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EARLY SUMMER MESSAGE OF THE SCIENTIFIC DIRECTOR

Distinguished Readers and Friends,

The Maltese Presidency of the Council of the European Union in close cooperation with the European Commission invited the EU SME stakeholders on SMEs to the Malta EU Presidency Business Transfer Conference which was held on 17th March in Valletta. The participation of all involved is central to the production of a comprehensive policy report, which will allow the recommendations emerging from this event to be presented to the relevant EU Institutions. The Entrepreneurship 2020 Action Plan aims to unleash Europe's entrepreneurial potential. The strategy's goal is to ease the creation of new businesses and to create a more supportive environment for the growth of existing entrepreneurs. The transfer of businesses from generation to generation is an important task to reaching this goal.

On 18 April 2017, the Entrepreneurship Development Foundation (EDF) holds a Workshop in Baku on the topic: "State support of women's business." The program of the workshop envisaged the participation of foreign experts who are familiar with the experience of state policy on stimulating and supporting women's business in the Europe Union and in Eastern and Central Europe. The Workshop was conducted within the framework of the EDF "Micro Enterprise Support Project", funded by USAID. The Scientific Director of the ERENET took part on this workshop and made presentations on Women entrepreneurship support policies of the EU" and "Best Practices in Supporting Entrepreneurship in Selected EU countries". ERENET was requested to provide technical support for the creation of an Azeri Women Entrepreneurs network.

On 28-29 April 2017 the 15th International Conference on Management, Entrepreneurship and benchmarking was held at the Óbuda University by the Keleti Faculty of Business and Management in Budapest. The Conference was held in cooperation with the ERENET Network, which held a special session with participation and papers by the ERENET Members. The international conference under the motto: „Global challenges, local answers” provided a forum for presentations and discussions of scientific, economic and business areas. The growing international competition in the area of economics had created a demand to establish a forum in order to improve quality and education efficiency on the field of management, enterprise and benchmarking. Papers will be published in a special edition of the Óbuda University, while the next ERENET PROFILE will be devoted to those presentations which were held by ERENET Members.

Early 2017 we started to search for new support high-level education institutes. And it is my pleasure to inform you, that we found two prestige institutions, they are **the Budapest Business School University of Applied Sciences** headed by Prof. Dr. Heindrich Balázs and **the Keleti Faculty of Business and Management of Óbuda University** headed by Prof. Dr. András Medve Dean and Prof. Dr. Kornélia Lazányi, Vice-Dean for Research.

On 8 June 2017, the European Commission published an inception impact assessment regarding a potential revision of the EU SME definition. The original definition dates back to 2003 when the Commission published its Recommendation. This definition has been accepted and widely used throughout the EU and is a very important tool to determine whether companies fall within the scope of certain legislation, as well as regulating the eligibility for access to finance. In the past, there have been pressures, from certain countries and industries in particular, to include larger companies (mid-caps/Mittelstand) in the definition of SMEs. Similar to ESBA, ERENET also opposes this idea as the SME definition is already very wide and inclusive; only 0.2% of EU companies fall outside of its scope. ERENET looks forward to getting news on this issue in support the SMEs.

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ENTREPRENEURIAL ATTITUDE - DOES TRUST MATTER?

ABSTRACT

Trust is an inevitable part of interpersonal relations. What is more, in line with international literature, it is also a necessary element of the entrepreneurial life. Trust is inevitable for establishing and managing business ventures, and has positive correlation with business performance as well. Present article endeavours to explore the relation of trust and entrepreneurship, through intermediaries such as social capital, informational support and risk tolerance. The paper presents an extensive literature review connected to the interplay of topics entrepreneurship, trust and social support along with a research on 274 master students in Entrepreneurship Development master program. The results underline the importance of trusting relations and emphasize the significance of trust for entrepreneurs and their ventures.

Keywords: entrepreneurship, risk-taking, social embeddedness, trust.

JEL Classification: L26

1. INTRODUCTION

Entrepreneurs are important and inevitable parts of present day economies. Yet, there is still no consensus on what makes an individual entrepreneurial. Since the 18th century (Cantillon, 1723) entrepreneurs are regarded risk-taking individuals. In 1921 Knight still declared entrepreneurship to be about risk taking - paying certain price for a product to resell it at an uncertain price, making decisions about obtaining and using resources while consequently admitting the risk of enterprise. The notion of entrepreneurship, however, has been redefined since then. The definitions of entrepreneurship besides focusing on uncertainty tolerance and risk-taking have gained a new aspect, namely creativity. According to Schumpeter (1934) entrepreneurs are wild spirits and entrepreneurship itself is the gale of creative destruction. For decades, the international literature has focused on the creative, innovative part of this definition. Stevenson and Gumpert (1985) for example defined entrepreneurship as a process, where creativity is not restricted by rationality, resources currently owned and solutions already available, but is fostered by the complete disregard of the previous. Anderson and his fellow researchers (Anderson et al., 2014) also emphasized that entrepreneurs are defined by their creative, innovative ideas. Some literature even states that creativity and innovation are crucial to foster an entrepreneurial culture (Edwards-Schachter et al., 2015). Creativity and innovation of entrepreneurs have even been recognized as driving forces of socio-economic development by legislative bodies (EC, 2010; OECD, 2011;).

Peter Drucker (1964, 1970) was one of the many to provide a complex aspect of entrepreneurship as a process and the entrepreneur as the central figure of it. He focused on decisions and practices rather than personal characteristics when creating his own definition of entrepreneurship. Along with his understanding an entrepreneur is an individual who consciously pursues change, responds to it and exploits opportunities. He/she is willing to put his or her career and financial security on the line and take risks in the name of an idea, spending time as well as capital on an uncertain venture. What is more, an effective entrepreneur converts sources into resources; hence, innovation is a specific tool of him/her (Leitch, Hill, Harrison, 2010).

Hence, risk-taking and innovativity are necessary but not sufficient components of entrepreneurship. There are other core elements of the notion, such as future orientation, openness, conscious search for opportunities, high need for achievement, internal locus of control and daring (Kadocsa, Francsovcics, 2011).

Entrepreneurs are able to pursue ambiguous, changing and constructed goals on the basis of unfamiliar and unstable socio-economic relations (Sarasvathy, 2001). Under these circumstances informal bonds of various actors based on (mutual) trust are often more important than formal transactional relations. Hence attention is also directed at the embedded nature of entrepreneurs (Shane, Venkataraman, 2000), according to which entrepreneurs are strongly connected to various other actors within their environment throughout their everyday operations (Hoang, Antoncic, 2003). Today's successful entrepreneurs build and utilize connections in order to gain human, financial and social support and other valuable resources, such as advice, information, funding, boost of credibility/reputation, social legitimacy, access to knowledge and skills and social support (Hansen, Podgorny, Pfeiffer 2001; Klyver, Hindle and Meyer, 2008).

The success of the support system can be measured by the improvement of the participants and the growth of the supportive belt. Yet, it is important to keep in mind that the size of a social belt is doesn't necessarily define its value, the social capital it represents. Social connections are only worthy if utilized. Besides positive social, empathetic and emotional support – that can provide reassurance, encouragement and inspiration – sources of tangible and informational support are also inevitable. In these latter cases, however, trust is an inevitable element of support, hence data and information will only be utilized, if the source is trusted and the motives behind the action of sharing can be identified. Accordingly, trust is an inevitable part of being an entrepreneur.

2. TRUST

Trust is “a psychological state comprising the intention to accept vulnerability based on positive expectations of the intentions or behaviour of another” (Rousseau et al., 1998, p. 395). It is a dynamic construct that grows as social interactions increase and relations are strengthened. International literature has proved trust to be inevitable for establishing and managing business ventures, what is more, it has positive correlation with business performance as well (Sundaramurthy, 2008).

Recent studies on trust indicate that besides forming a basis for competitive advantages (Antoldi et al., 2011) and superior performance (Ng, Rieple, 2014) trust influences intra organisational processes positively – such as human resource management (Zolin et al., 2011), financing (Howorth and Moro, 2006), team work (Discua Cruz et al., 2013) – positively as well. Along these lines Sako (1992) proposes three types of trust - based on goodwill, competence, and contracts - that can occur at different levels in different forms.

Trust is the basis of business relationships (Fink and Kessler, 2010). Where different agents, - in order to decrease the risk embedded into uncertain situations - disregard information asymmetry because of believing in the other party, trust is the relation to positively influence the behaviour of those affected (Kriz and Keating, 2010). In this sense, trust is a form of information, which is not connected to the very situation, but the actors and their relation that allows trust to develop and flourish. What is more, knowledge generation and learning itself requires a great amount of trust. In line with Cheung et alii's (2016) findings, motivated information processing, knowledge sharing and subsequent innovation does not occur, when those involved do not have at least a medium level of trust among them. Hence, trust can be effective not only in reducing transaction costs, where uncertainties produce potential risks and costs, but also when information has to be processed.

Trust generally evolves through three phases - owing to social interactions and information exchange in-between the actors - from calculus-based through knowledge-based to identification-based (Welch et al., 2007). However, family relations often serve as a direct cause for identification-based trust, primarily as a result of intense family socialization (Shi and Dana, 2013).

International literature has consistently regarded trust as an important form of social capital. What is more Putnam (2000) argues that social capital is in essence a result of trust and shared norms among actors within a social structure. The term social capital itself indicates a need for worthiness, since only social relations that are able to create value are regarded as social capital (Antoldi et al., 2011).

According to Puffer (Puffer et al., 2010), trust is a relational form of social capital. Trust describes the quality of people's relations and interactions, on a greater scale the relationships and their strength or fragility within a

given community or the whole society. For a company to be operating on the long run and for employees to take part in the operations a certain level of trust is inevitable. Trust-based work contracts initially. Trust, is also supposed to be conducive to entrepreneurship through strengthening ties and constituting a source of competitive advantage (Dyer, 2012).

Cruz et al. (2010) argue that entrepreneurs are at an advantage in capitalising on trust, since they often have a strong and diverse social belt in which various kinds of resources are available. With these potential resources backing them up if necessary, they are more risk tolerant and are more willing to be creative and innovative. Hence taking the risk of innovation is not an irrational decision, but is based on the rationale of trust.

In line with the introduced international literature, present article intends to concentrate on the information processing, social embeddedness and the risk-taking behaviour of entrepreneurs in a pursuit of exploring the relation of trust and entrepreneurship.

2.1 Information and Trust

Entrepreneurs consciously search for and exploit new market opportunities harvesting the first-mover advantage. In the 20th century, the task was to gather as many information regarding a given situation as humanly possible, since the more information the entrepreneur had, the less risk he/she had to take and the more fruitful his/her business venture could become. However, in the 21st century information is not a scarce resource any more. Despite this, only a few are successful in finding/defining market niches. In order to understand why that is, one needs to understand the relation of data, information and knowledge, and the process of knowledge creation, since it is not evident by now that limited access to specific data is the key factor of comparative advantage.

We are living in information societies. Everyone is learning life-long and deuterio learning is fashionable. Information scarcity is substituted by overflow and children are labelled digital natives. Societal reliance on information that is available solely or primarily via the Internet is increasing. However, in this modern age of ICT, data, information and knowledge are often regarded and used as substitutes. Even though their meaning is still debated, and definitions in international literature vary from one scientific field to another, one needs to have a basic understanding of these notions, in order to see, how access to information does not make everyone entrepreneurial, or all entrepreneurs successful.

Data is the basic building block of knowledge. It is unprocessed information, or in scientific terms, it is a representation of objective facts (Hey, 2004). By gathering bits and pieces of data and connecting them to each other or to circumstantial factors information is created, which on a personal level means acquisition of data - searching for and absorbing data from the environment (Clark, 2004). When out of information a whole system is created, by utilising it (putting to test, or rearranging to accommodate practical inputs as well), knowledge is created (Sharma, 2008).

In the era of internet loads of data can be easily accessed, and information is overflowing. However, the source is often hidden and the question of trustworthiness arises more and more often. Networked digital media's challenge is not accessibility any more, but to locate information that one can trust (Metzger, Flanagin, 2013). Common means by which people have traditionally reduced uncertainty about credibility cannot be applied any more. Individuals cannot rely on traditional information intermediaries such as experts, opinion leaders, and information arbiters to help guide their credibility decisions and personal knowledge on the trustworthiness of a source or specific information is rarely at hand (Eysenbach, 2008).

2.2 Risk taking and its antecedents

Although new products and new markets always involve a certain amount of risk, entrepreneurs are people to willingly take and accept this inherent risk. According to Knight (1921) this uncertainty and the inherent risk are the factors creating opportunity for profit in the first place. Researchers have always been interested in how and why successful entrepreneurs perceive things differently from non-entrepreneurs (Mitchell, et al., 2007) and from not so successful entrepreneurs (Baron, 2006). Since individuals vary in how they process and interpret statistical generalities, in their perception of risks, in their attitudes towards it and capacities to deal

with and manage them (Kahneman, Lovallo, 1994), it is especially intriguing to explore how the entrepreneurial context of high uncertainty and risk affects decision making (Baron, 2008).

The cognitive processing of risks, systematic biases and heuristics for dealing with uncertainty are inevitable parts of being an entrepreneur (Overall, 2016). The most prevalent are:

- Self-assessed chances of success are uncorrelated with statistical generalities – for whatever reason, entrepreneurs tend to underestimate the risk of various market situations, hence act much more freely (Cossette, 2014).
- Depending on good performance or low cost in the immediate past they tend to underestimate the role of future uncertainty and the inherent risk (Shepherd et al., 2015).
- Uncomfortable statistical truths are often ignored when making decisions. The average and majority numbers are disregarded in the light of their self-image them being above average. They are - compared to an average person - more optimistic and overconfident (Kannadhasan et al., 2014)
- Most people are loss averse and try to avoid losses even when the odds are good. Entrepreneurs on the other hand are “players”. The joy of action, being in the game makes them disregard or underestimate losses and their consequences (Foo, Murnieks, Chan, 2014).
- Entrepreneurs try to deceive themselves and others by restructuring their actions to appear less risky - as a way of denial as risk neutralisation technique - by focusing on their own strength (Moore, 2008).

The question arises naturally, why are entrepreneurs taking the risk, while others refuse to? Is there a unique set of characteristics that enables one to become a successful entrepreneur? Is success connected to the person, or its social belt?

When we believe that the key element of being a successful risk taking, creative individual (entrepreneur) lies in the personal factors, two research approaches - the personality and competency - can be distinguished (Wagener, Gorgievski, Rijsdijk, 2010). While the personality approach focuses on unchangeable traits, the competency approach concentrates on aspects that can be developed. Nonetheless, the literature is not uniform, when it comes to the factors influencing the success of entrepreneurs and their risk taking behaviour. According to Arregle (Arregle et al., 2015) social support also has a crucial role to play.

2.2.1 Personality

According to Envick and Langford (2000), the difference lies in the personality. Contrarily to numerous studies on entrepreneurs’ personality traits, such as McClelland (1961), Welsh and White (1981), Robinson et alii (1991), they focused on exploring the personality of entrepreneurs in its entirety with the help of the Big Five model’s (Costa, McCrae, 1995) factors:

1. adjustment (stable - neurotic),
2. sociability (extroverted - introverted),
3. intellectual openness (imaginative - practical),
4. agreeableness (benevolent - argumentative),
5. conscientiousness (dependable - impulsive).

By comparing successful managers and entrepreneurs, they concluded that managers tend to be more conscientious and agreeable than entrepreneurs. While entrepreneurs scored higher on the adjustment and openness scale. Interestingly entrepreneurs - compared to managers - scored low on sociability, which in long run might negatively influence their social capital.

The unique personality theory is also supported by Zhao and Seibert’s findings (2006). Their results suggest that entrepreneurs differ from managers in four out of five fundamental dimensions of personality. In their research entrepreneurs scored higher on conscientiousness and intellectual openness and lower on adjustment and agreeableness. They could point out no significant difference in extraversion though.

Comparing these two researches and their results, it is hard to say what personality would bring an entrepreneur success. While both researches arrived at the conclusion that entrepreneurs tend to be more

argumentative and imaginative, there is no consensus about their other personality traits in the international literature (Leutner, 2014; DeNisi, 2015).

2.2.2. Unique competences

International literature defines entrepreneurial competencies as a specific set of competencies relevant to the exercise of successful entrepreneurship (Colombo, Grilli, 2005; Nuthall, 2006). Man et al. (2002) defined entrepreneurial competencies as the ability to perform an entrepreneurial job successfully. Bird (1995) on the other hand suggested that entrepreneurial competencies are personal traits - specific knowledge, skills, traits, motives, self-image and social roles - which result in venture birth, survival and/or growth. They are often compared to managers' competencies, since they have a lot in common, both of them are multidimensional (Smith, Morse, 2005). The most often addressed entrepreneurial competencies are: opportunity exploitation, leadership, human relations, oral and written communications skills. They are closely followed by management skills, deal-making skills, logical thinking, analytical skills, decision making skills, goal setting skills, hiring skills, and business plan preparation (Mitchelmore, Rowley, 2010).

Entrepreneurs are wild spirits. They behave different from others, make decisions in a unique way. According to Volery, Mueller and Siemens (2003) this is owing to their ambidexterity – their ability to explore and exploit their environment simultaneously. The results also suggest that entrepreneurs' ambidexterity is caused mostly by self-initiated actions. Entrepreneurs have high level of self-determination, general openness and are good in external (boundary spanning) behaviours such as active listening and empathetic discussions with others (Robinson et al., 1991). They are good at engaging in convergent and divergent thinking, switching back and forth between task-oriented and change-oriented activities and have a high capacity to embrace conflicting perspectives and maintain cognitive tension. They are able to create and maintain networks outside their business ventures for exploitation and exploration purposes – fueling their ambidexterity (Kyndt, Baert, 2015).

2.3 Social Capital and Trust

Entrepreneurs are not lone wolfs. Despite the image they often radiate, they seldom possess all resources (tangible and intangible) they need for creating and managing successful business ventures on their own (Granovetter, 2005). Usually they turn to their supportive belt - family ties, friends and acquaintances - and utilise their resources (Greve, Salaff, 2003). Entrepreneurs, as the companies they establish, are strongly connected to various other actors within their environment throughout their everyday operation (Hoang, Antoncic, 2003). Thus, although certain entrepreneurial traits are required, entrepreneurial behaviours are also dynamic and influenced by environmental factors. Entrepreneurs are considered interdependent, embedded into a social system. Hence, their business decisions are also socially embedded.

Today's successful entrepreneurs build and utilise connections in order to gain human, financial and social support and other valuable resources, such as advice, information, funding, boost of credibility/reputation, social legitimacy, access to knowledge and skills and social support (Klyver, Hindle and Meyer, 2008). In line with this the role of social capital, in connection with entrepreneurs has received much attention recently (Welter, 2012). Hence the success of entrepreneurial support systems can be measured by the improvement of the participants (Varamäki et al., 2011).

The nature and extent of relationships between entrepreneurs and their networks have been researched for a long time now. Scholars have explored the nature of entrepreneurial networks and have focused on their relationship with, and effects on performance (Ng, Rieple, 2014). Various kinds of relations have been examined, such as family ties (Schmitt-Rodermund, 2004), business contacts (Hoang, Antoncic, 2003), allies (Zimmer, 1986). In addition, different forms of social capital have been taken into account. Nahapiet and Ghoshal (1998) for example identified three various kind - structural, cognitive, and relational. Renzulli and Aldrich (2005) suggest another typology of entrepreneurial connections based on their utility; namely: advice, resources and emotional support.

In general, social capital is a special set of resources offered (and generated) by interactivities and networks, which are able to improve the productivity of an individual or a business venture and create value for at least one of the participants (Antoldi et al., 2011). According to Burt (2002) social capital is the result of closed

networks, where the network itself – through its members – defines its own rules and norms, on the basis of which trust in each other can be developed, and control mechanisms and sanctions for those who do not comply and fail to meet the expectations.

Deligonul, Hult and Cavusgil (2008) underline the importance of advice networks that serve as a source of information. With the help of such connections uncertainty in a given situation can be diminished and entrepreneurs might also receive reassurance that the likelihood of a certain preferable outcome is greater. Networks of advisers can also help entrepreneurs in opportunities exploitation and realisation as well as with factual information about legal opportunities or market opportunities. All in all, social support and the people, network as the sources of it are valuable resources, however, entrepreneurs have to trust their exchange partners and their influence in order for social capital to be created (Bruton et al, 2015).

3. RESEARCH METHOD AND SAMPLE

In the winter semester of 2016, with the help of an offline (pen and paper) survey students in the Entrepreneurship development master program of the Keleti Faculty of Business and Management at Óbuda University have been approached. Besides their entrepreneurial aptitude variables connected to social support, risk aversion and trust have been explored.

The questionnaire consisted of over 90 variables 20 of which controlling for demographic and social features such as age, gender, family situation and work experience.

In 2016, the program involved 303 (1st and 2nd year) students. Out of them 274 filled out the questionnaire, which is an above average response rate of 90%. 155 male and 119 female respondents took the survey. This is in line with the gender imbalance of the population under scrutiny, however, the female students are slightly underrepresented in the sample.

The respondents had minimum of 4, in average 20.55 (Std. Dev. 18.552) months of work experience, however, the median was only 13 months. This significant difference lies in the very varied age and work experience of the students that can be explained with the fact that the majority of master students is part time and for them the master studies are not immediate consequences of graduating from bachelor studies, but are intermitted by years of work experience.

This tendency is clearly visible from Figure 1 displaying the respondents' distribution by age and gender. The average age of the respondents was 25.380 (Std. Dev. 2.852). The average has been slightly higher for male respondents 25.568 (Std. Dev. 3.369) than for female students 25.135 (Std. Dev.1.974).

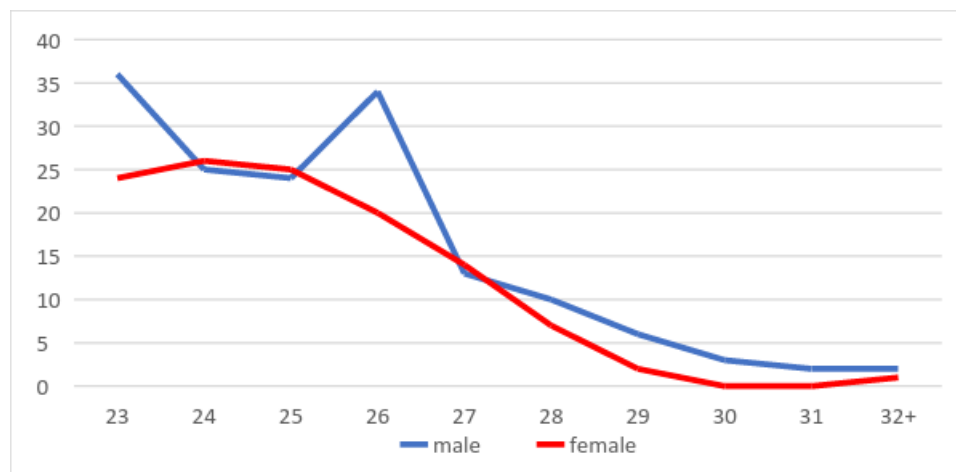


Figure 1: Distribution of respondents by age and gender

4. RESEARCH RESULTS

In line with the direct sampling methodology, one would hypothesize that the respondents excel in entrepreneurial competences. In order to verify this, the respondents' entrepreneurial aptitude has been measured in 12 dimensions. The total entrepreneurial score has been calculated on the basis of these dimensions, each of which has been explored with the help of 4 statements and the respondents' affinity towards them rated on a five-point Likert scale. The results of the research are displayed on Figure 2.

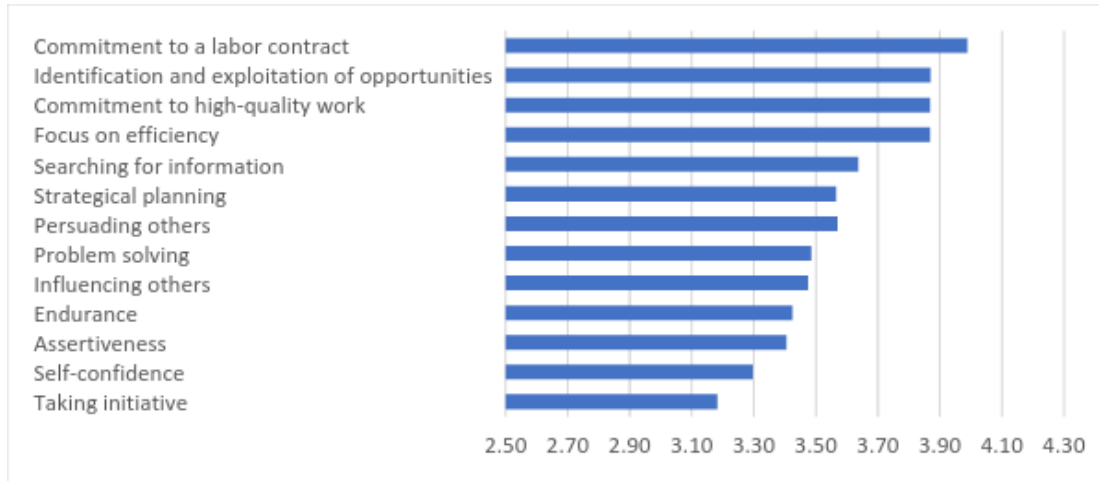


Figure 2: Respondents average rating of dimensions of entrepreneurial competences

Interestingly not all dimensions supposedly connected to entrepreneurship had high average scores based on the students' responses. What is more, the pattern displayed on Figure 2 rather indicates a map of managerial competences than that of entrepreneurs with taking initiative gaining the lowest average point. Based on the Independent samples' t-test, there was only one dimension, where female and male respondents were significantly different, namely that of "commitment to labour contract", where the average for male respondents was 3.882, whereas that for female students significantly higher 4.126. ($t: 4,354; df: 272; Sig. (2-tailed): 0,000$).

The respondents' distribution on the basis of their calculated entrepreneurial aptitude scores is displayed on Figure 3. Since there was no (besides "commitment to labour contract") significant difference between male and female respondents in the various dimensions, it is not surprising that their scores did not show any significant difference either.

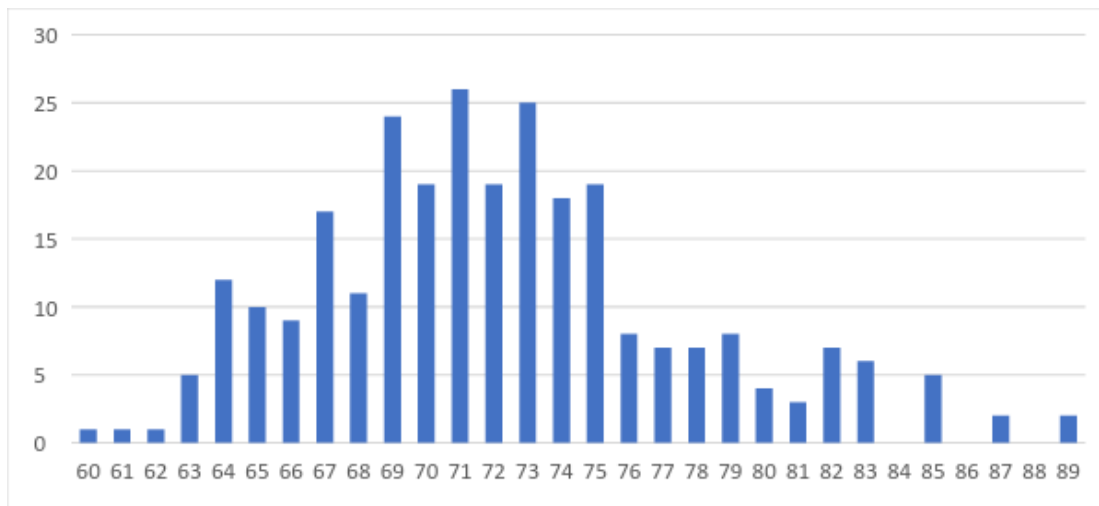


Figure 3: Distribution of respondents on the basis of their entrepreneurial aptitude scores

Based on Figure 3, one can conclude that the respondents were rather entrepreneurial, however, the majority of them acting seldom and often entrepreneurial, and not always as expected. The respondents had an average of 73% (Std. Dev. 5.433) entrepreneurial aptitude, with the median being 71.71%. Only 27.7 percent of the respondents scored 75% or more on the entrepreneurial aptitude scale, however – as Figure 3 also presents – the scores were not at all homogenous. In order to explore the reason for this variance the dimensions' influence on the total score has been checked. Since entrepreneurial aptitude score has been generated as the sum of the dimensional scores it is not surprising that there was significant correlation between the aptitude score and that of the dimensions. The results of the Pearson correlation (with significance being 0.000) are presented in Table 1.

Ranking	Dimension	Pearson correlation
1	Persuading others	0.710
2	Strategical planning	0.710
3	Endurance	0.689
4	Identification and exploitation of opportunities	0.683
5	Problem solving	0.639
6	Influencing others	0.624
7	Self-confidence	0.622
8	Commitment to a labour contract	0.596
9	Assertiveness	0.578
10	Taking initiative	0.565
11	Focus on efficiency	0.557
12	Commitment to high-quality work	0.509

Table 1: Significant correlation of various dimensions of entrepreneurial competences and the entrepreneurial aptitude score

“Identification and exploitation of opportunities” – one of the traits heavily emphasised by international literature – was the third highest correlating factor, however “Endurance” occurred as a new feature, while “Strategic planning” – according to international literature – is rather a managerial characteristic, when comparing the competences of entrepreneurs and managers.

The main point of the research was to explore, whether special skills and competences, risk aversion, information seeking or trust have any real/measurable effect on entrepreneurial aptitude.

Although competences already described in Table 1 – such as “Persuading others” and “Influencing other” – are relational skills, suggesting the importance of social connectedness. Nonetheless, other variables have also been tested within the research to verify the importance and its connection to entrepreneurship. In order to explore the relevance of social capital the following statements have been inserted in the questionnaire:

- I deliberately get acquainted with people who can help me in reaching my goals.
- I ask for help from people who know a lot about the tasks and problems I'm dealing with.
- I convince important people to help me achieve my goals.
- I try to utilise others and their support.

The average score for these statements was 3.65 (Std. Dev. 0.56) and it had a rather strong and significant correlation with the entrepreneurial aptitude score (Pearson correl: 0.574; Sig.: 0.000).

Risk friendliness has also been explored with 4 statements:

- I like the activities I know well (reverse scoring).
- I try new things that are radically different from the ones I've ever been to.
- I'm not afraid to try new things.
- I do risky things

The average score for these statements was 2.97 (Std. Dev. 0.546), which is rather low, regarding the sample being students in entrepreneurship development master program. However, a Pearson correlation of 0.403 (Sig.: 0.000) with the entrepreneurial aptitude score could be detected.

The third aspect recommended by relevant international literature – information and benefits gained through it - have been explored by the following 4 statements:

- When I start a new project, I collect plenty of information.
- I acquire information from several sources.
- I do not act without seeking information before.
- I wait for the guidance of others before I act.

The average score of the above listed statements was 3.50 (Std. Dev. 0.50), which is higher compared to that of risk friendliness, however it still means that respondents seldom/often, but not always seek information before acting or making decisions. A rather weak but significant correlation with the entrepreneurial aptitude score (Pearson correl: 0.317; Sig.: 0.000) could also be detected.

5. CONCLUSION

Entrepreneurship as a notion has changed a lot in the past century. From regarding entrepreneurs as solitary warriors, through tackling the issue of creativity and innovation to their social embeddedness. Fresh international literature emphasises the importance of trust for entrepreneurs. It does not only serve as a basis for competitive advantages and superior performance, but influences entrepreneurs in numerous ways.

Trust lies at the core of information processing. In the ICT era information overload is creating as much uncertainty as scarcity did before. Trust is the clue to handling situations, where transactional logic would not be able to decrease uncertainty. By trusting the other party in the relation, the need for data and information decreases and instead of situative information, relational information will be connected.

Entrepreneurs are embedded in their social and societal surrounding. Their values, norms, their existence is influenced by them. However, family, peers and business contacts do not only help entrepreneurs with opportunity exploration but provide resources for exploitation as well. Social ties – if utilised wisely – form social capital that can create competitive advantage to the entrepreneur through the resources they provide, or through the potentiality of those resources, hence influencing the entrepreneurs' perception of risk in a given situation.

Hence, present article intended to explore the relation of trust and entrepreneurship, not only by analysing the relevant international literature, but through these intermediaries with the help of a research on 274 master students in Entrepreneurship Development master program. As presented in the Research Results session, trust is not only an inevitable part of interpersonal relations, but its forms and aspects have significant correlation with entrepreneurial aptitude.

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EMBERI ERŐFORRÁSOK
MINISZTERIUMA

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AYGÜN carpet weaving shop floor

Quba (Azerbaijan)

Photo © by Dr. Antal Szabó

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NEW TECHNOLOGY AND R&D AS A CRUCIAL FACTOR FOR ECONOMIC DEVELOPMENT

ABSTRACT

Modern economy based on new technology and new knowledge in globalized world is goal for reach economic policy in the countries which like to be present on the global market. It is difficult task but full of challenges for innovation application in the different fields of human and social life, especially in environment and health protection, production without life-threatening raw materials and intention to build the society decent for life and work.

Awareness of the innovation, new knowledge as well as new technology implementation as a key factors for being competitive economy, is very present economic and political philosophy in a lot of developing countries, including small ones, like the Republic of Macedonia. In globalization process, only prepared counties for the strong competition on the global market could benefit through the competitive products and services, with low prices and high quality.

Priority in economic policy, especially in the small and developing countries, that are faced with lack of human and financial resources is foreign direct investment and transfer of new technology through the different ways, like licenses, franchising, joint ventures. Innovation, research and development (R&D) are priorities in the macroeconomic policy in the high economic developed countries, where the creation of the people, of the entrepreneurs, are very much supported and promoted.

Keywords:

New technology, new knowledge, R&D, innovation, universities, education and science provision, budgetary expenses for technological development

JEL Classification: O3 O32

INTRODUCTION

Modern economy is based on knowledge, new methods of work, skilled human capital and new technology. All these attributes need a lot of human and financial resources, including comprehensive and consistent national policy for technological development and sustainable economic development, strong support of the relevant institutions, especially universities and institutions for R&D and transfer of technology. Developing countries should make efforts to increase budgetary expenses for implementation and development of innovation and new technology for purpose of higher competitiveness of goods and services. Global market is quite selective and has needs for the best quality products and services.

For that reason, innovation, research and development (R&D) are priorities in the economic policy of most developed countries, but also in the developing countries policies of national level, thereby creating favorable conditions for technological development and support of enterprises and entrepreneurs and economic growth and development. Large enterprises that have resources to develop their research and development centers (R & D), have the ability for export to foreign markets, while the sector of entrepreneurship and small and medium sized enterprises (SMEs), need the institutions for this kind of support that due to limited human, financial, technical resources.

The role of research in order to develop new knowledge and new technology is to provide centers for this purpose, innovation, technology transfer, technology parks and other forms of organization, including

universities and their resources. The new, modern methods of technology transfer, research and development (R & D) are important tools for fast growing small and medium sized enterprises that generate competition and competitiveness.

For higher economic growth and development it should be established network of institutions like informative, advisory, educational centers, agencies for technical and technological development, R&D, including the universities` human sources and knowledge to improvement and modernization of technology and implementation of innovation, raising the technological level of knowledge in each companies for better transfer of technology.

However, Republic of Macedonia is not an innovative society, such as USA, Germany, Japan and other developed countries, because there are no suitable funds for investment in research and development (R & D) in science, in innovation and education processes and in building institutions for technological support in copyright protection etc. Foreign direct investment as a main goal in economic policy last decade does not show big impact on economy and society at all. As a key factor for rapid technology progress and innovation in the implementation at the economy in purpose to be more competitive on the global market are the changes of expenses from the budget for technology development, for development of the science and R&D, for better education system.

1. MAIN GOALS FOR INNOVATION AND TECHNOLOGY DEVELOPMENT ON INTERNATIONAL LEVEL

As a result of rapid implementation of innovation and new technology, the world is faced with lot of problems of pollution, protection of human environment, security water supply, ecological problems and agricultural measures for food with pesticides and other damaging components. It is true that application of the new technology in some industries in the world means growing unemployed people, but new technology means in meantime new fields of work, appearance of new industries.¹ In spite the fact that it makes distortion in some fields of human life, generally is very useful for economic development and better life for the population. With more care for uses of new technology in positive purposes, the results would be very positive on raising competitiveness of the industries and economies of different countries.

a) In 2000, OECD ² give the recommendation for support of new technology and innovation in 6 fields::

- **Stimulation of diffusion of technology and relation between universities and enterprises,**
- **Strengthening the innovation and technology policy,**
- **Strengthening and reforms of scientific research and scientific basis,**
- **Strengthening the efficiency of the stimulation for R&D in the economy,**
- **Relise the growth of SMEs, based on new technology, including risk capital and new enterprises,**
- **Strengthening the framework for design policy and active realization.**

b) OECD, as an organization of the 30 most developed countries in the world “is a unique forum where the governments of 30 democracies work together to address the economic, social and environmental challenges of globalization”.³

¹ Steve Jobs as an extraordinary inventor made impact on 6 industries in the world: personal computers, animated films, music, mobile telephones, tablet computers and digital publishing.

² OECD Science, Technology and Industry Outlook 2000,

³ OECD Innovation and Growth , Rationale for Innovation Strategy,2007

The document "Innovation Strategy" emphasized the following issues:

- The role of innovation for growth is strengthened by advances in new technologies, and a greater focus on knowledge creation and use;
- As well as globalization and the intensifying economic challenge from non-OECD countries; At the same time, many OECD countries face difficulties in strengthening innovation;
- Intellectual property rights [IPR] pose a particularly important challenge;
- Product and labor market reform would promote innovation;
- and education systems;
- Public funding of scientific research should focus on excellence and relevance;
- Public support for business innovation can be made more effective;
- Complementing the IPR system with more flexible practices would enhance its relevance for future innovation;
- Counterfeiting and piracy need to be addressed;
- Innovation may also help address environmental challenges;
- A coherent, cross-government approach to fostering innovation will help strengthen its benefits;
- Implementing the reforms will require strong political leadership;

Ongoing work by the OECD an "Innovation Strategy" at the OECD will contribute to more coherent and coordinated policymaking. The document gives very big importance of the Internet, which will, more than ever, be a catalyst for globalization and innovation.

After 1970, **industrial policy** of developed countries is focused on following questions:

- Support the industry and industrial competitiveness;
- Globalization of industry;
- Liberalization, deregulation and competition;
- Scientific and technological policy;
- Development of small and medium sized enterprises;
- Human Environment and its protection policy.

d) In 2013, EU accepted EU objectives in the field of industry and innovation in 2020:

- Strengthening the industrial base of Europe by increasing its competitiveness;
- Supporting the transition to low-carbon economy;
- Encourage innovation as a way of creating new sources of economic growth and meeting social needs;
- Support for opening and economic growth SME promotion the entrepreneurial culture;
- Ensuring an open internal market goods.⁴

⁴ EC/EU, Enterprises, Brussels, 2013

2. MACEDONIAN DOCUMENTS RELATED TO THE INNOVATION AND TECHNOLOGY DEVELOPMENT

All these goals were a basis for Macedonian industrial policy. In 2008, the Macedonian government adopted **Industrial policy** for the period 2009-20120 year, which includes measures in these areas:

- Applicable research and development and innovation,
- Sustainable development,
- Increased competitiveness through cooperation,
- Development of small and medium enterprises (SMEs) and entrepreneurship,
- Internationalization of enterprises and creation of knowledge.

This approaches in Macedonian industrial policy emphasis the decision of the authorities to build one contemporary economy, based on knowledge and new technology, where R&D are key factor for effective and competitive economic activities.

The Macedonian Government accepted quite documents for development of small business sector, for competitiveness and innovation, laws for support technological development.⁵

It does not mean that the goals are reached and tasks are realized because of lack of financial resources for them, among other obstacles.

Recent time in Macedonian economic policy concerning innovation and technological development are made big steps which means acceptance of laws which support the innovation and new technology, foreign direct investment in technological and industrial development zones technological development. Most important are the following:

2.1 Law for Scientific and Research Activity ⁶

Scientific research is based on the following principles:

- Freedom and autonomy of research and creativity,
- Relation to the education system,
- Ethics,
- Transparency in work and dissemination of results,
- Application of international quality standards in science,
- Inviolability and protection of person and human dignity,
- Diversity of opinions, methods, theories and doctrines
- The application of European standards for recruitment of researchers and their behavior,
- Competition and equality of opportunity,
- Protection of intellectual property and
- Applicability of the results.

In any case, the Law is not important tool for the technology development, above all because it is not provides financial means for its activities.

⁵ Zarezankova-Potevska M: “ R&D as a Key Factor for Private Sector Development”, Fulbright Conference Small Place Change the World : Economic Development and Innovation in Small Countries, March 2009 Skopje

⁶ Law for Scientific and Research Activity, Official Gazette No:46/2008; 103/08; 24/11; 80//12; 24/13; 147/13; 41/14; 145/15; 154/15; 30/16; 53/16

2.2 Law for Encouraging and Helping of Technological Development ⁷

It is the law which issue mainly is organization of the sciences activities, but not very much support of the science and researches development. For that fact this Law does not make any important document for technological development and R&D.

2.3 Law for Technological and Industrial Zones ⁸

It is an important law for attraction foreign direct investment in the country in special areas. The results are not very much satisfied concerning the companies involved in them. The analysis of the period 2009-2014, acknowledges that exports from TIDZ considerably increases almost every year, and they contributed to growth of total exports of the country. But increased exports are also associated with increased imports in the country, so the net effect of the zones on exports is small. Accurate assessment of positive impact TIDZs is almost impossible to determine in any country in the world that applies. This is due to the fact that many of the key quantitative information are treated as confidential and governments do not make available to the community.⁹ In any case, the TIDZs mean step forward to attract FDI that have big influence for transfer of new technology in the country, including more employment.

2.4 Strategy for Innovation of the Republic of Macedonia 2012-2020 is adopted in 2011 and is very significant document that is basis for further activities on the field of innovation and development of technology. According to the Strategy and its goals is adopted the Law for Innovation and Technology Development as a step forward for implementation of the emphasized goals in it.

2.5 Law for Innovation Activities ¹⁰

Acceptance of this Law is really very mush significant for Macedonian economy and technological development. “This law shall regulate innovation activities, principles, objectives and organization and application of the results of innovation activities, scientific research, technical and technological knowledge, inventions and innovations, as well as the establishment, status, competencies, management and governance, financing, oversight work and other matters related to the Fund for Innovation and technological development. “ says article 1 of the Law.

According this Law, the government would establish a Committee on entrepreneurship and innovation to monitor the development and commercial exploitation of innovation.

The Law plans as an infrastructure support for innovation activity to be establish -business and technology incubator; -business and technology accelerator; - scientific and technological park; - center for transfer of technology. The main question to be fulfilled in order to reach all these goals in technological policy is financial aspect of realization of all these activities that should be realized on long term.

In Macedonia, according to this Law the financing innovation activities are due to achieving the objectives of innovation policy. The funds to finance innovation activities are provided by: National and local community` Budget; International financial organizations; the Fund for innovation activity and technological development; and other funds. The entities for innovation activities are exempt from customs duties on import of equipment intended for research and innovation.

The most developed countries in the world with famous technological policies as well as with good practices have different financial sources, especially capital risk funds.¹¹ In Macedonia we have not such funds that are

⁷ Official Gazette No: 47/2011

⁸ Official Gazette No:14/2007

⁹ Zarezankova-Potevska M. & Jovanov B.: “The Role of Technological Industrial and Development Zones in the Republic of Macedonia”, *Vizione*,No27,p.349-362

¹⁰ Official Gazette No:79/2013; 137/2013; 41/2014; 44/2015; 6/2016; 19/2016; 53/2016;

very big obstacle on the way to build an innovation and technological society. Unfortunately, only 0,05% of the GDP is oriented for scientific activities in Macedonia, including technological development, but in EU 3% of EU GDP for the decades to 2020, according to Lisbon Agenda.¹²

In order to obtain financial resources to encourage innovation activity, according to this Law, is established the **Fund for innovation and development of technology**. This Fund is financed most of the Horizons 20 EU Program. It gives some grants for start-up enterprises and spin-off ones, including enterprises for transfer of technology and provides assistance through business-technology accelerators. The focuses of financing are small and medium sized enterprises (SMEs) that is very good opportunity to support them as a key dynamic factor in economies all around the world.

All these facts point out some dilemmas related to the financing by grants in intention to multiplied effects of finance for future business activities.

3. SOME ASPECTS TO MACEDONIAN REALITY AT THIS FIELD

Last past years Macedonian economy is faced with some relevant documents for technological development that mean step forward in efforts for build economy based on new knowledge and new technology. In last 25 years of new socio-economic and political system, Macedonian authorities accept quite a lot of document for development of economy and private sector through the sector of entrepreneurs and SMEs, but the serious question is financial aspect of their implementation and final good results.

a) The problem of implementation of new established Fund for innovation and technological development will be the sustainability of the financial source. The budget for education is not focused on science and R&D, but mainly for new universities that is irrational and rather harmful. The existing Fund should not be financed only by EU program support, but from high education, the private sector like public-private partnership, by raising budgetary expenses for its purpose.

b) The percent of GDP is for R&D is minimized in comparison with similar countries like Macedonia, especially EU target for 2020. It should be make some changes in the budget expenses for education and R&D in Macedonian budget.

c) The grants that are given from the Fund, as a financial instrument for support business activities including technological development is not very much adequate for this kind of activities, because at first if the financial means are done free of charge, they are not appreciated very much by the recipient (enterprises). The second aspect is limitation of their impact because there is not possibility to multiplied effects of them, through the further loans activities to the other recipients. If the grants are substitute with loans under favorable condition, not commercial, the Fund will be reversible and will increased every year. So it will serve for more applicants and will have sustainability.

d) Other instruments like business and technological incubators and accelerators, scientific and technological parks near universities are not established yet, as well as centers for transfer of technology, except those that are founded earlier by some foreign programs, like in Mechanical Engineers Faculty.

e) Investment in the education and training of researchers and other highly skilled workers is a major factor in determining the contribution that scientific research can make to scientific progress and innovation.

¹¹ Zarezankova-PotevskaM & Solymossy E: "Entrepreneurship", 2nd August, Skopje 2013, p. 96-97

¹² % of GDP for R&D in Macedonia in 2003 was only 0.22% of GDP (Croatia 1.1%, Slovenia 1.5%), in 2004 - 0,25% of GDP; in resent decade it is similar.

Moreover, human capital is a key factor in the adoption of new technologies and the introduction of innovative practices. Training and permanent education of the managers, employees, especially for invention and patents, industrial property right protection, innovation, application of new technology, transfer of new technology, including technology management are sine qua non for technological development of the country as well as economic and social development.

f) Successful experience suggests that relevant R&D programs need to involve industry closely in their funding and management. Modern universities have close relations with industries and experience in the world show it. Silicon Wally is with close relation with Stanford University and others ones, sciences and industrial parks are making by the universities and large companies for mutual financial, technical and human capital.

The University presents the core of the scientific, research and experts who carry out the technological development, promotion of new technology in communication specially, transfers new knowledge, methods of running companies and implements them successfully. Now, starts new, the third generation of universities that signify a period of close co-operation with industry, research agreement with industry and they became a cradle of new entrepreneurial activities.

Small countries should use all relevant and available resources and find best practice from other countries, to develop R&D in aim to reach better economic and social life and human development.

Small countries generally have not opportunity for fast and quality development and growth of new technology and knowledge. Generally, new trends in technological development are appearing and characterizing for most developed countries where there are financial and human resources for this item. Less developed countries, and small ones, are obliged to use new technology through its transfer and innovation from domestic innovators who need all kind of support.

With active national policy for technology development with operative programs, small countries, can contribute with innovation and entrepreneurs' creations to have better business performance in the future.

For that purpose, Macedonia, including other small countries, should increase applicable research and development and innovation. The strategy and policy should involves enhancement of joint projects between industries and higher education knowledge providers for new products and services, access to appropriate production technologies and marketing resources.

Fast amortization of the technology requires new knowledge and permanent education that are not very much available for private sector, especially SMEs. Therefore, it is obviously that institutional infrastructure for support of innovation, transfer and development of new technology should be disseminating in the country. Licensing, franchising contracts, joint venture are significant transfer of new technology and know-how, which ensure strategic alliances, are specific forms for financing SMEs. In Macedonia these forms of partnership are not very much used, as a consequence of lack of confidence in institutions and lack of finance resources.

Fast technological development requires new standards in management and decision making process, on all levels. Macro level is very complex, enterprise' level needs decisions making related to the competition and high quality and efficiency, in frame of limited factors of production.

CONCLUSIONS

Knowledge-based economy is a desirable goal and task of any economic policy in most developed countries. The need for development and application of innovation, new knowledge, new technology, modern telecommunication gives great importance in all countries, because these issues are key factors for a competitive economy and good position on the global market.

Small countries as the Republic of Macedonia are obliged to follow the new trends on the global market, to use the new technology and knowledge, methods of effective business running, networking and cooperation in purpose to reach desirable economic growth and sustainable economic development. Lack of financial resources has obliged less developed countries to postpone the support entrepreneurs, their innovation and realization of creative ideas.

Research and development as a key factor to build a modern, competitive economy and that need a lot of resources, finance, human capital, institutions for support the development of new technology development and private sector, including networking and regional cooperation.

Private sector development depends on R&D that could offer many different inputs in purpose of high quality and competitive economy. Private sector especially SMEs are not prepared very often to establish the units for R&D, because of lack of resources for it.

Universities programs that contain a lot of entrepreneurial learning, from one hand and existence of institutional infrastructure for technological development and private sector development play very significant role in development of the economy. Business centers, incubators, industrial and technological parks, clusters, R&D units and other forms of support new technology and institutional infrastructure for SMEs development are forms for accelerate

The universities today have more roles than only education, it means, other aim and role in society, to help directly industry, especially in R&D, cooperation and common projects with industrial capacities and companies. The third generation of universities is appeared. In contemporary society, the universities should have one very important role in development of competitive economy, because of many available resources for develop of new technology and permanent R&D.

For entrepreneurial vitality and innovation processes, universities and other relevant institutions should raise the level of awareness about innovation, entrepreneurship and competitive advantage strengthening the regional and international network among SMEs, institution for technological development.

Rapid depreciation of technology requires new knowledge and permanent education, which are not very accessible to small and medium enterprises. Therefore, it is obvious that the institutional infrastructure to support innovation, transfer and development of new technologies should be a priority task for faster economic development Awareness raising activities for the promotion of applicable R&D and innovation in industry should be raised by the:

- Stimulation of interactions between university and research institutions and industry,
- Stimulation of development of new market driven products, services and technologies that will be commercially exploited.
- Support to the industry to employ higher education researchers to strengthen their technological and innovation competence.
- Technology transfer stimulation with different tools,
- Intellectual Property Rights protection.
- Support of entrepreneurial ideas and projects, especially innovative ones.
- Increasing the budget expenses for R&D and technological development in the near future.
- The practice to awarding grants instead of favorable loans to be changed in purpose of creating fund for technological development reversible and sustainable for long time in Macedonia.
- Sustainable long term National Policy for technological development with clear and sure financial source for Macedonian economy is necessity to be adopted.

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Hibiscus bush at the Samu Pecz garden in Budapest
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ESSAY ABOUT THE GENOME OF SUCCESSFULNESS OF ORGANIZATIONS AND THE STATE

Genetic approach to organizations' improvement

ABSTRACT

Improving the efficiency of an organization is a key factor for the development and competitiveness of a country. In order to increase their efficiency we have to focus on three main areas: the adoption of standards for target management system, forming of organization's excellence concepts and determination of the best business practices.

Comprehensive study of successful organizations reflects the organizational culture. For the practical application of concepts in the purpose of improvement the special tools are used: models of excellence (models of ideal organizations), the RADAR logic as well as scale, levels and stairs of excellence.

The author believes that the most popular models the EFQM Excellence Model are, which is presented in the paper. This Model allows you to understand what is an excellent organization, to assess where the organization on the path to excellence (including quantitative assessment), to define steps which should be undertaken for their improvement.

Finally the author draws attention to the human genome, which is interpreted as the complete set of genes in each cell of the body, and the genome contains all the information needed to build and maintain the body. Similar situation with the genome of organization: it is a set of genes contained in each "cell" of the organization, where the "cell" refers to all employees of the organization.

Keywords:

EFQM Excellence Model, organizational genetics, human genome

JEL code: D02, L20, M13,

INTRODUCTION

The world is continually changing. And civilization develops also: in some regions faster in others - slower. Advanced countries such as the USA, Japan, Australia, the Netherlands, England and others have reached a high level of business culture, high values of productivity, competitiveness of products and economies, the quality level of people's life. At the same time, countries of the Eastern Europe, primarily the CIS, where for over 70 years the total deficit and the totalitarian regime were dominated, are significantly remains behind in their development and differs by low levels of corporate culture, quality of products, competitiveness, unsatisfactory working and living conditions of the most part of the population. The CIS countries aspire to find their way out of the crisis and make decisions periodically to eliminate accumulated social and economic problems: improving the quality of products and services, preservation and renewal of environment, energy saving, reformation of different spheres of activity, spreading of the corporate social responsibility principles, etc. But desired results are not achieved.

Improving the efficiency of organizations (enterprises, institutions) is the key condition for development of countries. In order to increase their efficiency in the world for many decades the experience of leading organizations is summarized and distribution methods are formed. It is done mainly in three main areas: the adoption of standards for target management system, forming of organization's excellence concepts and determination of the best business practices. However, the proposed approaches are used in the CIS

countries, as a rule, not sensible enough, superficially, separately, without mutual coordination, and consequently in most cases the tangible success was not achieved. Disappointment and distrust to the system means of improvement as such comes as the result. For a long time there have been discussions among experts what is a higher priority: apply international standards for target management systems, be guided by concepts and models of excellence or concentrate attention on the best business practices. I'll tell you in advance: in order to ensure maximum efficiency all approaches should be used together in a complex. Only complementing and strengthening each other they can bring the highest effect.

ORGANIZATIONAL GENETICS - A MODERN METHOD TO STUDY AND DESIGN ORGANIZATIONAL SYSTEMS

To better understand how to create successful organizations and as a result generate a prosperous nation, we should turn to the unique experience of the nature. How one or other organisms with predetermined properties (including *Homo Sapiens*) are "reproduced"? How the information about "who" or "what" should appear and how they will be developed is formed and where is stored?

As is well known, genetics, which is an integral part of biological sciences, gives answers to these questions. But up-to-date science has not stopped only on certain biological "objects" and invites us perceive all humanity not merely as a group of people, but as a single living organism that possesses all of its features - genes, genome, genotype, phenotype, functional aspects of the organism, stages of its development. It concerns various types of organizations which are formed to perform all kinds of work, including goods and services. The scientific literature mentions such phrases as: "enterprise's genome", "organization's genome", "society genome", "socio-genetics approach" to study the organizational culture. Potential of social genetics as the sphere of progressive and relevant knowledge, scientific system, which expand methodological horizons of sociology, is grounded in the works of such leading scientists as F. Gouillart, J. Kelly, A. Subetto, and Y. Yakovets. Socio-genetic is a synthesis of scientific knowledge, which has been identified by A. Giddens and P. Sorokin as the highest level of scientific creativity, and V. Vernadsky, E. Knyazev, N. Kondratyev, A. Prigozhyn have implemented it in their works.

Doctor of Social Sciences I. Shapovalova (Belgorod State National Research University) also leans on the socio-genetics approach in the study of organizational culture. She asserts that the socio-genetics allows creating new social models and technologies for learning and control of the organization's social resources [1]. PhD, Associate Professor A. Novikov (St. Petersburg State Marine Technical University) examines the economics theory of evolution and the theory of genetic engineering of production systems and notes that the modern theory of economic evolution comes from the existence of some analogues of biological genome, the so-called "organizational routines" that are universal rules of organization's behaviour. He also thinks that the organization's genome is the fundamental unit of selection [2]. Doctor of medicine and philosophy, professor B. Astafyev (Moscow) asserts that "the most important event of outgoing period in the development of our planetary civilization and the beginning of a new era was opening of the World's Genome and the Evolutionary Algorithms of the World, as well as a large complex of General Laws of the World" [3].

These and many other similar statements provide a basis for changing of perceptions of successful organizations and enhancing their efficiency and makes it possible to comprehend in a different way methods for improvement used in practice, and, to some extent, to use "biological approaches" for the "growth" of successful organizations.

Such concepts as gene and genome (set of genes, or, in other words, the set of hereditary material contained in the body cell) are of particular interest, because it contains all the information needed to build and maintain the body. In this paper "cells" may be considered as: for the organization - its employees, and for the state - its organizations.

CONCEPTS OF EXCELLENCE AS GENES OF SUCCESSFUL ORGANIZATIONS' CORPORATE CULTURE

Comprehensive study of successful organizations in order to single out fundamental concepts of excellence is very progressive. In concentrated form, as in genes, the most general information about the organization (corporate, business) culture, in other words - the "spiritual world" of successful organizations is coded. The use of concepts allows hundreds of thousands organizations across the planet to understand better the laws of success, to form proper code of conduct and on this basis to achieve improvements faster, more efficiently and more reliably. It increases their business culture, competitiveness, end results and satisfaction of stakeholders. Concept of excellence, which reflects the organizational culture (OC) in the EFQM version - "trendsetter" in terms of excellent organizations in Europe – are presented below. [4].

Sustaining Outstanding Results (OC1). Any organization's activity or initiative can be highly assessed only through achievement of planned results and achievement of these results, in turn, promotes realization of mission and vision. Excellent organization is able to assess all direction of activity having developed for this purpose the unified system of performance indicators: from global indicators of mission realization to operational indicators at low level of management. It is important that these indicators should be referred not only to financial aspects of activity or to customers' satisfaction but they should allow to assess the organization's activity from the point of view of all stakeholders and to balance their requirements and expectation.

Adding Value for Customers (OC2). Excellent organisations actively seek possibilities to offer consumers new values that meet or exceed their expectations. For this purpose they aspire to understand deeper the customers, their values, dreams, problems, processes and regularly collect the proper information about customers. On the base of collected information the excellent organizations invent and create new solutions to customers including innovative ones. This activity is more efficient when customers are involved and actively share their information and ideas. Organization should ensure customers' emotional affection to rouse their interest in its long-term development and its maintenance

Leading with Vision, Inspiration and Integrity (OC3). Leaders of excellent organizations have quite vivid and clear vision of the organization's future to inspire all personnel for creative work on its achievement. At the same time leaders at all levels of management have mechanisms, authority and resources to initiate and realize initiatives directed on achievement of such vision. Values and principles in which organization believes and adhere in its activity are defined. Leaders of all levels are not only personally observing them but also demonstrate it to other personnel acting as role models for its values and ethics.

Managing with Agility (OC4). Excellent organisations are able to monitor and respond effectively and efficiently to opportunities and threats. To do this it can change its strategy, budget, organizational structure, regulatory documents, technology, etc. with appropriate speed. Process approach plays a special role in the organization's agility. Excellent organization considers all its regular activity as a structure of interrelated processes and manages it as processes. This means that the order of each activity is designed within cross-functional processes and redesigned each time whenever the need arises.

Succeeding through the Talent of People (OC5). Excellent organization considers each of its employees as a person with unique talents that can help to improve the organization's activity. The organisation's task is to understand these talents and to create conditions for their development and the use for common benefit. For this purpose people have necessary authorities, resources, environment and possibilities for development. Accordingly, excellent organizations consider talent employees not as a resource but as equal partners in activity improvement. They aspire to provide the balanced achievement of organisational and personal goals. It means attention to personal purposes, values and dreams of employees, their system discussion, readiness to individualize the system of motivation, development and personnel assessment.

Harnessing Creativity and Innovation (OC6). Excellent organizations do not passively expect until someone of the staff generates an idea for improvement, and are actively seeking and invent the opportunities to improve their performance, including for breakthrough innovative improvement. Everything within organization (activity, process, product, service) is periodically analyzed - "is it possible to make it better" through the use and development of people and other stakeholders' creativity. There is a system on working

with creative ideas or opportunities for improvement, focused to the fact that they are not forgotten or lost, but have been successfully implemented.

Developing Organisational Capability (OC7). Excellent organizations understand their capabilities, which they can present to customers (in terms of quality, cost, schedule, etc.) and seek to develop them. At the same time they realize that the development of skills depends on the entire value chain, including their suppliers, customers, etc. Therefore, they do not limit the development of their capabilities by legal boundaries and understand the value chain and strive for their improvement jointly with partners using the knowledge and resources of all parties. They actively seek out and engage partners who are willing to participate in this improvement. Such joint activity is based on trust, transparency and mutual respect.

Creating a Sustainable Future (OC8). Excellent organisation aspires to ensure its long-term sustainable development. It doesn't undertake actions which can negatively affect such development even if these actions allow reaching the best short-term results. In particular, the organization understands that observance of ethical rules and norms is the important factor of a sustainable development. Sustainable future of society in which this organization operates is the key condition of sustainable future of organization. Excellent organisation understands it's affecting on a society both positive and negative. Excellent organisation aspires to affect a society contributing to its sustainable development.

As you can see, concepts of excellence, in its essence, are socially oriented. And it is natural, because only organizations which have used approaches and methods that provide them with loyal customers, staff, community and other stakeholders could be successful in a saturated market. For this reason every organization basing its development on concepts of excellence, step by step increases the level of its social responsibility, taking into account interests of all stakeholders.

For the practical application of concepts in the purpose of improvement the special tools are used: models of excellence (models of ideal organizations), the RADAR logic as well as scale, levels and stairs of excellence.

MODELS OF EXCELLENCE

There are seven world's most famous basic models: Australian, Ibero-American, Indian, Singapore, United States, Japanese and European (EFQM Model). Their coordination is carried out in the framework of the Global Excellence Model (GEM). Comparison of specific organization with a model allows defining its strengths and weaknesses (areas for improvement). Obtaining and analysis of the best international and national business practice enables organizations to develop targeted innovative improvement program for a certain period. After completing the program the follow-up assessment is carried out, i.e. compared with the model. And again, weaknesses - knowledge - program ... Step by step, spirally, higher and higher.

One of the most popular models is the EFQM Excellence Model, which describes in detail the modern world (first of all - European) perception of an excellent organization and its spiritual world. This Model allows you to understand what is an excellent organization, to assess where the organization on the path to excellence (including quantitative assessment), to define steps which should be undertaken for their improvement. The EFQM Excellence Model consists of nine criteria and 32 criterion parts [4]. Relative levels of excellence on one of criteria "Strategy" are illustrated in the table below.

Badly	Satisfactory	Good	Excellent
Organization's planning of activities does not carried out or expectations of stakeholders are not considered in plans	Information about the key stakeholders' expectations are used in improvement plans	Development of strategic documents is based on the information about expectations of key stakeholders, the relevant information is systematically collected and summarized	Development of strategic documents is based on detailed information about the current and future expectations of all stakeholders, the relevant information is systematically collected from various sources over the planning cycles and summarized, the effectiveness of information sources is analysed, the list information sources is reviewed

The RADAR logic. Depending of specificity, strategy etc. an individual organizations can use different approaches in the framework of each criterion part of the Model. How to compare them and to define which of them are better? For this purpose the RADAR logic which describes a scheme of any business's management is used. The RADAR is abbreviation which interpreted as Results, Approach, Deployment, Assessment, Refinement. This logic is a cycle of improvement which should be applied to all performance of an organization.

Scale, levels and stair of excellence. For the assessment of companies on the basis of models in the world the scale of 0 - 1000-points is used. If a relative ideal organization on this scale corresponds to 1000 points and best European organizations to 700-800 points, then leaders of the CIS countries now achieves 550-650 points. This is a very high level, but still they are far away from European leaders. But such companies can be, as they say, counted on the fingers. A key integral indicator that characterizes any country is the relationship between levels of excellence of the main mass of companies and enterprises in developed countries. Today in the CIS countries it is 150-250 points and in developed European countries - 300-450 points. This is a very big gap. And this is the factor determining the backwardness of our economies, their low competitiveness, GNI and quality of life.

Within the framework of the scale the EFQM has introduced the levels of excellence scheme, which allowed both to recognise those companies that have achieved the level of the best in Europe, and those who have not reached this level yet, however, have shown good results. The Stair of Excellence designed in 2006 by leading specialists of Ukraine in the quality field helped for a purposeful and consistent improvement of companies in the CEE countries. This Stair, which is embedded into the scale and in alignment with the EFQM levels of excellence scheme, helps any organization with any initial level to move purposefully and consistently to the level achieved by the best companies in Europe.

GENES OF TARGET FUNCTIONS AND STANDARDS ON TARGET MANAGEMENT SYSTEMS

Based on the level of maturity and development, each organization adopts own basic values, goals and proper target functions, which in the great extent determine the "face" of the organization and are the basis for the design of organizational and production processes. There are an example of some basic target functions (TF) of the modern organization: high quality of products (TF1); preservation of the environment (TF2); occupational safety (TF3); energy saving (TF4); information security (TF5); minimum production cost (TF6); maximizing of labour productivity (TF7); other target functions (TFp).

A set of target functions and their priority in different companies can be different. Moreover, the same organizations may experience changes depending of their "maturity". In conditions the socialist system, which was characterized by the total deficit, this target function, as the achievement of a high quality of products, was not enough actual. Similarly, the relevance of the target function for preservation of environment began to grow only in the last decade. The same can be said about energy saving, information security, risk-based decision- making and others.

Over the past decades international standards on target management systems aimed at improving the effectiveness of the implementation of organization's target functions that are most relevant to the current stage of the society development are actively accepted all over the world. For example, the ISO 9000 on quality management system is used for improvement by more than one million organizations on all continents. Among other widespread standards are: ISO 14000 (environmental management); OHSAS 18000 (occupational safety management); ISO 50000 (energy saving management) and others.

GENES OF BUSINESS PRACTICES

One more direction of improvement is related to the "transfer" of proven business practices from one organization to another. In recent years particularly popular was the "benchmarking" - the process of learning and share best practices.

Among most well-known "integrated approaches" to improvement of organizations, which represents best business practices (that already combines also some target functions and culture) can be mentioned such as: "Six Sigma"; "Lean Production"; "20 Keys», «5S» etc. This experience is widely described in the literature. It is studied in workshops and master classes, directly in companies and thousands of organizations in different countries are beginning to use it.

In addition, various universal methodological developments and tools, such as: Shewhart control charts, Cause and Effect Diagram, Failure Mode and Effects Analysis (FMEA), experimental design techniques, brainstorming, Pareto chart and many others are widely used for improvement.

GENOME OF ORGANIZATION, WHICH DETERMINES ITS SUCCESS

It should be recalled that the human genome is interpreted as the complete set of genes in each cell of the body, and the genome contains all the information needed to build and maintain the body. Similar situation with the genome of organization: it is a set of genes contained in each "cell" of the organization, where the "cell" refers to all employees of the organization. Each employee should have the appropriate information needed for its operation, development and improvement according to the strategy of the functioning, development and improvement of the organization: about the organizational culture, target functions and business practices. And this information in the genome is triune.

Organizational culture. As a matter of fact, in the form of a set of rules it reflects the spiritual world organization, its "soul". Organizational culture must correspond to the mission and develop in line with the vision of the organization. It permeates all the "cells" of organization encouraging employees interact in harmony to achieve desired results (changing if necessary). Organizational culture is the foundation of excellence.

Target functions. This is the basis of the organization's material component. Target functions define the design of real processes, including management, capable to provide a systematic achievement of the organization's goals. In this case all target functions are accepted, implemented and modified in accordance with the organizational culture.

Business practices. Business practices provide the implementation of all processes of the organization. For more effective implementation of the processes the corresponding technological equipment is used. Business practices will be improved in conjunction with the improvement of the organizational culture.

Universal basic genome of the organization is shown on the picture 1. Genes of business practices used for implementation of processes of the respective objective functions are shown at the intersection of genes of organizational culture and target functions. At every workplace the genome should consider features of the labour subject and a particular executor.

As you can see, some of valid International Standards on target management system along with information regarding the target function the information about the organizational culture is also included. Thus, the "eight principles of quality management" stated in ISO 9000 is nothing but the direction on the organizational culture.

To be successful and competitive the organization should have a high business culture and developed processes in the context of all target functions based on good business practices. The organization also should be well coordinated, and each of its employees should be aimed at the work with optimal quality, productivity and cost price. Thus, the best experiences accumulated in the world practice should be reflected in the genome. Deployed genome of organization, seeking to be successful, is shown on picture 2.

RELATIONSHIPS BETWEEN INDIVIDUALS, ORGANIZATIONS AND THE GOVERNMENT

In the literature on biology is noted that not only human genes play an important role, but also the internal culture in which he is moulded. If an individual, for example, was born and grew up in a poor family in Africa, then in terms of the internal culture it is difficult for him to be like that who was brought up in a happy family in the United States, England or Germany.

Organizations and individuals. Analogously, employees of the organization to a large extent are developed in conditions of its organizational culture, and that is convincingly confirmed by the experience of a

number of companies, for example, by advanced Western transnational companies created in Ukraine. Such companies as “Jabil Circuit Ukraine Limited” (Zakarpatsk region.), “Coca-Cola” (Kiev) and others are a vivid example. “American culture” initially has been inherited in these companies. As a result, citizens of Ukraine are “plunged” in this culture and work almost as citizens of other developed countries.

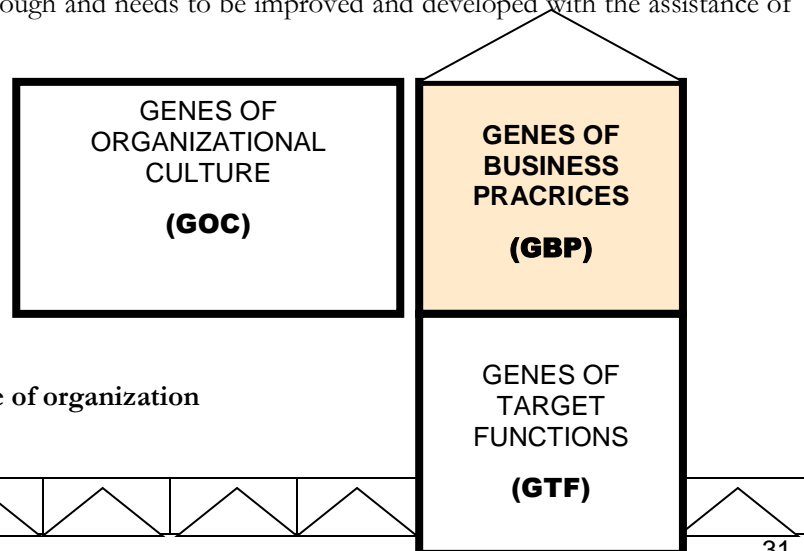
It can be said that the human genome, when interacting with the genome of organization, is the subject of certain changes in the favor of the latter. On this basis it can be argued that in condition of formation of the modern organizational culture of post-Soviet enterprises it is possible to influence positively on the internal culture (mentality) of employees and achieve better results. Increasing economic results of improving organizations, especially if it has an effect on remuneration of labour, will have a positive impact on the mentality of employees.

Organizations and the state. On the other hand, the success of the state's economy in the largest extent is determined by the success of its organizations (which are basic “cells” of the state): the more successful organizations in the country, the more effective economy and higher quality of life of its people. In this regard the government should be interested in increasing the number of successful organizations and, therefore, should form a favorable climate for their “multiplication”. In turn, employees of successful organizations are becoming loyal not only to their organizations, but also to the country as a whole, including to its government.

In order to facilitate large-scale improvement of organizations on the basis of this approach is expedient to develop a computer-aided design of modern integral management systems. Particular attention should be given to the creation of knowledge bases containing information required for the design and management, which will include, first of all, information on proven business practices. Researches of the influence of the business culture level of the organization on the internal culture of individuals, etc. are also very important. More detailed studies on various aspects of engineering design and improvement of various organizations with the use of methods for organizations’ genetics will be discussed in further papers.

CONCLUSION

Improvement of enterprises and organizations with the use a genetic approach can significantly reduce the period of "organizational maturity" of the society, and significantly improve the efficiency and competitiveness of both the companies and the economy as a whole. Naturally, for the implementation of such an approach it is necessary to spend more time and resources. But even in the design of automated management systems we spend much more time and resources than in the implementation of standards on targeted management systems. However, it was not a reason to cancel the automation of management processes. On the other hand, implementation of management system standards, which currently is in common practice, has not significant positive effect, and it is a well-known fact. And, therefore, this improvement practice is not effective enough and needs to be improved and developed with the assistance of the state.



Picture 1. Universal basic genome of organization

GENES OF ORGANIZATIONAL CULTURE FOR SUCCESS	GOC 8.	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp
	GOC 7.	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp
	GOC 6.	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp
	GOC 5.	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp
	GOC 4.	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp
	GOC 3.	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp
	GOC 2.	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp
	GOC 1.	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp	gbbp
	GTF1	GTF2	GTF3	GTF4	GTF5	GTF6	GTF7	GTFp	
GENES OF TARGET FUNCTIONS FOR SUCCESS									

Picture 2. Genome of organization's success

Notation: GOC – gene of organization’s culture; GTF – gene of target function; GBBP – gene of the best business practices



Workshop on Development of Women Entrepreneurship on 18 April 2017 in Park Inn by Radisson in Baku.

From left: Sabit Bagirov, President of Entrepreneurship Development Foundation, Randall Olson, Director of the Office of Governance and Economic Resilience, USAID in Baku, Antal Szabó, Scientific Director of ERENET, and **Daiva Jonuskiene**, Siauliai Chamber of Commerce, Industry and Crafts (Lithuania)

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NATIONAL REPORT ON FAMILY BUSINESSES IN HUNGARY

Part 2.

ANNEX

Family businesses are at the heart of the economy. They produce 50% of the GDP and they are the biggest employers as well. In Hungary, just as in other post-socialist countries, entrepreneurship is allowed since the late '80s of the previous century. There was a huge entrepreneurial boom and the majority of the founders, who were in their 30s and 40s in that time and are now about retiring. Two aspects of the issue should be emphasized here: The first one is the lack previous experiences and traditions of successions, and the second is that the economic and social-institutional environment has been dramatically changed in the last two decades. Successors, therefore, should be able to preserve the founders' values and successful business solutions, and at the same time being able to cope with the new challenges represented by the different development cycles of the Hungarian economy and society. The National Report on Family Businesses in Hungary aims to summarize what we learnt about the 30' years history of family businesses in Hungary and detect the key challenges of succession. The Report is an early output of the INSIST (INtergenerational Succession in SMEs' Transition) Erasmus+ research. Based on the Report, later e.g. case studies, analyses, policy recommendation and educational materials have been made.

Keywords:

family business, definition, family business network, Hungarian Association for Responsible Family Enterprises

Jel Classification: D1, L26, M10

II. SOCIO-CULTURAL ENVIRONMENT OF FAMILY BUSINESS

II.1. Succession Process and Succession Infrastructure

The owner (founder) personality: entrepreneurial or/and managerial skills or "habitus"

As mentioned before, the generation of owners approaching to succession started their businesses after the collapse of the state socialism. Their professional socialisation, however, started before the changes, so most of them had to adapt to the market economy in their 40s. There are significant differences between economic activities and sectors but in most cases the founders have a strong professional identity over against being a businessman. It seems so that in sectors where personal presence and control is required in production (e.g. food industry), the wish to preserve family ties and values are stronger, than in other cases (e.g. IT sector). (Bálint 2006) In the former cases running a business is equal to value creation and succession is being regarded something more than a pure economic transaction. Since professional network building is inherent part of business success in case of family firms, one of the key challenges is to what extent the founder's social/professional network can be transmitted to the successors.

The founder owner role in the succession process

In their eye-opener work García and López (2001) set up a classification of entrepreneurs' habitus taking their values and norms into account. Their typology is based on two structural dimensions: 1. business value dimension (firm vs family orientation) and 2. psycho-social value dimension (self vs group orientation). The authors made a distinction between four basic types of company founders.

1. Founders of family tradition. In this group of founders business decisions may be constrained by family traditions. These business owners are group-oriented, appreciate human relations and are committed to ethical issues.
2. Founder-achievers. This group views their firms as mere mean to earn a family living. Short-term thinking, task orientation and group-oriented values characterise these business founders.
3. Founder-strategist. The idea of business is an end to the representatives of this group but unlike the family tradition founders in this case the core value is self-realization. They are long-terms thinkers and exercise strong control over business.

4. Founder-investors. In this group family-orientation dominates accompanied by the values of self-realization. Innovation, family orientation and a negative perception of human relations are the core values.

According to empirical studies, founder of family tradition and founder-investors dominate in the food sector in Hungary, while founder achievers are prevalent in chemistry, construction and some areas of industry. (Bálint 2006) The results are presented more detailed in the section *Inhibitors and enablers of the succession process*.

The successor's role in the succession process (dilemmas of the next generation)

Different ways of succession require different attitudes from the successors. Family patterns and traditions, professional and business experiences, individual ambitions and interests and, finally, external social/institutional factors may form the willingness of the successor to step in the family business. Unfortunately we do not possess systematic information about the Hungarian successors' perspectives but the case studies to be conducted in the INSIST project will deliver more information about this issue.

Guidelines orientating the succession process

Csákné Filep (2012) conducted a representative survey among those Hungarian SMEs that were facing with succession challenges 2011 (not exclusively family businesses). According to her results 49.3% of family business owners have succession plans without having written that, 3.9% of them have a written plan, 18.8% thinks that succession is automatic process and 28.6% of the family firms have no idea about succession. Based on a non-hierarchical cluster analysis she distinguished five basic types of succession strategies of the Hungarian succession-involved SMEs. The clusters represent not exclusively the family-owned businesses but all the SMEs that have been involved into the research. Category 3, 4 and 5, however, cover the different types of family firms.

1. Businesses with no vision of independent parties

Those firms that are owned by independent parties, in most cases by former colleagues, independent professionals and/or external investors, belong to this category. In these firms neither close, nor distant relatives have a share and the owners have no visions about the company's future.

2. Businesses with vision of former colleagues

These firms are mainly owned by former colleagues who have a strong vision about the succession process after retirement of the founders. Most typical succession plan is the sale of the company to the other owner(s).

3. Kinship businesses

In case of these firms owners are recruited from the wider family (distant relatives) and/or friends, acquaintances, external professionals and other investors. They typically employ family members. Their successions vision is clear. They want to keep the ownership within the (wider) family.

4. Marital businesses

In this case the company is owned by the family members, especially by spouses but distant relatives also may have share. Spouses typically work in the company as employees. Ownership of children is not typical. As for the succession the main strategy here is to preserve family-ownership but to delegate the management to an external party or to sell the company if it is unavoidable.

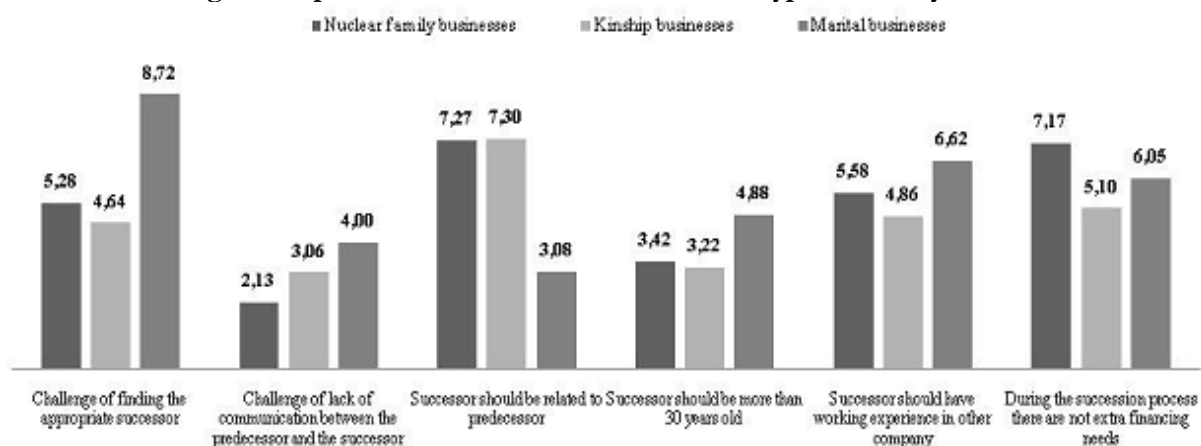
5. Nuclear family businesses

Those family businesses belong to this category where the ownership and management is planned to be preserved in the hands of the small family members. (The ownership goes mainly from the parents to the children. Ownership of children is typical.) In this case external, non-family member parties are excluded from both ownership and management. Spouses often take actively part in the day-to-day management operations.

Outcomes and the Impacts (advantages versus disadvantages) of the succession process

According to the results of the survey presented above there significant differences between the different types of family businesses with respect to various dimensions of succession.

Figure 2. Specialities of succession in different types of family businesses



Source: Csákné Filep (2012:151)

Marital family firms seem to differ from the other two types (Nuclear family businesses and Kinship businesses) quite significantly. In their case the most important challenge is to find the person who can act as an appropriate successor. The successor's age and working experience is of more particular importance to them than in case of the other two family business models while in their case the probability of an 'external-to-family' successor's engagement is the highest.

Inhibitors and enablers of the succession process

Bálint (2006) conducted a survey among a representative sample of Hungarian family firms operating in various sectors. The most important factors that influence succession decisions and the process itself are the followings:

- the size of the company: the bigger is the company, the stronger is the wish to preserve it within the family,
- business prospects: companies over 7 billion HUF pa (~22.5 million €) prefer the sale to family-based succession,
- the age of owner/entrepreneur: the younger is the owner, the higher is the probability of sale to external parties,
- the successor's competences,

- competition in the sectors: the more intensive is the competition, the bigger is the pressure on the owner to sell the company to external parties.

The sector is a key issue with regard to succession motifs. In chemistry, construction and retail trade the dominant pattern is the sale of the company, while in food industry the future vision is the family-based ownership transfer. In case of services the sale to other owners or to management is the dominant option. Export-orientation is also an important aspect of succession process. In cases where the share of export exceeds 50% of total revenue sale to external parties is preferred. (Bálint 2006)

Emotional capital accumulation process

The solution of conflicts often arises through specific logic in different subsystem (ownership, leadership, family). Conflicts occur from the merge of boundaries and paradoxes. The ways in which individuals communicate within a family, may be inappropriate in business situations, but that is fact in business situation both of partners are family members. Family business must keep lines of communication open, make use of strategic planning tools, and engage the assistance of outside advisors as needed. Bogáth (2013) examined 44 family businesses and by 68% of them conflicts have not impacts on family and business system. Half of the firms in the sample reported that the leader was able to balance between family and business duties. 38.6% of the leader devoted more attention to company than to family affairs, which can lead to long-term weakening of family ties. 11.4% of leader preferred family over business, which may be the danger of neglecting the enterprise, and therefore may decline.

II. 2 Role of Psychological – Communicational Relation in the FB: Special Focus on the Succession Process

Family Business Dynamics

Family business can be meant as multigenerational unit, thus from this dynamic explanation we can see the importance of the following research results. Reisinger and Kovács (2011) examined higher education students as potential successors. Their central question was what kind of facts affects the continuity of family business and the start of own business among students in higher education. The researchers focused on examination of the strength of family and institutional effects on students' carrier choice expectations. This research was the part of Global University Entrepreneurial Spirit Students' Survey: GUESSS project. The sample was based on students studying economic, engineering and IT. Most of them have completed the Bachelor's degree programme. In the project researchers wanted to demonstrate the stronger family effect on students' carrier expectation. The family effect variables were measured by family affect and family cohesion, the institutional effect by practise-lecture, scientific field and qualification variables. Results showed that right after completion of studies 51% of students would like to work in SMEs. If students thought about 5-year perspective received the diploma, one-fifth of them would choose job in SMEs, but 25% of them would decide on start of own business. 25% of students are involved in family business, but only 3% of them would continue the family firm. Research results showed that men are more venturesome, so the gender and family effects influence the plan of continuing/starting business.

Psychology of Succession

Köteles and Vincze (2011) investigated motivating powers in the case of family businesses. They examined with questionnaires, which are directed to discover the main motivations of the founders, plan of the company's vision and the career of the founders. The respondents were 63 persons from the southern Great Plains region. Based on the frequency of responded words the researchers recognised McClelland's motivation theory in the personality of the family business founders:

1. Power: leading, influence, creation need, financial independence (mentioned words: independent, self-employed, free, self-realization)

2. Relationships: interaction, cooperation, collaboration (mentioned words: family, unit, existence, cohesion)
3. Performance: result-orientation, tendentiousness (innovation, market, need, expansion)
4. Job creation: scope of forced entrepreneurs (job creation, compulsion, maintenance)

The most frequent motivation is the need of power (45,6% of sample). The performance was the second most frequent motivation (24,1% of sample), 17,7% of founders in sample was motivated mostly by the need of job creation and 12,6% of sample was driven by relationship.

Based on the research the family entrepreneurs are mostly motivated by power need and the financial independence. The person of the owner and the manager is often identical. The leaders of family enterprise rarely make a written business plan at the time of the foundation or in the case of succession. The family life and the course of business affect each other.

Csákné Filep and Pákozdi (2012) approached the succession not from the side of the family relations. The researchers described the characteristics of founders because the founders are the key actors in succession, strategic targets, culture, external relationship and performance. They completed 25 case studies about the issue of succession, generational change in Hungarian SMEs sector. Those enterprisers who take over the company and not found it, have own experiences in how to transfer a business and it can make easy business transfer, but the founders rarely get at acting the retirement and can obstruct the decisions on succession. The surveyed enterprisers looked at their enterprises as life course, modernisation and innovation. They are considered, dynamic and self- fulfilling. During their entrepreneurship the financial stability is the most important. According to this research there are expectations towards the successor person. There are the followings: good organiser, communication skill, professional knowledge, financial management and knowledge about competitors and business and cooperation with predecessor and balance of power within the business, conflict tolerance are all greatly important in the firm strategy considering the innovation and change.

The Manager magazine compiled selection about Hungarian family firms' successor. The foundation and generational change of Béres Gyógyszergyár Zrt. is really interesting case. We introduce their story based on József Béres's narration.

The founder, the elder József Béres created so called Béres Csepp (*Béres Drops – a natural drug that strengthens the human immune system*), and he had trust his son and son-in-law to lead them to his business. The elder Béres was not entrepreneur type. In 1977 he worked in research institute in Kisvárdá under distracted circumstances. The younger Béres began chemistry career on his own way and later from 1977 he worked as researcher chemist at Hungarian Academy of Sciences and searched the antiviral and anti-cancer compounds. After regime the company got to completely the Béres' ownership and the younger Béres stood by her father in the firm. It was also a moral duty for successor. The elder Béres was ambivalent but happy. The successor told his view about transfer: „I felt the time has come for me to follow the aim and conception what for my father worked and suffered what I can support.” The successor underlined that he developed separately from his father. Firstly, the younger Béres dealt with the control of production and later with direction of research and product development. The starting work was led by intuition. The founder and successor became colleagues after 1989. The successor considered the teaching, learning the transfer of approach. One of pillars of it is research behaviour, approach of questions, looking for answers. The father was led by finding the answers, and went ahead to become innovative. The successor learnt synthesizing ability and moral behaviour from his father. The founder honoured the life, people and nation. They decided together on most issues until the death of the founder. After 1993 the leadership was more conscious, professionals were involved in the management. The Béres' couple has three children. Their daughter works as economist and communication specialist in the family company. One of their sons has been learning economy. The younger Béres is motivated by sureness of successor.

III. MANAGING FAMILY BUSINESS – STRATEGIC ISSUES

III.1. Strategy formation and decision (participation of family and non-family members)

Family firms are distinguished from other organizational forms by the overlap of family and work systems. Members of the controlling family significantly influence the goals and strategic direction, as well the performance and survival of their enterprises. (Sharma et. al 2013) For long term prosperity, a family firm must achieve efficiency and effectiveness focused business goals, like other businesses. However, family oriented goals such as harmony, generational transition, and ownership issues must also be managed.

In Hungary, doing private business became legal again after the regime changed. We don't have much literature from the early years, and of course circumstances have changed in the last twenty years, but there is an interesting fact from the early years of market economy. Czakó et al. (1995) found the majority of the Hungarian SME founders had chosen their spouses and other relatives to be their co-workers. We suppose that these founders from the early stage are predominantly the same ones, who are now facing the challenges of succession.

A qualitative research at the end of 1990's and its' follow-up at the early 2000's examined a cooperative network of enterprising carpenters. (Kuczsi-Makó 1993, Makó-Csizmadia 2003). These small business owners organized themselves in an innovative way to do large-scale work at the construction industry in the rural area of Hungary near the river Galga. The research proves that a certain type of effective and efficient work organization model exists, where specialists are linked to each other in a loose network rather than a formal organization, and where individual success depends on cooperation. Within the community not only economic factors define the regulating behavioural patterns of the cooperation among the actors, but also the professional and ethnic relations, or the level of trust being present at the local community.

The experience in the incorporation system highlighted the fact that that it does not worth to risk long-term stability for the short-term advantages of the competing behaviour, as long as the market conditions let them to do so. Kuczsi's research (2000) raised our awareness that after the collapse of the state socialism, similar temporary or permanent exchanges worked among small business owner professionals, like among households in the traditional bees. In these new transactions not only labour, but information, goods, means or even capital were being leased.

The organizing method of these economic relations could be considered innovative in the SME sector that is in the lack of funds, but it also has its' own barriers. Bruno Dallago raised awareness on the fact that cooperation between Hungarian SMEs is mainly loose, and means only consultancy, leasing means and capital or acquisition of business. By contrast, Dallago (2011) shows in his work that they lack common production networks, which are common in Italian small business zones, and require more developed forms of division of labour and deeper integration of actors. These 'hard' networks need higher investments, deeper commitment and often even cross-ownership, but due to the more rational and flexible use of resources, they are more competitive and able to adapt to the changing environment. (Simonyi 1987, Pyke – Sengenberger 1992)

Csákné Filep (2012) in her dissertation examined if family business founders in Hungary want to succeed the ownership to the successor and if there is a difference if the successor is a family member, especially their children, or not. In 61% of the examined cases, regardless to the relationship with the successor, they do not want to give up their ownership at the firm, which makes decision-making more complicated for the successor. 50% of the family business does not even think about succession planning, but existence of a potential successor encourages them to do so.

In the following textbox Tamás Kürti, the vice president of FCSVE (*Hungarian Association for Responsible Family Enterprises*) shares his experiences concerning the different roles family firm owners and managers have to fulfil.

'In family businesses there are more owners than managers. This means more opportunity and more problems at the same time. The challenge is to help all generations and family members to become responsible owners. This way there is more opportunity open, and the adaptive capability of the family firm is stronger, if always the most able family member lead the firm, and the others could also enrich the firm as motivated owners.' The success of family businesses depends on the capability of understanding and handling in the right way the two levels of responsibility, the ownership and management of the company, which is not connected to wealth or hundred years of traditions, explains Kürti. (HVG, 2012) They also created a Family Board, where other members of the family meet on a regular basis, and they can take part in decisions. In this sense, there is a continuous presence of the family in the company. Tamás, the second generational son, has been preparing for 10 years to take over the president role from his father, which means than he could focus on strategic decisions. (Origo, 2011)

III.2 Division of labour between owners and managers (employees)

Family business research is unequivocal about the multi-dimensionality of goals pursued by family firms. For many family firms, goals such as family harmony, reputation, and continuity, are as, if not more, important than business-focused goals such as survival, profitability, and growth.

In Hungary, SEED Foundation organised several programs and conferences on Family Business They found that there is a lack of a comprehensive research on family businesses, including succession questions. (Soltész, 2007) Román (2007) also finds a lack in life cycle researches on Hungarian family businesses. SEED Foundation emphasises that family businesses need to pay attention on keeping the harmony and balance of the family and business. (Horváth, 2008) They found that most of the founders are afraid of the external takeover, they find optimal if the children succeed the company.

No matter if the family takes part in the management or not, the family business could improve only if the management is well prepared and consists of professionals. It is essential to define the role of the founder-manager, understand and customize the operation rules of the business, choose the right managers for the operation, and create an entrepreneurial organization for sustainability and prosperity. For a family firm, business reputation is closely linked to family reputation. Vecsenyi (2009) emphasises that in most Hungarian cases, family firms use the name of the family. This guarantees quality and commitment. In multigenerational family businesses accumulated knowledge, secret recipes, professional experiences succeed from parents to children.

The following textbox illustrate the succession in a 6-generation family business using the example of the liqueur producer Zwack Zrt.

Péter Zwack had seven children, of whom two - as representing the sixth generation - are actively involved in the company. Sándor Zwack, born in 1974, is on the Board of Directors and is responsible for the top premium imported brands and for the prize-winning Zwack Nemes - Nobel - Pálinkás produced at the distillery in Kecskemét. Izabella Zwack is in charge of the newly created wine division at Zwack Unicum, which distribute leading Hungarian wines as well as importing wine from all over the world. She owns a winery in Tokay, the legendary wine-making region in Northern-East Hungary. In 2008, Péter Zwack transferred the baton to his son: Sándor appointing him as President of the Board of Directors. Péter remained as eternal honourable President until he passed away. (Szabó, 2012)

III.3 Learning and Knowledge development/ transfer in the firm

One of the most critical organizational changes family businesses deal with at some stage in their lives is the succession process. When evaluating it, two main targets are sought: quality and effectiveness. To meet these quality-effectiveness standards three elements should be transferred from the predecessor to the next

generation member(s): (1) ownership control/power, (2) management responsibility and (3) competence/knowledge. (Varamäki et al. 2003).

One important factor that affects transferability of knowledge is the perceived trustworthiness of the source of knowledge (Szulanski et al., 2004). In fact, experiments in the communication field have demonstrated that a trustworthy source could substantially influence a recipient's behaviour. (Szulanski et al., 2004) Likewise, it has to be said that trust develops over time as a consequence of individual interaction; in the end, trust is placed in a person, not in that person's specific actions. (Rempel et al. 1985)

Gere (1997) found that the strength of the Hungarian family businesses are: the unconditional transmission of the practice and knowledge, the commitment of the family members, relationship with the customers, easy decision making processes, safety and experience of common pride. It is important to show an example, but the question is how could it be succeeded to the next generations? Bálint (2002) found that many of the founders in Hungary do not have a long-term vision, either because of the lack of time, as they are too much involved in daily life activities or because they try to avoid strategic planning, because they are afraid of an inconvenient conflict which may occur with their family members or employees.

Family and business is built on different values. Cole (2000) found that conflicts in family businesses are often due to the dual contacts and roles of the family members. Solving conflicts in these cases is hard, because to find the real reasons you need to dig deep, and examine family members' relations, which is often loaded with tension. Bálint (2006) explains a case, where the father didn't take his potential successor son to any negotiations, so it was really hard to accept him then by the partners as a successor. It is helpful if at the beginning with the help of an older mentor to design a structured succession plan with milestones, to see how the successor can get ready for the takeover of the company. In an ideal case, developing the successor is supported by a mentor. The ideal mentor is someone, who works at the company since a longer time at a high position and ready to share the experience and some criticism. Parents could be really weak teachers, because of the mutual emotional concern. Csákné Filep (2012) recommends to involve external advisors to the succession planning and to monitor the firm. It also helps if they establish a Succession Board of family members and managers. It seems that in Hungary lately a need for external help emerged. If the supporting infrastructure is developed or mature enough, the knowledge of an external professional, the objective interpretation and reflexions made help to avoid the misrepresentation of objectives the inner interpretation solely may make.

IV. POLICY ENVIRONMENT, FINANCIAL AND LEGAL REGULATION

General financial characteristics of the family business

Finances play a key role in the life of every business, since the good financial position, the continuous liquidity and the adequate capitalization are the bases of reliable and successful business operation. Looking for international literature dealing with finance it can be found some books and articles which are focusing the family business specifically, but in Hungary there is a lack in case of discussing the family business in Hungarian. In the case of Hungarian firms it is particularly difficult to apply the definition, in which an essential element of the qualification is that in the family business more generations are working together within the company, because as it was previously mentioned, in most domestic family businesses the second generation today starts to work within the company. Therefore, we should not rigidly use only one definition, as for example, despite the fact that the next generation is not involved in the operation of the company, but there is a clear concept that they want to keep the family business within the family, so it would be a mistake that these companies would be considered not as a family business.

In the case of Hungarian family businesses to take financial decisions is not as clear as they are affected for the followings:

- When making business decisions are not necessarily the primary goal of profit.
- The simultaneous presence of family and business requires coordination the financial needs of the family and the business.

- The family needs and possibilities to override the needs of the business, but often we can experience is the reverse of this.

Hungarian family businesses, beyond the actual effectiveness, are guided by individual goals as safe living and to ensure workspace for the family members, the stability of the operation, to preserve the company's good reputation, to keep the company's size on such level at which the transparency of the immediate family and the ability are managed. Follow these goals in many cases, the profitability may be reduced.

Coexistence of the family and the business aspect also needs to be considered in the financial decision making. In case of smaller companies typically occurs that a large expense related to the family (e.g. house purchase) causes a lack of resources in the family business or it causes postponement for investment or developments. In family businesses (and in most cases it is typical), where the family and the family business finances are merged, it is common for family and business resource needs compete with each other, and it causes financial problems sometimes in the life of family and sometimes in the family business.

The family is unique resource for a family business and it may be a source for competitive advantage for the family business. But it also is a barrier, where the needs and possibilities of the family become problems for the development of family business. This can be such family spending which would be a risk for the family business's liquidity or it is more difficult for the development or for the growth of family business, since the lack of resources the family business has to postpone the development. Table 2 lists the issues are related to financial activities, where the behaviour of the family business and non-family business are strictly different.

Table 2. Financial characteristics of the family business

Tasks	Financial specialities	Family business characteristics
Relationships between family's and family business's financing and funding of succession issues.	<ul style="list-style-type: none"> • Mix the family's and family business's financial activities; • The use of the family's assets as collateral; • The firm represents a significant portion of the family's assets; • Succession require good financial plan and preparation. 	<ul style="list-style-type: none"> • Desire to lead the family-run business; • Commitment; • The long-term approach; • To ensure the independence of the pursuit of family property; • The importance of maintaining a good reputation; • Risk management; • Paternalism; • Merger of family and business affairs; • Family dominance in the management; • Resistance against the non-family managers; • Nepotism.
Financial management, borrowing and debt.	<ul style="list-style-type: none"> • Risk management; • Less sophisticated financial management; • Preference for debt financing; • The debt ratio is lower than the non-family firms. 	
Capital source, capital investment outside the family and capital sale.	<ul style="list-style-type: none"> • Maximizing the family's resources; • Rejection of external capital; • The definition of goodwill is difficult. 	

Source: Csákné 2012:17

The relationship between the family's and business' financing and funding of succession issues

In Hungary especially in case of smaller family businesses the business and the family's finances are mixed. The most common reason is that the liquidity imbalance can be solved by reallocation of either the company's or the family's resources. If not treated separately from the family and business finances, family life events such as marriage, divorce, birth of children, retirement and death affect the financial stability of the family businesses (Mandl, 2008).

In Hungary it can be also shown that in case of smaller firms the most common direction of financial transfer between business and family is the usage family income for the treatment of corporate liquidity problems. This is especially true when the family business starts, and in specific subtype forms i.e. family-based enterprises by spouses. It is also characterized by Hungarian family businesses that the provision for the loan will be offered by family's property. The clear consequence of the mix of family's and the family business' financing is the characteristics of family businesses which means that the business affairs and the life of family are mixed. Somewhere the business, somewhere the family interests is more important, and it can be seen the organization of working time, the delegation of tasks, the different positions of the business. Many family businesses – where the important business decisions are usually made outside working hours or they are solved within the family, and where the business is often the scene of family life – not supplied ambivalent feelings of the two cross-financing systems. The reason of a merger of family and business finances is very simple, i.e. very often the major part of the total assets covers the whole property owned by the family. The fact that a very high proportion of family assets represent the family business clearly explains the movement of funds from the company for the family, because if there is a cover for family expenses it is easiest and fastest way. The background of financing the family business by family can be explained such features that commitment, long-term approach and to ensure the independence of the family property. The members of the family prefer the finance by family' cash and equivalent instead of loan to keep the family business's liquidity or to avoid the company become a vulnerable for an external financier. Financial assistance provided by the family to the family business has an advantage because of fastness and it saves the company by borrowing or administration (data collection, much more information). If it will be for external financing, collateral often family-owned property, properties are typically available.

Of course, the separate management of the business and the family's finances would make it more transparent funding of family businesses. In some cases this may be an obstacle to the functioning of the family business as well. Therefore it is not necessary to disregard the money transfer between them arising out of the family business resulting from the essence of the family and the business's symbiosis they have to make it transparent. But mixing of the family's and family business's finances effect impossible control on long-term. Both financial systems become confused financial situation, the continuous unplanned withdrawal of funds from the company leads a financial problem of the family business. In contrast, the proposed cross-financing flows using pre-defined rules and frameworks create the family satisfaction, the undertaking to the benefits of family finance.

In the life of the family business the succession, the transfer to the next generation will be a significant challenge, since the future of the family business depends on the success of it that means the company remains a family business family whether or not a family business will continue to operate, or close. Despite the fact that during the transfer of the family business remains "within the family," the leadership transfer and its financial challenges are very important in the life of family business. The leadership transfer within the family requires more sophisticated financial solutions than company sales where the buyer pays the agreed price and he becomes a new owner of the company. During the transfer within the family it cannot be ignored that the founding entrepreneur's properties and sources of income are the significant part of an enterprise. The probability that the founding entrepreneur retires and except the regular income from the enterprise, and gives the company without any financial compensation to the next generation, is very low. During the company transfers it is necessary to make financial plan for the size of the retreating entrepreneur future regular income source, determining the extent and source of one-stop value for the company for the transfer of the potential new owners ownership of the firm's role, determining the financial compensation they are

retreating contractor provided. Furthermore it is also very important to calculate the fees incurred in the transfer of consultants, legal fees, the source of so. In connection with the transfer of certain family members may have different preferences? It might be that it requires a large amount of its predecessor, one-time compensation, or other regular income they require, or both.

In Hungary during the planning of transfer it is necessary to clarify the funding issues requires creativity, foresight and development of custom solutions.

Financial management, borrowing and debt

Within the family businesses, depending on the size of business the application of financial management technologies could vary. The significant part of the Hungarian SMEs are controlled by owner-driven managers, who typically have started to work by own hands and they keep alive alone their company. The characteristics of financial management within family business have a strong relationship with the general characteristics of the family businesses, such as risk management, the importance of maintaining a good reputation and a long-term approach. These features are implemented in the direction of the family businesses to avoid financial risks when making financial decisions to keep the long-term, stable, stabile operation in mind.

In the Hungarian family businesses it can be observed the weak financial culture, the underdeveloped financial management, paternalism, nepotism, fighting external managers, and the family dominance in the management are dominant. Many family companies are characterized by mistrust, which is often the biggest development trig thereby. They do not trust anyone outside the family all the essential functions such as financial management are performed by family members, regardless of whether they have the necessary skills and qualifications. Up a certain size there are a few businesses that can afford to make a business without loan. In the family businesses the external financial requirement and the contact with the credit institutions (banks), the regular financial reporting and planning obligations often arises the development of financial management. The family business because of the business or on the other hand some changes in family life events requires banking services. In many cases the life cycle of family businesses explains the external financing: start of family business, development of the business, growth by acquisitions, restructuring and internationalization. Based on family needs protection and management, asset restructuring, succession and entering into the international market.

Based on family needs protection and management of property, asset restructuring, succession and business for sale, transfer can be regarded as events, which requires banking services. In Hungary examining the financial habits, strategies it can be observed that for family firms it is more important to improve their financial position by the reinvested profits and they will pay back their loans as soon as possible, thereby restoring their independence than non-family firms. If the Hungarian family businesses would need to involve external source, they prefer debt financing, rather than involving investors from outside because of they fear that their position will be weaker due to the family ownership changes. Despite the fact that they can borrow, given the extent of the debt will remain subdued. Family businesses are long-term, valuable and relatively risk-free banking partners. Credit institutions that recognize the special needs of these family businesses, and they are sufficiently flexible to take into account both the business and the family's interests in the development of funding bids, achieve considerable success in this particular segment.

The source of capital (capital investment outside the family, sale)

At the start most of the businesses have incomplete financial data, plans, the available collateral are insufficient, and so it is very common that the start-up family business in the beginning only rely on the resources provided by the prospective owners and their families. Gere in his research has shown in (1997) that family businesses are used for almost 90% of the family's savings to get started, and it was very typical that the sale and use of the relatives of the family-owned property loans provided the initial capital. The results are consistent with Vadrjal (2008) survey conducted among Slovak family businesses. Based on Czako (1997) 70% of the Hungarian start-up family businesses founded in the early nineties needed used additional financial resources. One fourth of start-up companies used bank loan and two-thirds of the business used households' saving. According Kuczi (2000) there were common thing to start small enterprises became family business

instead of non-family company due to lack of required resources, since the significant role in the family and relatives.

In the case of such family businesses, which are already operating the major source of financing are the reinvested profit, the short-term bank loans and savings of family members, relatives or friends. The Hungarian family businesses during the operation rely heavily on family savings (36.3%), and often reinvested profits are the funding basis (30.4%) (Gere, 1997). At the foundation they created exclusiveness for family, so during the operation of family businesses they do not willingly give up it. Although the outside investors could reduce their financial requirement, a significant part of funding owners is resistant these forms through capital raising or capital increases. In the background most often lies in fearing to lose the essential ownership and management control.

Family businesses can seek external investors in such case, if a business owner wishes to sell its stake. As it mentioned above, the major sources of family businesses are family savings, bank loans and the reinvestment of profits come from the business. This closed financing structure could make difficulty is in the case where a member of the family to sell its stake. On the one hand it is very difficult to determine the value of the family business, on the other hand it is difficult to find suitable new outsider buyer, who will be agreed by the rest of the family (Mandl (2008). In the case of family businesses the wisest decision is to sell ownership to the family members, which might fail in the case of if the family does not have sufficient funds to purchase of property for sale.

Family businesses may also be in a position where it is not only a part of the company, but the whole company up for sale. Vecsenyi (2009) denoted that the main reasons of it are fatigue, developmental constraint in critical situation, a good offer and a good chance. If the family business's owner decides to sell, it is absolutely necessary the family business's evaluation, which clearly shows how much it actually reaches the company. Especially in the case of family businesses to determine the true value of the company is so difficult, especially the problem is the estimation the value of the business the family and the personal presence of the owner, the value of his relationships, how to operate the family business successfully without him. Astrachan and Jaskiewicz (2008) specifically created the family business valuation model to be used, which means that they determined the value of the business by the owner family's perspective. According to their theory, the value of the business is not solely determined by the property and financial benefits will be realized in the future, but the emotional factors also play a role in the calculation of the final value. The emotional value depends on the emotional cost and emotional benefits. If the benefits are greater than the costs, the final value of the business will be greater, and if the emotional costs are greater the difference reduces the financial value. The critics of evaluation model note that although it helps for the family business to estimate the fair value but for the real potential buyer is unlikely to help in determining the purchase price paid for the business.

The very powerful features of family businesses' financial behavior are to reject the involvement of outside investors. The dilution of family business owners may strongly lose a family nature, and thus the special characteristics. Of course, there are corporate governance and management techniques which support to keep dominance of the family members although the ownership structure changes, but in the majority part of businesses these are not too familiar, or they are wary to implement it, and fearing to lose family business's control they prefer other ways to handle the financial requirements.

In Hungary, the family firms cover a very special segment of the business. It can be seen in their unique appearance, in their business and in their financial activity, too. Interpretation of their behavior is an important task, since through this can understand the background of their decisions can conclude the reasons of their business behavior.

If we understand the specialties of family businesses and their financial activities we can analyze much better the reasons of

- the financial merger between the family and the company,
- seemingly excessive caution regarding the level of indebtedness,

- as well as to miss a new business and growth opportunities because of the aversion for equity investors coming outside the family.

In many cases the specialties can be seen as weaknesses, but these are not weaknesses but these can be logically deduced from the characteristics essential specialties. If they do different, it probably passes behind the weakening of family nature. In Hungary the most common reason for foundation was the hope for a better livelihood (36.4%), and it was very common when an enterprise was founded as an answer to some kind of dilemma (a family member lost his job (21.3%), need, compulsion (10.5%)). The rate of those who were motivated by self-sufficiency (8.5%) or by realization of their own vision, ideas (6.2%) are rather low (Gere 1997).

The change raises a number of economic, strategic, organizational questions, legal issues. In Hungary recognizing the important turning point the Family Enterprise Academy started to operate. The objective of the Academy is to support the Hungarian and the regional medium and large family businesses because of the last two decades there were some changes of the operation, the organization framework and the legal background. In case of a given family business there are a number of legal issues to decide, for example, how to resolve the issues of classic corporate relationships, how to handle the members, decision makers relations with each other, to find the legal framework for the more successful operation of the business of promoting the development.

The articles of incorporation primarily handle the organization and the operation of the company, the rights and obligations of the members. The so-called syndicate agreement settles the relationship between the SMEs' members with each other. This syndicate agreement forms legal framework of the cooperation and of the expectations between the SMEs' members. This is extremely important when the family business is not managed by the founder's descendant(s), but this manager is coming outside of the family business. In this case inevitably arise in the question for decision making, for the voting rights, for the legal relationship between the manager and the family members. Therefore it could arise in the legal issues to ownership and to inheritance. If the descendants continue the family business, inside the firm it has to be satisfactorily settled the relationship between a company managing family members, their position within the company and their decision-making competence (which may be equal, but the result may be an opposite decision.).

The Hungarian laws do not currently support the succession within the family. Therefore, some cases it can be a problem for the family business' continuity. The new Civil Code in case of limited partnership prescribes market valuation for the outgoing member, in case of limited company there is no any regulation for it, so this is a very challenging case to obtain what is actually ours. Due to unifying nature of the assets of the company the company itself is the owner of the property, so it is not so easy to inherit the share of capital.

When founding an enterprise, the question of number of family members is important. Scharle (2000) found out that more than half of Hungarian family businesses were founded by more family members. Czakó and her colleagues' (1995) research also had similar result. They found out that more than half of enterprise owners choose their spouses and relatives for co-workers.

According to a survey Hungarian members of family businesses trust in the future and they do not want to fix the voting rates, do not want to make a written agreement with each other. But later the absence of written agreement causes problems, e.g. when the harmony between the partners disappears or one of the members who would like to exit the business. The situation becomes even more complex when one member dies and the heirs want to obtain the assets. A judicial proceeding in fact take years and finally the members of the family business may lose the full property of the firm.

V. POLICY ENVIRONMENT, LEGAL STATUS OF FAMILY BUSINESSES, LEGAL REGULATIONS

Despite the fact that there is overwhelming evidence confirming the importance of family businesses in the Hungarian economy legal distinction of family and non-family businesses doesn't exist. They are under the same legal consideration. The most important laws in force related to companies, partnerships and entrepreneurs are the following:

- Act V of 2013 on Civil Code,
- Act CXVII of 1995 on Personal Income Tax,
- Act XCII of 2003 on The Rules of Taxation,
- Act XCII of 1990 on Duties.

The listed acts cover every aspects of the operation and taxation of family and non-family businesses from establishment of a new business through transformation to closure. The renewed Civil Code contains the rules of family foundation and trust which are very important legal solutions for family businesses especially in case of succession.

The related Hungarian legislation contains answers for all kind of business needs. As a consequence of the heterogeneity of Hungarian family businesses and their strategy standard solutions doesn't exist. Family businesses after clarifying their future plans - with the help of the right expert - certainly can find the most suitable legal and tax solutions.

Legal, financial and tax issues play an important role in the life of every Hungarian family business but their answers to these issues may differ considering their size. While medium size and large companies tend to use wide range of services provided by specialised consulting and advisory firms the micro and small businesses main source of advice are their family, friends, peers, lawyers, bookkeepers, bankers and insurance agents.

Source of starting capital, methods of financing the business operation in Hungarian family businesses

At the start most of the businesses have incomplete financial data and plans, the available collateral are insufficient, and so it is very common that at the beginning family business only source of finance are the prospective owners and their families. Gere (1997) in her research has shown that almost 90% of family businesses used the family's savings to get started, and it was also typical that sale of family property and loans from relatives provided the initial capital. Based on Czakó's (1997) researches 70% of the Hungarian family businesses founded in the early nineties needed additional financial resources for the start. One fourth of them used bank loans and two-thirds of the business used households' savings as initial financial resources. According to Kuczsi (2000) due to scarce financial resources family and relatives played an important role in the establishment of those businesses too that originally wasn't meant to be established as family businesses.

In case of such family businesses, which are already operating the major source of financing are the reinvested profit, the short-term bank loans and savings of family members, relatives or friends. The Hungarian family businesses during the operation rely heavily on family savings (36.3%), and often reinvested profits (30.4%) are the main source of financial needs (Gere, 1997).

In Hungary especially in case of smaller family businesses the business and the family's finances are often mixed. The most common reason is that the liquidity imbalance can be solved by reallocation of either the company's or the family's resources. Mandl, (2008:55) states if family and business finances are not treated separately family life events such as marriage, divorce, birth of children, retirement and death may affect the financial stability of the family business. However, before judging family businesses for mixing family and business finances it is worth to examine Yilmazer and Schrank (2010:402) table that compare intermingling and bootstrapping (which is considered as a very effective business financing method). The comparison highlights that intermingling and bootstrapping have overlapping areas therefore one can't clearly criticize the intermingling of family and business finances.

	BOOTSTRAPPING	
INTERMINGLING	<p><i>Use of owner resources to benefit the business</i></p> <p>Loans from relatives Cash from relatives Personal savings Use of personal credit card Household property used as collateral for business loans Family labour at no pay or below-market rates Manager works another job and takes no pay from business manager foregoes pay for a time Business uses home space and utilities</p>	<p><i>Use of business resources outside the business</i></p> <p>Loans from business to relative Business cash used to help household cash-flow problems Business purchases items used by family Business pays family at higher than market rate Business assets used as collateral for family loans Owner draw</p>
	<p><i>Business strategies related to customer / supplier / community resources</i></p> <p>Accounts receivable management methods (e.g., speed up invoicing, choose customers who pay quickly, cease business with late or nonpayers) Sharing or borrowing resources from other firms (shared space, equipment, employees) Delaying payments (suppliers, tax and employees) Minimizing of resources invested in stock through formal routines Use of subsidies</p>	

Source: Yilmazer T. – Schrank H. (2010:402)

Financial characteristics of Hungarian family businesses

There is insufficient empirical research on Hungarian family businesses financial behaviour, characteristics and challenges. Only a few theoretical paper and expert opinion are available on the subject.

There is a rapidly growing international literature on socio-emotional wealth (SEW) (first defined by Gomez et al. in 2007) which describes those non-financial aspects of the family businesses that shape their particular behavioural. However the aim of SEW concept is not to describe family businesses financial behaviour it gives explanation to family businesses long term financial orientation, profit realisation and growth characteristics. The concept states that family members' main goal with their business is not only to maximize financial returns, but to increase the socioemotional endowments they derive from the business (Miller – Le Breton-Miller, 2014:713).

As the parallelism of the family and business dimension characterize the whole existence of family businesses it is also present in their financial affairs. Hungarian family businesses (especially SMEs) financial decisions are affected by the following factors:

- business decisions primary goal is not exclusively the profitability,
- simultaneous presence of family and business financial needs requires careful coordination,
- favourable handling of family needs at the expense of business needs, but we can also experience the postpone of family investments for the sake of business too.

Hungarian family businesses, beyond the actual effectiveness, are guided by individual goals as safe living, ensuring workspace for the family members, stability of operation, preservation the company's good reputation, and keeping the company's size at a level that the immediate family can control and manage. These goals are in accordance with SEW concept. (Csákné, 2012:17).

In Hungary, examining the financial habits, strategies of family businesses it can be observed that they prefer to use retained earnings, and bank loans rather than external capital as a source of their investments. The main reason for refusing external finances is the fear of diminution of family control. Family businesses are long-term, valuable and relatively risk-free banking partners. Credit institutions that recognize the special needs of these family businesses, and are flexible to take into account both the business and the family's interests in the development of their financial products may achieve considerable success in this particular segment (Csákné 2012:20).

Szabolcs Varga, managing director of Bank Gutmann Hungary has extensive experience in private banking of Hungarian family businesses. Recently he shared his thoughts about family businesses' financial behaviour with Piac & Profit magazine. He highlighted the following attributes of family businesses (www.tmkronika.hu, 2015):

- tend to finance their developments and growth from retained earnings, their debt ratio is usually lower than non-family businesses,
- prefer to invest into other family businesses,
- show more intensive market activity during recession than non-family businesses,
- separate company and private wealth from the third generation.

András Herczeg, executive director of AVHGA (Foundation for Loan Guarantees of Agricultural Enterprises) in a recent interview explained that 85% of AVHGA clients are micro enterprises majority of them are licensed agricultural small-scale producers and family farms. He shared his experience about agricultural enterprises especially licensed agricultural small-scale producers and family farms which are considered better debtors than other sectors' businesses. The reason for their financial stability are their strict control resulting from EU funding, their full and unconditional liability and their bound to the land (www.agrarszektor.hu, 2015).

Investments, family business valuation and financial challenges of succession

Asaba (2013:712-713) examined patient investment of family firms in the Japanese electric machinery industry and got some interesting results which relevance worth to consider for Hungarian family businesses too: family businesses decide investment in the long run and are less concerned with short term uncertainty and fluctuation. They tend to continue to invest under uncertain and volatile environments and when market is declining family businesses do not suppress investment as much as non-family businesses. Asaba (2013) results are in accordance with SEW concept but one may ponder whether SEW concept totally explain them or other factors like family businesses national and sector commitment or bound also affect their investment decisions.

One can view family business in two ways: as an "investment asset" or an "operating entity" (Isaac, 2014:18). In most cases the family business is the main source of a family wealth and it is the family largest investment (Wiktor, 2014:65). For these reasons it is important for family business owners to consider their company as an asset, an investment which is particularly relevant in time of business transfer. Small and medium sized family business owners usually don't pay too much attention the value of the family firm. Defining the value of a family business can be a challenging task but there are moments when it is inevitable. In the life of a family business, succession, generational transfer can be one of these moments. Family businesses owners as a succession outcome may decide the sale of the family company. Besides that Vecsenyi (2009) states that the main reasons of selling the family business are: fatigue, developmental pressure, emergency, a good offer or a good possibility. If the owners decide to sell the company a reliable business evaluation is absolutely necessary. Defining the value of a family business is a particularly difficult task. The additional value created by the

founder and the owning family is hard to define. A very important question is how much does the family business worth without the family?

Astrachan and Jaskiewicz's (2008) family business valuation model determine the value of the company from the owner family's perspective. According to their theory, the value of the business is not solely determined by the value of the assets and the future financial benefits but the emotional factors should be equally evaluated. The emotional value depends on the emotional cost and emotional benefits. If the benefits are greater than the costs, the final value of the business will be greater, and if the emotional costs are greater the difference reduces the company financial value.

The following table summarizes the main financial issues of Hungarian family businesses, their specialities and those family business' characteristics which affect family firms' financial behaviour.

Issue	Financial specialities	Family business characteristics
Parallel financing of family and family business and financing succession	<ul style="list-style-type: none"> • intermingling of family and business financing • using family assets as collateral • the family business represents a significant portion of the owner family's wealth • succession requires careful financial planning and preparation 	<ul style="list-style-type: none"> • desire to keep the family business ownership and management within the family • commitment • long-term approach • ensure the family financial independence • importance of maintaining good reputation • Risk avoidance • paternalism • intermingling of family and business affairs • family dominance in the management of the business • refusal of employing non-family managers • nepotism
Financial management, borrowing and indebtedness	<ul style="list-style-type: none"> • avoiding financial risks • less sophisticated financial management • preference of debt financing over equity financing • lower debt ratio than in non-family firms 	
Source of capital, external (non-family) capital raising, selling the family business	<ul style="list-style-type: none"> • maximum usage of family resources • rejection of external (non-family) capital raising • defining the value of family business is difficult 	

Source: Csákné (2012:17)

Succession, business transfer to the next generation is a very important event in the life of family businesses. Wiktor (2014:66-68) points out that family business owners planning business succession need to focus on timing, transition and taxes. Future of the family businesses highly depends on the success of generational transfer. Family business succession is a complex management challenge with significant financial aspects. Leadership transfer within the family requires more sophisticated financial solutions than company sale where the buyer after paying the agreed price becomes the owner of the company. If the family business owner decides to keep the firm within the family careful financial planning is needed to define the future income of the founder (one time money withdrawal, regular income from the business), whose most important personal wealth is probably the family business. Planning the financial aspects of business transfer requires creativity, foresight and development of unique solutions (Csákné, 2012:19).

VI. CONCLUDING REMARKS

Most of family businesses in Hungary have been founded after the collapse of the state socialism. The majority of the founders were in their 30s and 40s in that time and are now about retiring. As a consequence ownership transfer seems to be a quite radical challenge. Two aspects of the issue should be emphasised here. The first one is the lack previous experiences and traditions of successions. The second is that the economic

and social-institutional environment has been dramatically changed in the last two decades. Successors, therefore, should be able to preserve the founders' values and successful business solutions, while being able to cope with the new challenges represented by the different development cycles of the Hungarian economy and society.

The growing public attention on the issue of succession can be illustrated by the fact that in the last 3 years two business associations have been founded with the aim to provide support to family firms and to represent their specific interests. Their goal is to transfer best practices based on international experiences and to help of the creation of more family business-friendly institutional environment.

Despite the growing interest on the issue, there is neither broadly accepted definition of, nor systematic data collection on family firms in Hungary. When defining the term 'family business' usually three different aspects are taken into account, namely ownership, governance and participation in daily operation. After 1990 the large, state-owned companies dominated the state-socialist economy have been replaced by micro-, small- and medium-sized enterprises and as a consequence, a rather heterogeneous economic structure came into being. According to Martin (2008) Hungary represents a segmented market economy, where the following four basic types of firms are forming the organisational landscape: state-owned, privatized, foreign-owned and newly established (*de novo*) organisations. Most of family firms fall under the latest category, e.g. they have been founded in the last 25 years and are micro-, small- or medium-sized enterprises.

Empirical data collections show that Hungarian family firms have different succession strategies. Csákné Filep (2012) classified three types of family businesses in this respect. In case of *kinship businesses* owners are recruited from the wider family (distant relatives) and/or friends, acquaintances, external professionals and other investors. Their successions vision is clearly identifiable: they want to keep the ownership within the (wider) family. *Marital businesses* are owned by the family members, especially by spouses but distant relatives also may have share. Their primary goal is to preserve family-ownership accompanied by the delegation of the management tasks to an external party. In case of the *nuclear family businesses* ownership and management is planned to be preserved in the hands of the close relatives. The ownership goes mainly from the parents to the children.

There are external and/or structural factors that influence the ownerships transfer, as well. Bálint (2006) calls attention of the following aspects: the size of the company, business prospects, the age of the owner, the successor's competences and the competition within the sectors. It is very important to stress the significance of the market, especially the local/regional and international dimensions.

As for the legal environment of the succession we have to call attention to the fact that the Hungarian laws do not currently support the succession within the family. The Civil Code in case of limited partnership prescribes market valuation for the outgoing member, in case of limited company there is no any regulation for it, so this is a very challenging case to obtain what is actually ours. Due to unifying nature of the assets of the company the company itself is the owner of the property, so it is not so easy to inherit the share of capital. This situation is often accompanied by the absence of written agreements between the family members and/or generations that often leads to irreconcilable conflicts within the different stakeholders.



Joseph Visy French sculptor, born in Hungary, lives and creates in Taiwan



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SMEs AND GREEN ECONOMY IN TURKEY

ABSTRACT

Turkey has been very successful in developing energy consumption capacity for the last decades. For this, it is often recognized as one of the most important emerging markets in the world's energy sector. Turkey's importance in the world's energy scene thus does not depend on its strategic location only, but also on its economic development performance resulting from the reform efforts of more than two decades.

Three major problems of Turkish energy system are often noted as: (1) dependency on imported energy sources, (2) domination of energy consumption by fossil fuels, and (3) low energy efficiencies compared to other countries. It is obvious that the future accomplishment of Turkey will depend on developing and implementing sound energy policies towards solving these problems.

The studies have shown that energy efficiencies are usually low in Turkey. It has been calculated that Turkey's overall energy and energy utilization efficiencies is 44.91% and 24.78% in 2000, with the projected values of 55.15% and 30.44% in 2020, respectively it is believed that energy consumption keeps on growing as long as the economy grows in Turkey. Therefore, Turkey can meet the energy consumption challenges without interrupting its economic growth, by improving energy savings.

Turkey is estimated to hold an energy-saving potential of 30% in the building industry, 20% in the production industry, and 15% in the transportation industry. For the purpose of making use of this potential and improving energy efficiency, The Energy Efficiency Law, adopted in 2007 and enacted by Ministry of Energy and Natural Resources, sets the rules for energy management in industry and in large buildings, project support, energy efficiency consultancy companies, voluntary agreements, etc.

It affects industry, power plants, transmission and distribution systems, buildings, services and transport. Enforced in 2009, the regulation on Increased Energy Efficiency in the Use of Energy Resources and Energy put in place authorizations and certifications for universities, engineering organizations and energy consultancy companies to support energy efficiency projects in industry through voluntary agreements.

The Energy Strategy Plan sets a 20% primary energy intensity reduction target for 2023 compared with the 2008 level.

Turkey has adopted green growth policies into its well established regime. However, there has been insufficient capability for overall support on the state level, which requires the systematic coordinating scheme to harmonize among relevant institutions. Moreover, the Green Growth for SMEs confronts with double constraints caused by mixing of the Green Growth and SMEs. SMEs, even though must be the important and necessary base of national economy in Turkey have been in fundamental disadvantageous position such as low-value added and weak competitiveness arising from small scale structure in the market mechanism.

Keywords: Definition of SMEs in Turkey, legislation in environment management, Turkish SME strategy and action plan

JEL Code: L15, L26, Q56

1. SME FACT SHEET IN YOUR TURKEY

The regulation on SME definition come into force on 18 May 2006 and it was revised on 04 November 2012. According to that regulation an SME is an economic entity which employs less than 250 employees and which has an annual turnover or an annual balance sheet not exceeding TRY¹³ 40 million). As with the EU SME definition, the enterprise has to meet the staff headcount thresholds, but it can choose to meet either the turnover or balance sheet ceiling. The employment criterion conforms to the EU SME definition.

As same in EU SME definition, Turkish SME definition distinguishes between micro, small and medium-sized enterprises on the basis of balance sheet, employment and turnover. This single SME definition is used by all governmental bodies in Turkey. The characteristics of micro, small and medium sized enterprises are illustrated in Table-1.

SME Definition of Turkey

Size	Employees	Annual Turnover	Annual Balance Sheet
Micro	< 10	≤ 1 Million TL	≤ 1 Million TL
Small	< 50	≤ 8 Million TL	≤ 8 Million TL
Medium-sized	< 250	≤ 40 Million TL	≤ 40 Million TL

Like in other developed or developing countries, SMEs are the backbone of Turkish economy. Their share in national economy can be tracked from various studies of Turkish Statistical Institute (TURKSTAT). According to TURKSTAT;

- SMEs constituted 99.8% of total number of enterprises in 2014.
- The proportion of the SMEs in 2013 was 74.2% in employment.
- The proportion of the SMEs in 2013 was 54.7% in wages and salaries.
- The proportion of the SMEs in 2013 was 63.8% in turnover.
- The proportion of the SMEs in 2013 was 52.8% in value added at factor cost.
- The proportion of the SMEs in 2013 was 53.3% in gross investment in tangible goods.
- The proportion of the SMEs in 2014 was 56.4% in exports.
- The proportion of the SMEs in 2014 was 37.8% in imports.
- 17.4% of total R&D expenditure was performed by SMEs in 2014. Also their share in business enterprise sector R&D expenditure was 34.9%.
- Regarding full time equivalent R&D personnel distribution, 26.5% was employed in SMEs in 2014.
- 92.2% of SMEs used the Internet in 2015.
- 81% of SMEs used the internet for interaction with public authorities in 2014.

¹³ TRY – Turkish Lira

Furthermore, according to TURKSTAT's business registers, sectoral distribution of Turkish SMEs is presented below in Table-2.

As it can be seen from Table-3, in 2014 3,525,431 enterprises operated in Turkey. 93.7% of them were micro; 5.3% were small and 0.9% was medium-sized enterprises. Regarding sectors of SMEs, more than one third of SMEs operated in trade sector (34.8%). And share of Manufacturing sector was 12.1%..

Distribution of SMEs in Turkey by Sector (2014)

Sector	0-9 Employee	10-49 Employee	50-249 Employee	> 250 Employee	TOTAL
A- Agriculture, forestry and fishing	28.675	1.245	133	13	30.066
B- Mining and quarrying	5.970	1.358	351	61	7.740
C- Manufacturing	371.009	44.392	10.191	1.992	427.584
D- Electricity, gas, steam and air conditioning supply	5.263	474	154	64	5.955
E- Water supply; sewerage, waste management and remediation activities; Service	3.852	450	151	97	4.550
F- Construction	226.427	33.687	5.404	562	266.080
G- Trade: Wholesale and retail trade; repair of motor vehicles and motorcycles	1.176.383	43.980	4.523	568	1.225.454
H- Transportation and storage,	528.220	11.344	1.527	259	541.350
I- Accommodation and food service activities	291.848	13.609	1.874	367	307.698
J- Information and communication	39.706	2.374	416	96	42.592

Sector	0-9 Employee	10-49 Employee	50-249 Employee	> 250 Employee	TOTAL
K- Financial and insurance activities	22.517	1.335	187	79	24.118
L- Real estate activities	52.658	1.482	166	18	54.324
M- Professional, scientific and technical activities	190.777	9.576	798	142	201.293
N- Administrative and support service activities	45.200	5.409	2.853	999	54.461
P- Education	22.224	6.653	995	315	30.187
Q- Human health and social work activities	38.590	3.834	1.137	489	44.050
R- Arts, entertainment and recreation	34.198	914	153	28	35.293
S- Other service activities	218.880	3.457	258	41	222.636
TOTAL	3.302.397	185.573	31.271	6.190	3.525.431
Share	93,7%	5,3%	0,9%	0,2%	100,0%

2. LEGISLATION ISSUES FOR SMEs RELATING ENVIRONMENTAL MANAGEMENT

- By-law on Waste Management
- By-law on the Control of Medical Waste
- By-Law on Mining Waste
- By-law on the Control of Packaging Waste
- By-law on the Control of Waste Oils
- By-law on the Control of Used Batteries And Accumulators
- By-law on the Control of Waste Vegetable Oils
- By-law on the Control of Excavated Earth, Construction and Demolition Waste
- By-law on the Control of PCB's and PCT's
- By-law on the Control of End of Life Tires
- By-Law on the Control of End of Life Vehicles
- By-Law on Control of Waste Electrical and Electronic Equipment
- The Industrial Emissions Directive, 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions requires establishment of integrated permitting system. The harmonization studies of the Directive are under-way. Directive will affect the permits of about 5300 existing installations which include SMEs.
- By-Law on Industrial Air Pollution Control (O. G. 27277, 03.07.2009, Revised O.G. 29211, 20.12.2014) defines procedures and principles of controlling air emissions. In the scope of the By-law, SMEs are included.

- By-Law on Control of Odor Emission (O. G. 28712, 19.07.2013) requires control and decrease of odor emission caused by industrial facilities which may be SMEs.

3. CHARACTERISTICS AND BEHAVIOUR OF SMEs TO MEET ENVIRONMENTAL RELATED REQUIREMENTS

In order to close material loops and sustain a circular economy, resource efficiency is linked to waste policies through recycling and industrial symbiosis concepts.

The new By-Law on Waste Management defines and legally introduces the concepts, such as reuse of waste, by-products and extended producer responsibility promoting production and use of waste derived products. Recycling, reuse and recovery of waste has been emphasised by relevant policies in terms of reducing natural resource use and decreasing import dependency of raw materials. Recycling scrap metal (iron and steel) and special waste groups (waste oils, waste tires, waste accumulators and packaging waste) are specifically highlighted by the National Recycling Strategy and Action Plan for the sake of both environment and economy.

Industrial symbiosis, on the other hand, has been promoted by the Draft SME (Small and Medium Enterprises) Strategy and Action Plan (2015–2018) and the National Recycling Strategy and Action Plan (2014–2017) to ensure wastes or by-products of an industrial facility or company become the raw materials of another, with a particular focus on material and energy exchange. Increasing resource efficiency, adding value to waste and reducing costs are strategically targeted through industrial symbiosis policies and their implementation. In addition to these documents the Draft Productivity Strategy and Action Plan (2015–2018) includes promoting and disseminating the implementation of industrial symbiosis studies.

4. SHARE OF SMEs IN APPLYING ISO 9001, ISO 14001 AND ISO 50001 QUALITY MANAGEMENT SYSTEMS

There is not statistics about implementation level of the of the ISO standards among the SMEs. When the companies has exporting their goods or selling their goods to government departments, they need ISO certificates. Usually medium sized companies have ISO 9001 certificates. 14001 Management System is not common among the SMEs. SMEs with ISO 14001 certification are likely to perform better on environmental processes, while disposal, design, and EMS are found to be positively impacting performance. Some manufacturing SMEs which are business partners or in the production chain of the big companies, they should show better environmental performance. In Turkey there are textile, food and machinery companies working with international companies, they have ISO 14001 certification.

ISO 50001 is very new in Turkey and EU also. Almost no SMEs has ISO 50001 certification since establishing energy management system is not compulsory in SMEs scale, while it is compulsory for the industrial companies which has annual energy consumption over 1000 toe.

However KOSGEB is supporting all certification expenses of the SMEs by 50%.

5. OBSTACLES FACING BY SMEs RELATING ENVIRONMENTAL ISSUE AND HOW TO OVERCOME IT

SMEs have usually very limited resources to focus on measures for environmental sustainability and also lacking knowledge on the benefits of environmental measures. They need training and education to address this, as well as access to specialist information. Key contextual factors influencing the provision of environmental sustainability advice include the industrial sector, relevant local and national legislation and regulation, and the economic climate. So as to SMEs need, information program, legislation, technical and financial supports.

6. GOVERNMENTAL POLICY TO SUPPORT SMEs TOWARD THE GREEN ECONOMY

As the main principle, reduction of waste at the source is the priority and recovering waste, where source reduction is not possible, is preferred according to the development of legislation in order to overcome the problems. Wastes that could not be recovered should be disposed as a last option in accordance with the technique that will not damage the environment and human health.

The amount of solid wastes is increasing in the parallel of developments in public life style in addition to population growth and the solid wastes discharged to nature have begun to threaten to environment and health of living things has created an obligation to make integrated waste management policies towards reducing and controlling the amount of solid wastes at their source. It is obligatory to manage the wastes as an integrated system because of the size of the environmental risks of solid wastes. Both in EU Directives and national legislations, it is advised to recycle and reuse the wastes within an integrated system. Integrated solid waste management consists of source reduction, re-use, recycling, composting, incineration and storage, and it is very important to reduce the negative impact on the environment.

7. HOW SMEs COULD BECOME SUSTAINABLE AND GREEN?

More action is needed to underpin this trend in resource efficiency with stronger policies on energy, material resources, waste management and on sustainable and green economy.

8. RECOMMENDATIONS TO TURKISH GOVERNMENT HOW TO BETTER PROMOTE SMEs TOWARDS THE GREEN ECONOMY.

Having a dedicated circular economy strategy, which aims to create a production and consumption system that generates little waste and keeps materials in use for as long as possible. There is a need to move away from the current linear economic model and stated that the circular economy and closing material loops are already policy priorities. The majority policy initiatives should related to the circular economy focus on waste management, with only going beyond increasing recycling rates and a higher use of secondary raw materials.



Illustration © by Szilvia Nagy

NEWS



ABOUT THE ETRADE FOR ALL INITIATIVE

"eTrade for All" is a multi-stakeholder initiative to improve the ability of developing countries and countries with economies in transition to use and benefit from e-commerce. It will be a demand-driven mechanism in which leading development partners cooperate with the private sector to pool capabilities and resources. This program has been launched by **United Nations Conference on Trade and Development** in Geneva.

Goals of the initiative:

- Raise awareness of opportunities, challenges and solutions related to leveraging e-commerce.
- Mobilize and rationalize financial and human resources to implement e-commerce projects in developing countries.
- Strengthen coherence and synergies among partners' activities with a view to avoiding duplication of work and enhancing aid efficiency.

The main tool of the Initiative is the eTrade for All Online Platform, which will help developing countries and donors navigate the supply of and demand for support to e-commerce development, learn about trends and best practices, and to raise visibility for the various partners' initiatives and resources.

To ensure effective public-private dialogue, eTrade for All works in close partnership with a Business for eTrade Development Council, established and managed independently by the private sector. Regular meetings of the Council will be convened and ideas emanating from these meetings will serve as inputs into discussions and meetings of eTrade for All. For countries and partners engaged in eTrade for All, interaction with the Council will serve as a mechanism to engage the private sector when discussing observed problems related to e-commerce and possible solutions.

The eTrade for All initiative is founded on the understanding that greater awareness of e-commerce will create opportunities for MSMEs to grow, become more productive and participate in global value chains. Effective promotion of e-commerce requires holistic, cross-sectoral and cross-institutional approaches, making collaboration essential. E-commerce development is conducive to public-private partnerships, and all stakeholders gain from pooling resources, tools and data and from sharing experiences.

eTrade for All is based on the following basic principles:

- **Demand-driven and bottom-up**
Actions will be guided by the needs and interests of developing countries. eTrade for All will facilitate interaction between all stakeholders to identify such needs, gaps and constraints to e-commerce development, and to find appropriate solutions.

- **Emphasis on synergies**
eTrade for All will apply a pragmatic and collaborative approach, in which participants commit to enhance efficiency and avoid duplication of work. It will seek synergies with other international initiatives and mechanisms, such as Aid for Trade and the Enhanced Integrated Framework (EIF), as well as with the projects implemented by individual partners.
- **Focused on building local knowledge and capacity**
eTrade for All will help developing countries to build the necessary capacity to engage in and benefit from e-commerce.
- **Gender sensitive**
Women and men may be engaged in e-commerce in different ways and for different reasons, and may face different opportunities and obstacles. It is important that the voices and perspectives of women are included, and that projects and programmes are gender sensitive.
- **Data and facts-driven**
There is a need for more reliable and comparable data and statistics on e-commerce. eTrade for All will on request help to galvanize resources and support to produce such data and to undertake assessments of the e-commerce market and e-commerce readiness of different countries.
- **Performance should be assessed through results-based management**
eTrade for All will seek to assess outcomes through rigorous, common monitoring and evaluation metrics, and learning from failures as well as good practices.
- **Long-term viable impact is the goal**
The successful implementation of eTrade for All will depend on the development and use of solutions and interventions that are cost-effective and sustainable, i.e. that remain effective even after the end of an intervention.

Source: http://unctad.org/en/Pages/DTL/STI_and_ICTs/eTrade-for-All/eTrade-for-All-About.aspx



NEW COMPETITIVE GLOBAL ELITE EMERGES IN IMD BUSINESS SCHOOL'S LATEST WORLD COMPETITIVENESS RANKING

For the first time this year the report also ranks countries' digital competitiveness

The world's most competitive countries continue the top positions in the 2017 IMD World Competitiveness Yearbook. Hong Kong has consolidated its dominance of the annual rankings compiled by the IMD World Competitiveness Center (see at <http://www.imd.org/wcc/world-competitiveness-center>), taking the top spot for the second year. Switzerland and Singapore came in second and third, with the USA ranking fourth, its lowest position in five years and down from third last year. The Netherlands completed the top five, jumping up from eighth last year.

The IMD World Competitiveness Center, a research group at IMD business school in Switzerland, has published the rankings every year since 1989. It compiles them using 260 indicators, about two thirds of which come from 'hard' data such as national employment and trade statistics; and a third from more than 6,250 responses to an Executive Opinion Survey that measures the business perception of issues such as corruption, environmental concerns and quality of life. This year 63 countries are ranked with Cyprus and Saudi Arabia making their first appearance.

Professor Arturo Bris, Director of the IMD World Competitiveness Center, said the indicators that stood out among the most improved countries are related to government and business efficiency as well as productivity. "These countries have maintained a business-friendly environment that encourages openness and productivity," he said. "If you look at China, its improvement of seven places to 18th can be traced to its dedication to international trade. This continues to drive the economy and the improvement in government and business efficiency." The bottom of the table, meanwhile, is largely occupied by countries experiencing political and economic upheaval. "You would expect to see countries such as Ukraine (60), Brazil (61) and Venezuela (63) here because you read about their political issues in the news. These issues are at the root of poor government efficiency which diminishes their place in the rankings," said Bris.

Introducing the Digital Competitiveness Ranking

For the first time this year, the IMD World Competitiveness Center is publishing a separate report ranking countries' digital competitiveness. Indicators for technology and scientific infrastructure are already included in the overall rankings. The new Digital Competitiveness Ranking, however, introduces several new criteria to measure countries' ability to adopt and explore digital technologies leading to transformation in government practices, business models and society in general.

At the top of the ranking is Singapore, followed by Sweden, the USA, Finland and Denmark. "There is no doubt that supportive and inclusive government institutions help technological innovation." ... "Singapore and Sweden have developed regulation that takes advantage of the talent they have by adopting, for instance, regulation that facilitates the inflow of overseas talent which complements the locally available pool. The US invests more in developing its scientific concentration and generating ideas but the country has a history of government support for technological innovation. This shows that in digitally competitive countries, the government must facilitate the adoption of new technologies."

Many of the top 10 digitally competitive countries are also found at the top of the overall rankings, with some exceptions. Luxembourg, number eight in the overall list, ranks only 20th in the digital list. Finland is 15th in the overall list, but 4th in the digital ranking. "Of paramount importance in the digital ranking are issues related to how adaptive and agile economies are when faced with technological change," Bris said.

The bottom five are Indonesia, Ukraine, Mongolia, Peru and Venezuela. Bris said: "One thing the results highlight is that these countries not only have low rankings in terms of talent but they don't invest in developing whatever talent they have." ... "There is a relation between the lack of talent and training with a lack of business agility." ... "Education and knowledge production are the key."

Source: <http://www.imd.org/news/updates/new-competitive-global-elite-emerges-in-imd-business-schools-latest-world-competitiveness-ranking/>

The IMD World Competitiveness Ranking 2017 | One year change

WDCR 2017	Country	WDCR 2016	Change	
1	Hong Kong SAR	1	-	-
2	Switzerland	2	-	-
3	Singapore	4	+1	↗
4	USA	3	-1	↘
5	Netherlands	8	+3	↗
6	Ireland	7	+1	↗
7	Denmark	6	-1	↘
8	Luxembourg	11	+3	↗
9	Sweden	5	-4	↘
10	UAE	15	+5	↗
11	Norway	9	-2	↘
12	Canada	10	-2	↘
13	Germany	12	-1	↘
14	Taiwan	14	-	-
15	Finland	20	+5	↗
16	New Zealand	16	-	-
17	Qatar	13	-4	↘
18	China Mainland	25	+7	↗
19	United Kingdom	18	-1	↘
20	Iceland	23	+3	↗
21	Australia	17	-4	↘
22	Israel	21	-1	↘
23	Belgium	22	-1	↘
24	Malaysia	19	-5	↘
25	Austria	24	-1	↘
26	Japan	26	-	-
27	Thailand	28	+1	↗
28	Czech Republic	27	-1	↘
29	Korea Rep.	29	-	-
30	Estonia	31	+1	↗
31	France	32	+1	↗
32	Kazakhstan	47	+15	↗
33	Lithuania	30	-3	↘
34	Spain	34	-	-
35	Chile	36	+1	↗
36	Saudi Arabia	-		
37	Cyprus	-		
38	Poland	33	-5	↘
39	Portugal	39	-	-
40	Latvia	37	-3	↘
41	Philippines	42	+1	↗
42	Indonesia	48	+6	↗
43	Slovenia	43	-	-
44	Italy	35	-9	↘
45	India	41	-4	↘
46	Russia	44	-2	↘
47	Turkey	38	-9	↘
48	Mexico	45	-3	↘
49	Bulgaria	50	+1	↗
50	Romania	49	-1	↘
51	Slovak Republic	40	-11	↘
52	Hungary	46	-6	↘
53	South Africa	52	-1	↘
54	Colombia	51	-3	↘
55	Peru	54	-1	↘
56	Jordan	53	-3	↘
57	Greece	56	-1	↘
58	Argentina	55	-3	↘
59	Croatia	58	-1	↘
60	Ukraine	59	-1	↘
61	Brazil	57	-4	↘
62	Mongolia	60	-2	↘
63	Venezuela	61	-2	↘

Source: WCR-Graph 2017, IMD World Competitiveness Center, Lausanne

http://www.imd.org/wcc/world-competitiveness-center-rankings/competitiveness-2017-rankings-results/?mrk_cmpg_source=dme_1517015&utm_source=dm&utm_medium=em&utm_campaign=dme_1517015

INSTITUTIONAL PROFILE

Changing manufacturing for a more competitive Europe

Every day, we buy, use and dispose of products that end up as landfill. Unfortunately, the resources required to make new products won't be available in large amounts forever. Through the EU-funded ResCoM project, four well-known companies have already analysed the extent to which they could adopt a circular approach.

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The majority of manufacturers still take a linear approach to their products; materials are extracted, used to manufacture products, which are then distributed and marketed to customers who use and then dispose of them. Manufacturers who adopt the principles of a circular economy build products that consumers can re-use and that can last much longer.

The circular approach is not only better for the environment, but can also benefit consumers and companies' bottom lines too, explains **ResCoM project** coordinator Amir Rashid. Not only can manufacturers capture more value from products and materials through a circular approach, but they can also mitigate price and raw material volatility for a more resilient business.

The **Ellen MacArthur Foundation** estimates that the net benefit of adopting circular economy principles would be €1.8 trillion by 2030, or €0.9 trillion for Europe. In turn, this would increase household income by €3 000 a year, and halve carbon dioxide emissions.

Providing manufacturers with tools for change

“The ResCoM project takes a systems approach to manufacturing to help manufacturers rethink the relationships between business models, design, supply chain and information and communication technology”. This approach proposes variations of a circular business model, ranging from a buy-back model to a fully functional sales model. It looks at collecting, remanufacturing, upcycling and re-using products. This includes examining initial product design and how companies can effectively collect enough of the used products at the right time to ensure a reliable reverse supply chain.

The ResCoM team is not however proposing particular models for specific industries. The project gives manufacturers the opportunity to explore models as well as how they would apply to particular products and their design. The exercise teaches manufacturers more about the potential challenges of implementing those models in terms of product design, supply chain management and product life cycle management.

“A key innovation of the ResCoM project is the ResCoM collaborative software platform, which is the only tool available that can help a manufacturer develop a product for a circular manufacturing system,” says Rashid. This platform consists of economic, environment and design decision-making tools, and others that support the implementation of circular models. These tools including analytical, simulation, design planning and a forecasting tool, can calculate the potential value of decisions.

Putting circular thinking to the test – from pushchairs to automotive steering systems

The project piloted a circular manufacturing system in four manufacturing companies – Bugaboo, Gorenje, Loewe and tedrive Steering. Bugaboo developed a flexible leasing plan for its pushchairs and prams. “When a market leader, such as Bugaboo, introduces circular thinking, competitors are likely to start rethinking how they work, which has the potential to transform an industry,” points out Rashid.

Gorenje explored a service model called goRent to sell washing cycles (pay per use) instead of machines. “A limited scale survey revealed that consumers were generally positive about businesses offering the service to consumers, but in the case of business to business, retailers, for example, were a little sceptical, preferring the idea of buying the machine rather than leasing or paying-per-use,” points out Rashid. “This case study highlights the importance of considering softer factors, such as consumer behaviour, which can be unpredictable,” he says.

On the other hand, tedrive, which manufactures steering systems that it supplies to automotive manufacturers, learned that industry regulations were a challenge to re-manufacturing and expanding the re-manufacturing business, while industry-wide collaboration was a prerequisite for change.

The lessons learned from the pilot studies will feed into virtual scenarios and examples that manufacturers will be able to access and explore on the ResCoM project website.

Project details

- Project acronym: **ResCoM**
- Participants: Sweden (Coordinator), UK, Netherlands, Slovenia, France, Germany
- Project N°: 603843
- Total costs: € 5,991,952
- EU contribution: € 4,367,380
- Duration: November 2013 - October 2017

Source: http://ec.europa.eu/research/infocentre/article_en.cfm?artid=44476



Blackbird

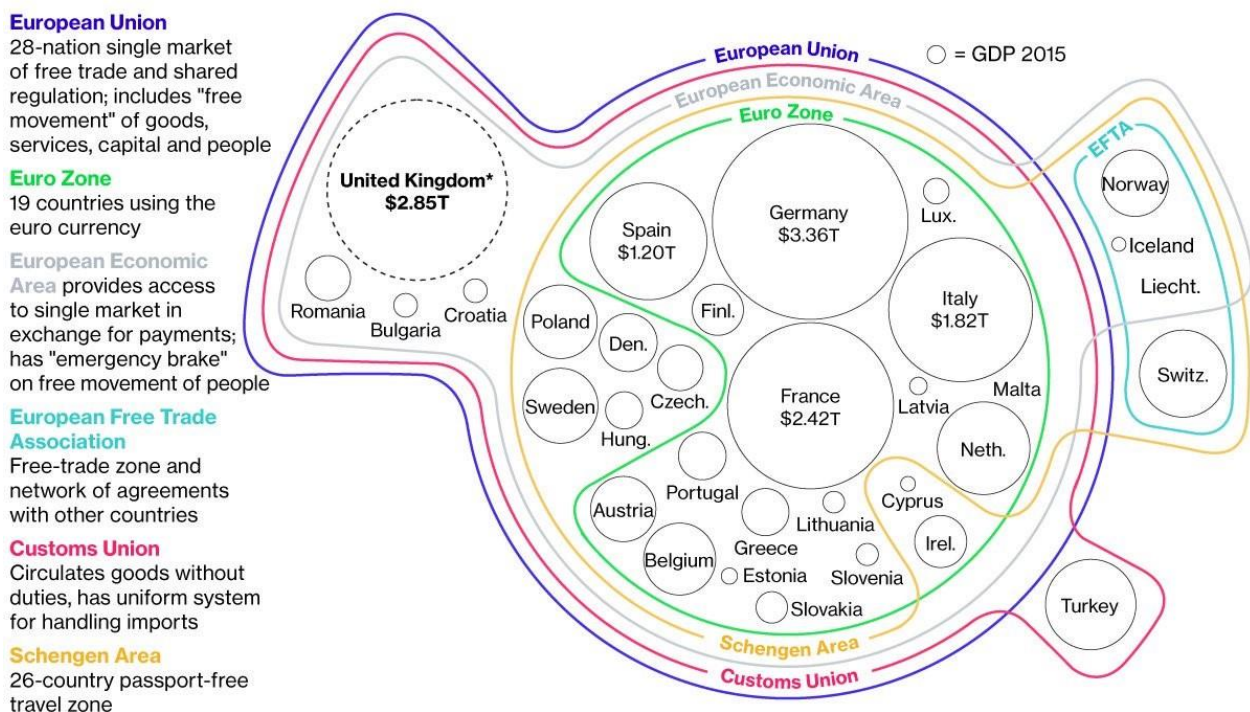
Photo © by Dr. Antal Szabó

BLOOMBERG

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Europe's Ties That Bind

The U.K.'s plan to leave the European Union has focused attention on long-standing pacts that govern trade, immigration and the common currency



No GDP figures available for Liechtenstein and Malta. Channel Islands and the Isle of Man are part of the Customs Union (No GDP figures available). Sources: EU, ETRA, The World Bank.

Bloomberg Graphics

This graph comes from Bloomberg and demonstrates how countries are overlapping binding Europe together. The question is how will this graph modify when the Brexit will be taken place.

Source: <http://coffeespoons.me/tag/european-union/>

NEW COMING EVENTS AND CALL FOR PAPER



GOVERNANCE ISSUES IN FAMILY FIRMS

Siegen (Germany) 17-20 September 2017

Track co-Chairs: Andreas Dutzi & Martin R. W. Hiebl, University of Siegen

Description of the track

Research papers on governance issues still emphasize the similarities and differences between family and non-family firms. However, family firms are not a homogenous group with a given set of management concepts, challenges and boundaries. In contrast, recent family business research has increasingly focused on heterogeneity among family firms. This is why there is still a need for a deeper understanding of the relationship between governance issues, various family firm characteristics and sustainability of businesses. As good governance is typically associated with the ability of a firm to achieve its goals while being sustainable in creating value, we are looking for new analytical approaches, governance concepts, theoretical frameworks or empirical evidence on how to balance value creation, power and trust within family firms.

Key topics and research questions of the track

- How should governance mechanisms be designed to foster growth in entrepreneurial family firms?
- How do family firms recognize and respond to new web-based business models, which are threatening traditional rules of business and governance concepts?
- How should corporate governance and risk management be combined in family firms to support sustainable value creation?
- Is there still a need of boards in postmodern business organizations and how do family firms generally balance power and trust?
- What are the roles of family councils and constitutions to overcome boundaries within family firms?
- How do new analytical approaches and methodologies help to better understand the success and failures of family firms?
- How do aspects of family business professionalization (e.g., control systems, human resource management systems) contribute to solving governance issues in family firms?

We encourage contributions that address one or more of the listed topics above, using qualitative analyses and case studies, empirical analyses and developing theoretical frameworks. The workshop is also open to research addressing other adjacent and related topics.

For further information see at <http://iecer-conference.org/home>

Submit your paper: submission@iecer-conference.org

BOOKS

**Alma Mater Europaea – Evropski Center, Maribor
Institute of Economic Sciences, Belgrade, 2014**

Mirjana Radovic Markotic – Vesna Baltezarevic – Radoslav Baltezarevic – Dusan Markotic

VIRTUAL ORGANIZATION AND MOTIVATIONAL BUSINESS MANAGEMENT

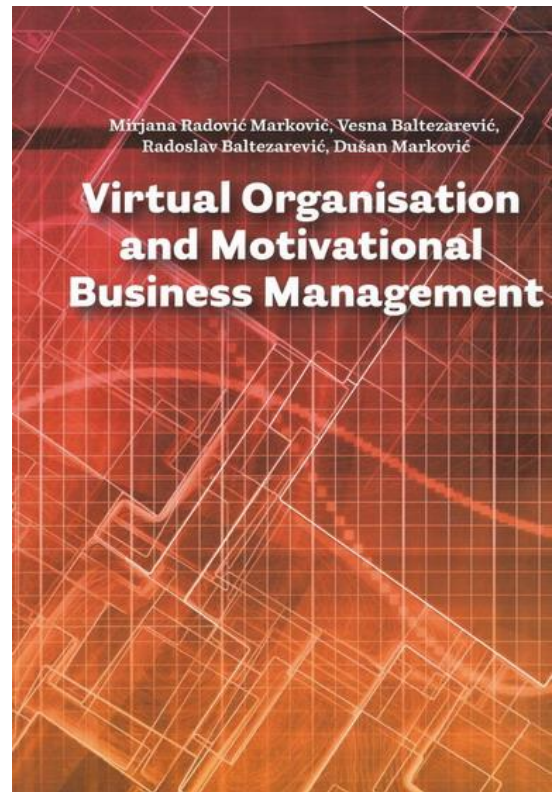
The virtual organization is a new form of organization which is gradually becoming a part of reality. But while the benefits accruing from virtual organizations are enormous, these can be very complex to manage.

The management of virtual organizations meets the challenges of virtual management and explores how virtual firm can best be employed. In this context, the role of managers is to understand cultural and other diversities: the individuals composing any given group exhibit a variety of human qualities, and the diversity of their life experiences can strengthen the group if properly valued. It is important for the global manager to identify and understand these differences, and to monitor how they affect the staff's motivation, success and interaction. Within the legal environment, managers must understand the common laws and regulations, intellectual property laws, and anti-trust regulations. Furthermore, global managers can adapt their style of management to the cultural background of each country.

The authors conclude that the modern era, for all its highly productive technological discoveries, demands a shift towards the genuine human being.

The style of book is dynamic, simple and precise. Its special value lies in its pedagogical materials, instructive and professional, which provide new knowledge in a “motivational virtual business management”. It is particularly suited to students of business studies, communication management and communications, as well as to scholars interested in the topics.

The authors emphasized that this monograph is created as part of the project OI 179015 and 47009 II, financed by the Ministry of Education, Science and Technology of the Republic of Serbia.





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