of entrepreneurship. Now it (entrepreneurship) does not appear any longer as something inaccessible, unachievable, good for a few high-tech geniuses only".

**2. Study tools to increase the student's entrepreneurial propensity:** students provided a long list of suggestions that can be divided into two categories. The first concerns the issue of guest lectures. Students suggested meetings with entrepreneurs (18), guest lecturers by office holders from government agencies (10), guest lecturers by bankers (8), meetings with college graduates who became entrepreneurs (7). The second category concerns additional courses. Students suggested adding to the curriculum an entrepreneurship simulation course (12), a course on writing a business plan (10), an introductory course on entrepreneurship at the beginning of their business administration studies followed by a number of elective courses throughout the program (4)

## DISCUSSION

This paper examined whether the entrepreneurial trends in Israel's high tech sector resulted from academic entrepreneurial education or if development of entrepreneurial academic education followed the entrepreneurial trend in Israel. We examined this question at the macro - country level - and at the micro - the individual student - level.

Israel is often described as "start-up nation" (Senor and Singer, 2009) as it features a high incidence of high tech start-up companies and most of its exports are based on the high tech sector. Moreover, many Israeli high tech companies are traded on foreign stock exchanges. This phenomenon has developed during the past 16 two decades as a result of government policy that encouraged high tech entrepreneurs to establish start-up companies, by providing funding through venture capital and through government bodies such as the Chief Scientist Office, by establishing dozens of incubators throughout Israel and by providing expert advice through consultants whose work was funded by government.

On the other hand, the data presented in this paper also reveal that academic entrepreneurial education is still in its developmental stage. Relatively few academic institutions offer extensive academic entrepreneurial education and when courses are offered, they are few and far between. Most entrepreneurship courses are offered within the business schools. Academia does not actively encourage its professors to specialize in entrepreneurship and most courses offered are electives. While the Council for Higher Education (CHE) has requested academia to provide more entrepreneurship courses and studies, most academic institutions have responded only partially.

The literature review provided in this paper shows that entrepreneurship education can and does encourage entrepreneurial behavior. It further shows that experiential courses can be very effective for budding entrepreneurs.

This paper presented empirical data gathered from students who took part in this exploratory study and studied at one of two the leading colleges in Israel (one state funded and one non-funded), which both offer undergraduate and graduate business studies. The study examined undergraduate and MBA students who took either compulsory or elective entrepreneurship courses.

Data at the individual level showed that students in the business schools are mostly salaried employees, especially among the MBA students. Relatively few are inclined to become entrepreneurs. It seems that part of the initial attraction to entrepreneurship courses was the fact that many of the students' fathers were selfemployed. At the same time, the students in our sample indicated the importance of academic knowledge in relation to entrepreneurship. Results showed that the willingness of MBA students' to engage in entrepreneurship rose significantly after taking part in an elective entrepreneurship course. Students in the sample also thought that experience in entrepreneurship would increase engagement in entrepreneurship.

Participation in the course also increased their evaluation of the impact of business management studies on entrepreneurial success. Students in the sample further indicated that their participation in the courses helped them to understand the significance of entrepreneurship for themselves. BA students rated significantly higher than MBA students for this item. The number of students who reported that they are



considering engaging in entrepreneurship increased for both groups after having completed the respective courses.

Although the sample was a small one, it can nevertheless be concluded that participation in just one entrepreneurship course had a significant impact on students' perception of entrepreneurship, opening their minds to its importance. While entrepreneurship receives much attention in daily newspapers, digital media and on TV, business students are not clamoring for entrepreneurship courses. Our findings seem to suggest, however, that exposure to entrepreneurship courses increases students' inclination towards entrepreneurship. Similarly to findings reported in literature, students can benefit from exposure to entrepreneurship courses and meetings with entrepreneurs. In a world in which innovation and entrepreneurship in different settings are becoming more important, this finding seems to be encouraging and worthwhile to explore further.

While the initial findings at the individual level (the students) of this study are encouraging, they are based on a relatively small sample that was examined after one course only and within two academic institutions only. In order to reach better founded conclusions, this study is to be repeated among a larger sample of various Israeli institutions as well as among students that study in faculties other than business and economics. In addition, it would be interesting to compare the Israeli findings to data from other countries

The data also seem to suggest that business schools should invest more effort and creative thinking in how to develop teaching methods that will encourage students to become more entrepreneurial, not necessarily only in high tech but also in other sectors of the economy.

Innovation and growth are important for the well-being of Israel's economy; therefore it is surprising that academia offers a relatively small amount of entrepreneurship courses (see Table 1). The findings show that higher education in Israel lags behind and does not attempt to initiate and encourage entrepreneurial behavior. Israel's high tech industry and its first generation entrepreneurs are aging. There is a need for a second generation with an adequate academic education that will continue the tradition of innovativeness and growth. While Israeli entrepreneurs predominantly hailed from the army and from studies such as engineering and physics, there is a need both among the new entrepreneurs and also among the well-established ones, to understand the business side of the venture. Business students that know and understand entrepreneurship can not only become active entrepreneurial partners but can also provide the various second tier services needed by most entrepreneurs, such as financing, international accounting, legal services, human resource management and other management functions. As such, understanding the process of entrepreneurship is not only relevant for potential entrepreneurs themselves but also for those working within and around their organizational environment.

Based on the results of this study we recommend that institutions of higher education in Israel invest more financial and intellectual resources in entrepreneurial education. We advise Israeli academia to start investing more seriously in entrepreneurship courses and in studies to further this topic both at the academic and at the practical level.

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**STATE SUPPORT POLICY FOR SMALL AND MEDIUM ENTREPRENEURSHIP IN UKRAINE****ABSTRACT**

**This paper presents the state support policy for SMEs in Ukraine. It provides definition of SME categories, provides statistics on SMEs. The paper describes the highest hierarchical level of state level management and summarizes the legal framework and actors for SME support institutions. It summarizes the government support measures and provides information concerning microcrediting in the country.**

**Keywords:** categories of enterprises, statistics on SMEs, legislation for entrepreneurship, SME support measures, SME support organizations, State Administration of Ukraine for Regulatory Policy and Entrepreneurship Development, deregulation, Ukraine

**Jel Classification:** G21, L11, L26, P2,

**1. ECONOMIC CODE DEFINES SUCH CATEGORIES OF ENTREPRENEURSHIP AS: MICRO, MEDIUM, LARGE.**

*Micro enterprises* include enterprises (legal entities and individual entrepreneurs), the average number of employees in which for one calendar year shall not exceed 10 persons and the average annual income from any activity shall not be higher than EUR 2 million, according to the average annual exchange rate of the National Bank of Ukraine.

*Small enterprises* include enterprises (legal entities and individual entrepreneurs), the average number of employees in which for reporting period (calendar year) shall not exceed 50 persons and the average annual income from any activity shall not be higher than EUR 10 million, according to the average annual exchange rate of the National Bank of Ukraine.

*Large enterprises* – enterprises (*legal entities*), the average number of employees in which for reporting period (calendar year) shall exceed 250 persons and the average annual income from any activity shall be higher than EUR 50 million, according to the average annual exchange rate of the National Bank of Ukraine.

Other enterprises shall be classified as *medium-sized enterprises*.

In Ukraine, the share of SMEs in total number of enterprises is respectively 94.3% and 5.5%, which is generally consistent with the level of developed countries. At the end of 2013 there were 6.92 million of economic agents registered. There is 30% of the economically active population of working age employed in the small and medium enterprises.

**Quantitative Indexes of SME Development**

Quantity:

286.5 thousand – micro entities

344 thousand – small entities

20.2 thousand – medium entities

2.9 million – individuals

99.7% among common amount of entities and individuals

## Quota of SME at Gross National Product

- 54% - gravity of SME in the common amount of the realized products (works, services)
- 20% - small entities
- 33.4 % - medium entities

## Employment on the types of economic activity

- 51.4 % - hotel and restaurant activity
- 52.6 % - operation with real estate, rent, providing services
- 52.4 % - education
- 42.1 % - trade, car repairing, domestic consumer services

## 2. ACTORS OF THE SME STATE POLICY

At the state level SME policy development realized by Cabinet of Ministries of Ukraine, Central executive bodies and local self-government bodies( State Administration of Ukraine for Regulatory Policy and Entrepreneurship Development, Ministry of Economic Development and Trade, State Fiscal Administration, Ministry of Justice, Ministry of Agrarian policy and food, Ministry of social policy, Ministry of regional development, etc.)

At non-state level this policy realized by deliberative, consultative and other auxiliary bodies, infrastructure of SME support.

### Infrastructure of SME support:

- Funds of entrepreneurship support (242)
- Non-banking financial institutions (3,964)
- Leasing centers (535)
- Techno parks (46)
- Business-incubators (76)
- Business centers (531)
- Coordinating advices for entrepreneurship questions (698)
- Public business associations (2,205)
- Informative and consultative institutions (3,902)
- Innovative funds and companies (756)
- Investment funds and companies (2,275)

The main tasks of *State Administration of Ukraine for Regulatory policy and Entrepreneurship development* aimed on implementing of the state policy in the field of entrepreneurship development, regulatory policy, policy in the field of permissive system, supervision (control) at economic activity. Administration was established in December 2011. Its main mission is forming of favorable conditions for business opening and it's existing.

Concerning politics in the field of entrepreneurship and current business situation a necessity to mark that support and development of entrepreneurship, improvement of business-climate and forming of favorable conditions for business are priority directions for Ukraine.

### Basic entrepreneurship legislation includes:

- Civil, Economic, Tax Codes, and
- The following laws of Ukraine:
  - on State Registration of Entities and Individuals
  - on Basic Principles of State Supervision and Control in the Field of Economic Activity
  - on the Permit System in the Field of Economic Activity
  - on Licensing of Certain Economic Activities
  - on Farming
  - on Development and Support of small and Medium Entrepreneurship in Ukraine
  - on National Program of Assistance for Small Entrepreneurship Development in Ukraine.

Legal and economic principles of the state policy in the sphere of entrepreneurship support determined at the law of Ukraine «*On Development and Support of small and Medium Entrepreneurship in Ukraine*».

Main directions of state policy of entrepreneurship development in according to the Law are:

- 1) Improvement and simplification tax accounting;
- 2) Implementation simplified system of taxation and accounting for small business;
- 3) Involving small business for realization of the scientific, technical and social programs, distribution of its goods for securing state and regional requirements;
- 4) Providing with state finance support for small and medium-sized entrepreneurs by implementation of the government programs (granting of credits, recovering of interest rate on credit etc);
- 5) Assistance to develop infrastructure for SME support;
- 6) Guaranteeing of rights for SME within supervision and control of their economic activity;
- 7) Simplification permissive procedures and procedures of state supervision (control);
- 8) Organization of training courses personnel for business.

With the aim of providing business rights and interests protection under Administration function Public Board, Expert and Appeal Board, Ukrainian Fund of Entrepreneurship Support.

Public Board defines problems in the field of business development and searches ways for their solution. 49 leaders of entrepreneurship unions are at this Board.

Expert and Appeal Board is a collective body of licensing issues. It consists of 30 members who are representative of government bodies, independent experts and representative of public bodies. Main tasks of Board aimed on processing of applications and complain from entrepreneurs concerning violations of licensing legislation by licensing authorities (on issues of licenses granting or denial of licenses). Board's decisions are obligated for Administration fulfillment. According Board's decisions Administration adopt document on violations liquidation.

Ukrainian Fund of Entrepreneurship Support is non-state and non-commercial institution. It is coordinated by Administration through Supervisory Board. This Board includes representatives of government and public bodies, deputies. Main mission of the Fund is financial support of the implementation of state policy for entrepreneurship at the national level and implementation of education, consulting, warranty, credit support programs.

### 3. SME SUPPORT MEASURES

At state level in Ukraine the following instruments of SME support are providing: National Program for Assistance to Small Entrepreneurship Development, Regional Programs of Small and Medium Entrepreneurship Development, Budgetary Program «Micro-credits for Individuals and Entities of Small Entrepreneurship», National Program of Small and Medium Entrepreneurship Development (project).

The aim of the **National Program for Assistance to Small Entrepreneurship Development** are promoting of comfortable conditions for implementing rights on entrepreneurial activity which is guaranteed by Constitution, increasing of welfare of citizens of Ukraine by involving them at entrepreneurial activity.

The directions of Program are:

- improving of legislative acts which regulate business activity;
- forming of single public regulator policy at the field of economic activity формування;
- providing of financial and investment support for small entrepreneurship;
- creating of infrastructure net for small entrepreneurship development;
- implementing of local policy for small entrepreneurship development.

The basic condition of Program realization is aspiration of measures of local executive bodies and self-government bodies on creation and support of favorable environment for entrepreneurship development. For this regional programs of Small and Medium Entrepreneurship Development are adopted by local government every 2 years.

Tasks of the National Program are established by Cabinet of Ministries of Ukraine annually. It is financed by state and local budget recourses. Size of finance is established by law every year.

Within the framework of implementation of the National Program, training programs of business operating were organized at all regions of Ukraine. During 2 years 8,269 persons took part at these training programs.

On the Budgetary Program «Micro-credits for Individuals and Entities of Small Entrepreneurship» state finance assistance for small business are carried out by *Ukrainian Fund of Entrepreneurship Support*. Credit line is opened for starting-up business, for producing, processing and distributing of produced goods, for buying of equipment, new technologies, for building and modernization of production lines, industrial premises. An average cost of credit is UAH (ukrainian hryvna) 250,000. Credits are given on the results of business plans competition.

An interest rate is 1.5 % of registered level of National bank of Ukraine rate (10.5 % till April 2014). Credits granted on period till 3 years (on 1 year – EUR 10,000, till 3 years – EUR 25,000).

The State Budget of Ukraine for 2013 allocated EUR 1 million (there were provided 40 microloans: 23 were granted to individual entrepreneurs and 17 - legal entities).

In accordance with business plans granted micro loans will allow to organize nearby 200 new work places and to increase amount of the sales.

It follows notice, that Administration all time works on improvement business activity conditions. In particular, there are simplification procedures of business starting-up, reduction of number of permissive documents, improvement licensing, strengthening of responsibility for violation of legislation and other business issues.

In 2013 and 2014 the Administration worked on developing of new methods and measures to provide assistance to develop SME. On this aim were reviewed all existed programs, the best experience and practice of other countries at the sphere of business support. As result of this work new project of National Program of Small and Medium Entrepreneurship Development was elaborated. It is now on consideration of Cabinet of Ministries.

This project aimed on to solve the following problems of business operating:

- difficulties at getting financial (credit) assets
- poor system of infrastructure for SME support
- lack of personnel which is skilled in the field of entrepreneurship
- lack of informative, consultative and methodological base concerning business operating in the modern conditions
- low activity for starting up agrarian business.

To do it the project offers by realizing such directions as:

- deregulation of economic activity
- increasing opportunity to get finance assistance by SME
- assistance for development of infrastructure for SME support
- improving of training and education programs for personnel of business
- improving of system of informative support
- development of agrarian entrepreneurship and its cooperation

#### 4. DEREGULATION

Main course of Ukraine is taken on deregulation of economic activity (it means elimination of barriers on the way of doing business).

The State Administration of Ukraine for Regulatory Policy and Entrepreneurship Development (the Administration) is responsible for the following main areas:

- improvement of the state regulatory policy;
- simplification of the permitting and licensing systems;
- settlement of the state policy on supervision (control);
- state support to small and medium entrepreneurship.

State regulatory policy aimed on realizes next tasks:

- non-admission of acceptance of ineffective decisions (normative acts) and
- reduction of intervention from the state in activity of entities and individuals

In this field of realizing state regulatory policy the Administration makes independent analysis of regulatory acts drafts. Result of this analysis is concordance or non-concordance of draft. Any draft passes internal examination by the Administration departments, discussion with business towards possibilities of negative influence on business activity. Only after discussion decision of concordance of the draft can be taken.

Drafts of regulatory acts shall not violate the main principles of the regulatory policy (there are expediency, adequacy, efficiency, balance, predictability and transparency).

*During 2013*, the Administration received 1,760 draft regulatory acts for approval, which were designed by central authorities of executive power. Among them, there were 1,266 draft regulatory acts approved and 260 draft regulatory acts were refused in approval. There were received more than 850 draft regulatory acts from local authorities, among them, there were 473 draft regulatory acts approved and 280 draft regulatory acts were refused to approve. Another 58 draft regulatory acts have been left without consideration due to the violation of certain statutory requirements of the Law of Ukraine «On principles of regulatory policy in the sphere of economic activity».

Deregulation in the field of regulatory policy stipulates:

- improvement of legal regulation of economic and administrative relations between the authorities and business
- optimization of local authorities activities
- review regulatory procedure which is realized by Supreme Council of Ukraine

In April 2014, the Law of Ukraine was adopted, which *abolished 83 permits* (09.04.2014 № 1193-VII). Last year, the Government adopted a decree that reduced the number of economic activities which cannot be carried out according to the declarative principle - from 95 to 43.

By the Administration were prepared strategic changes to the Law of Ukraine «On licensing system in the sphere of economic activity», the Code of Ukraine on administrative offences, which improved procedural issues of pause, renewal, cancellation, prolongation of permit documents and suggested the responsibility of licensing authorities for violation of the principle of organizational unity.

There were prepared proposals on reduction of the number of business activities subject to licensing by 56%. This will significantly reduce the administrative regulation of business and reduce the cost of business entities in setting up and running their business.

In order to administrate complaints of economic agents concerning the decisions of licensing authorities on violation by these authorities of the legislation in the sphere of licensing there were held 15 meetings of expert and appellate board during 2013, and *reviewed 179* complaints of entrepreneurs concerning

groundless annulment of licenses. Withdrawn from consideration (consideration transferred) – 19, rejected – 73, met 87 complaints and as a result, the Administration issued an order to renew licenses.

Deregulation in the field of permissive and licensing systems stipulates:

- improvement of the procedure of state supervision (control) in the field of economic activity
- reduction the number of inspections and audits
- limitation of interference by bodies of control at the activity of entrepreneurs
- increasing level of responsibility of control bodies

Realizing of a state supervision (control) means an activity of the authorized government bodies in relation to an exposure and prevention of violation of requirements of legislation by the entities and individuals who provides economic activity and protection of interests of society. Nowadays in Ukraine 80 bodies of control are calculated.

Deregulation in the field of state supervision (control) stipulates:

- improvement of the procedure of state supervision (control) in the field of economic activity
- reduction the number of inspections and audits
- limitation of interference by bodies of control at the activity of entrepreneurs
- increasing level of responsibility of control bodies



**Natalia Kasapska and Anastasiia Kuts**  
at the BSEC-KAS Workshop on Microcrediting for SMEs in Bucharest

Photo © by Bekir Öncel



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**E-mail:** benyo.bela@gmail.com**WORKS COUNCIL AGREEMENTS AS INDICATORS OF REGULATED INDUSTRIAL RELATIONS****PART I****ABSTRACT**

The article is about the essential factors such as the role of trade unions, institutions determining the quality of the employment relations, written procedures governing the labour relations within the company and the effect of the communication and partnership on Works Council Agreements. The analysis reveals the fact that the existence of trade union is the key factor in the conclusion of works council agreements. The operation of the institutions of the labour-management relations characterizes the quality of the partnership and the regulation of employment relations at a specific workplace. According to the experience the smooth operation is likely to leads to a works council agreement. The written rules of procedure to settle labour dispute, the existence of Complaint Procedure Rules and the rule of equal opportunity associated with a greater frequency of works council agreement as well as the quality and intensity of the communication between representatives of labour and management. Thereby the conclusion of works council agreement can be considered as one of the essential indicator of the employment relations.

**Keywords:** employment relations, works councils, works council agreement, labour management relations, dispute resolution, trade unions, collective areements.

**JEL Cathegorie:** J53

**1 INTRODUCTION**

In the framework of the Social Renewal Operational Programme (TÁMOP) 2.5.2, entitled *Strengthening the Professional Background of Partnership and Dialogue*, a detailed data collection was performed in 2010, which resulted in a bulky study. The study was based on 5 questionnaires: (A) an executive, (B) an employment form, (C) a self-completed, (D) a Trade Union and (E) a Works Council questionnaire.<sup>13</sup> Among many others, the TÁMOP study also touched upon the current state of works councils. A comprehensive study was made of employment relations at the workplace, and more specifically the situation of employee participation and the operation of the works council.

The study underlying this article was written as a result of a recognition that in the closing document of the research insufficient attention had been paid to the correlations with the conclusion of works council agreements. It is this gap I endeavoured to fill when I made a second analysis of the available database.

Two years after the 2010 publication of the TÁMOP 2.5.2 research study, employment relationships were profoundly changed by Act I of 2012 (the amended Labour Code). As the role of works council agreements was expanded without cancelling the previous functions, the changes in the standard text did not affect the validity of the conclusions and correlations drawn from the previously collected data.

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<sup>13</sup>In the course of the research, simultaneously with the questionnaires, personal interviews were made with the representatives of the management and of the employees (trade unions and works councils/worker representatives) at the selected workplaces at 1000 private sector sites that operate with a headcount of at least 10, provided that they were available at the given workplace. In addition, with the help of pollsters, up to 25 employees completed questionnaires at each site, and another form was filled about the main employment and business data of each site. Overall, we have data suitable for processing about 8444 employees from 992 sites. At the various workplaces 139 interviews were made with trade unions and 106 with works councils. The collection method was put into practice by IPSOS Zrt.'s staff, the interviews were made in the period between June and October 2010.

In this study I discuss the factors that are fundamental for the conclusion of works council agreements, the role of trade unions, the institutions that determine the quality of industrial relations, the procedures that regulate written and internal labour relations, and the impacts of the quality of communication and partnership on the developments in works council agreements.

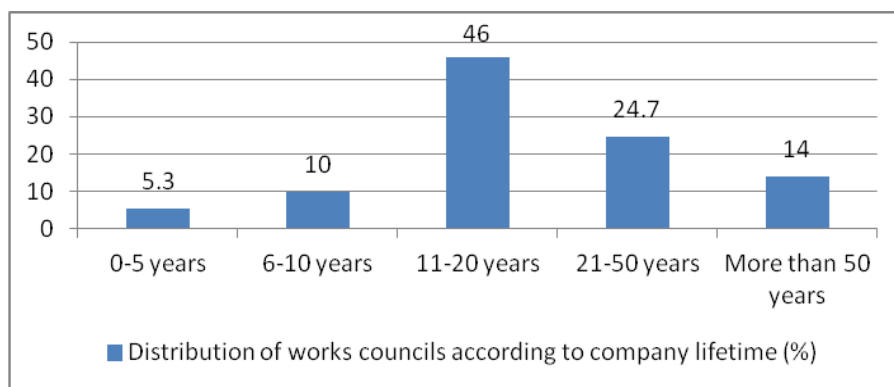
### Research methodology

This study is based on a second analysis of the data collected in the framework of the Social Renewal Operational Programme (TÁMOP) 2.5.2, entitled “*Strengthening the Professional Background of Partnership and Dialogue*” in 2010. For the purposes of this study, I elaborated on the responses given to the questionnaires “E”, on matters related to works councils. Using an SPSS program, I performed a cross-table analysis of the data. Question 26 on the existence of a works council agreement, included in block 03 of the questionnaire “E” was taken as an argument, while the other questions of the questionnaire were used as dependent variables. In order to establish the level of significance, I applied a *Kendall tau* statistical test as it is suitable for measuring the ordinal scales. Unfortunately, low responsiveness resulted, in numerous cases, in low cell frequency, and therefore no statistically significant correlation could be demonstrated between the presented relationships. Nevertheless, I also considered it important to present these phenomena, as they are also interpretable at the level of descriptive statistics.

## 2. CHARACTERISTIC FEATURES OF BUSINESSES AND THE WORKS COUNCILS

The TÁMOP research reveals that in comparison to previous surveys, the number of works councils is considerably less, and barely 18% of the surveyed sites have elected employee representatives (N=992).<sup>14</sup> The responses prove that 54% of the sites (N=99) have concluded works council agreements.

A notable correlation was revealed between the company’s year of foundation, in other words, its lifetime, and the frequency of setting up works councils. *Chart 1* shows that nearly half of the works councils (46%) are formed at businesses established during the first decade that followed the change of regime. It can be observed that in the past 5-10 years this process has dwindled. It can also be established that in the case of businesses founded more than 20 years ago, the frequency of having a works council has significantly reduced in correlation with the length of time they have been existing.

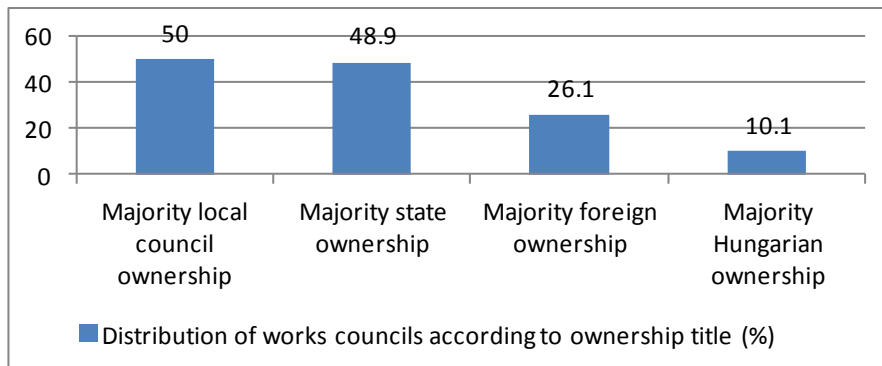


1*Chart 1: Company lifetime relative to works councils*

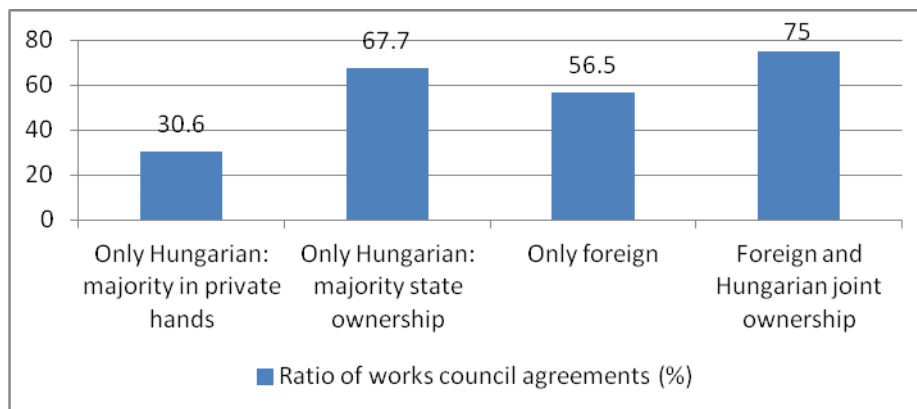
(N=150, sig.: 0.000)

The frequency of having a works council shows significant deviation in the case of various ownership types. Most frequently businesses in state or local council ownership set up works councils, they are followed by foreign-owned companies, while the firms in Hungarian hands close the line. (*Chart 2*)

<sup>14</sup> “Employment relations at the workplace, 2010” – survey, 7.1.1. The works councils, the central works council, the European works council, p. 245

**Chart 2: Corporate ownership structure relative to works councils***(N=150, sig.: 0.081)*

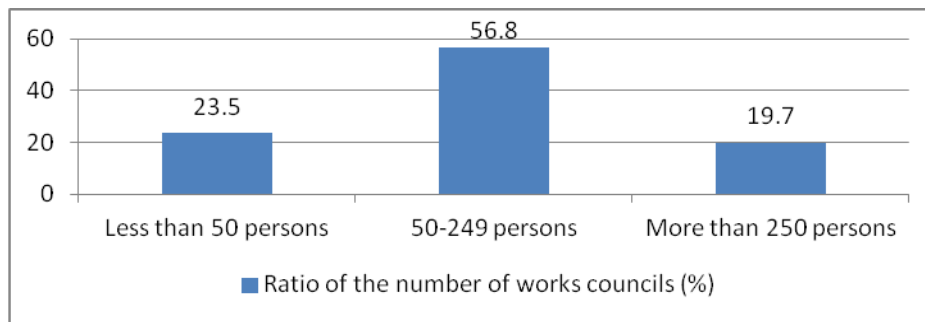
A similar correlation can be seen between the corporate ownership structure and the frequency of concluding works council agreements. (*Chart 3*)

**Chart 3: Corporate ownership structure relative to works council agreements***(N=150, sig.: 0.002)*

In respect of the frequency of having a works council, the corporate size is another determining factor that can be characterised by either the gross sales revenue or the number of employees. However, no significant correlation could be established between company size measured by the gross revenue and the frequency of having a works council. The reason for this is there was only a slight difference between the findings obtained for small, medium-sized and large businesses. Micro-companies, on the other hand, showed a conspicuous 97.2% ratio of having a works council, which is by far the highest figure in the analysed database. (*N=107, non-sig.<sup>15</sup>*)

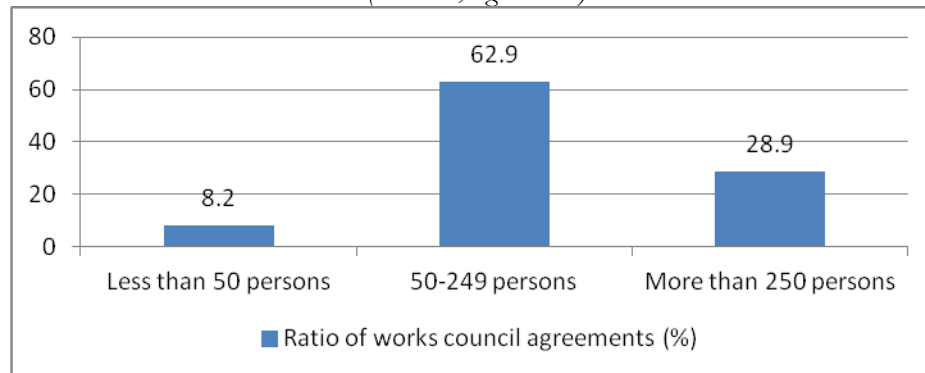
In terms of employee headcounts, which showed a significant result in contrast to the previous one, it can be assumed that most frequently the companies employing 50-249 people had a works council (56.8%). In relation to the dispersion of works council agreements a similar assumption may be made: the highest ratio was also observed at workplaces employing 50-249 persons. The difference can be observed in the case of the two extreme categories. While in the case of works councils the lowest ratio was shown in the case of firms with more than 250 employees (19.7%), in the event of works council agreements, the lowest ratio was recorded for businesses with less than 50 employees. (*Charts 4 and 5*)

<sup>15</sup>non-sig.=non-significant



**Chart 4: Corporate headcount relative to works councils**

( $N=162$ , *sig.*: 0.000)



**Chart 5: Number of works council agreements based on site headcount**

( $N=97$ , *non-sig.*)

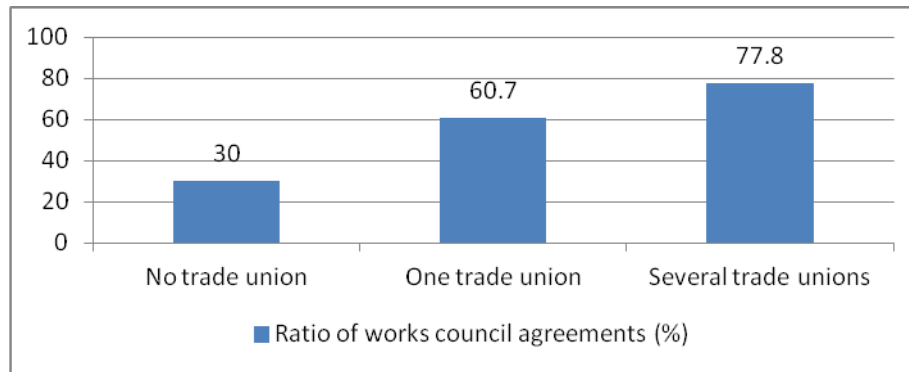
On the other hand, employee incomes did not show any significant correlation with having either a works council or a works council agreement. Another observation that might be considered interesting is that most frequently (61.4%) a works council agreement was concluded at workplaces where respondents reported average incomes. ( $N=85$ , *non-sig.*)

### 3. WHAT IS THE WORKS COUNCIL AGREEMENT WITHOUT TRADE UNION SUPPORT?

Previous research had already addressed this question<sup>16</sup> and had highlighted, among others, the predominant role of trade unions. In light of this the question logically arises if, similarly to the support provided to works councils, trade unions have a predominant role in the conclusion of works council agreements at workplaces or not.

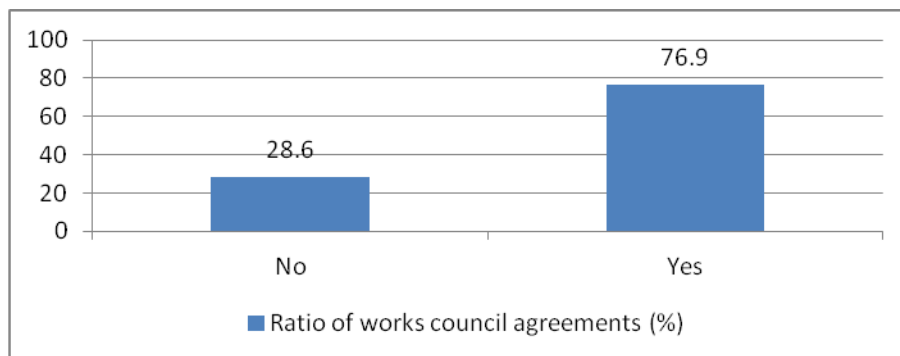
The following *Chart 6* makes the response clear. In the conclusion of works council agreements workplace trade unions have the pivotal role. This is because a significant correlation was shown between the number of trade unions and the frequency of concluding works council agreements, with the highest (77.8%) ratio seen at workplaces with several trade unions. In contrast, workplaces without a trade union could report the existence of a works council agreement only in 30% of the cases.

<sup>16</sup>Benyó, Béla: Situation of Works Councils in Hungary PhD thesis. Budapest, Corvinus University, 2004 Chapter 5.2, pp. 148–173



**Chart 6: Percentage distribution of works council agreements according to the number of trade unions** ( $N=95$ ,  $sig.: 0.000$ )

The undisturbed operation of works councils under trade union control, including the institutionalisation of the relationship between the employer and the works council, in other words, its recording in the form of an agreement is important for trade unions. It can be said that the positions and the efficiency of the work done by a trade union is highly improved by synergies between the two institutions. If several trade unions exist concurrently, the above is only true, of course, if the relations between the various trade unions is characterised by cooperation instead of confrontation. *Chart 7* shows the impact of interrelationship between trade unions on works council agreements.



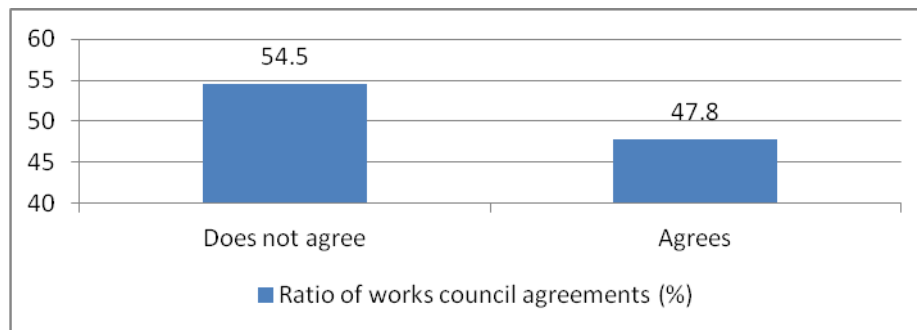
**Chart 7: Do the trade unions have separate meetings with each other?**

( $N=53$ ,  $sig.: 0.06$ )

The diagram reveals that at workplaces with several trade unions in collaboration the efforts made by works councils were also found to be conducive to the conclusion of a works council agreement, as in this case the ratio of existing works council agreements was nearly 77%. As this is a game of multiple players, it is important to clearly determine the individual roles, to which the works council agreement offers an appropriate framework.

Trade unions' predominance in promoting the conclusion of works council agreements is most typically manifest in the nomination of trade union representatives for election as officers of works councils. If 100% of the works council positions are filled by trade union members, the ratio of works council agreement conclusion is 81.8% as against cases when less than 50% of the members are trade union representatives. In such cases the ratio of concluded works council agreements remains a humble 45.5%. ( $N=42$ ,  $sig.: 0.084$ )

At places with powerful trade unions a correlation can be demonstrated between the frequency of concluding works council agreements and the responses made in the conviction that trade unions have not fallen into discredit, in other words, they are not considered as mere remnants of the previous system. In the latter case the ratio of works council conclusion was nearly 55%. (*Chart 8*)

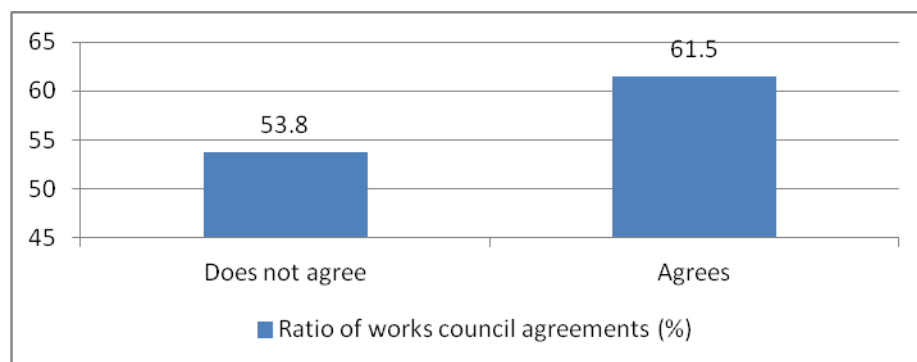


**Chart 8: “Do you agree with the statement that trade unions have fallen to discredit in the previous system?” vs. the number of works council agreements (N=78, non-sig.)**

Naturally, at workplaces where trade unions managed to retain employee confidence – and thus their workplace positions – they can also have a more significant role in the works council as well.

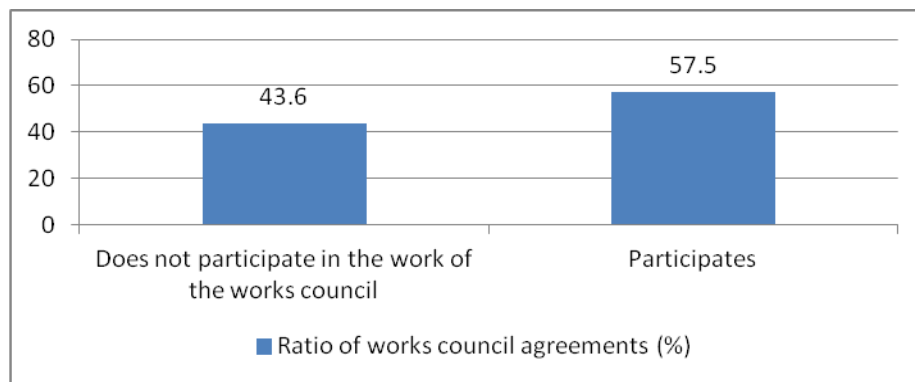
Confidence in, commitment to and the influence of trade unions are evidenced by the responses which confirm that works council agreements are concluded most frequently when the assumptions that the reason for insufficient support to trade unions is the “high membership fee” (N=78, non-sig.) or “the lack of spectacular results (60%)” are refused. (N=79, non-sig.)

An interesting correlation was shown between the failure of efforts at trade union establishment and the responses given to the question concerning the frequency of having works council agreements. If there was no trade union at the workplace but efforts had previously been made at its establishment, the responses showed that no works council agreement had been concluded at all. In the opposite case the corresponding ratio was 34.6% (Chart 9, N=28, non-sig.). Presumably this was due in the same extent to the employer’s influence and to the failure of trade union establishment. It may also be true that for lack of a trade union this was the only option for the parties to reinforce their institutional relationships. The responses given to the questions of the questionnaire suggest that employers frequently use the lack or weaknesses of trade union services to increase their preferences for works councils. This is reflected in Chart 10, which demonstrates the non-significant correlation between the lack of services and the existence of works council agreements.



**Chart 9: Trade unions offer an insufficient number of services vs. the number of concluded works council agreements (N=78, non-sig.)**

Assigning a double function to the chairman is not the exclusive way for trade unions to participate in the work of works councils or in the conclusion of works council agreements. Following the analysis of the data, the correlation materialises that the more trade union members participate in a works council, the higher the probability of concluding a works council agreement. This correlation is demonstrated in Chart 10.



*Chart 10: Percentage of concluded works council agreements if a trade union officer participates in the activities of the works council (N=79, non-sig.)*

It is perceptible that the ratio of concluded works council agreements was nearly 14% higher if a trade union officer was also involved in the work of the works council.

#### 4 INTERRELATIONSHIPS BETWEEN THE INSTITUTIONS OF INDUSTRIAL RELATIONS AND WORKS COUNCIL AGREEMENTS

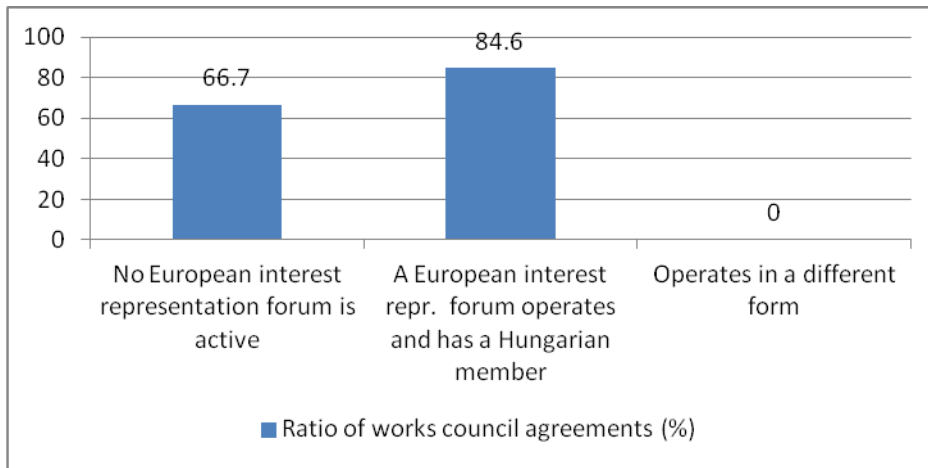
The secondary analysis of the data clearly confirms that the institutionalisation of industrial relations is a significant factor that influences the quality of the parties' relationship. It seems to be a merely formal matter, but in fact it does affect the content. The more institutionalised industrial relations are at a particular workplace, the more regulated the entire system of relations is.

In order to demonstrate this correlation, the interrelationship between the institutions of a workplace and the existence of a works council agreement need to be analysed.

Within this framework I examined the operation of five institutions:

- a) the European Works Council,
- b) the Central Works Council,
- c) an employee representative's membership in the Supervisory Board,
- d) occupational safety representation and its actual form,
- e) the existence of a collective agreement and its judgement
- f) presence of the trade union (as detailed in Chapter III)

The responses given to the question regarding the existence of European Works Councils (EWC) clearly reveal that the frequency of concluding a works council agreement is in close correlation with the membership of the works council of the particular workplace in the European Works Council system. As it is clearly shown in the following diagram: the workplaces where a European Works Council operates the relationship between the parties is on a higher level and is characterised by a more frequent conclusion of works council agreements. *Chart 11* reveals that works council agreements are concluded nearly 18% more frequently at workplaces where a European Works Council operates. On the other hand, no such agreement can be found (0%) at places where this institution does not function.



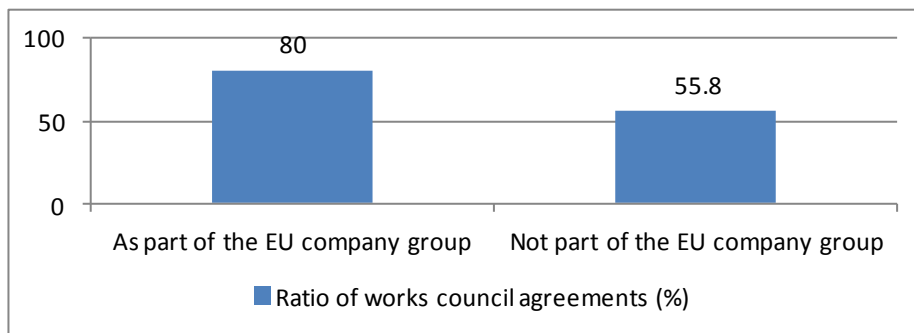
**Chart 11: Does a European Works Council operate parallel with the European centre?**

(N=17, non-sig.)

Under such circumstances the existence of a works council agreement can be considered as natural, as a significant coordination is performed in relation to the European Works Council, let alone the costs of representation. Works council agreements also provide a framework for this.

The existence of a central works council at a workplace has a similarly positive impact on the frequency of works council agreements. In this case the frequency of having a works council is 66.7% as against the 52.2% ratio recorded without a central works council. (N=23, non-sig.)

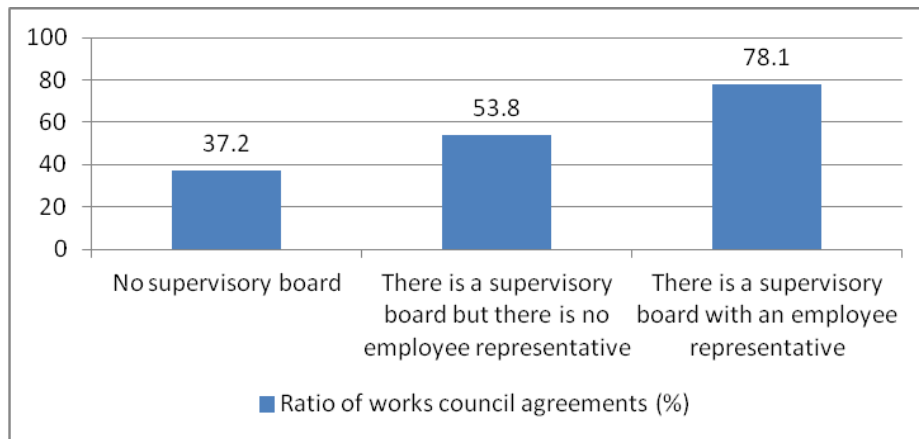
If the site is a member of a European-level company group, a close and significant correlation was seen with the frequency of concluding a works council agreement. *Chart 12* clearly illustrates that in this case the ratio of concluding a works council agreement is nearly 26% higher.



**Chart 12: Is the site part of a multinational company group operating in the European Union?** (N=87, sig.: 0.00)

A similar correlation can be observed in relation to the employee’s membership in the Supervisory Board. The responses reveal that there is a close and significant correlation between employee membership in the Supervisory Board and the frequency of having a works council agreement. (*Chart 13*)

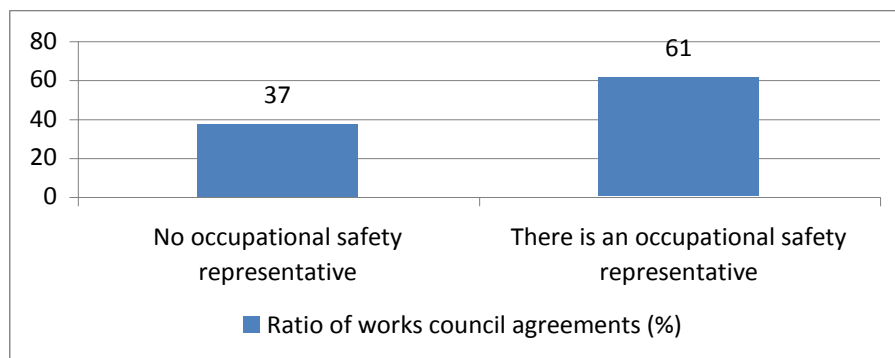




**Chart 13: Employee representation in the supervisory board to works council agreements** (N=86, sig.: 0.00)

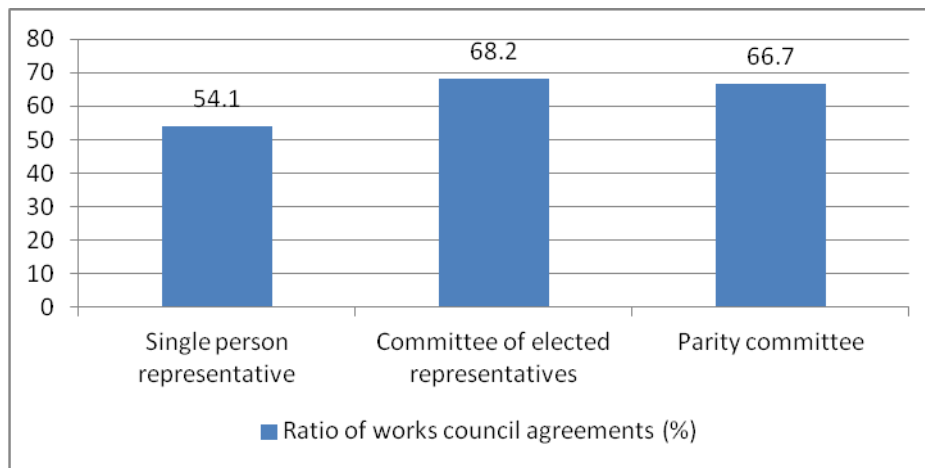
Based on the above it is presumed that the conclusion of a works council agreement provides an excellent framework for putting down the details of employee representation in writing.

Regarding the works council agreement, in addition to European Works Councils and the central works council, the third representation institution, namely occupational safety representation is of no less significant. A close and significant correlation can be demonstrated between the role played by an occupational safety representative and the frequency of having a works council agreement. *Chart 14* clearly illustrates that nearly 25% more works council agreements were concluded if there was an occupational safety representative at the workplace.



**Chart 14: Is there an employee-elected occupational safety representative at the workplace?** (N=92, sig.: 0.012)

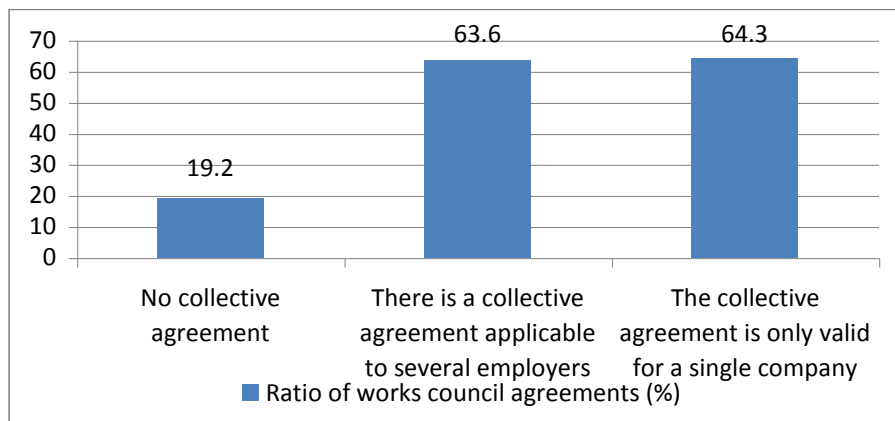
Regarding occupational safety representation, it can be established that the more institutionalised it is, the more frequently responses are affirmative about works council agreements. This is shown in *Chart 15*.



**Chart 15: In what form does the employees’ occupational safety representative operate at your company?** (N=63, non-sig.)

The chart shows that the frequency of having a works council agreement increases with the shift of individual occupational safety representation towards occupational safety representation on an institutional basis.

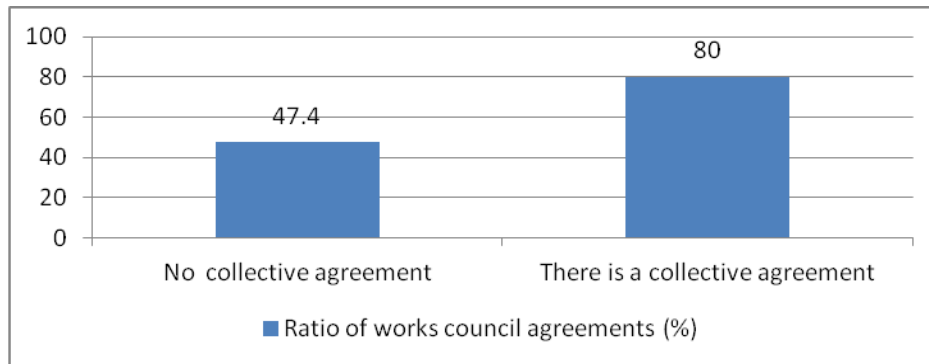
An analysis of the impacts of the fourth institution, that is, collective agreement on the conclusion of works council agreements reveals that the existence of a collective agreement correlates significantly with the frequency of having a works council agreement, as depicted in *Chart 16*.



**Chart 16: Collective agreements relative to works council agreements** (N=95, sig.: 0.001)

The correlation plotted in the chart reveals two things. On the one hand, a representative trade union is in an appropriate bargaining position to agree with the management about wages and employment matters in the collective agreement. On the other, it also shows that in order to enforce the agreement, it endeavours to have the most extensive influence possible, affecting among others works councils. This correlation is also a good illustration of the fact that trade unions do not consider works councils as their rivals, they rather think of them as a means to use. Previously, they were compelled to do so, as the former Labour Code provided that the representativeness of local trade unions had to be calculated on the basis of the votes cast for trade union representatives during works council elections. The above also reveal that in addition to the existence of works councils, the conclusion of works council agreements is also important for trade unions at workplaces.

The role of the new statutory regulation and sectoral collective agreements in the conclusion of works council agreements is not clear. The question is whether a multi-employer or sectoral collective agreement validly existing at a business excludes the works council’s right to conclude a “quasi” collective agreement in the case there is no local trade union or if the latter is not representative. The collected data fail to provide a response to this question, but it can be clearly established that the frequency of concluding a works council agreement is nearly 35 percent higher at places with a valid sectoral collective agreement. (*Chart 17*)



*Chart 17: Sectoral collective agreements relative to works council agreements*

(N=97, non-sig.)

In summary of what has been said, it can be concluded that the way the institutions of industrial relations operate give a good characterisation of partnerships at a workplace, and the orderliness of employment relations, and according to the experiences also increases the likelihood of the conclusion of works council agreements.

## REFERENCES

**TÁMOP 2.5.2. Employment relations at the workplace, a survey** Budapest, 10 December, 2010

**Research leader:** László Neumann, **coordinator:** Bori Simonovits **Authors:** Balázs Bazsala, Dorka Boda, Dorottya Boda, István Csabai, Péter Csizmadia, Éva Farkas, István Grajczár, Balázs Hórich, Miklós Illési, Sándor Kisgyörgy, Júlia Koltai, Marianna Kopasz, Csaba Makó, Beáta Nacsa, Gyula Nagy, László Neumann, Endre Sík, Bori Simonovits, András Tóth

**Remarks: Part II of this paper see in next ERENET PROFILE.**

Prophetess  
by  
József Visy ©



## NEWS

### INSIST - INTERGENERATIONAL SUCCESSION IN SMES' TRANSITION

**ID number: 2014-1-HU01-KA200-002307**

**This project has been funded with support from the European Commission.**

#### Genesis of the project

25 years after entering capitalist operating mode, Hungary's business community, and certainly those of the other post-socialist countries, is facing a new challenge, the first generation change in small and medium size companies where owners and managers are approaching retirement age.

Along the last two decades the coordinator, the Budapest Business School (BBS), has become one of the major training providers in the field of entrepreneurship in Hungary. Soon after the change of the regime BBS realised that it was not enough to open the door before entrepreneurial endeavours, but also support from the training community is indispensable for the very different would-be entrepreneur populations.

At this genesis of the present proposal BBS has found little evidence of political or scientific preparatory work to help intergenerational succession in the Hungarian SMEs and even less training offers supporting this sensitive period. This also applies to the transmission and development phase of SME's.

Overwhelming proportion of new entrepreneurs launched their small, very often family company without the necessary knowledge, competences and skills of entrepreneurship. This revelation gave birth to intensive search of experience in partner EU countries and also at OECD and EU level. So BBS looked for experience in entrepreneurial training development in countries with long standing entrepreneurial culture and launched a number of bilateral and European projects in order to adapt trainings and pedagogical approaches. These efforts resulted in defining training modules and solution – face-to-face or virtual – for a variety of target groups, which is the objective of the INSIST project.

#### Aims and objectives

The participant institutions have a rich course offer in the field of entrepreneurship but they have no special training solution targeted to the target groups involved in generational succession or transmission. The INSIST project will enrich initial and vocational curriculum and training systems of the partners, university partners as well as the SME / entrepreneur federations and support services.

**The largest target group to be impacted by the project is composed of SME owners and managers** who are facing the challenges of the generational changes and are forced to take care of the succession process. The help offered to these SMEs in form of training seminars and/or **practical mentorship** will facilitate the generational transition, avoiding firm dissolutions, and will impact on firms' survival rates.

**Governmental bodies** are also expected to be impacted by the results; preparatory international analysis points out the important potential role for governments here in terms of providing tailored support to the succession process. The results of the project, in form of a study to be prepared by the research working group, will define the possible activities and roles of governments to support SME succession /transmission thus protecting investment and jobs. The extreme importance of this is shown by the fact that existing companies maintain, on average, five jobs whereas start-ups generate, on average, two jobs.

Another impact (short term on the participants of the pilot training seminars and long term on the general student body in economics) will be exerted on the student population who is in **entrepreneurship Master** and will have a new specialisation of this Master as an option.

The local impact of the project will be exerted on the local SMEs, mainly in Hungary and in Poland, facing the imposing need for generational change:

- The project dissemination activities will reach them with the information of the existing learning, mentoring and support possibilities.
- Their participation in the training seminars will facilitate their transition period.
- After the project's lifetime (end 2016), the succession process will be helped by the **mentors trained during the INSIST project** through the new training offer.

Impact at national and European levels is foreseen also by two other channels:

- INSIST partners plan larger follow-up activities to be supported by the Knowledge Alliance strand of Erasmus+ and by the European Social Fund in the same field;
- In addition, different governmental bodies are to be informed about the training possibilities and are to receive the final study with recommendations on how these governments can help the SME succession and transmission process through their regulatory measures.
- These follow-up projects will be open to and conceived with larger partnership and with wider geographical coverage.

## Partnership

- Budapest Business School, Budapest, Hungary
- AdInvest Development, Avignon, France
- Leeds Beckett University Leeds, UK
- Cracow University of Economics, Cracow, Poland
- MAC-TEAM aisbl, Brussels, Belgium
- Business Hungary - Confederation of the Hungarian Employers and Industrialist, Budapest, Hungary
- Employers Union Lewiatan of Malopolska, Cracow, Poland

A multi-actors partnership has been established with 3 higher education institutions and 4 non university partners. Two of the universities are from the newest Member states (HU and PL) where generational succession and transmission of enterprises comes across the first time in the life of enterprises.

These Hungarian and Polish partners have extended research work around topics touching upon SME issues, but they have no experience in how to help SMEs directly when they succession time occurs. These partners certainly have no appropriate training solutions facilitating the succession for the different interested target groups (the main expected result of the project). Both are experienced in European projects, their initiation and management as well.

The third university, Leeds Beckett University (UK), has a rich experience in research and curriculum development in entrepreneurial issues. This university is considered as an innovation resource, but it is also interested in the joint development of new curricula around succession problem.

One of the non university partners is a French multi-entrepreneurs company (Adinvest) operates a network of mentors who work in the field and help SMEs in different kinds of problems which may occur also around succession or transmission. Adinvest accepted to share its experience with the partnership of the project and also to develop its experience, practical and theoretical, into training material around mentoring approaches. So this partner is an important source of innovation for the project.

Mac-Team, the Multi-Actors Cooperation network, is a Belgian international non-profit organisation with rich experience in different kinds of European projects and, in particular, in quality assurance and monitoring issues. It will take in charge these activities on the project.

The remaining two partners are Hungarian and Polish SME associations having experience in curriculum development for enterprises as well as piloting the new courses and disseminating and exploiting results.

For the exploratory research two highly reputed researchers of the central field of the project are engaged as sub contractors of the Hungarian partner. Beyond their general contribution to the project they will introduce the Italian and the Finnish experience in the partnership. Most of the partners have long standing cooperation with the coordinator Budapest Business School as an institution and others have long established personal contacts around research or educational projects. Most partners have been involved several times in similar projects.

**Official website of the project:**

<http://insist-project.eu>



Photo © by Antal Szabó



## LESSONS FROM THE GLOBAL INNOVATION FORUM

The 4th **Global Innovation Forum** was held on 19-20 November 2014 in London (UK) town and Brand Genetics chaired the event, which gathered a diverse range of innovators from around the world to share and learn from one another. We all learnt a huge amount over the course of the two days, but here are 6 key themes that emerged which we thought worth sharing:

**1. The world has changed:** It's not changing it's changed! At the conference we heard how you can now take 'Dronies' (selfies from a drone) and 'Yelfies' (where you shout and the camera snaps you), drive cars designed to have the bodies of athletes (the new McLaren P1), drink Kola that isn't just sugar water (Pepsico's new Caleb's Kola launch), have a computer create surprisingly tasty original recipes (IBM's Cooking Watson). In this complex, fast changing world CEOs from the world's leading companies now believe the crucial leadership skill – more than rigor, management discipline, integrity or even vision – is creativity

**2. You need to understand what's coming next:** whether its understanding the trends and megatrends, looking to entrepreneurial start-ups for new ideas, or getting insight into influential future generations like Gen Z, every business needs to innovate for the future. If you create the perfect innovation for today and chances are increasing that it will be out of date by the time you get it in front of the consumer

**3. Find the Crazy Ones:** Innovators are a special breed with a unique DNA – they embody the qualities of observing, questioning, associating, experimenting and networking. In large organisations you have to be a little bit crazy to be an innovator because innovation means challenging the way of doing things – so find the likeminded people in your organisation (you don't need many of them) and work together to challenge the status quo

**4. Collaborate, Collaborate, Collaborate:** Joy's Law states all the smartest people work for someone else... the good news is that increasingly those people are open to working with you to create tomorrow's solutions. Work with different functions internally, with customers and consumers, with partners – even with competitor ('co-opetition') and bring their outside perspectives and skills into your organisation

**5. Stop thinking, Start Doing:** A strong message that innovating is not simply an intellectual exercise, in the words of Nike sometimes you have to 'Just Do It'! Whether that's using design thinking or prototyping or preto-typing it's important to start making stuff real; not least because until it becomes real it's all super-scary for senior executives worrying about these 'crazy' (see above) innovation people rocking the boat

**6. Ultimately you need to stay uncomfortable:** To be creative, you need to embrace the chaos of divergent thinking. Creativity comes from a conflict of ideas, it can feel messy, challenging uncomfortable; but until it does – and indeed until you're failing 50% of the time – you're not pushing yourself hard enough. After all, we're all looking at the same problems: you need to ask yourself how are you going to do something different?

**The 5th Global Innovation Forum is scheduled to 18-19 November 2015 in London (UK).**

Source: <http://brandgenetics.com/6-innovation-lessons-from-the-global-innovation-forum/>



## INSTITUTIONAL PROFILE



Since 2004, the **KINNERET COLLEGE ON THE SEA OF GALILEE** has operated in the Jordan Valley as an institution of higher education which offers bachelor's degree academic study programs. In 2006 the college changed its name from Jordan Valley College to The Kinneret College on the Sea of Galilee.

### ACADEMIC PROGRAMS

**The college offers a range of bachelor's degree academic programs:**

- \* The School of Engineering offers B.Sc. degrees in the following fields: electrical & electronics engineering, information systems engineering, quality and reliability in electronics industries engineering, software engineering, and water industries engineering.
- \* The School of Social Sciences and Humanities offers B.A. degrees in the following fields: communications, tourism and hotel management, behavioral sciences, and Land of Israel studies.
- \* Studies are offered in the following fields under the auspices of Bar Ilan University: psychology, criminology, sociology, political science, human resources, economics and business studies, education, management and organization.

**The college runs academic preparatory programs and bagrut (high school diploma) preparatory programs, and also has a regional school for gifted and outstanding school students, a youth excellence center, and an external studies division.**

**The college also incorporates the following:**

- \* The David Bornblum Chair for Land of Israel Studies
- \* Kinneret Center on Peace, Security and Society in Memory of Dan Shomron
- \* The Institute for Galilean Archeology

Our ERENET member **Sibylle Heilbrunn** is engaged in the following academic programmes:

- **Women's Entrepreneurship, Institutional Theory, Gender and Entrepreneurship, Technological change, and Transition Economies and**
- **Entrepreneurship, Social Entrepreneurship, Rural Entrepreneurship, Sociology of Entrepren**



Source: <http://www.kinneret.ac.il/>



## NEW COMING EVENTS AND CALL FOR PAPER



**WORKSHOP  
on  
“SMEs and SMALL FARMS IN AGRIBUSINESS”**

**Organized by**

**ORGANIZATION OF THE BLACK SEA ECONOMIC COOPERATION (BSEC) and KONRAD-ADENAUER-STIFTUNG (KAS)**

**15. - 18. April 2015 in CHISINAU (Republic of Moldova)**

**Wednesday, 15th April 2015**

**Arrival of Participants and Transfer to the Hotel**

**Thursday, 16th April 2015**

**09:00 – 09:30 Welcome and Opening Remarks**

H.E. Ambassador Traian **CHEBELEU**  
Deputy Secretary General,  
Permanent International Secretariat,  
Organization of the Black Sea Economic Cooperation

Dr. Colin **DÜRKOP**  
Resident Representative,  
Konrad-Adenauer-Stiftung for Turkey

Dr. Antal **SZABÓ**  
UN ret. Regional Adviser,  
Scientific Director of ERENET

Sven-Joachim **IRMER**  
Resident Representative,  
Konrad-Adenauer-Stiftung for Romania and Republic of Moldova

Dr. Tudor **COPACI**  
Deputy Minister of Economy of Republic of Moldova

09:30 – 11:00      **STRATEGIC DIRECTION OF ENTREPRENEURSHIP DEVELOPMENT BY HIGH VALUE ADDED AGRIBUSINESS ACTIVITIES IN THE REPUBLIC OF MOLDOVA AND IN THE EU**

Moderator:      Dr. Antal **SZABÓ**  
UN ret. Regional Adviser  
Scientific Director of ERENET

09:30 – 10:00      **Small and medium sized agri-processing enterprises on the road to Europe - challenges and perspectives**

Dr. Alexandru **STRATAN**  
Director of the National Institute of Economic Research of the Republic of Moldova

10:00 – 10:30      **The Experience in Support SMEs and Small Farms in Agribusiness in Germany**

Dr. Steffen **GROßMANN**  
Consultant Corporate Restructuring SME  
Struktur Management Partner GmbH  
(Cologne/Germany)

10:30 – 11:00      **THE EU'S COMMON AGRICULTURAL POLICY**

Dr. Antal **SZABÓ**  
Scientific Director of ERENET  
UN ret. Regional Adviser

11:00 – 11:30      **Coffee Break**

11:30 – 13:30      **Exchange of experiences concerning SMEs and Small Farms development in the BSEC Member States in alphabetical order: Albania-Armenia-Azerbaijan-Bulgaria-Georgia (I. Session)**

Question to be discussed: (i) The role and size of agribusiness in the overall country economy; (ii) Characteristics of SMEs and small farms in the agribusiness; (iii) Describes the problems faced by agri-SMEs and small farms as compared with large economic entities; (iv) Challenges of SMEs and small farms against healthcare and ecosystem requirements; (v) Issues of competitiveness and internationalization of the agribusinesses; (vi) Does the Government support agri-SMEs and Small Farms?

Moderator:      H.E. Amb. Traian **CHEBELEU**  
Deputy Secretary General  
Organization of the BSEC

13:30 – 15:00      **Lunch**

15:00 – 18:00      **Continuation of exchange of experiences concerning SMEs and Small Farms development in the BSEC Member States: Greece-Romania-Russia-Serbia-Turkey-Ukraine (II. Session)**

Moderator:      Dr. Fikret **ÜÇCAN**  
Vice-President of TOSYÖV

**Friday, 17th April 2015**

09:00 - 11:40	<b>BEST PRACTICE IN SMEs and SMALL FARMS IN MOLDOVA</b>
	Moderator: Alexandru <b>STRATAN</b> Director of the National Institute of Economic Research of the Republic of Moldova
09:00 - 09:20	Petru <b>MALERU</b> Director of the Agency for Intervention and Payments for Agriculture (AIPA) form the Republic of Moldova
09:20 - 09:40	Petru <b>STRATAN</b> Manager at „DACFRUCT” LTD
09:40 - 11:00	Igor <b>ROSCA</b> General Director at „ROGOB” LTD
11:00 - 11:20	Mihai <b>CHILIANUL</b> Manager at “CODRU-ST” LTD
11:20 - 11:40	Iulia <b>IABANJI</b> General Director of the Organization for Small and Medium Enterprises Sector Development
11:40 -12:00	<b>Coffee Break</b>
12:00 -12:30	<b>Final Discussion/Declaration and Seminar Findings</b>
	H.E. Ambassador Traian <b>CHEBELEU</b> Deputy Secretary General, Permanent International Secretariat, Organization of the Black Sea Economic Cooperation
	Dr. Colin <b>DÜRKOP</b> Country Representative Konrad-Adenauer-Stiftung for Turkey
	Moderator: Dr. Antal <b>SZABO</b> UN ret. Regional Adviser Scientific Director of ERENET
12:30-14:30	<b>Lunch at Hotel</b>

**Saturday, 18th April 2015**

Departure of participants

## **MEB 2015 — 13th INTERNATIONAL CONFERENCE ON MANAGEMENT, ENTERPRISE AND BENCHMARKING**

**29-30 MAY 2015, ÓBUDA UNIVERSITY, BUDAPEST, HUNGARY**

**MEB 2015** is an international conference to provide a forum for presentations and discussions of scientific, economic and business areas. The growing international competition in the economical area had created a demand to establish a forum in order to improve quality and education efficiency on the field of management, enterprise and benchmarking.

**TOPICS** within the scope of the conference will include:

- Applied Marketing
- Enterprise Security
- Human Resources Management
- Knowledge Management
- Small and Medium Sized Enterprises

### **REGISTRATION**

Prospective participants are kindly asked to fill in the online registration form on the website.

**Registration fee: EUR 200**

**Registration fee for ERENET members: EUR 100**

### **PAPER SUBMISSION**

The submission deadline is 31 March 2015. Papers go through a refereeing process; accepted papers will be (optionally) published in a conference volume with an ISBN number and will also be made available online. Revised papers of no more than 10 pages must arrive no later than 10 May and must follow the conference guidelines. Acceptable file formats are doc or rtf. Papers should be written and presented in English.

### **IMPORTANT DEADLINES**

Registration	31 March 2015
Paper submission	31 March 2015
Submission of revised, camera ready manuscripts	10 May 2015

**Organized and sponsored by the Keleti Faculty of Business and Management, Óbuda University, Hungary**

**in cooperation with the ERENET Network**

**Secretary General Timea Edőcs at [edocs.timea@kgk.uni-obuda.hu](mailto:edocs.timea@kgk.uni-obuda.hu)**

**For further information see: [uni-kgk.uniobuda.hu/MEB](http://uni-kgk.uniobuda.hu/MEB)**

**INTERNATIONAL SCIENTIFIC CONFERENCE ON  
„CORPORATE SOCIAL RESPONSIBILITY AND HUMAN RESOURCE MANAGEMENT IN V4  
COUNTRIES“**

**June 4 – 5, 2015, Nitra (Slovakia)**

The main goal of the international scientific conference is the presentation of obtained knowledge in relation to corporate social responsibility of enterprises, human resource management as well as to the newest approaches in management and business within V4 countries. This international conference deals with theory and practice in the selected problems and can be recommended for the scientists, researchers and the representatives of the business sector. An additional goal of conference is to provide a place for academicians and professionals with interests in corporate social responsibility and human resource management.

**The topics of the international conference are the following:**

- Corporate Social Responsibility and Philanthropic Activities of Enterprises in the Context of Internationalization of Business,
- Human Resources as Social and Intellectual Capital in an Organization,
- Diversity Management and Talent Management,
- New Approaches in the Management and Business,
- Presentations of PhD students

**The language** of the international conference is English and Slovak with no official translation.

**Publication**

The abstracts and articles will be sent and received **only in English language** according to template on web site of conference <http://spu.fem.uniag.sk/fem/ISC2015/>. All accepted articles will be reviewed and published in the proceedings of scientific papers with ISBN on – line on the web site of conference <http://spu.fem.uniag.sk/fem/ISC2015/>. The published proceedings of reviewed scientific articles in English language will be applied for ISC 2015 proceedings to be listed in Web of Science.

**Organizer**

**Slovak University of Agriculture, Nitra, Slovakia  
Faculty of Economics and Management, Department of Management**

**Conference fee**

Full participation	EUR 100
Registration fee for PhD students	EUR 40
Fee with one publication without participation	EUR 40

The **conference fee** includes the conference’s materials, the publication of proceedings of reviewed articles on – line on web site of conference, refreshments, lunches on June 4 – 5, 2015, the dinner and social gathering on 4 June 2015 (Thursday evening) and cultural program.

**Registration**

The registration form and further information see is on the conference website <http://spu.fem.uniag.sk/fem/ISC2015/>.

The abstract in English language (max. 400 words) should be send via e-mail to the following address: [confreg2015@gmail.com](mailto:confreg2015@gmail.com)



## 11th INTERNATIONAL CONFERENCE of ASECU

### "OPENNESS, INNOVATION, EFFICIENCY AND DEMOCRATIZATION AS PRECONDITIONS FOR ECONOMIC DEVELOPMENT"

**10-11 September 2015**

**Cracow, POLAND**

11th International Conference of ASECU will take place on September 10th and 11th, 2014 in Cracow, POLAND with the support of the Cracow University of Economics. **ASECU** stands for Association of Economic Universities of South and Eastern Europe and the Black Sea Region.

The conference aims to provide a professional discussion platform for both academic and business professionals from Southern and Eastern Europe as well as and the Black Sea Region, and from the neighbouring countries. The conference will address multi factor aspects of sustainable development. Openness, innovation, efficiency and democratization seem to belong to the group of the most important factors influencing catching-up processes and helping to sustain a high level of development. Hence, organizers of the conference especially expect participants to explore and examine the impact of the factors mentioned above.

The conference official language is English.

#### **Conference Topics**

##### **1st Session - Openness, Innovations, and Growth: Macroeconomic and Policy Issues**

Submissions: Macroeconomic Studies on Openness, Innovations and Growth (including Environmentally Sustainable Growth)

##### **2nd Session - Openness, Innovations, Efficiency and Growth: Microeconomic Issues**

Submissions: Microeconomic and Business Studies on Openness, Innovations and Growth (including Environmentally Sustainable Growth)

##### **3rd Session - Democracy, Efficiency & Socially Sustainable Development**

Submissions: Studies on Democracy (and other Social and Political Institutions), Efficiency and Development

**Registration fee - EUR 123**      Deadline: **27 February 2015**

#### **Conference venue address:**

Cracow University of Economics  
Rakowicka 27, 31-510 Krakow  
E-mail: [asecu2015@uek.krakow.pl](mailto:asecu2015@uek.krakow.pl)  
Tel: +48 12 293 7441, Fax: +48 12 293 7489

On-line registration see at <http://asecu2015.fundacjauek.krakow.pl/en/registration>

For further information see at <http://asecu2015.fundacjauek.krakow.pl/en/>

## **CALL FOR PUBLICATION IN RESEARCH ON ENTERPRISE IN MODERN ECONOMY – THEORY AND PRACTICE**

Quarterly publication **Research on Enterprise in Modern Economy – Theory and Practice** is a multidisciplinary journal, where authors are invited to publish conceptual papers as well as recent research articles and notes. The journal is managed by the [Gdańsk University of Technology, Faculty of Management and Economics](#). The journal invites authors to submit papers **in the area of social enterprise and social entrepreneurship**. The following topic areas will be subject of the special issue. The papers go through a double-blind review process and the journal is published online (indexed and searchable via Google) and in print.

The deadline for paper submissions is 31 March 2015. Interested authors are invited to send their papers to [reme@zie.pg.gda.pl](mailto:reme@zie.pg.gda.pl). Paper length should not exceed 22,000 characters (including spaces) and APA is the used referencing style.

The interest for this journal call focuses on the following areas, but is not limited to:

- concept of social enterprise and social entrepreneurship in present academic, political and
  - business discourse,
  - support for social entrepreneurship in Poland, CEEC, Europe, worldwide,
  - social entrepreneurship development and its determinants,
  - institutional context for social entrepreneurship,
  - the contribution of social entrepreneurship into socio-economic development,
  - social enterprise models in Poland, CEEC, Europe, worldwide,
  - governance in social enterprises,
  - between economic and social – hybridity in social enterprises,
  - entrepreneurial behavior in social enterprises,
  - the nature and attributes of entrepreneurship in the third sector
  - social entrepreneur
- The Editor accepts only papers that have not been published elsewhere.
  - Papers go through double, blind review process
  - The editorial claims the right to make any necessary changes in the papers according to the
  - editorial requirements for the paper, without contacting the author
  - The size of the paper should not be larger than 22 000 characters (including spaces)
  - Papers that will not meet the required editorial requirements will be rejected.

**FURTHER INFORMATION SEE <http://www.zie.pg.gda.pl/reme>**



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