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## ERENET Winter Message December 2019

### Distinguished Readers and Friends,

With great satisfaction, I write to present a special anniversary issue of the ERENET Profile and papers received from honourable management specialists and university academics. It is our 50<sup>th</sup> Publication and represents Volume XIV in the series.

The first Profile was published in January 2006. Since then 359 papers have been included with a total of 3,605 pages. The increasing utility of the information being shared is demonstrated by more than over 100,000 hits during recent years. All past editions of ERENET PROFILE are available on our web site [www.erenet.org](http://www.erenet.org). The circulation marks the increasing importance of Small and

Medium Enterprises (SMEs) to the Economic Development of the European Region. This focus was originally highlighted through the work of the United Nations Economic Commission for Europe (UNECE) meeting at its Headquarters in the Palais des Nations, Geneva, Switzerland.

April 1-2nd, 2004, the UNECE set up an Expert Meeting on Good Governance for SMEs. This focused on prevailing governance practices and analysed models of SME governance in countries with advanced market economies, in new and prospective EU member countries and those countries with economies in transition. The Expert Group Meeting also explored the situation at the micro level, how SMEs understand corporate governance, what their problems are and how Governments and NGOs can help. The Meeting equally highlighted the importance of business ethics as well as business and corporate social responsibility.

One year later, April 22<sup>nd</sup> 2005, this important initiative was generally launched. To date, 62 Universities, 57 research, training and business service institutions, 6 government authorities and 4/individual/entrepreneurs and 9 international organisations from 43 countries have joined the ERENET Research and Development Partnership Network.

In this Jubilee issue, it is our privilege and joy to remember our distinguished friends and supporters, who have passed away, yet most surely maintained a lifelong commitment to management and business enterprise across the European Region in the sense of a geographic whole. It was they who opened the door to our joint ERENET activities:

- Dipl.-Kfm, Dieter Ibeielski**, Honourable member of ERENET, Presidential Councillor Union Mittelstandischer Unternehmen e.v.,
- Dr Peter Szirmai**, Cofounder of ERENET, Head of the SBDC at the Corvinus University, Budapest, Hungary
- Dr. Miroslav Gras**, Professor Ljubljana University
- Dr. Erika Garaj**, Associate Professor at the Semmelweis University.
- Dr.Zoltan Roman**, Professor, Honorary President of the Industrial and Business Economic Committee at the HAS
- Dr.Maria Gal**, Assistant Professor Of the Faculty of Economic at the Technical University of Kosice.
- Dr. Lidia I Shokina**, Associate Professor at the Financial Academy of the Government of the Russian Federation,
- Dr.Besam Culahovic**, Associate Professor, at the School of Economics and Business, at the University of Sarajevo.

To mark our 15<sup>th</sup> ERENET Anniversary we invited comments from our current members all of whom are actively working and contributing to the aims and goals of the ERENET Network. Our special thanks go to Desislava Yordanova, (Bulgaria), Gilbert Fayl (Belgium), Hans Jurgen Weissbach (Germany) Attila Pethe and Janos Vecsei (Hungary), Prelumar Koshy (India), Katalin Zsuzsa Szabo and Marietta Szabo (Romania) Miroљub Hadžić and Petar Pavlovic (Serbia), Dr. Meltem Ince Yenilmez, (Turkey), Sabit Bagirov and Samir Aliyev (Azerbaijan), Nino Elizbarashvili (Georgia), Yurii Vdovenko (Ukraine) and

Borut Likar (Slovenia), Richard Messnarz (Austria), Maria Hartyanyi (Hungary), Urska Mrgole and Karin Zontar (Slovenia). This Periodical and the most comprehensive and meaty one in the life of our network. The ERENET Secretariat expresses its thank for the contribution of these authors. We wish you further success both in your professional and private life.

I thank **Sonia Heptonstall**, Doctor of Education (Harvard University) recently retired from the position of Professor of International Relations at the Geneva, Business School for her continuous support and especially reflection concerning the introductory messages of the Scientific Director.

I thank Tamás Tóth and Szilvia Nagy for their design works and information support.

Last but not least I wish all our ERENET members, Friends and their familie members Marry Chsirtmass and Happy and Prosperous 2020!

Dr. Antal Szabó  
Scientific Director of ERENET

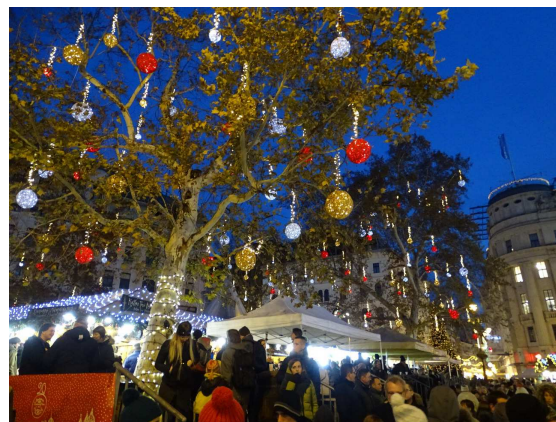


Photo © by Dr. Antal Szabó

**The title of "The Most Beautiful Christmas Market In Europe" 2019**, voted by thousands of travelers from around the world, has been awarded this year to **The Advent Feast at the Basilica in Budapest**, a city that was also awarded the title of **Best European Destination**.

Source : <https://www.forbes.com/sites/ceciliarodriguez/2019/12/10/this-is-the-most-beautiful-christmas-market-in-europe/#56c1d1f26f34>

## PAPERS

### Sabit Bagirov

President of Entrepreneurship Development Foundation, Azerbaijan

### Nino Elizbarashvili

President of The Georgian Association "Women in Business", Georgia

### Yurii Vdovenko

Head of Center for cross-border cooperation, Ukraine

### Samir Aliyev

Expert of Support for Economic Initiatives Public Union, Azerbaijan

## CONVERGENCE OF THE BUSINESS CLIMATE IN THE EAP COUNTRIES WITH THE BUSINESS CLIMATE IN THE EU ON THE BASIS OF EXISTING INDICES <sup>1</sup>

This article attempts to assess how close the business climate in Eastern Partnership (EaP) countries is to the business climate in EU countries. The assessment methodology is based on comparing the values of the indices of EaP countries in the well-known reports of international organizations. The following reports were taken for analysis:

- Doing Business 2019, Annual Report of World Bank <sup>2</sup>;
- Economic Freedom of the World 2018, Annual Report of Fraser Institute (Canada) <sup>3</sup>;
- 2018 Index of Economic Freedom, Annual Report of Heritage Foundation (USA) <sup>4</sup>;
- OECD SME Policy Index 2016 EaP <sup>5</sup>;
- Corruption Perceptions Index 2017, Annual Report of Transparency International <sup>6</sup>;
- The Global Competitiveness Report 2018, Annual Report of World Economic Forum <sup>7</sup>;
- The Global Entrepreneurship Index 2018, Annual Report of The Global Entrepreneurship and Development Institute, Washington, D.C., USA <sup>8</sup>;
- New business density (new registrations per 1,000 people ages 15-64), 2006-2016, World Bank <sup>9</sup>.

### 1. Doing Business 2019, Annual Report of World Bank <sup>10</sup>

- The **Doing Business** study allows to evaluate business regulation legislation. The **Doing Business 2019** report covered 190 countries, including all Eastern Partnership countries.
- This report is perhaps the most popular among governments and business communities.

<sup>1</sup> This article was prepared in the framework of research conducted by a group of authors in the course of the implementation of the project "Convergence of the business climate in the EaP countries with the business climate in the EU", funded by the EaP Civil Society Forum.

<sup>2</sup> <http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf>

<sup>3</sup> <https://www.fraserinstitute.org/sites/default/files/economic-freedom-of-the-world-2018.pdf>

<sup>4</sup> <https://www.heritage.org/index/>

<sup>5</sup> <http://www.oecd.org/countries/belarus/sme-policy-index-eastern-partner-countries-2016-9789264246249-en.htm>

<sup>6</sup> [https://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2017](https://www.transparency.org/news/feature/corruption_perceptions_index_2017)

<sup>7</sup> <http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf>

<sup>8</sup> [https://thegedi.org/wp-content/uploads/dlm\\_uploads/2017/11/GEI-2018-1.pdf](https://thegedi.org/wp-content/uploads/dlm_uploads/2017/11/GEI-2018-1.pdf)

<sup>9</sup> <https://data.worldbank.org/indicator/IC.BUS.NDNS.ZS>

<sup>10</sup> <http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf>



- In the report, each country is assigned a rating of favourable conditions for doing business. The rating is determined on the basis of 11 indicators<sup>11</sup>:

Indicator set	What is measured
Starting a business	Procedures, time, cost and paid-in minimum capital to start a limited liability company
Dealing with construction permits	Procedures, time and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system
Getting electricity	Procedures, time and cost to get connected to the electrical grid, the reliability of the electricity supply and the transparency of tariffs
Registering property	Procedures, time and cost to transfer a property and the quality of the land administration system
Getting credit	Movable collateral laws and credit information systems
Protecting minority investors	Minority shareholders' rights in related-party transactions and in corporate governance
Paying taxes	Payments, time and total tax and contribution rate for a firm to comply with all tax regulations as well as post-filing processes
Trading across borders	Time and cost to export the product of comparative advantage and import auto parts
Enforcing contracts	Time and cost to resolve a commercial dispute and the quality of judicial processes
Resolving insolvency	Time, cost, outcome and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency
Labor market regulation	Flexibility in employment regulation and aspects of job quality

According to experts, the disadvantages of this study are the following circumstances <sup>12</sup>:

- The rating forms without using macroeconomic indicators, as well as factors of the quality of infrastructure, qualification of labour force, currency fluctuations, investor opinions and the state of corruption;
- The report does not cover all legal forms of enterprises, but only limited liability companies. There are very deep differences between countries in the degree of enterprises' tendency to incorporation, since this tendency is differentiated between countries depending on the cost and complexity of the registration procedure, tax incentives and even cultural factors.

Table 1 below lists the comparative values of the ranks (places occupied in the table of ranks) of Eastern Partnership countries. Also, this table shows the best and worst ranks in the 28 EU countries.

<sup>11</sup> <http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf>

<sup>12</sup> Методы анализа развития малого бизнеса. Отчет USAID MEP, [http://atameken.kz/uploads/content/files/%D0%9C%D0%B5%D1%82%D0%BE%D0%B4%D1%8B%20%D0%B0%D0%BD%D0%B0%D0%BB%D0%B8%D0%B7%D0%B0%20%D1%80%D0%B0%D0%B7%D0%B2%D0%B8%D1%82%D0%B8%D1%8F%20%D0%BC%D0%B0%D0%BB%D0%BE%D0%B3%D0%BE%20%D0%B1%D0%B8%D0%B7%D0%BD%D0%B5%D1%81%D0%B0\\_C.pdf](http://atameken.kz/uploads/content/files/%D0%9C%D0%B5%D1%82%D0%BE%D0%B4%D1%8B%20%D0%B0%D0%BD%D0%B0%D0%BB%D0%B8%D0%B7%D0%B0%20%D1%80%D0%B0%D0%B7%D0%B2%D0%B8%D1%82%D0%B8%D1%8F%20%D0%BC%D0%B0%D0%BB%D0%BE%D0%B3%D0%BE%20%D0%B1%D0%B8%D0%B7%D0%BD%D0%B5%D1%81%D0%B0_C.pdf)

Table 1<sup>13</sup>

Indicators	AM	AZ	BY	GE	MD	UA	Top Rank for EU	Worst Rank for EU
1	2	3	4	5	6	7	8	9
Ease of doing business rank	41	25	37	6	47	71	<b>3, DK</b>	<b>84, MT</b>
1. Starting a business	8	9	29	2	14	56	<b>10, IE</b>	<b>127, SK</b>
2. Dealing with construction permits	98	61	46	27	172	30	<b>4, DK</b>	<b>159, HR</b>
3. Getting electricity	17	74	20	39	81	135	<b>5, DE</b>	<b>154, RO</b>
4. Registering property	14	17	5	4	22	63	<b>3, LT</b>	<b>153, GR</b>
5. Getting credit	44	22	85	12	44	32	<b>12, LV</b>	<b>175, LU</b>
6. Protecting minority investors	51	2	51	2	33	72	<b>15, IE, GB</b>	<b>122, LU</b>
7. Paying taxes	82	28	99	16	35	54	<b>4, IE</b>	<b>118, IT</b>
8. Trading across borders	46	84	25	43	35	78	<b>1, MT16C<sup>14</sup></b>	<b>52, IE</b>
9. Enforcing contracts	24	40	29	8	69	57	<b>7, LT</b>	<b>138, GR</b>
10. Resolving insolvency	95	45	72	60	68	145	<b>2, FI</b>	<b>121, MT</b>

As can be seen from Table 1, the resultant ranks of EaP countries are between the worst (84 - Malta) and the top (3 - Denmark) resultant ranks of EU countries. Regarding the ranks for individual indicators, the following conclusions can be made:

- 1) In five indicators (Getting electricity, Registering property, Paying taxes, Enforcing contracts, Resolving insolvency), the ranks of EaP countries are between the worst and the best ranks of EU countries by corresponding indicators;
- 2) In the first indicator (Starting a business), three EaP countries (Georgia, Armenia, Azerbaijan) have ranks better than the highest rank of an EaP country (10 - Ireland);
- 3) In the second indicator (Dealing with construction permits), only one of the EaP countries (Moldova) has a rank lower than the lowest in the EU (159 - Croatia);
- 4) In the sixth indicator (Protecting minority investors), two EaP countries (Azerbaijan and Georgia) have ranks above the ranks of EU countries;
- 5) In the eighth indicator (Trading across borders), only two of the EaP countries (Azerbaijan and Ukraine) have ranks lower than the lowest in the EU (52 - Ireland).

Table 2 presents the resultant estimates of business simplicity in EaP countries and the EU average.

<sup>13</sup> In Table 1 all countries are represented by a 2-letter country code<sup>13</sup> based on the International Naming Convention (ISO - International Organization for Standardization 3166), <https://abbreviations.yourdictionary.com/articles/country-abbreviations.html>

<sup>14</sup> MT16C – more than 16 countries of EU

Table 2.

Indicators	AM	AZ	BY	GE	MD	UA	Average for EaP	Average for EU
1	2	3	4	5	6	7	8	9
Ease of doing business rank	75.37	78.64	75.77	83.28	73.54	68.25	<b>75.81</b>	<b>75.91</b>

As can be seen from this table, in the two EaP countries (Georgia and Azerbaijan) the estimate of business simplicity is even higher than the EU average.

Thus, based on the **Doing Business** report, the conclusion is that the business climate in EaP countries is very close to the business climate in EU in terms of the simplicity of setting up and running a business. But what does research from other international organizations show?

## 2. Economic Freedom of the World 2018, Annual Report of Fraser Institute (Canada)<sup>15</sup>

The Economic Freedom rating is an indicator of economic freedom in a country. The study is annual in nature and is carried out by the Canadian Fraser Institute together with the CATO Institute (USA).

The Economic Freedom rating shows the extent to which a country's policies and institutions promote economic freedom. The rating is based on the components of the Index of Economic Freedom. To determine the rating, 38 indicators and subindicators, combined into five main groups, are used:

- 1. Size of government.** Indicators: 1) The share of state consumption in total consumption; 2) The share of government transfers and subsidies in the Gross Domestic Product (GDP); 3) The share of state-owned enterprises and government investments in total investments; 4) The extreme tax rate;
- 2. Legal structure, legal framework and protection of property rights.** Indicators: 1) Independence of the judiciary; 2) Fair court; 3) Protection of intellectual property rights; 4) Intervention of law enforcement agencies in the administration of justice and the political process; 5) Consistency of legislation;
- 3. Availability of sound money.** Indicators: 1) The difference between the average annual growth rate of the money supply over the past 5 years and the average annual growth rate of real GDP over the past 10 years; 2) Standard deviation of annual inflation rates for the last 5 years; 3) Inflation over the past year; 4) Citizens' freedom to have accounts in foreign currency at home and abroad;
- 4. Freedom to trade internationally:** 1) Taxes on foreign trade; 2) Regulatory barriers to foreign trade; 3) The actual size of foreign trade in comparison with the expected size; 4) The difference between the official exchange rate and the black market exchange rate; 5) State control over the movement of international capital;
- 5. The degree of state regulation: regulation of business, labour, loans:** 1) Regulation of the credit market 2) Regulation of the labour market; 3) Regulation of business.

Many of these indicators have a number of very important subindicators.

In each indicator, countries are rated in points - from 0 to 10. A higher score corresponds to a higher assessment of the level of economic freedom for this indicator in a country. The final rating of economic freedom is calculated as the arithmetic average of the aforesaid five indicators.

Table 3 below lists the comparative data for Eastern Partnership countries and the values of the economic freedom rating averaged for European countries based on the methodology of the Fraser Institute:

<sup>15</sup> <https://www.fraserinstitute.org/sites/default/files/economic-freedom-of-the-world-2018.pdf>

Table 3

Indicators	AM	AZ	BY	GE	MD	UA	Average for EaP	Average for EU
Summary Ratings	7.6	6.38	6.23	8.01	6.56	5.38	<b>6.69</b>	<b>7.54</b>
1. Size of Government	7.12	5.19	6.76	7.79	6.46	6.53	<b>6.64</b>	<b>5.29</b>
2. Legal System and Property Rights	5.78	5.32	5.53	6.57	4.25	4.32	<b>5.29</b>	<b>6.88</b>
3. Sound Money	9.48	7.31	5.33	8.99	7.79	3.25	<b>7.02</b>	<b>9.56</b>
4. Freedom to Trade Internationally	8.24	7.1	7.18	8.66	7.44	6.51	<b>7.52</b>	<b>8.24</b>
5. Regulation	7.39	6.99	6.38	8.05	6.86	6.29	<b>6.99</b>	<b>7.76</b>

As can be seen from Table 3, the economic freedom rating in Georgia is even higher than the EU average. The greatest gap between EaP and EU countries is observed in the indicator "**Availability of sound money**". Only in one indicator (Size of Government) the situation in EaP countries is better than in the EU, which is very interesting, since two of the six EaP countries are characterized by a tough authoritarian regime, under which the share of the state is usually higher (the exception is Singapore).

### 3. 2018 Index of Economic Freedom, Annual Report of Heritage Foundation (USA)<sup>16</sup>

This index is also an indicator of economic freedom in a country, but is calculated on the basis of the methodology of the **Heritage Foundation**. The study is annual in nature and is carried out by the Heritage Foundation's research centre together with The Wall Street Journal. The study determines the ratings of countries in terms of economic freedom.

The Index of Economic Freedom is calculated as an arithmetic average of points for twelve of the following indicators:

1. Property Rights;
2. Judicial Effectiveness;
3. Government Integrity;
4. Tax Burden;
5. Government Spending;
6. Fiscal Health;
7. Business Freedom;
8. Labor Freedom;
9. Monetary Freedom;
10. Trade Freedom;
11. Investment Freedom;
12. Financial Freedom.

In each indicator, countries are rated in points - from 0 to 100. Higher scores correspond to higher levels of economic freedom in a country. All countries of the world presented in the final report are divided into five groups according to their rating:

<sup>16</sup> <https://www.heritage.org/index/>



- 1) Countries with a free economy (those which scored more than 80 out of the 100 possible points).
- 2) Countries with a predominantly free economy (those which scored from 70 to 80 points).
- 3) Countries with a moderately free economy (those which scored from 60 to 70 points).
- 4) Countries with a predominantly unfree economy (those which scored from 50 to 60 points).
- 5) Countries with a non-free economy (those which scored less than 50 points).

Table 4 below presents comparative data for Eastern Partnership countries and values of economic freedom averaged for European countries based on the methodology of the **Heritage Foundation**:

Table 4

Indicators	AM	AZ	BY	GE	MD	UA	Average for EaP	Average for EU
<b>ECONOMIC FREEDOM SCORE</b>	<b>68.7</b>	<b>64.3</b>	<b>58.1</b>	<b>76.2</b>	<b>58.4</b>	<b>51.9</b>	<b>62.9</b>	<b>70.2</b>
<b>RULE OF LAW</b>								
Property Rights	55.3	53.6	53.5	62.8	53.5	41	53.3	75.1
Judicial Effectiveness	47.4	36.8	57.3	64.2	26.3	29,5	43.6	67.4
Government Integrity	40.5	39.9	42	61.8	26.6	29	40.0	59.7
<b>GOVERNMENT SIZE</b>								
Tax Burden	84.7	87.5	89.8	87	85.3	80.2	85.7	66.5
Government Spending	80	59.4	47.9	73.3	56.7	45	60.4	38.3
Fiscal Health	67.2	95.5	75.4	91.8	90	75.9	82.6	80.1
<b>REGULATORY EFFICIENCY</b>								
Business Freedom	78.7	72.3	74.1	86.9	66	62.7	73.4	75.5
Labor Freedom	69.9	71.9	73.1	77.3	39.9	52.8	64.1	60.3
Monetary Freedom	75.8	65.6	62.3	79.6	73.2	60.1	69.4	84.9
<b>OPEN MARKETS</b>								
Trade Freedom	80	74.6	81.4	89.4	78.3	81.1	80.8	86.6
Investment Freedom	75	55	30	80	55	35	55	80.9
Financial Freedom	70	60	10	60	50	30	46.7	67.9

As can be seen from this table, Georgia has better results than the average for the EU in this rating too. Ukraine has the worst result.

#### 4. OECD SME Policy Index 2016 EaP <sup>17</sup>

The OECD SME Economic Policy Index is an assessment of compliance with the principles of the Small Business Act for Europe <sup>18</sup>, which proclaims the following 10 principles:

<sup>17</sup> <http://www.oecd.org/countries/belarus/sme-policy-index-eastern-partner-countries-2016-9789264246249-en.htm>

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

The table below shows the comparative values of the Eastern Partnership countries in 12 directions (indicators for each area are evaluated on a five-point scale, where "1" means the lowest level of economic policy reform, and "5" is the highest). For each of these 12 areas, several indicators are evaluated, the total number of which is 124. Therefore, it is fair to say that the OECD SME Economic Policy Index is a fundamental study. However, the cumbersome nature of this study makes it difficult to conduct annual assessments. For this reason, only two studies have been conducted since 2012. The results of the latter are published in 2018 and cover the figures for 2016.

Table 5

		Scores						Average for EaP
		AM	AZ	BY	GE	MD	UA	
<b>I</b>	<b>Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded</b>							
1	Entrepreneurial learning and women’s entrepreneurship	2.63	2.59	2.39	2.70	2.57	2.25	2.52
<b>II</b>	<b>Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance</b>							
2	Bankruptcy and second chance for SMEs	3.16	2.87	2.57	2.94	2.68	2.05	2.71
<b>III</b>	<b>Design rules according to the “think small first” principle</b>							
3	Regulatory framework for SME policy making	3.38	2.47	2.41	3.48	3.51	2.45	2.95
<b>IV</b>	<b>Make public administration responsive to SMEs</b>							
4	Operational environment for SMEs	4.05	4.23	4.09	4.33	3.56	3.81	4.01
<b>V</b>	<b>Adapt public policy tools to SME needs</b>							
5a	Support services for SMEs and start-ups	3.93	2.98	2.99	3.69	3.35	1.84	3.13
5b	Public procurement	3.42	2.42	3.21	4.04	2.89	2.73	3.12
<b>VI</b>	<b>Facilitate SME access to finance and develop a legal framework and business environment supportive of timely</b>							

<sup>18</sup> [https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act\\_en](https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act_en)

6	Access to finance for SMEs	3.53	2.70	3.08	3.76	3.40	3.22	3.28
<b>VII</b>	<b>Help SMEs to benefit more from the opportunities offered by the Single Market</b>							
7	Standards and technical regulations	3.3	3.32	3.22	4.22	4.12	4.34	3.76
<b>VIII</b>	<b>Promote the upgrading of skills and all forms of innovation</b>							
8a	Enterprise skills	2.67	2.94	2.28	3.00	2.50	2.56	2.66
8b	Innovation	2.91	2.47	2.91	2.70	2.54	1.86	2.56
<b>IX</b>	<b>Enable SMEs to turn environmental changes into opportunities</b>							
9	SMEs in a green economy	2.39	1.54	2.10	2.48	2.19	1.22	1.99
<b>X</b>	<b>Encourage and support SMEs to benefit from growth markets</b>							
10	Internationalisation of SMEs	3.37	2.50	2.59	3.60	3.07	1.63	2.79
	<b>Average rating for 12 indicators</b>	<b>3.23</b>	<b>2.75</b>	<b>2.82</b>	<b>3.41</b>	<b>3.03</b>	<b>2.50</b>	<b>2.95</b>

As we can see from this table, the economic policy of EaP countries is averaged at 2.95 on a five-point scale. This indicates that the governments of EaP countries still have a lot to do to achieve full compliance with the principles of the Small Business Act for Europe.

The economic policy of the government of Georgia most closely complies with the requirements of the Small Business Act for Europe. Armenia is in second place, and Ukraine closes the list.

The main disadvantages of this study are that it uses only opinions of experts (governmental and independent) and businessmen. The objective macroeconomic results of government policies are not analyzed.

## 5. Corruption Perceptions Index 2018, Annual Report of Transparency International<sup>19</sup>

The Corruption Perceptions Index is a global study assessing the level of corruption in the public sector. It is calculated on the basis of a combination of publicly available statistical data and the results of expert surveys presented in various sources of international organizations. These sources assess the level of perception of corruption by experts, both living in a particular country and foreign experts, and are a collection of surveys of entrepreneurs, analysts on commercial risk assessment and specialists in specific countries from various international organizations.

The index ranks countries and territories on a scale from 0 (the highest level of corruption) to 100 (the lowest level of corruption) based on the perception of the level of corruption in the public sector. In general, the index is a popular study, although it has some drawbacks inherent in expert studies. For example, the degree of reliability of measurements is not the same for all countries.

Table 6 below provides comparative data for Eastern Partnership countries, CPI points and ranks of EaP countries:

Table 6

Indicator	AM	AZ	BY	GE	MD	UA	Average for EaP	Average for EU
Score	35	25	44	58	33	32	37.83	64.68
Rank	105	152	70	41	117	120		

As we can see from this table, Georgia has the best rank. In general, the situation in terms of corruption in EaP countries is very far from the situation in the EU.

## 6. The Global Competitiveness Report 2018, Annual Report of World Economic Forum<sup>20</sup>.

<sup>19</sup> [https://www.transparency.org/whatwedo/publication/corruption\\_perceptions\\_index\\_2018](https://www.transparency.org/whatwedo/publication/corruption_perceptions_index_2018)

This report contains the results of a global survey of countries of the world for economic competitiveness. The calculation is carried out according to the methodology of the World Economic Forum, based on the use of publicly available statistical data and the results of a global survey of company executives. The survey questionnaire covers a wide range of factors affecting the business climate. National competitiveness is understood as the ability of a country and its institutions to ensure stable economic growth rates that would be stable in the medium-term.

The list of analyzed indicators includes:

- 1) 20 indicators of the Institutions;
- 2) 12 indicators of the Infrastructure;
- 3) 5 indicators of the ICT adoption;
- 4) 2 indicators of the Macroeconomic Stability;
- 5) 1 indicator of the Health;
- 6) 9 indicators of the Skills;
- 7) 8 indicators of the Product Market;
- 8) 12 indicators of the Labour Market;
- 9) 9 indicators of the Financial system;
- 10) 2 indicators of the Market size;
- 11) 8 indicators of the Business dynamism;
- 12) 10 indicators of the Innovation capability.

Each indicator is rated on a 100-point scale.

The study has been conducted since 2004 and currently covers 140 countries.

The assessment of the values of indicators is carried out by 2/3 of the expert opinion of representatives of business and political circles and public management and by 1/3 of open materials of statistical data, sociological surveys and scientific studies published in the open press and carried out on a regular basis by international organizations<sup>21</sup>.

Table 7 below provides comparative data for Eastern Partnership countries and the competitiveness rating averaged for European countries:

Table 7

	AM	AZ	BY	GE	MD	UA	Average for EaP	Average for EU
<b>Rank</b>	70	69	-	66	88	83		
<b>Score</b>	59.9	60.0	-	60.9	55.5	57.0	58.7	72.0

As we can see, in Belarus, competitiveness is not being assessed yet. And in this indicator, Georgia has the best result among EaP countries.

## 7. The Global Entrepreneurship Index 2018, Annual Report of The Global Entrepreneurship and Development Institute, Washington, D.C., USA <sup>22</sup>

<sup>20</sup> <http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf>

<sup>21</sup> <https://gtmarket.ru/ratings/global-competitiveness-index/info>

<sup>22</sup> [https://thegedi.org/wp-content/uploads/dlm\\_uploads/2017/11/GEI-2018-1.pdf](https://thegedi.org/wp-content/uploads/dlm_uploads/2017/11/GEI-2018-1.pdf)



GEI measures both the quality of entrepreneurship and the scale and effectiveness of the system to support the entrepreneurial ecosystem. The study is based on an analysis of 14 components that play an important role in ensuring the health of the business ecosystem:

<b>Component of the entrepreneurship ecosystem</b>	<b>What does it measure?</b>
Pillar 1: Opportunity Perception	Can the population identify opportunities to start a business and does the institutional environment make it possible to act on those opportunities?
Pillar 2: Startup Skills	Does the population have the skills necessary to start a business based on their own perceptions and the availability of tertiary education?
Pillar 3: Risk Acceptance	Are individuals willing to take the risk of starting a business? Is the environment relatively low risk or do unstable institutions add additional risk to starting a business?
Pillar 4: Networking	Do entrepreneurs know each other and how geographically concentrated are their networks?
Pillar 5: Cultural Support	How does the country view entrepreneurship? Is it easy to choose entrepreneurship or does corruption make entrepreneurship difficult relative to other career paths?
Pillar 6: Opportunity Perception	Are entrepreneurs motivated by opportunity rather than necessity and does governance make the choice to be an entrepreneur easy?
Pillar 7: Technology Absorption	Is the technology sector large and can businesses rapidly absorb new technology?
Pillar 8: Human Capital	Are entrepreneurs highly educated, well trained in business and able to move freely in the labor market?
Pillar 9: Competition	Are entrepreneurs creating unique products and services and able to enter the market with them?
Pillar 10: Product Innovation	Is the country able to develop new products and integrate new technology?
Pillar 11: Process Innovation	Do businesses use new technology and are they able access high quality human capital in STEM fields?
Pillar 12: High Growth	Do businesses intend to grow and have the strategic capacity to achieve this growth?
Pillar 13: Internationalization	Do entrepreneurs want to enter global markets and is the economy complex enough to produce ideas that are valuable globally?
Pillar 14: Risk Capital	Is capital available from both individual and institutional investors?

The index value ranges from 0 to 100 points and forms by evaluating the 14 above indicators. The closer the score is to zero, the better the situation in the country.

The 2018 report covers 137 countries. Table 8 below gives the comparative data for Eastern Partnership countries and the GEI rating values averaged for European countries:

Table 8

Indicators	AM	AZ	BY	GE	MD	UA	Average for EaP	Average for EU
<b>Rank</b>	88	62	-	77	92	73		
<b>GEI</b>	24	30	-	26	21	27	26	54

As we see, the global index of entrepreneurship is not being estimated in Belarus yet. In general, the average value of the index for EaP countries is significantly lower than the value of the index for EU countries. According to this index, the situation in Azerbaijan is the best.

#### 8. New business density (new registrations per 1,000 people ages 15-64), 2006-2016, World Bank <sup>23</sup>.

This World Bank rating, New Business Density, characterizes the population's tendency to organize new enterprises and do business in the existing business climate.

The key indicator of the rating is the number of limited liability companies registered per year per thousand people aged 15–64.

The following indicators are used:

- density of enterprises (business density) - the total number of enterprises divided by the number of people of working age;
- density of newly-registered enterprises (new density) - the number of newly-registered enterprises divided by the number of people of working age;
- the level of the creation of new enterprises (entry rate) - the number of newly-registered enterprises divided by the total number of registered enterprises.

Table 9 below gives the comparative values of the New Business Density index for Eastern Partnership and EU countries:

Table 9

	Country Name	2014	2015	2016
1	Armenia	155,126,713	17,221,069	173,579,314
2	Azerbaijan	098,483,085	074,519,431	103,166,193
3	Belarus	104,902,531	087,073,514	109,279,176
4	Georgia	580,437,964	722,388,789	837,019,719
5	Moldova	192,494,214	180,347,658	175,484,162
6	Ukraine	1,045,696,43	120,905,663	154,434,595
	<b>Average for EaP</b>			<b>258,827,193</b>
	<b>Average for EC</b>	<b>651,406,453</b>	<b>666,903,469</b>	<b>700,242,621</b>

As can be seen from the table, the value of the index in Georgia exceeds the value in the EU. For the rest of the EaP countries, the index value is significantly lower than the EU average.

#### 9. THREE APPROACHES TO THE ASSESSMENT OF THE CONVERGENCE DEGREE

The above eight methodologies and their respective reports allow us to draw appropriate conclusions about the business climate in various countries of the world, including Eastern Partnership countries. Such an abundance of various indices, which pursue similar goals, is explained by the different approaches of the authors of the methodologies to the question of which factors are major in terms of a

<sup>23</sup> <https://data.worldbank.org/indicator/IC.BUS.NDNS.ZS>

favourable business climate. Today, the most popular one of the reviewed methodologies is the Doing Business report. This report is often referenced not only by experts, but also by governments of different countries (especially when a country achieves an improvement in the index value). Other studies are less popular, although each of them is of undoubted value for improving the business climate in countries.

One of the features of the indices is that the time parameters (the year of the report and the date of publication of the next report) do not coincide. And one of these indices (**OECD SME Policy Index**) was published only twice: in 2012 and 2016.

Another feature of the indices is that only one of them (**OECD SME Policy Index**) focuses on the problems of the EaP countries. And this study focuses on the application of the principles of the Small Business Act for Europe by these countries.

Such a variety of methodologies puts people who wish to understand the extent to which the business climate in a country is close to the business climate in the EU in a difficult position. Specifically, representatives of civil society, including members of the Civil Society Forum of EaP countries, who wish to monitor the processes of convergence find themselves in a difficult situation of choosing the appropriate index among those described above.

The analysis of the indices described above shows that each of them, of course, can also be used to assess the level of convergence of the business climate in the Eastern Partnership countries with the EU business climate. To this end, it is necessary to calculate the averaged values of the indicators (used in these indices) related to the 28 EU countries. This is the easiest way. Let's call this approach: **"Preferred Index Method."** Above, when considering the eight reports of international organizations, these simple calculations were made. They allow us to see the proximity or remoteness of an EaP country from the average European values of the indicators. The results for all the reports analyzed above are summarized in Table No 10 given below. But the use of separate indices may, firstly, lead to contradictory results (for example, in one of the indices, an EaP country may be between the worst and best index values in EU countries, and in another index, the situation may look different), and secondly, each of the indices examines a specific set of business climate indicators. These indicators do not coincide; which is why their complex use can give a more correct idea of about the proximity of the business climate in an EaP country to the business climate in the EU.

Another approach, let's call it **"The method of composite use of the most popular indexes"**, involves the use of all or several of the eight examined above.

Let's pay attention to Table No 10, which presents the results of all reports analyzed above.

Table 10

	<b>DB</b>	<b>EFF</b>	<b>EFH</b>	<b>OECD</b>	<b>TI</b>	<b>GK</b>	<b>GEI</b>	<b>NBD</b>
Azerbaijan	78.64	6.38	64.3	2.5	25	60.0	<b>30</b>	1.03
Armenia	75.37	7.60	68.7	3.23	35	59.9	24	1.74
Belarus	75.77	6.23	58.1	2.82	44	-	-	1.09
Georgia	<b>83.28</b>	<b>8.01</b>	<b>76.2</b>	<b>3.41</b>	<b>58</b>	<b>60.9</b>	26	<b>8.37</b>
Moldova	73.54	6.56	58.4	3.03	33	55.5	21	1.75
Ukraine	68.25	5.38	51.9	2.50	32	57.0	27	1.54
<b>Average for EaP</b>	<b>75.81</b>	<b>6.69</b>	<b>62.9</b>	<b>2.96</b>	<b>37.83</b>	<b>58.7</b>	<b>26</b>	<b>2.59</b>
<b>Average for EU</b>	<b>75.91</b>	<b>7.54</b>	<b>70.2</b>		<b>64.68</b>	<b>72.0</b>	<b>54</b>	<b>7.00</b>
<b>Worst for EU</b>	<b>65.43</b> <b>MT</b>	<b>6.49</b> <b>GR</b>	<b>57.3</b> <b>GR</b>		<b>65.43</b> <b>MT</b>	<b>60.1</b> <b>HR</b>	<b>28</b> <b>BG</b>	<b>0.59567</b> <b>AT</b>
<b>Top for EU</b>	<b>84.64</b> <b>DK</b>	<b>8.07</b> <b>IE</b>	<b>80.4</b> <b>IE</b>		<b>84.64</b> <b>DK</b>	<b>82.8</b> <b>DE</b>	<b>78</b> <b>GB</b>	<b>20.76074</b> <b>EE</b>

*NOTE: DB – Doing Business 2019; EFF - Economic Freedom of the World 2018, Annual Report of Fraser Institute; EFH - 2018 Index of Economic Freedom, Annual Report of Heritage Foundation; OECD - OECD SME Policy Index 2016 EaP; TI - Corruption Perceptions Index 2018; GK - The Global Competitiveness Report 2018; GEI - The Global Entrepreneurship Index 2018; NBD - New business density.*

As can be seen from Table 10, Georgia, according to the results of 7 reports out of the 8, has the best results compared to other EaP countries. The results of Georgia in four reports (Doing Business 2019, Economic Freedom of the World 2018, 2018 Index of Economic Freedom, New business density) are even better than the average European ones. Only in one index - *The Global Entrepreneurship Index*, the situation in Azerbaijan is better than in other EaP countries.

According to Table 10, in the following cases, the indicators for countries turned out to be beyond the minimum and maximum values for EU countries:

- 1) In the Index of Economic Freedom of the Fraser Institute, the points awarded by the foundation to Azerbaijan, Belarus and Ukraine were lower than the worst value in the EU (Greece);
- 2) In the Index of Economic Freedom of the Heritage Foundation, the points awarded by the Foundation to Ukraine were lower than the worst value in the EU (Greece);
- 3) According to the OECD index, it is not possible to conduct a comparison of the business climate in EaP and EU countries, since this study is carried out only in EaP countries. Nevertheless, taking into account the fact that the assessment in EaP countries is carried out on a five-point system, one can note the considerable remoteness of the economic policy in EaP countries from the principles of the Small Business Act for Europe. For the time being, Georgia demonstrates the best proximity to the principles;
- 4) In the Corruption Perceptions Index, only Georgia has an indicator between the lower and upper values for EU countries. The other five countries have indicators below the worst EU values (Malta);
- 5) In the Global Competitiveness Index, only Georgia has an indicator between the lower and upper values for EU countries. The other five countries have indicators lower than the worst EU values (Croatia);
- 6) In the Global Entrepreneurship Index, only Azerbaijan has an indicator between the lower and upper values for EU countries. The other five countries have indicators lower than the worst EU values (Bulgaria);
- 7) In New Business Density, the indicator for all EaP countries is between the lower and upper values for EU countries.

Let's transform Table 10 into Table 11 in order to bring all the results in line with a single scale.

In Table 11, all indicators are brought in line with a 100-point grading system. For example, the results of studies on the Index of Economic Freedom of the Fraser Institute are multiplied by 10.

The OECD index results are converted by the formula:

$$R_{OECD-N} = R_{OECD}/R_i \times 100$$

Here:  $R_{OECD-N}$  is the converted value of the OECD estimate;

$R_i$  is the ideal OECD assessment value, which is 5.

The results on the NBD index are converted by the formula:

$$R_{NBD-N} = R_{NBD}/R_{NBD-MAX} \times 100$$

Here:  $R_{NBD-N}$  is the converted value of the NBD assessment;

$R_{NBD-MAX}$  is the best NBD index value for EU countries.

Such a recalculation of NBD values is controversial, but, on the other hand, it allows using this index in summarizing the sums presented in columns 10 and 11.



Table 11 presents the minimum and maximum values for EU countries on the OECD index. These assumptions are certainly controversial, but they will allow checking the data for the EAP countries in columns 10 and 11 on presence between the minimum and maximum values for the EU countries.

Thus, keeping in mind some of the assumptions made, we can estimate the degree of convergence of the business climate in EaP countries with the business climate in EU countries, taking into account all eight studies described above. Moreover, this can be done annually in order to analyze the dynamics of changes in the business climate of EaP countries.

Another approach, let's call it "*The method of composite use of individual indicators of the most popular indices*", can be based on the use of individual indicators for the eight studies presented above. The selection of these indicators, for example, can be made on the assumption that the following indicators are important for a favourable business climate:

1. The independence and effectiveness of the judiciary;
2. Favorable macroeconomic conditions;
3. Registration of a new business;
4. Obtaining licenses and permits;
5. Registration of ownership;
6. Access to financial resources;
7. Access to public utilities;
8. Access to markets for goods and services;
9. Access to labor resources;
10. Access to the virtual space;
11. Taxes;
12. Foreign trade;
13. Low risks of corruption;
14. Government programs to support and promote business.

Within the framework of the project "Convergence of the business climate in EaP countries with the business climate in the EU", a survey was conducted among 20 experienced businessmen in three EaP countries (Georgia, Azerbaijan, Ukraine). The results of the survey are presented in Table 12.

Table 12

	Azerbaijan	Ukraine	Georgia
1. The independence and effectiveness of the judiciary	1	2	1
2. Favorable macroeconomic conditions	4	7	2
3. Registration of a new business	10	9	8
4. Obtaining licenses and permits	7-8	1	5
5. Registration of ownership	7-8	3	4
6. Access to financial resources	2	6	3
7. Access to public utilities	13	4	11
8. Access to markets for goods and services	9	8	7
9. Access to labor resources	11	5	6
10. Access to the virtual space	14	10	9
11. Taxes	6	11	10
12. Foreign trade	12	13	12-13
13. Low risks of corruption	3	14	14
14. Government programs to support and promote business	5	12	12-13

Table 11

	DB	EFF	EFH	OECD	TI	GK	GEI	NBD	Sum by indexes: DB, EFF, EFH, OECD, TI, GK, GE, NBD	Sum by indexes: DB, EFF, EFH, OECD, TI, NBD
1	2	3	4	5	6	7	8	9	10	11
Azerbaijan	78.64	63.8	64.3	55.0	25	60,0	30	4.96	381.70	291.70
Armenia	75.37	76.0	68.7	64.6	35	59.9	24	8.38	411.95	328.05
Belarus	75.77	62.3	58.1	56.4	44	-	-	5.25		301.82
Georgia	<b>83.28</b>	<b>80.1</b>	<b>76.2</b>	<b>68.2</b>	<b>58</b>	<b>60.9</b>	26	<b>40.32</b>	<b>493.00</b>	<b>406.10</b>
Moldova	73.54	65.6	58.4	60.6	33	55.5	21	8.43	376.07	299.57
Ukraine	68.25	53.8	51.9	50	32	57.0	27	7.42	347.37	263.37
<b>Average for EaP</b>	<b>75.81</b>	<b>66.9</b>	<b>62.9</b>		<b>37.83</b>	<b>58.7</b>	<b>26</b>	<b>12.48</b>		
<b>Average for EU</b>	<b>75.91</b>	<b>75.4</b>	<b>70.2</b>		<b>64.68</b>	<b>72.0</b>	<b>54</b>	<b>7.00</b>		
<b>Worst for EU</b>	65.43 MT	64.9	57.3 GR	50	65.43 MT	60.1 HR	28 BG	2.87	404.96	316.88
<b>Top for EU</b>	84.64 DK	80.7	80.4 IE	100	84.64 DK	82.8 DE	78 GB	100	691.18	530.38

This table shows how different are the opinions of businessmen of the three EaP countries regarding the importance of certain business conditions. Therefore, we can consider the use of this approach unpromising.

## CONCLUSION AND RECOMMENDATIONS

Thus, to assess the degree of convergence of the business climate in the EaP countries with the business climate in the EU, both methods described above can be used: 1) *The Preferred Index Method* 2) *The method of composite use of the most popular indexes*. It seems appropriate to assess the degree of convergence of the business climate in the EaP countries with the business climate in the EU with annual frequency:

- 1) the governments of the EaP countries in order to identify ways to improve the business climate in their countries and rapprochement with the EU;
- 2) Civil society organizations, including Think Tanks, business associations.

It is advisable to include a business climate convergence assessment in the EaP countries with a business climate in the EU in the Eastern Partnership Index - An index reflecting the progress made by six Eastern Partnership countries towards sustainable democratic development and European integration.

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**Baku panorama photos and opening the development of women business and women business associations in 1917**

Photo © by Dr. Antal Szabó

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**TOWARDS ENTREPRENEURIAL UNIVERSITIES IN BULGARIA****ABSTRACT**

This study relies on a survey among experts in the field to identify barriers, facilitators and best practices in the transformation of Bulgarian universities into entrepreneurial universities. The research findings demonstrate that there are both internal and external barriers and facilitators of the entrepreneurial transformation of universities in Bulgaria and reveals the relative importance of the various internal and external factors. The study describes best practices in the transformation towards an entrepreneurial university adopted at Sofia University “St. Kliment Ohridski”.

**Key words:** entrepreneurial universities, barriers, facilitators, Bulgaria, Portugal.

**JEL Code:** M19

**1. PROBLEM STATEMENT**

In an entrepreneurial society, where knowledge-based entrepreneurship is a driving source (Audretsch, 2009), the entrepreneurial university is both knowledge producer and a disseminating organization to the society (Guerrero et al., 2014). The emergence of the entrepreneurial university is a response to the increasing importance of knowledge in national and regional innovation systems (Etzkowitz et al., 2000). Gibb et al. (2009) identify various environmental challenges fostering the transformation of universities into entrepreneurial organizations including the massification of higher education, employability agenda, globalization, students’ voice, internationalization strategies in universities, the global knowledge configuration, regional and local engagement, etc. Our study defends that these factors contribute substantially to uncertainties and complexities in the environment of higher education institutions and demand entrepreneurial initiative by these institutions.

Previous empirical evidence suggests that Bulgarian universities experience difficulties in the process of transformation into entrepreneurial universities. Bulgarian higher education institutions exhibit narrow understanding of the concept of innovative and entrepreneurial university (OECD, 2014). Entrepreneurship promotion is not a strategic goal for Bulgarian higher education institutions and they have rarely links with the entrepreneurial ecosystem in the country (OECD, 2014).

Research on facilitators and barriers to the the entrepreneurial transformation of universities is limited and there is a need for more research on this topic in different cultures and contexts (Kirby et al., 2011). The research aim of the present study is to investigate barriers, facilitators and best practices in the transformation of Bulgarian universities into entrepreneurial universities.

Bulgarian higher education institutions exhibit narrow understanding of the concept of innovative and entrepreneurial university<sup>24</sup>. Entrepreneurship promotion is not a strategic goal for Bulgarian higher education institutions and they have rarely links with the entrepreneurial ecosystem in the country<sup>25</sup>.

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<sup>24</sup> OECD. (2014). HEInnovate Reviews: Universities, Entrepreneurship and Local Development. Promoting Innovation and Entrepreneurial Mind-Sets Through Higher Education. Country-Level Review Bulgaria, [https://www.oecd.org/cfe/leed/OECD-LEED-2015-Bulgaria-report.pdf], retrieved on 20 December 2017.

<sup>25</sup> OECD. (2014). HEInnovate Reviews: Universities, Entrepreneurship and Local Development. Promoting Innovation and Entrepreneurial Mind-Sets Through Higher Education. Country-Level Review Bulgaria, [https://www.oecd.org/cfe/leed/OECD-LEED-2015-Bulgaria-report.pdf], retrieved on 20 December 2017.

Previous research suggests that Bulgarian students may use services of support organization when they start a business<sup>26</sup>, but there is relatively little evidence about the readiness of Bulgarian universities to provide such support services. Research on facilitators and barriers to the the entrepreneurial transformation of universities is limited and there is a need for more research on this topic in different cultures and contexts (Kirby et al., 2011). Therefore, the aim of the present study to explore barriers, facilitators and best practices in the transformation of Bulgarian universities into entrepreneurial universities.

The chapter is structured as follows. The next section discusses definitions of entrepreneurial universities and available literature on facilitators and barriers to the transformation of universities into entrepreneurial ones. The third section describes research methodology of the study. The following section describes empirical findings about barriers, facilitators and best practices in the transformation of Bulgarian universities into entrepreneurial universities. The final section suggests recommendation for future research.

## 2. Literature review

This section presents a literature review on the nature of entrepreneurial universities and stimulating factors and barriers to the transformation of universities into entrepreneurial ones. The concept of the “entrepreneurial university” was introduced by Etzkowitz (1983) and Clark (1983) (Nelles and Vorley, 2010). Despite the increasing research interest in entrepreneurial university, there is still no agreement among researchers about the definition of this concept (Yusof and Jain, 2010). Universities may undertake entrepreneurial activities at various levels such as individual entrepreneurship, team entrepreneurial activities or institutional entrepreneurship (Fuller, 2005). Entrepreneurial activities within universities may include:

- spin-out and start-up of new ventures (Kirby, 2006; Zhou and Peng, 2008, p. 638);
- fund-generating activities like patents, licensing, research under by contracts and entry into a partnership with a private enterprise (Etzkowitz, 1983, p. 214; Jacob, Lundqvist, Hellmark, 2003, p. 1555);
- commercialisation activities (e.g. custom made further education courses, consultancy services, extension activities) (Jacob, Lundqvist, Hellmark, 2003, p. 1555);
- generation of technology advances (Rothaermel, Agung and Jiang, 2007, p. 707);
- innovation in how the university goes to business (Clark, 1998, p. 4), etc.

Entrepreneurial activities within universities may be undertaken by various actors including faculty, students, employees (Etzkowitz, 2003, p. 112; Jacob, Lundqvist, Hellmark, 2003, p. 1555), and the university itself (Clark, 1998, p. 4). Entrepreneurial universities exhibit several distinctive characteristics: entrepreneurial capability (Zhou and Peng, 2008, p. 638) and culture (Kirby, 2006, p. 599); strong research (Zhou and Peng, 2008, p. 638); closer university-business partnerships and greater responsibility for accessing external sources of funding (Etzkowitz, 1983, p. 214); agility, flexibility, ability to change and adjust to external environment (Barnett, 2005, p. 53; Guerrero-Cano, Kirby and Urbano, 2006, p. 19); ability to innovate, search, recognize and create opportunities, and take risks (Clark, 1998, p. 4; Guerrero-Cano, Kirby and Urbano, 2006, p. 19).

Entrepreneurial activities within entrepreneurial universities are supported by various support mechanisms, structures, and intermediaries such as technology transfer offices and the creation of incubators or science parks (Rothaermel, Agung and Jiang, 2007, p. 707). In addition to direct mechanisms for supporting the transfer of technology from academia to industry there are also indirect mechanisms supporting entrepreneurial activities via entrepreneurship education (Guenther and Wagner, 2008, p. 400).

Yusof and Jain (2010) identify six conceptual models of entrepreneurial university (Clark, 1998; Etzkowitz et al., 2000; Sporn, 2001; Etzkowitz, 2004; Kirby, 2006; Rothaermel et al., 2007). They argue that the available theoretical models of entrepreneurial university comprise a variety of elements that

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<sup>26</sup> Atanasov, T. (2017). What do students think about the possibility of own business. In: Georgieva, T. (ed.) Development of higher schools in the context of European requirements for quality of education services. IBS Press, pp. 113-122.

“should provide a basis for the identification of factors or antecedents which may determine or influence university-level entrepreneurial activities” (Yusof and Jain, 2010, p. 85).

Empirical research on entrepreneurial university has investigated barriers to universities becoming more entrepreneurial and internal and external factors for the development of entrepreneurial university (Rothaermel et al., 2007). Empirical findings highlights diverse factors influencing entrepreneurial university including legislation (Grimaldi et al., 2011; Aldridge and Audretsch, 2011); expectations of the society, industry, government and market (Salamzadeh et al., 2011); local-context support mechanisms (Fini et al., 2011); entrepreneurial mission, entrepreneurial organization and governance structure, entrepreneurship education programs (Guerrero et. al., 2011; Salamzadeh et al., 2011; Kirby et al., 2011); favourable staff attitudes toward entrepreneurship (Kirby et al., 2011), funding (O'Shea et al., 2005; Powers and McDougall, 2005); individual incentives for entrepreneurial behaviour (Henrekson and Rosenberg, 2001); changes in infrastructure and culture (Jacob et al., 2003); infrastructure support measures (science parks, incubators, technology transfer offices) (Gras et al., 2008; Coupe, 2003; Clarysse et al., 2011; Etzkowitz, 2003; Guerrero et. al., 2011; Kirby et al., 2011); non-economic support measures such as training advice (Gras et al., 2008); social environment (Clarysse et al., 2011); human capital, and organizational resources (Powers and McDougall, 2005).

Barriers to the development of entrepreneurial universities include organizational structure and university governance, inadequate links with the industry, not in concordance with research objectives, lack of experience, inadequate cultural values, traditional ways of teaching, inappropriate reward systems, clash with teaching objectives, lack of funding, lack of physical resources, and state funding/ dependency on the state (Kirby et al., 2011).

### 3. Research Methodology

Following Kirby et al. (2011), this study relies on a survey among experts in the field to identify barriers, facilitators and best practices in the transformation of Bulgarian universities in to entrepreneurial universities. A survey among 23 experts (16 women and 7 men) was conducted between April and July, 2017. Some of the experts were attendees at the international scientific conference “Development of the Higher Schools in the Context of the European Requirements for Quality of Education Services”, which was organized by the International Business School on 16-17 June 2017 in Sofia. The rest of the experts were identified in advance and invited to participate in the survey. Table 3 lists the types of experts included in the survey. The experts were asked to indicate the position(s) they currently hold or positions held in the past.

**Table 3. Types of experts included in the survey**

Types of experts	Number*
Senior university administrator/ university unit head	9
Senior administrator/ expert in government institutions in the field of education	5
Senior administrator/ expert in the field of education in NGO	3
Researcher in the field of management of higher education, entrepreneurial universities	14

\* Some respondents have provided more than one answer.

*Source: Own elaboration.*

The questionnaire used in the study includes questions, which requested a broad array of information related to demographic characteristics of respondents, position held, perceptions about the most significant facilitators and barriers to the transformation of Bulgarian universities into entrepreneurial ones, and best practices adopted by Bulgarian universities.

### 4. Empirical Findings

Table 4 reveals the facilitators contributing to making Bulgarian universities more entrepreneurial. They are rank ordered according to their frequency in the answers provided by experts. Increasing links between universities and business is the most important facilitator. Other facilitators include requirements and expectations of current and potential students, appropriate rewards for academic and administrative staff, entrepreneurship education, favourable conditions for entrepreneurship development within the university, training for academic and administrative staff, greater funding, investment in equipment and technologies, more academic courses with practical orientation, competition between universities, inclusion of students in the transformation process.

**Table 4. Facilitators to the transformation of Bulgarian universities into entrepreneurial ones**

Facilitator	Rank
Increasing links between universities and business	1
Requirements and expectations of current and potential students	2
Appropriate rewards for academic and administrative staff	3
Entrepreneurship education	4
Favourable conditions for entrepreneurship development within the university	5
Training of academic and administrative staff	6
Funding	7
Investment in equipment and technologies	8
Increasing the number of academic courses with practical orientation	9
Competition between universities	9
Inclusion of students in the transformation process	9

*Source: Own elaboration.*

The rank order of factors identified by experts as barriers to the transformation of Bulgarian universities into entrepreneurial universities is presented in Table 5. The most important barrier is the lack of appropriate organizational structure and governance in Bulgarian universities. Other frequently mentioned barriers are the lack of appropriate legislation, lack of links with business, lack of strategic vision, lack of entrepreneurial culture, lack of resources, lack of appropriate rewards, lack of funding, lack of experience.

**Table 5. Barriers to the transformation of Bulgarian universities into entrepreneurial ones**

Barrier	Rank
Lack of appropriate organizational structure and governance	1
Lack of appropriate legislation	2
Lack of links with business	3
Lack of strategic vision	4
Lack of entrepreneurial culture	5
Lack of resources	6
Lack of appropriate rewards	7
Lack of funding	8
Lack of experience	9
Lack of adequate entrepreneurship support infrastructure	10
Inadequate teaching methods and content of academic disciplines	10
Aging academic staff	10
Low internationalization of higher education institutions	10
Lack of entrepreneurial skills of academic staff	10
Lack of interest from students	10
Narrow specialization	10

*Source: Own elaboration.*



The Faculty of Economics and Business Administration (FEBA) is actively involved in various initiatives stimulating the transformation of Sofia University “St. Kliment Ohridski” into an entrepreneurial university. The career center at the Faculty of Economics and Business Administration and Center for Entrepreneurship and Project Management of Sofia University “St. Kliment Ohridski” organise annually a student competition for the best course work with entrepreneurial potential. The aim of competition is to stimulate and award the entrepreneurial and innovation potential and actions of the students through practical course works, developed within the studied disciplines. The main sponsors of the event and the members of the jury are representatives of the FEBA's partners from the business community. Students with the best course works receive financial support for the realization of their projects or mentoring from FEBA's business partners.

The FEBA offers an open academic course on entrepreneurship and innovation to encourage and support entrepreneurship among bachelor, master, and doctoral students from all faculties of the university as well as academic and administrative staff of the University. The course content includes the following topics:

- ❖ Introduction to entrepreneurship: definition, nature and importance.
- ❖ The figure of the entrepreneur. The entrepreneurial team.
- ❖ Identification of entrepreneurial opportunities. The business idea.
- ❖ The business model. The business Plan.
- ❖ The Entrepreneurial process.
- ❖ Innovation Management.
- ❖ Development of the new business.
- ❖ Competitiveness of the new business.

## CONCLUSION

The empirical findings of the present study reveal that both internal and external factors are seen by the participants as important facilitators of the transformation of Bulgarian universities into entrepreneurial ones. Our findings of the facilitators of entrepreneurial universities are consistent with the existing literature.<sup>27</sup> This study provides evidence that significant barriers to the transformation are related not only to internal environment but also to the external context, which supports previous research by Kirby et al. (2011). These results have practical implications for universities and policy makers. Rectors, deans and heads of departments must be aware of the internal challenges to making their universities more entrepreneurial as well as of factors that may facilitate the process of transformation. Specific attention should be focused on strengthening entrepreneurship ecosystem and building adequate entrepreneurship support infrastructure within Bulgarian universities. Business incubators may be an effective instrument for stimulating academic and student entrepreneurship by providing specific resources and services to start-ups<sup>28</sup>. Policy makers should devote special attention to external barriers to the transformation and especially to the need for legal framework and more state funding. State funding may be partially bound with the requirements for technology transfer, patents, development of new products and services, number of spin-off companies, etc,

## Acknowledgements

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<sup>27</sup> Rothaermel et al. (2007), Kirby et al. (2011).

<sup>28</sup> Atanasov (2015).

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## A UNIQUE OPPORTUNITY TO RENOVATE THE EUROPEAN UNION

### ABSTRACT

**In view of the 21st Century's hyper-connected World and the digitalized global economy, the EU needs a comprehensive reality check and a consequent 'grand design'. It must provide a greater long-term survival perspective than is currently the case. Like the uniting aim of 'avoiding war in Europe' established at the genesis of the European Communities, the EU now needs a uniting aim to address the challenges of the 21st Century.**

**The EU must:**

- **Realise that neither naïve humanity, nor political correctness, or selfish economics will deliver the right answers to the complex challenges of the 21<sup>st</sup> Century. The EU cannot save the rest of the World in all matters; it must choose priorities critical to its existence;**
- **Avoid an identity crisis through letting a „war of civilisations” sneak in gradually from other dominant cultures. Using double standards towards its Member States could be equally damaging;**
- **Renovate itself before it is too late to absorb the inevitable associated shocks during the overhaul without greater disturbances. The EU must remain a Union of shared values of equal, free and strong nations that promotes 'EU optimism'.**

**The Global Round Table in its message of September 2019 addressed to Ursula von der Leyen, President-elect of the European Commission sent inspiration concerning the vision of the EU in the future.**

**Keywords: vision and renovation of the European Union**

**JEL Classification: F15, N44, O52**

### BACKGROUND AND AIM

This document is offered to the President-elect of the European Commission as inspiration in connection with the indispensable **renovation of the European Union**. (A similar document is provided to the President of the European Parliament.)

The document takes into account the discussions at- and deliberations of a series of high-level Global Round Table <sup>29</sup> meetings with participation of international experts from all over Europe. <sup>30</sup>

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<sup>29</sup> The Global Round Table is an independent International Non-profit Organisation with the aim to identify new and emerging ideas of socio-economic importance; improve the level and quality of information available to economic- and political decision-makers; inspire civil society leaders and the young generation (*footnote 5, Attachment 4*).

<sup>30</sup> The international events included:

- "EU Quo Vadis?", 8-9 May 2014, Budapest;
- "Morality in Politics", 8-9 May 2015, Budapest;
- "Reliable Migrant Healthcare", April-June 2016, Web Consultation;
- "Brexit", 16-17 Feb. 2017, Split;
- "The Future of European Union: Progress or Breakdown?", 11-12 May 2017, Bucharest;
- "Renaissance or Bankruptcy of Europe?", 22-23 Sept. 2017, Wrocław;
- "Fake News", December 2018-February 2019, Web Consultation.

The seniority and international experience of the individuals participating at The Global Round Table provide the basis for this paper, together with the demonstrated credibility of The Global Round Table, are the guarantors for this document's objectivity and thoroughness.

## **CURRENT CHALLENGES**

The European Union is moving away from its origins.

For all of the EU's achievements – which are numerous (*Attachment 1*) – the EU has three main shortcomings:

- 1) It is now missing a unifying ambition for the 21st Century;
- 2) It is still unwilling (or unable) to guard in legislation the cornerstones of what defines Europe: the Fundamental European Values <sup>31</sup> ; and
- 3) Its citizens no longer feel part of the EU project.

## **MEET THE CHALLENGE**

The EU should remember that its roots can be found in the cooperation between equal, free and strong nations – jointly able to meet the challenges of the 21st Century. Hence, the EU's renovation must start as soon as possible before it is too late to absorb the inevitable associated shocks during the overhaul without greater disturbances.

## **WARNING**

The World is currently unsettled. History has shown that neither economic- nor military strength prevent civilisations from vanishing.

Civilisations rise due to fortuitous circumstances, they generally crumble because they overlook or underestimate warning signals.

The European Union must heed the warning signals.

## **1. RESPONDING TO THE 21<sup>ST</sup> CENTURY CHALLENGES**

In view of the 21<sup>st</sup> Century's hyper-connected World and the digitalized global economy, the EU needs a comprehensive reality check and a consequent

### **GRAND DESIGN.**

The Grand Design should help the European Union to:

- i) Develop genuine political leadership reinforced by a realistic moral compass;
- ii) Reach agreement on an implementable shared long-term aim; and
- iii) Bring the “subsidiarity principles” for the EU–Member States interaction up-to-date.

## **2. WHY NOW?**

A more balanced composition of the European Commission and the democratic representation of citizens in the European Parliament have made a step in the right direction both regarding political diversity as well as gender- and age representation.

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<sup>31</sup> The Fundamental European Values are:

- Primacy of all human life: including equality of genders and equality of minorities;
- Rule of law: including equality of all citizens in- and under the law; and
- Democracy and secular governance: including autonomy of State and autonomy of Church.

It is the hope of The Global Round Table that the newly nominated, resp. elected, EU leaders will have the political courage, moral strength and intellectual maturity – while acknowledging the historic-, political- and moral genesis of the European Union – to take a fresh look at the EU concept rather than continuing with the piecemeal approach of problem management.

The new EU leaders now have the opportunity and the political obligation to address the current shortcomings of the EU project and to help its further development in view of the new realities of the 21<sup>st</sup> Century. It would support the EU's overhaul and modernisation.

Recognising this opportunity, The Global Round Table is issuing the present document.

**The document isn't a scientific assessment of the situation neither a set of recommendations; it lists issues that need more attention in the short-term while keeping focus on the EU's long-term ambition.**

### 3. A KEY QUESTION: EU QUO VADIS? <sup>32</sup>

The EU has achieved its aim for the 20<sup>th</sup> Century: 'Peace and Prosperity among its Members' for which it received the Nobel Peace Prize (*Attachment 4*). Now, the EU is missing a **long-term ambition for the 21<sup>st</sup> Century**.

The Brexit vote and similar evolving phenomena in other EU Member States are wake-up calls that signal an existential threat to the EU. The rise of anti-EU parties and sentiment, together with a general distrust in the EU, are parallel red-flags – and in our opinion reflect political autism of many leaders and elites.

The EU must find and agree on a shared long-term ambition. The kind of society EU citizens do wish to live-in today and leave behind to their children and grandchildren:

Which approach will the EU choose?

- i) A Union of '*Multi-Ethnic Grandeur*' based on the European way of life, the Fundamental European Values?
- or*
- ii) A Union of '*Multi-Cultural Colossus*' with parallel, fragmented competing sub-societies with core values at odds with each other?
- or*
- iii) A '*Laissez-Faire Approach*' Union leaving things to run their own course without interfering?

### 4. INCONVENIENT THRUTHS

Besides its numerous achievements, the following issues have so far received at the EU level insufficient attention at best – if not overlooked completely.

Some of these could become an aggravating 'ticking bomb' with time and weaken the very fundament and the political- and emotional cohesive force within the Union:

#### I. DOUBLE STANDARDS

Intentionally or unintentionally, the EU has (and still is) at numerous occasions exercised double standards towards its Member States.

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<sup>32</sup> The Global Round Table wish to pay respect to Prof. Antoni Kuklinski (1927-2015), a distinguished Polish scholar and academic teacher, who has inspired many and was among the first to consider the direction of Europe in the 21<sup>st</sup> century under the motto: "Europa Quo Vadis?".

Without throughout knowledge of the individual Member States' histories and fully understanding their deeply rooted national and local traditions, double standards will remain a disturbing factor and are weakening the Union.

## II. INDIGENOUS MINORITIES

The complex issues surrounding Europe's *indigenous (historical) minorities* are still largely neglected and remain a moral blemish on the EU. This could either be intentional due to their political sensitivities or unintentional due to various political leaders' limited historical understanding – or both.

The indigenous communities are millions of people in Central-East and South-East Europe that, following various rounds of international highest-level bargaining during the 20<sup>th</sup> Century and remaining stationary, have found themselves in new countries as a consequence of national borders movements on maps.

## III. ROMA POPULATION

Another sensitive issue within the EU territory are the millions of *Roma population* whose ancestors migrated to Europe in the Middle-Ages.

Many of them have not fully integrated and remain 'invisible people' often living in ghettos in deplorable conditions.

## IV. CHILDREN LEFT BEHIND

Since Central-East / Eastern European countries joined the EU, millions of their adult population have moved to Western Europe for better paid work. This development has created a 'vacuum' at home leaving entire communities without any adults of working age and causing considerable hardships within the families themselves.

Estimates suggest that half-million (or more!) children are left behind with at least one parent abroad. Today children with one or both parents abroad can be found all over in the Baltic States, Bulgaria, Poland and Romania.

## V. ANNOYING DISTURBANCES

The 'fake news' – i.e. a deliberate and targeted act of disinformation, effectively 'weaponized information' – are a modern form of warfare. Any form of fake news can be damaging; purposely instrumentalised ones are alarming.

Via fake news, uncontrolled forces and actors from within- and outside Europe, including world-dominant finances, are attempting to influence the EU's democratic governance. Recently these forces have become even more active in connection with the uncontrolled migration, Brexit, and the latest European Parliament election.

The free flow of information via internet ('digital freedom') provides unlimited opportunities to undertake information warfare and manipulate citizens. Open societies like the ones in the EU Members States are particularly vulnerable.

## VI. CHANGING GEOPOLITICAL LANDSCAPE

The US Central Intelligence Agency has in 2001 cautioned that future migration from South to North will reshape the geopolitical landscape in the Northern Hemisphere (Attachment 3).

It can be expected that the magnitude of future migration triggered by large-scale environmental degradation and over-population will go much beyond the current one across the Mediterranean.

## 5. RIGIDITY OF THE EU CONSTRUCTION

The EU is inadequately equipped to recognise and adequately respond in a timely manner to unforeseen developments, that is deviation from expectation. This is an inherent structural problem from its genesis.



The 'Balkan Conflict', 'Financial Crisis', 'Arab Spring', 'Ukrainian Crisis', 'Islamic State', etc. seem to have taken European political leaders by surprise and the EU response has been confused at best. Lack of adequate response to the massive influx of people into Europe from other culture regions is another example of the EU's operational weakness.

While the US-CIA did foresee the coming migration crisis several years earlier than it actually happened, the EU leaders were and are still hesitating how to respond efficiently to this external challenge.

## 6. PROMISES

Ms. Ursula von der Leyen, the incoming President of the European Commission, stated at the European Parliament at her nomination (16 July 2019):

*"... The trust you place in me is confidence you place in Europe. Confidence in a united and strong Europe, from east to west, from south to north. The confidence in a Europe that is ready to fight for the future rather than fight against each other ..."*

In turn, the newly elected President of the European Parliament, Mr. David-Maria Sassoli, stated in his acceptance speech (3 July 2019):

*"... We must have the strength to relaunch our integration process, changing our Union so to be able to respond more strongly to the needs of our citizens and give real answers to their concerns, to their increasingly widespread sense of loss ... We are immersed in momentous transformations: youth unemployment, migration, climate change, the digital revolution, the new World balance, just to name a few, which need new ideas and courage..."*

The above statements are confident promises to move forward with determination for which inspiration is suggested in *Attachment 2*.

It is the hope of The Global Round Table that the present concise document will serve a modest supporting role in the process of the necessary renovation of the European Union.

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### THE OVERRIDING CONCERN: WHAT SORT OF RENOVATION?

Improvements YES – Destruction  
NO.

The EU MUST remain a Union of shared values.

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## LET'S BE PROUD OF ACHIEVEMENTS ...

The EU has achieved its aim for the 20<sup>th</sup> century: **Peace and Prosperity among its Members.**

– **Now the EU must save itself.** –

The Brexit vote in the UK and similar evolving phenomena in other EU Member States are wake-up calls that signal that the very existence of the EU is under threat. The rise of anti- EU parties and sentiment, together with a general distrust in the EU, are parallel red-flags – and also reflecting political autism of many leaders and elites.

The EU must agree on a shared long-term ambition. Moreover, the EU must renovate its institutions, making them more transparent and useful not only to its own citizens, but also to other European democracies like Iceland, Norway, Switzerland, the UK, and prospective new Member States like Albania, Bosnia-Herzegovina, Kosovo, Makedonia, Montenegro, Serbia.

The EU must realise that neither naïve humanity, nor political correctness, nor selfish economics will deliver the right answers to the current complex of challenges, nor can the EU save the rest of the World in all matters – the EU must choose priorities critical to its existence, while:

- *Reminding* that contemporary European cultural identity was laid-down by the Greek and Roman civilisations. Celtic, Slavic and Arab cultural influence have offered positive contributions. Christianity and Judaism have supplied the basic moral principles that have been renewed and rationalised by the Renaissance, Reformation and the Enlightenment;

- *Reminding* of one of the EU's founding fathers' vision that the cornerstone of the European integration project must be based on Europe's cultural identity. Essential values to Europe explicitly include:

- Primacy of all human life: including equality of genders and equality of minorities;
  - Rule of law: including equality of all citizens in- and under the law; and
  - Democracy and secular governance: including autonomy of State and autonomy of Church.
- *Considering* that EU Member States belong to the same civilisation of European democratic families but historically they underwent different paths to the current situation;
- *Considering* that the EU is the most successful construction in the history of Europe to nurture peace and co-existence while respecting the right to self-determination of nations and peoples;
- *Considering* that the EU has helped free Spain and Portugal from dictatorships and Central and Eastern Europe from the control of the former Soviet Union;
- *Insisting* upon the importance of EU's continued leadership in the struggle to combat global climate change and similar challenges;
- *Recognising* that the EU is facing new challenges some obvious and predictable; while others have arisen with little- or no forewarning;
- *Reaffirming* the legal and moral obligations of all EU Member States to aid and assist legal refugees as defined under United Nations Charter Provisions;
- *Recognising* the evolving global demographic trends, and in particular the scale of uncontrolled migration from the Middle-East and Northern-Africa into the EU territory is stretching political cooperation and public opinion to the breaking point (see p.4);
- *Recognising* that the perceived global post-Cold-War geo-political stability is under threat;
- *Recognising* that the EU needs to recover the necessary moral strength and political wisdom to meet external- and internal challenges and to continue its historic journey as a democratic, peaceful and prosperous entity;

- *Recognising* that ambitious EU initiatives (“*New Start for Europe*”, “*Lisbon Strategy*”, “White Paper on the Future of Europe”, etc.) are often not readily understandable nor emotionally accessible to the general EU public;
- *Utilising* the opportunity offered by the renewal of the European Parliament’s composition and the European Commission’s composition to introduce the necessary improvements in the EU’s structure and operation;

**The EU must be renovated to efficiently meet the challenges of the 21<sup>st</sup> Century.**

**Attachment 2**

### **... AND MOVE FORWARD**

The following broad issues could provide inspiration to the European leaders in connection with a throughout renovation of the European Union.

#### **A. COMMON CONCERN**

- Is information provided to citizens and media sufficient, transparent and understandable?

#### **B. INTERNAL AMBITION TOWARDS CITIZENS**

##### **More Solidarity**

- Reaffirm that responsibility towards the EU’s own citizens will always have first priority?
- Enhance efforts to resolve the predicament of the large number of unemployed EU citizens (more than 26 million at peak, more than the population of the seventh largest Member State)?
- Enhance support to Member States’ efforts in alleviating suffering of EU citizens in need, including the growing number of elderly?

##### **More Transparency**

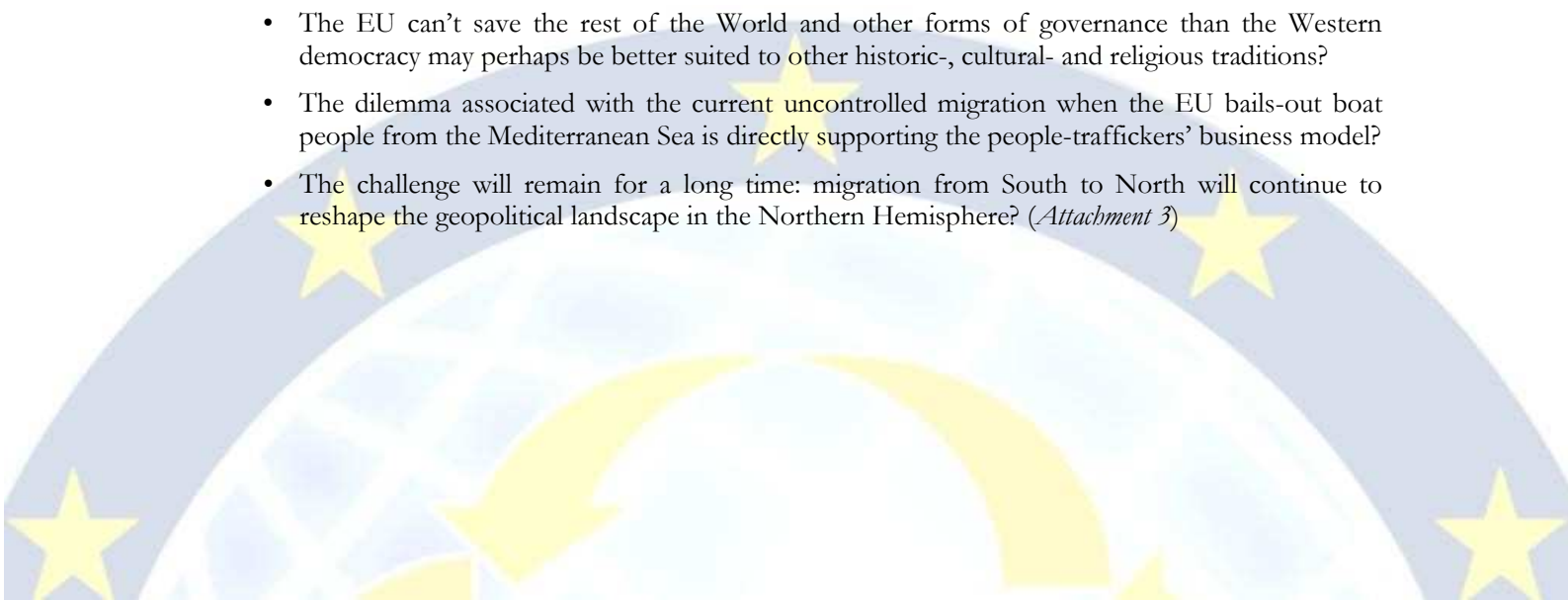
- Involve citizens more actively in EU policy-making through the European Parliament, Economic and Social Committee, and Committee of the Regions?
- Educate and involve youth in the democratic process of the EU from an early age?
- Opening the European Council meetings to the press when not directly violating national security considerations?

##### **More Understanding**

- Re-examine the EU’s responsibilities (institutions and agencies) towards the Member States?
- Re-examine the Member’s responsibilities in performing the common European goals and policies on regional, national and local level?
- Modernise the EU institutions, their operation and information towards citizens?

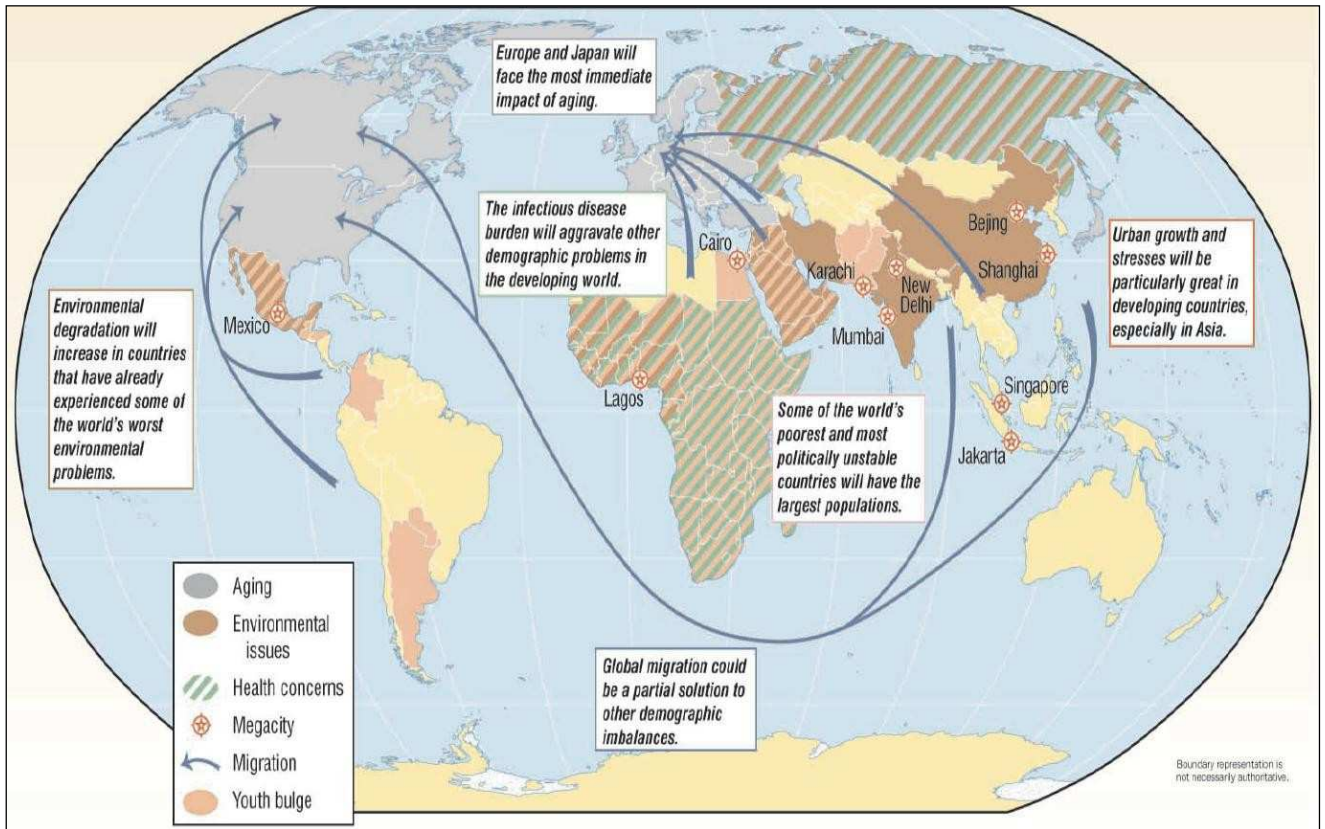
#### **C. EXTERNAL AMBITIONS TOWARDS THE WORLD**

- The EU can’t save the rest of the World and other forms of governance than the Western democracy may perhaps be better suited to other historic-, cultural- and religious traditions?
- The dilemma associated with the current uncontrolled migration when the EU bails-out boat people from the Mediterranean Sea is directly supporting the people-traffickers’ business model?
- The challenge will remain for a long time: migration from South to North will continue to reshape the geopolitical landscape in the Northern Hemisphere? (*Attachment 3*)



Attachment 3

SNAPSHOT OF GLOBAL DEMOGRAPHIC TRENDS AT THE TURN OF 20<sup>TH</sup> TO 21<sup>ST</sup> CENTURY.



Source: US Central Intelligence Agency [https://www.cia.gov/library/reports/general-reports-/Demo\\_Trends\\_For\\_Web.pdf](https://www.cia.gov/library/reports/general-reports-/Demo_Trends_For_Web.pdf) (July 2001)

**WARNING:**  
**MIGRATION FROM SOUTH TO NORTH WILL CONTINUE TO RESHAPE THE GEOPOLITICAL LANDSCAPE IN THE NORTHERN HEMISPHERE.**



## Attachment 4

**THE GLOBAL ROUND TABLE IN THE EU CONTEXT**

The Global Round Table is an independent international non-profit organisation with the aim to identify new and emerging ideas of socio-economic importance; improve the level and quality of information available to economic- and political decision-makers; inspire civil society leaders and the young generation.

The letter below by the President of the European Commission refers to the four-year worldwide campaign "NOBEL PEACE PRIZE for the EU" of The Global Round Table that led in 2012 to the award of the Nobel Peace Prize.

The spiritual and intellectual inspiration is through its International Board, a group of eminent personalities that includes: Mme Katalin Bogyay, President of the 36<sup>th</sup> General Conference of UNESCO; Dr Erhard Busek, former Vice Chancellor of Austria; Prof. Emil Constantinescu, former President of Romania; Viscount Etienne Davignon, former Vice-President of the European Commission; Mr Mark Dubrulle, President of The Club of Rome EU Chapter; Prof. Mark Eyskens, former Prime Minister of Belgium; Prof. János Martonyi, former Minister of Foreign Affairs of Hungary; Prof. Mohan Munasinghe, 2007 Nobel Peace Prize Laureate; Prof. Ivo Slaus, former President, World Academy of Art and Science; Bishop László Tőkés, former Vice-President of the European Parliament; Prof. Vaira Vike-Freiberga, former President of Latvia; Mr Niels Wilhjelmsen, former Minister of Industry of Denmark.

Due to the nature of its work, The Global Round Table doesn't occupy a dedicated Internet position.



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## **A GENERATION OF ENTREPRENEURS LOST? OR CAN THEY BE FOUND INSIDE CORPORATIONS?**

### **ABSTRACT**

After the Lisbon Euphoria about the idea of entrepreneurship as a problem solver for slow growth, the European Union has suffered from a long-term hangover: Young people's participation in entrepreneurship is declining all over Europe. Daniel Calleja Crespo, at that time Deputy Director-General of DG Enterprise and Industry and special envoy for SMEs, said in 2012 that action was needed "swiftly" to prevent Europe from "losing an entire generation of entrepreneurs", pointing to data showing that the number of young entrepreneurs in Europe was well below that of the US.

He was not the first and will not be the last to insist repeatedly that a new strategy is urgently needed to boost young entrepreneurs in Europe. In 2018, the difference between the Total Early Entrepreneurship (TEA) rates of USA and EU has even increased, compared to 2012. What are the reasons for the failure of the attempts of the EU countries to increase the number of start-ups? Let us have a look at the situation in Germany where we found a TEA rate of 5 % in 2018, compared to nearly 16 % for the USA, and about 8 % for the EU.

**Key words:** Total Early Entrepreneurship rate in Germany, generational problems of entrepreneurship, entry barriers to the knowledge-based economies, corporate entrepreneurship - intraentrepreneurship

**Jel Classification:** L26, O12

### **1. The situation in Germany**

German statistics show that the number of full-time start-up activities has nearly continuously dropped from 2002 to 2017, when it reached the lowest point ever at about 1 % of the 18 to 64 years old population. Only in 2009/10 the number had raised for two years because of the bad job opportunities during the financial crisis.<sup>i</sup> At the same time, the training facilities for entrepreneurs – either academic or not-academic – have considerably expanded, but the demand for entrepreneurial training is lower than ever, and below the EU average.<sup>ii</sup> In 2017 only 9.800 people participated in start-up seminars provided by the chambers of commerce, compared with nearly 60.000 in 2004. The number of first-time contacts to the chambers related to start-up issues dropped from 320.000 to 152.000 during the same period.<sup>iii</sup> Most of the 9.800 participants had booked the courses because they felt a lack of alternative job possibilities, e.g. they belonged to the group of "necessity founders" who were not really convinced of a positive perspective of their project. Obviously, the scouting and training system for early entrepreneurs has not been able to attract enough people being positively motivated by the chances of an entrepreneurial career.

All surveys indicate that the lack of training or training capacities nowadays is not the main real obstacle to the attempts of increasing the numbers of start-ups. Many observers focus the demographic situation as the main impediment to foster youth entrepreneurship.

### **2. A generational problem?**

Europe is an aging continent, and as we know from GEM surveys, knowledge-based economies with an unfavorable demographic situation like Japan, Germany or Italy have lower start-up activity rates than e.g. the USA. The average age of the start-ups is still increasing in most European countries. In Germany, it is about



39 years, and the peak of the founding activities is moving upwards towards 35 years. About 28 % founders at the age of 45 to 64 years.<sup>iv</sup> Are those founders less innovative than the younger ones?

Jeff Bussgang, a Harvard Alumni and Partner at Flybridge Capital Partners posted a commentary in the Business Week in 2010<sup>v</sup> where he referred to the question of “best age” of start-ups: “I’ve been worrying lately that we are suffering from a lost generation of entrepreneurs... when I read what *Sequoia’s* [a VC company] Doug Leone ... claimed that only people under the age of 30 are truly innovative. Over 30 folks can manage innovation, Leone observed, but you need to be under 30 to create it. [...] Here’s my worry: when I was under 30, I had the opportunity to be a part of a rocket ship start-up (Open Market), that promoted me into an executive team position of a public company in my 20s. The lessons and skills from that experience inspired me to delude myself into thinking I could be the founding president of another start-up, *Upromise*, when I was 30. At the time, when I looked around at my peers and friends, they were all doing the same thing at a similar age. [...] During the period of 2001-2009, there have been very few substantial start-ups built to allow that generation’s 20-somethings to learn and develop company-building skills. As a result, we have a lost generation of entrepreneurs. [...] I think once you’ve seen some success in your 20s, you are that much more likely to be a strong entrepreneurial advocate, mentor and serial starter in your 30s. When my partners and I tried to develop a list of today’s under 35 entrepreneurs who had started companies and seen meaningful success with them, it was a depressingly short list.”

The situation in Germany seems to be even worse. In an EY study of 2008 (before the crisis), 61 percent of German students indicated that a secure job is the most important criteria of their vocational choice. 30 percent of the participants of the study (and even 36 percent of the female) would strive for a job in the public service.<sup>vi</sup> After the crisis of 2008, the need for security has even increased.

This generation has experienced a long phase of economic prosperity. A typical young German of about 30 years with a sufficiently good (not necessarily very good, and sometimes even exotic) educational background has never suffered from the impact of a heavy economic crisis or long-term unemployment. After he left school, he was promised a good job. If he went to university, he got a job as young professional in corporate management or public services. After finishing his vocational training or academic studies, he just dropped in the German export-boom that was enforced by the introduction of the Euro. The short dot.com crisis of 2001 was already forgotten when he left school. However, he would be afraid of the entrepreneurial risk compared with the chances of a well-paid corporate management job, as he has never learned to deal with insecurity.

While American entrepreneurs have had successful icons like Steve Jobs since decades, many young German founders failed during the crisis of 2001, or that of 2008-12, but did not ever make a second attempt. This has also to do with the lack of icons in Germany. The young professionals and well-trained technical specialists tried to make use of their experiences in big corporations, or sold their early phase start-ups to these corporations, sometimes becoming managing directors of new business units that they developed based on their entrepreneurial ideas. They do not act as entrepreneurial role models but as role models for successful careers in corporate management. Lots of creative young people have been absorbed by the corporations who profited from their creativity. They were needed by the elder generation of managers who knew little about technology but gave the younger excellent chances on well-paid jobs.

### **3. Rising entry barriers to the knowledge-based economies.**

While excellent young entrepreneurs who failed in the early 2000s could be easily absorbed by industrial and service corporation like Telekom, Siemens, Bosch, Merck,<sup>vii</sup> etc., the German VC withdraw from financing early stage start-ups. They would no longer look for twenty-and-some years old people willing to run a start-up while burning VC cash. Instead, they would focus on second or third phase start-ups that have already passed the first critical stages with a good market perspective but would not find many of them.

Thus, potential young entrepreneurs do not any longer find VC in the German knowledge-intensive economy. On the contrary, they would be exposed to a rough competition if entering the market. This competition would force them to give up early, perhaps after having programmed some apps. Paradoxically, their most important competitors are sophisticated and experienced elder engineers, IT and sales managers or other businesspeople (of 40 or 50+ ...) who have become entrepreneurs by necessity or were supported by their companies. Perhaps they have not been as excellent in Web or mobile applications as the younger ones are, but they know the markets and their own strength and risks, and they are not driven by a hype but based on rational calculation. While young early-stage start-up founders are often absorbed by corporations because of their skills, elder professionals who have been lost their jobs or are outsourced, create start-ups while using established contacts. This paradox has contributed to the high average age of German startup-founders.

The VC companies have contributed to this problem by applying arbitrary standards for identifying the next great entrepreneur rather than leveraging their skills to identify and promoter the next great idea at an early stage.

Of course, the actual situation in Southern European countries like Spain or Greece is different from that in Germany. The educational background of young people is not as good as in Germany, or at least their education has not been practically oriented. The investment of the early 2000s in Southern Europe went in concrete, not in the heads. An unskilled Spanish laborer of nowadays about 30 years might have got a well-paid job on a construction site in 2005 which he lost already in 2009. The same could have happened to a Greek girl in the tourism industry. Now both could be still unemployed, having neither valid skills or leadership experience, nor entrepreneurial experience. But the consequences for entrepreneurial activities, measured in TEA quota, are the same as in Germany in spite of a completely different economic situation. And as the Mediterranean countries do not have as many good industrial jobs as are existing in Germany, the younger people strive to find secure employment in the public service that has downsized since 2008 and is dominated by senior employees.

#### **4. What can be done?**

We are observing that big German corporations more and more admit and even boost entrepreneurial activities inside, i.e. they have developed strategies *corporate entrepreneurship* or *intrapreneurship*. As the number of start-ups with promising ideas that can be acquired is limited, the corporations have to care for their renewal of technology and business models from inside. Experienced and successful engineers or salesmen who threaten to leave their employers are often kept by giving them the chance of becoming shareholders and heads of a subdivision or subsidiary, or joint partners who can operate relatively independently on the market, supported by capital or purchase or supply agreements with the mother company. If they are successful, they can eventually increase their shares of the subsidiary, or they will be offered a pay-off some day. If not, they have the chance to continue their work as an innovative but experienced start-up from the beginning. Anyhow, they often have can stay within the network of the mother company, while their work is closely supported, tutored and controlled. The advantage for the corporation is that they save capital, while avoiding putting their bread-and-butter business at risk through experiments within the existing organizational structures.

Corporate entrepreneurship can be the key to develop dynamic entrepreneurship in a traditional industrial environment like the German, without copying the Silicon Valley model. It could provide chances for experienced and well-trained people of 35+ to build up an innovative organization within an existing business to test the market and realize new business models.

#### **5. Chances for those who are “just wishing to do something useful”**

Many members of the 1990+ generation are less interested in making as much money as possible but starting “mission-focused” organizations. While the early 2000s may not have been a good time to start a business, the crisis has not kept young people of conviction and without business education from starting nonprofit organizations and social ventures. They would not try to compete with established high-tech companies, or



copy the Silicon Valley style of start-ups, but materialize another type of dream than commercial start-ups do. In the German non-profit sector we find similar tendencies as described before. Big charitable organizations tend to outsource activities than could be performed at market conditions. Start-ups in this field could on social and health services, or counseling. Due to the downsizing of public investment in social services and urban infrastructure (which is a problem not only in Germany), the marketization of these services provides chances for start-ups that invest their profits in the extension of such services. However, this is not a field of activity for twenty-and-some years old. The challenges of the climate change will create new opportunities for eco-entrepreneurs, aiming at the transformation of existing commercial or public organizations *within* their structures.

## 6. Conclusion

The high average age of German founders and the low number of early entrepreneurship activities should not be considered as a drama. It can be explained by the pattern “first employment, then entrepreneur”. This pattern can be observed in an increasing number of countries.<sup>viii</sup> The TEA rate is not a very useful tool for intercultural comparison even of knowledge-based economies, and the demographic situation does not explain all the differences. The TEA rate conceals the fact that in Germany many forms of entrepreneurial are developing among professional employees inside corporations and non-profit institutions. This means that the modernization of German industry does not follow the Schumpeter paradigm of creative destruction. Entrepreneurs are much more embedded in existing industrial and social structures than e.g. in the Silicon Valley model.

The latest GEM studies include these types of entrepreneurship called "Entrepreneurial Employee Activity" (EEA).<sup>ix</sup> The EEA rate is defined by the rate of the 18 to 64 years old people who have been included in entrepreneurial activities during the last three years. Although this definition is very broad, including participation in the development of new products or services or in the organization of new business units, ERENET should have a closer look at these activities in the future. Obviously, many corporations have successfully incorporated and integrated a creative entrepreneurial potential that is depending on a strong organizational framework and capital to realize their ideas. I propose to speak of “Embedded Entrepreneurship”,<sup>x</sup> as Alexander Ebner does, and extend the Schumpeterian approach by an institutionalist and comparative perspective on the national regulation systems.

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## FOOTNOTES

<sup>1</sup> Kreditanstalt für Wiederaufbau (KfW): KfW Gründungsmonitor 2019. Gründungstätigkeit in Deutschland stabilisiert sich: Zwischenhalt oder Ende der Talfahrt? Frankfurt 2019, p. 2.

<sup>2</sup> European Commission: SBA factsheet 2018, S. 7.

<sup>3</sup> Deutscher Industrie- und Handelskammertag (DIHKT): DIHKT- Gründerreport. Endlich mehr Gründungsinteresse – Politik muss jetzt liefern. Berlin 2018, p. 9.

<sup>4</sup> Data from de.statista.com, 2018.

<https://de.statista.com/statistik/daten/studie/183850/umfrage/unternehmensgruender-nach-altersklassen-in-deutschland/>

<sup>5</sup> Business Week, 27th January 2010.

<sup>6</sup> Junge Akademiker wollen mehr Sicherheit als Geld. In: FAZ, 8th September 2008.

<sup>7</sup> Companies like Merck provide opportunities for young professionals to present their creative ideas and develop them within the framework of and support by the mother organization.

<sup>8</sup> Philipp Sieger, Urs Fueglistaller, Thomas Zellweger, Ilija Braun: Global Student Entrepreneurship 2018: Insights From 54 Countries. GUESSS Global Report, St. Gallen 2018.

<sup>9</sup> GEM 2018/2019: Intrapreneurship in Deutschland und im internationalen Vergleich. <https://www.rkw-kompetenzzentrum.de/gruendung/blog/gem-20182019-intrapreneurship-in-deutschland-und-im-internationalen-vergleich/>

<sup>10</sup> Alexander Ebner Embedded Entrepreneurship: The Institutional Dynamics of Innovation, London, New York: Routledge, 2016

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**SMART BUSINESS CONCEPT PLANNER -  
How will you make it?****ABSTRACT**

This is your story about your new business to tell. First, you tell your business idea in nutshell and introduce yourself in your *Idea Elevator Pitch* as if you want to apply for an entry ticket to the entrepreneurs' club. In the second step, you tell your business story in the *Draft Business Concept* as you imagine your business before you have all the details and reality check for requesting support to further develop your business case. Third, you elaborate your *Validated Business Concept* with collected facts from your market research, competitive and industry analysis, prototype/preTOTYPE testing, detailed financial calculations, pivoting to find the right direction and being prepared to go forward on your way to build a real successful business worth telling about.

If you follow the signs "along the yellow lines", just answer the questions and you can easily write and tell your business story.

You may stop anytime any point of your journey to get some rest, talk to people who might help, collect more information, making some research and get back to continue your walk.

Purpose: You have a business idea either because not only you recognized a market need, but you found the solution as well, or you worked hard and developed a great something, which may lead to be a great product for many people. You have at least two questions to be answered:

1. Is it really a great business opportunity? 2. How can you make it a viable and feasible business?

Most cases you are an expert either the product side or the business side of the new venture and sooner or later you recognize that you need more complex approach to pursue the recognized business opportunity and develop it as a successful business venture. So, you need some help to integrate various perspectives into a coherent perspective and a systematic methodology.

Design/methodology/approach: In the last 9 years more than 2200 students got the assignment to build business model using one of the tools. We were evaluating the quality and the content of the student home works, and tested our new concept. June 2019 we release a new online tool in English, and we will collecting feedback from users.

Findings: In this methodology, instead of using the Business Model Canvas, another model, the Business Concept with six major building blocks was used. The model was further developed as a standalone tool called Business Concept Map published in a 'How to cook type guidebook' (Vecsenyi, Petheő 2017).

Research/practical implications: Vecsenyi (2011) developed a website ([www.startmybusiness123.com](http://www.startmybusiness123.com)) to support students and other future entrepreneurs to develop their business concept, analyze risks and make an educated decision on stopping, postponing or starting the implementation of their business idea.

Originality/value: In this paper we would like to define, compare and differentiate the three tools. We would like to share our experience of using the tools by early adapters.

**Keywords:** Business Model Canvas, Lean Canvas, Business Model Concept, Entrepreneurship Education,

**JEL Codes:** L26, M13, L21

## 1. INTRODUCTION

During the last decades business model emerged as a popular term in management and entrepreneurship. Those who wanted to have a better understanding of the operation of any organization developed concepts and tools. As early as the 1960s to the 1980s during the hype of systems movement Soft System Methodology emerged. At that time a great tool, CATWOE, was developed by Checkland and colleagues (Checkland 1981).

Although the CATWOE tool was first introduced in 1981, there are signs that it is still in use at least by business analysts in design thinking (Elmansy 2014). CATWOE is a simple checklist of thinking used by people „to identify what the business is trying to achieve, what the problem areas are and how the solution is going to affect the business and people involved in it” (Pandey 2011). It is worth listing the elements of the tool and recognizing the similarities of elements in later tools.

1. Clients/Customers
2. Actors
3. Transformation process
4. Weltanschauung or World-view
5. Owners or ownership
6. Environment

## 2. PROBLEM IDENTIFICATION AND BASIC PRINCIPLE

With the internet bubble attention turned to understanding the successes and failures of e-businesses. Experts in the field wanted to explain how these ventures make business. In a narrower sense, business models research focused primarily on the revenue stream, the way the business generates any kind of income. Business models were defined from the classical product or service direct sale through subscription, razor and blades, crowdsourcing, brokerage, to freemium (Barakonyi, 2008, Ovans 2015)

Other experts broaden the picture and consider business model as description of how an existing or a future organization creates, delivers and captures value in an uncertain environment. The breakthrough happened in this field when Osterwalder (2004), Osterwalder and Pigneur (2010) combined the two approaches: revenue generation and value creation.

Based on the increasing relevance of useful business models, tools were developed to support managers, consultants, students, nascent entrepreneurs to solve their business problems of existing and new ventures. The tools were designed to help the users design, validate and improve business models and related business strategies either of existing firms and in the entrepreneurship arena creation new companies.

When startup and venture capital financing hype emerged the role of business plan received a kind of new perspective. Traditional venture capitalists, who wanted to minimize their risks, insisted to use extensive business plans with ample market research and financial data organized neatly in spreadsheets as a great tool of communication among stakeholders. At the same time potential investors wanted the new venture creators to be prepared based on educated decisions other than hunch. Consequently, new venture creators prepared a business plan to create a document for themselves, their key staff members and potential investors as a convincing, credible and comforting document (Bygrave 1994, Vecsenyi and Petheő 2017). At the same time, quick decision makers argued the usefulness of such an extensive business plan and wanted to have better tools.

Some practitioners even went further to challenge their right to existence. Personally, we do not share this opinion. We believe that business plan is a useful tool, but it has some limitation which might be corrected by other forms. One of the facts which makes business plan old fashioned, that business plans take too long to write, are seldom updated, and almost never read by others. By the time the 100 pages long business plan attached to a 5-year spreadsheet with numbers that all show a tendency to grow in a neat diagram or chart is ready, the window of opportunity is nearly closed. Decision makers are not wasting their time to read long business plans. So, they need other solutions. One type of answers to this challenge is to use business models as a one-page business plan.

We agree that documenting entrepreneurs' hypothesis is the key to understand success. We agree with Maurya (Maurya 2012) "Document your key business model assumptions (and learning) in a portable format that you can share and discuss with people other than yourself."

We would like to present the Business Model Canvas, the Lean Canvas and Business Concept Map and highlight the pros and cons of using them to make the choice easier for future nascent entrepreneurs. We would like to investigate why these tools were introduced, what the purpose of the tool is and where and how the tool can be applied. In our view 'one size fits all' is not the right way to follow selecting the right business model tool, so everyone should select the one fits to its project the best.

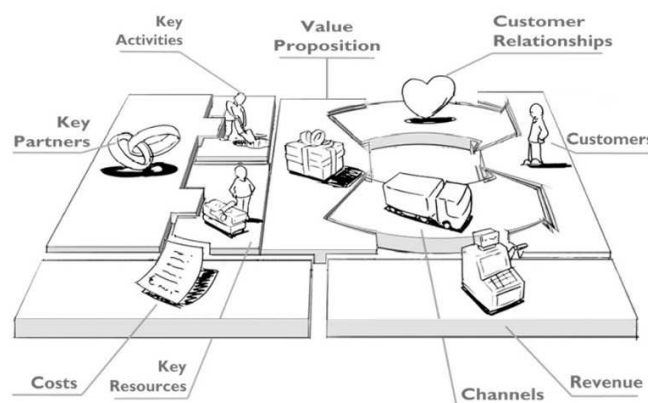
### 3. CONCEPT 1 BUSINESS MODEL CANVAS BY OSTERWALDER AND PIGNEUR 2010

After Business Model Canvas became very popular the two authors prepared a book to explain more thoroughly the tool. Their book simply answers the question: How to generate the business model for a business?

In our opinion the tool is a good option when somebody would like to describe an existing business. It helps to identify the major elements and does not require deep digging research. Later, somehow nascent entrepreneurs started to use the tool to describe a new venture. As most of the people know only this tool, the result is just a little above the satisfying level. Several questions in business model canvas cannot be answered without industry experience or considering a role model company.

However, this fact does not inhibit many nascent entrepreneurs to prepare their business model with the help of business model Canvas. We did the same in our courses.

**Figure 1. Business Model Canvas**



*Source: Osterwalder and Pigneur (2010)*

Why do so many people use the Business Model Canvas? We listed the major benefits of using the Business Model Canvas based on our practical experience with student assignments.

- easy to use with clear terms
- helps understanding the business model of an existing or a new venture
- helps revealing assumptions, helps to generate new business model
- easy access to the tool and explanations (home pages)
- access to examples
- popular, well-known almost everywhere

We identified the following weaknesses of the model:

- static model, hard to take trends into consideration
- growth potential, market size not part of the canvas
- less attention on competition

- entrepreneurial team is completely missing, which is a crucial element of startups, although in the resources section it can be mentioned
- no attention on special considerations of new ventures, e.g. investments needs, uniqueness of the value proposition, distinctive competence to create competitive advantages, outsourced competencies in creating values.
- do not support defining needs for change, no list of actions

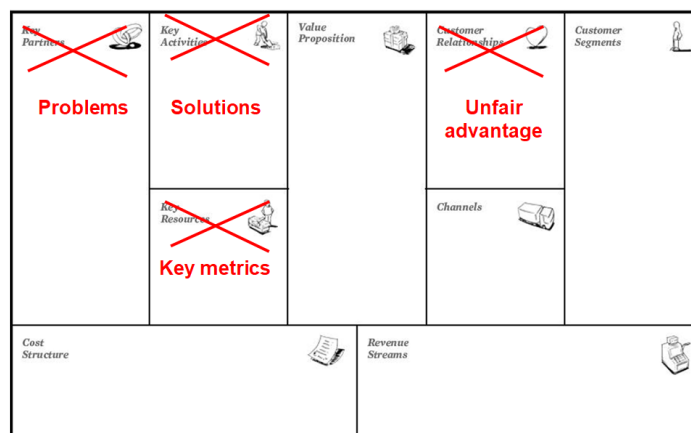
In addition to BMC Osterwalder and his colleagues further developed this tool, and added Value Proposition Canvas (Osterwalder and others 2014) which focuses in more detail the fit between value propositions and targeted customers.

#### 4. CONCEPT 2 LEAN CANVAS BY MAURYA (2013)

Maurya (2013) went even further and adjusted the Canvas to lean startup methodology. Maruya noticed that, due to emerging lean startup concept, highlighted by Blank (2005), Ries (2011), startupper started using the Business Model Canvas and Values Proposition Canvas more extensively. Working extensively with startupper and other new venture creators began using Business Model Canvas and Maruya optimized this tool for lean startups.

The Lean Canvas tool helps users to define key elements of the new business and key issues to handle. Lean Canvas was designed for entrepreneurs, not consultants, customers, advisors, or investors. It started that, the entrepreneur can greatly benefit by engaging all stakeholders while validating their Canvas. It is more specific than the Business Model Canvas. Usually custom models and tools fits better to user needs. From the original Business Model Canvas four elements out of nine were eliminated and four elements were added. The Lean Canvas finally covers the following nine elements listed here and shown in Figure 2:

**Figure 2. From Business Model Canvas to Lean Canvas**



Source: Maurya <https://blog.leanstack.com/why-lean-canvas-vs-business-model-canvas-af62c0f250f0>

The elements Maruya took out were either overlapping with other blocks or were not crucial factor of success. Customer relationship is already part of the channel. Key partners are hard to gain in the starting phase.

Maurya also changed the suggested route of filling Lean Canvas. Defining problems becomes the second step. Market segment and early adopters got special attention at first. Cost structure is not the last any more. Unfair advantage and key metrics got special focus as they are important to become sustainable and gain market share in the long run. As the original model is under creative common license, so everyone is invited to further develop.

In our opinion after testing it with students, Maurya’s version is very good with a focus shifted toward problems. He does not mention product, rather building solution and business model gets special attention.

Lean Canvas has many valuable features, which add value to the model. We suggest using it as focus on the critical elements starting a new venture. It is still very simple to use. It builds on the Canvas and keeps the clear form. It steps even further as integrates the new business formation terms like cost of customer acquisition (COCA), life time value of customer (LTV), early adopters. This model forces the user to make assumption explicit for validation, which makes it enhances its value.

On the other hand, according to our classroom experience, there is no place for competition in the model (opposite to the Porter model). Growth potential (scalability) is not handled at all. HR is not included, as also mentioned earlier in BMC. Initial funding is not mentioned anywhere in the model. The tool is weak in finance and concentrate more on technology, business model and project management.

## 5. CONCEPT 3 BUSINESS CONCEPT MAP BY VECSENYI (2011)

Teaching at Corvinus University of Budapest and Budapest University of Technology and Economics, Professor Vecsenyi wanted to improve the entrepreneurship education. In 2011 he developed an online platform where students could develop a short business plan using structured questions, financial planning tools, risk assessment methods, mitigation suggestions of entrepreneurs and other experts. Receiving feedback both from students, nascent entrepreneurs and other scholars, Vecsenyi developed Business Concept Map (BCM). When he formed his model, his purpose was very ambitious:

- helping smart new venture creation, define the business to start
- combine the business opportunity and value creation
- reveal assumptions for validation before developing products/ services
- provide a tool for investment pitching, give answers to questions of potential investors, partners
- create an easy to read one-page summary of major aspects of a new business

After several versions and fine tuning of the map, it arrived at a stage where more than 1200 concept formulated with its use. In our view, Business Concept Map helps to structure the business idea, and create an easy to read summary. We realized a side-effect that in the process several circles of preparing, validating and modifying the Business Concept Map answers to potential investors', product, market and business developers' questions were given. In the business concept map six major aspects of a new venture are identified. The first three define the core elements of a business opportunity, explain *why* the entrepreneur would like to pursue:

- The market need and target customers
- The value proposition and uniqueness (competitive advantages) the way the new business would like to satisfy that need
- The revenue stream and channels clarify what is the potential to generate money

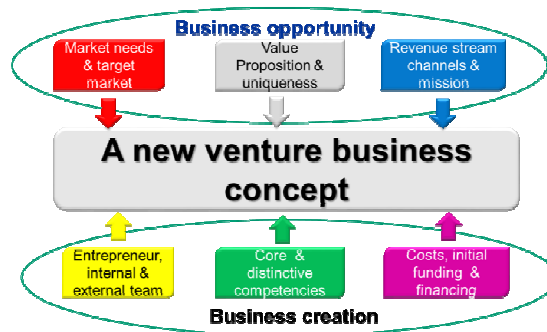
The other three elements cover the business creation condition, explaining *how* the entrepreneur would like to exploit the opportunity:

- The entrepreneur (owner) and the starting internal and external team
- The core and special competencies and resources
- Cost structure, initial investment and financing

The Construction of the Business Concept Map is presented in Figure 3.

This tool was found useful for those who would like to start small, traditional businesses, but start-uppers also considered it as vital tool. Here we present an example of how a sole proprietorship demonstrates the basic use of this tool.

Figure 3. The Business Concept Map



Source: Vecsenyi, Petheő 2017

Figure 4. Business Concept Map example

StartMyBusiness123™ Business Concept Map		
Name of the venture: Dorka Swedish massage		Date: 2011. Version: 1.2.
Owner manager and availability: Eszter Dóra, eszerd@gmail.com		
<b>MARKET NEEDS/ PROBLEMS</b> In modern lifestyle, increasing number of people looking solution to heal their physical pain, refresh their mind, spoil themselves.  <b>Market size and growth potential</b> No outside boundaries, but limited time is eternal constrain.  <b>Market segments and special needs</b> Individuals: smooth pain, recreation, fitness Corporation: increase well-being of employees	<b>VALUE PROPOSITION (PRODUCT/SERVICE)</b> Health and mental hygienic service. Swedish massage and pastoral care to refresh body and mind  <b>Uniqueness, competitive advantages</b> Friendly atmosphere Lifestyle and spiritual consultancy Complex massage programme. Health massage.  <b>Positioning and pricing</b> Strong competition Upper and of middle price category 5000 Huf/hour Budapest location	<b>REVENUE STREAM / BUSINESS MODEL</b> 80% comes from individuals 20% from corporations 300 000 Huf monthly  <b>Sales channels and methods</b> B2C: at home, facebook, word of mouth, coupon B2B: direct inquire, cold call  <b>Mission, vision of the venture</b> Willing to help others, Make her living and finance family expenses
<b>OWNER(S)</b> Sole proprietor. My aim is to raise my children with stable income. I do what I like, what I know well.  <b>Key staff members</b> I do not want to hire anyone else.  <b>External partners/ suppliers</b> Accountant Massage mentor Business mentor	<b>CORE COMPETENCES (INTERNAL/OUTSOURCED)</b> Main activity: massage, lifestyle consultant Outsource: book keeping  <b>Distinctive competencies</b> Personal skills (mental, physical)  <b>Fundamental conditions</b> Massage bed, Massage licence certificate, towel, massage creams, place for operation	<b>COST OF OPERATION</b> material cost: 40 000 Huf tax: 50 000 Huf retirement insurance: 15 000 Huf utility bills: 45 000 Huf Cost of living: 150 000 Huf Total: 300 000 Huf  <b>Initial funding needs</b> Massage bed: 40 000 Huf Creams, washing powder: 20 000 Huf Towel: 15 000 Huf Reserve: 60 000 Huf Total: 165 000 Huf  <b>Sources of funding</b> Own saving: 30 000 Huf Parental support: 165 000 Huf Total: 195 000 Huf

Source: Vecsenyi, Petheő 2017

During validation process the tools help to clarify why the business makes sense:

- Is there a real market need, are there real customers who are ready to buy?
- Is it the right product/service to satisfy that need and is it attractive enough for customers to buy it?
- Does it generate enough revenue through the channels designed and does this business fit your mission?

This model also has some weak points such as:

- It requires extensive market research on the field and deep analysis for validation (students find Business Modell Canvas easier to use, more user friendly model)
- It is a tool demanding more time and energy to fill out the template compared with the other two canvases
- It needs to have business mindset and vocabulary

Compared with the two other models, BCM covers additional aspects: growth potential and market size projections; competitive analysis and market positioning; mission statement or reason for existence; owner



entrepreneur(s), key personals, external partners, suppliers; legal conditions of existence; initial investments, funding and financing.

These aspects in addition to the basic elements of the BCM, cover several questions which nascent entrepreneurs / students have never thought of earlier.

## 6. RESULTS AND DISCUSSIONS

We are about to release a free online version of business concept planner. This planner has a very developed engine. It gives a sample case and a lot of option to choose the right answer for you own business. After every question, it provides a sample answer, and an explanation from your business coach. This way user can improve their business concept going through entire questions. They should not do it at ones. Users can stop any time asking others (experts, customers etc.) or doing further research.

Our new online toolkit which will help user to develop his/her idea to the next level and find out why, how and what kind of business does he/she want to create. This will be the *conceptualization phase* of new business creation entrepreneurial process.

Answering the online questions in this toolkit, use will be able to define his/her startup business concept, to set the direction of the new venture development, to reveal assumptions and to make decisions about next steps in his/her new venture creation process.

First, this tool helps user to fine tune the business opportunity he/she wants to pursue and second, define how the new business will be able to make it happen.

User has found a real business opportunity when value proposition product or service is

- FIT to a real market need
- SEXY to win your customers against competitors in the competitive environment
- MONEY-MAKER to generate growing revenue to at least sustain the business

Anyone can successfully pursue this business opportunity when its value creation venture has

- COMMITTED & COMPETENT founders, team members and partners
- CAPABLE & COMPLIANT with available human, technical, financial competencies which make your activities legally and ethically acceptable
- COST EFFECTIVE & FUNDABLE operation to survive the valley of death

This tool will help user to convince her/himself and supporters if she/she honestly answers the online questions. When users are uncertain they should consult mentors and team members.

### How to use this tool?

1. Visit the website of the tool (published soon)
2. Answer the questions in the box with grey shadows where you can find an example text which will disappear when you replace it with your text.
3. You can visit your e-business coach who will give explanation by clicking the icon if you want to have a deeper understanding of the question or more hints about the nature of the potential answer.
4. If you still are uncertain how to find the right answer you can follow a link to the Online Training Center where you can find more know how on the topic.

We believe that with these kind of tools we can reach many startups and young talented people. As we are very limited in free time, we cannot give advice too many people. This technology may escort early stage entrepreneurs to a certain point, where they discover what kind of help might they need. This can be part of the learning process and may show the way, how to become a professional player on a competitive market.

## 7. CONCLUSIONS

Recent years showed that these tools were not only published but widely used by

- students at their business or entrepreneurship courses
- practitioners, managers, consultants, analysts for improving existing firms
- entrepreneurs for clarifying business opportunity and business creation conditions

In new business creation these tools have not substituted business-plan but provided basic answers for investors' questions in a limited time. With the help of these tools the quality and clarity improved a lot. The tools helped nascent entrepreneurs/ students to have a better understanding of their business, to visualize their concept and use them as an easy to use communication tool with such stakeholders as decision maker managers, investors, or lecturers. The reasons behind authors introduced the Business Concept Map to help new venture creators/ students:

- to define the imagined new business with a practical structure that covers most relevant business aspects
  - to understand the business in creation, in addition to having an idea
  - to reveal assumptions for validation and generation of pivot decisions and follow up actions
- The major advantage of using Business Concept Map are as follows:

- almost full picture of the business in creation
  - the clear definition of the business opportunity
  - answers to most of the questions potential investors may have
- The use of Business Concept Map is limited since
- defining of a business concept requires the understanding of business terms and having at least a limited business mindset
  - developing, validating and modifying a Business Concept Map take time and energy prior to execution

Creation of the Business Concept Map is part of a 12-step process of starting a new venture from the idea to entering the market, as introduced in our recently published book (Vecsenyi and Petheő 2017). With this book and our courses at Corvinus University and Budapest University of Technology and Economic Sciences BCM became a reality in helping students and nascent entrepreneurs to identify business opportunities and to create conditions to pursue them. These tools are useful and highly recommended to have better business in our world. Developing new tools is a never-ending story. Just to give an example see Disciplined Entrepreneurship Canvas, Aulet (2017).

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**Mihály Vörösmarty statue** of the early 19th century Hungarian poet. For the 2019 Christmas the square was renewed and the status is covered by a glass cage.



**Zsolnai and Herendi triumph spring** at the Nádor Square erected in August 2019 in Budapest



Photo © by Dr. Antal Szabó

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## INDIA'S ENTREPRENEURSHIP POLICY: FUTURE TASKS AND VISION

### ABSTRACT

Entrepreneurs and free enterprises are crucial for economic independence. Mahatma Gandhi gave priority to revitalizing entrepreneurship from the grassroots so that there would be a strong community of entrepreneurs to rebuild India. However, after independence, Indian economy emerged as a mixed economic system, with a plethora of regulations, inspectors, rules primarily targeting the businesses and entrepreneurs. Even the reforms heralded in 1991 could not completely demolish regulatory overburden that strangles entrepreneurs.

Indian entrepreneurship policy framework and startup ecosystem has evolved over the years as one with potential to facilitate new venture creation at ease. The current ecosystem and reformed regulatory framework is much more entrepreneur and small business friendly. However, much needs to happen at the ground level. This article looks at how entrepreneurial ecosystem evolved and emerged in India. How was it envisioned and how it shaped up during the decades under various Indian governments? And it concludes with a note on future task and scope.

**Keywords:** Entrepreneurship; Startup ecosystem; Businesses; Reforms; Business incubators; Finance for Entrepreneurs

**JEL Classification:** M130; L51; L53; O3

### INTRODUCTION

Entrepreneurs and free enterprises are crucial for economic independence. Mahatma Gandhi gave priority to revitalizing entrepreneurship from the grassroots so that there would be a strong community of entrepreneurs to rebuild India. However, after independence, Indian economy emerged as a mixed economic system, with a plethora of regulations, inspectors, rules managed by a corrupt bureaucracy primarily targeting businesses and entrepreneurs. Even the reforms heralded in 1991 could not completely demolish regulatory overburden that strangles entrepreneurs.

It was connections, privileges, network and affiliation to the ruling politicians and officials that determined the fate of businesses. However, of late that scenario is changing. Starting a business can be much faster today. Registering a small business takes few hours including that of tax registration. There are many options to avail finance. All these were unimaginable a decade ago. In the earlier days, entrepreneurship, private sector and small business management were considered lowly vocations. Youth attitude towards entrepreneurship is also changing. Today there is a supportive environment, institutions, friendly business climate and finance available for entrepreneurs.

This article looks at how entrepreneurial ecosystem evolved and emerged in India. How was it envisioned during the pre-independence days? How it practically shaped up during the decades under various Indian governments? How the reforms and the industrial policies of 1990s and 2000s helped in the evolution of the current entrepreneurial and startup ecosystem and its present shape? And it concludes with a note on future task and scope.

### 1. ENTREPRENEURSHIP AND STARTUP ECOSYSTEM

Entrepreneurship development policy focus has to be on creating a favorable entrepreneurial climate and culture. It has to attract youth to start entrepreneurial ventures. A framework to equip, encourage and educate probable entrepreneurs with necessary skills to start and give leadership to their ventures is core to this. (UNCTAD, 2012; CIPE, 2014) At the policy level, there has to be reduced barriers to business entry. Facilitating of single window processes, reduced licensing requirements, simpler and easy compliance system are part of a better climate for entrepreneurs to pursue their mission. (UNCTAD, 2012)

Entrepreneurship education and training, on various aspects of management, accounting, facilitating seed capital and incubation facilities are all parts of an entrepreneurial and startup ecosystem. According to Mazzarol (2014), the term “entrepreneurial ecosystem”, the term help describe the conditions that could bring people ‘together and foster economic prosperity and wealth creation’. An entrepreneurial ecosystem have various elements, observes Isenberg (2010) which foster entrepreneurship, innovation and new venture creation. Following diagram shows major elements which are considered important elements in an entrepreneurial ecosystem.



Figure 1 Elements of Entrepreneurship ecosystem, adapted from Mazzarol (Mazzarol, 2014) of 2014

### Free enterprises and village entrepreneurs: Indian Entrepreneurship tradition

India has a strong entrepreneurship tradition. Traders, handicraftsmen, potters, handloom & silk makers-weavers, leather, agro focused manufacturing, a variety of artisan entrepreneurs, diamond and precious stone businessmen and many others formed its entrepreneurial and business tradition. (Roy, 2003) India used to have a major presence in international market. Export of high value products from India helped India dominate in the international trade scenario in the earlier centuries.<sup>xi</sup>

Indian spices were in much demand in the western markets, which prompted European expeditions. However, India's economy was a village oriented one, with its unique entrepreneurial eco-system, evolved over several centuries, which could accommodate and cater to the needs of its members, within the then social order, which was caste and community oriented.

However, during colonial rule, traditional village economic system declined with increased international exposure. Therefore, strengthening of village economy was one of the agenda pursued during Gandhi's time. (GHITRA, 1949) Charkka and Khadi were popularized, which represent entrepreneurship and economic freedom.<sup>xii</sup>



Figure 2: India's Traditional entrepreneurs and enterprise ecosystem

#### Features of traditional enterprise eco-system:

- Production for the need of the region/village
- Sustainable use of resources
- Principle of conservation in the use of products
- Role of castes/communities in manufacturing and delivery of various services
- Entrepreneurship culture
- Cottage, Micro and small enterprises
- Labor intensive techniques and technologies
- Dependence on rural money lenders
- Role of caste and community orientation in determining one's profession, business area and enterprise focus

#### Entrepreneurship development and private sector in the post independent India

During the post-independence era the policy orientations was to build an economy based on State Ownership. Indian State was the new entrepreneur. Many public sector units came up. For the private sector there was a different set of rules, which was based upon regulatory controls, licenses, power of inspectors, corrupt bureaucracy that shaped up India's business climate over the years. Starting up a business was practically a difficult task, except for individuals from business families (Rao, 2017).

Entrepreneurship policy was embedded in the industrial policy resolutions. In 1948, immediately after Independence, Government introduced the Industrial Policy. (Industrial policy resolution, 1948). After the adoption of the Constitution and the socio-economic goals, the Industrial Policy was comprehensively revised and adopted in 1956. To meet new challenges, from time to time, it was modified through statements in 1973, 1977 and 1980. (DC SSI, n.d.) This outlined the approach to industrial growth and development.<sup>xiii</sup>



**Figure 3 Entrepreneurial eco-system: Post independence era (before 1991)**

Post independent enterprise development approach was significantly public sector oriented. Within that mixed economy framework, there was a role for private sector large business houses and they expanded their businesses with State patronage, while atmosphere for new entrepreneur was still not good.

**Industrial development and Entrepreneurship policies in the post-independent pre-liberalized era: some highlights**

1948 : April 6	Industrial Policy Resolution New Delhi,	<ul style="list-style-type: none"> <li>• Development of Small and COTTAGE SECTOR emphasized</li> <li>• Highlighted cottage and small industries have a role in the national economy.</li> <li>• Small&amp;cottage sector work to complement LSEs</li> <li>• Recommendation to set up Cottage Industries Board as well as Cottage and Small Industries Directorate</li> </ul>
1956	Khadi and Village Industries Commission (KVIC)	<ul style="list-style-type: none"> <li>• Khadi and Village Industries Commission Act of 1956'</li> <li>• Promotion of khadi and village industries with other agencies engaged in rural development.</li> </ul>
1956: April 30	Industrial Policy Resolution	<ul style="list-style-type: none"> <li>• Stress on cottage and village and small scale industries as they provide immediate large scale employment;</li> <li>• Approach of restricting the volume of production in the large scale sector by differential taxation or by direct subsidies.</li> <li>• Focus on developing self-supporting SSI/cottage sector and they are integrated with that or large-scale industry.</li> <li>• Focus on technique of production and technological up gradation</li> </ul>
1977: December 27	Industrial Policy Statement	<ul style="list-style-type: none"> <li>• emphasis on decentralization and on the role of small-scale, tiny and cottage industries</li> </ul>
1980, July	Industrial Policy Statement	<ul style="list-style-type: none"> <li>• focus on promotion of competition in the domestic market, technological up gradation and modernization</li> </ul>

**Entrepreneurship climate and ecosystem before 1991: pre- liberalization**



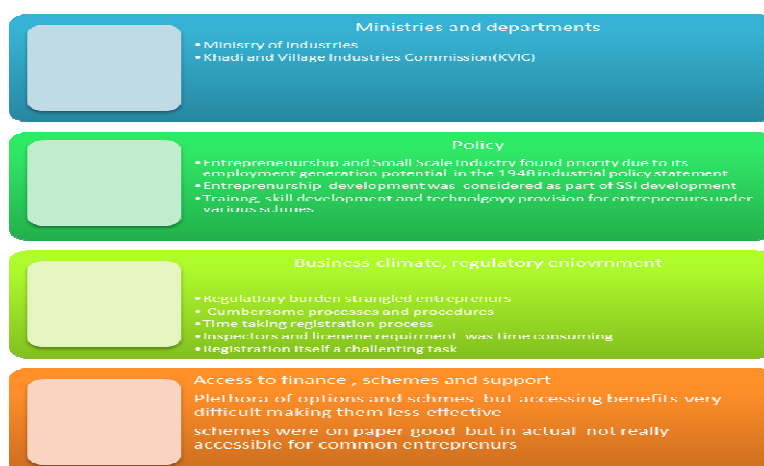


Figure 4: enterprise ecosystem pre-reform 1991 days

**Post-1991: New industrial policy and entrepreneurship**

In the 1990s a major shift could be seen with regard to entrepreneurship promotion. In 1991 the government adopted economic reforms and a new industrial policy. (GoI, 1991) Private sector role, particularly the role of Small Scale sector has been emphasized. Easing of regulatory burden and creating a single window approach to licenses, permits and clearances was initiated. Such measures contributed in liberating the enthusiasm and potential of millions of entrepreneurs.

**Some of the key policy developments/milestones/ approach to entrepreneurship: 1990-2000s**

1990	INDUSTRIAL POLICY 1990	Changes in procedures for industrial approvals(key points on entrepreneurship) <ul style="list-style-type: none"> <li>• Promotion of entrepreneurship through campaigns in rural areas</li> <li>• Training of women and youth under the Entrepreneurial Development Program(EDPs)</li> <li>• Special cell to assist women entrepreneurs</li> <li>• Focus on addressing red tape and bureaucratic interference</li> <li>• Simplification of procedure</li> <li>• Support to artisans by expanding the scope of Khadi and Village Industries Commission</li> </ul>
1990 April	SIDBI- setting up	<ul style="list-style-type: none"> <li>• Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, presently acts as the key Financial Institution for the Promotion, Financing, and Development of the Micro, Small and Medium Enterprise (MSME) sector</li> </ul>
1991- July 24	Statement of Industrial policy	<ul style="list-style-type: none"> <li>• Encouragement to entrepreneurship</li> <li>• development of indigenous technology through investment in research and development</li> <li>• bringing in new technology</li> <li>• dismantling/cutting down market regulatory system</li> </ul>
1999: October	New ministry creation for SSI sector	Ministry of Small Scale Industries & Agro and Rural Industries
2000 August	Policy Package	Comprehensive Policy Package for the Small Scale and Tiny Sector For more: <a href="https://www.dcmsme.gov.in/sido/policypkg.htm">https://www.dcmsme.gov.in/sido/policypkg.htm</a>
2001	Support for	

	Incubation Centres in Sunrise Industries for the benefit of the Small Scale Sector.	<ul style="list-style-type: none"> <li>• Bio-technology</li> <li>• Information Technology</li> <li>• Tele-communications</li> <li>• Electronics</li> <li>• Non-Conventional Energy Sources</li> </ul>
2006	MSME Development Act	<ul style="list-style-type: none"> <li>• Concept of Enterprise</li> <li>• Both service and manufacturing enterprises being recognized</li> <li>• More impetus and focus for Entrepreneurship and new venture creation</li> <li>• Revised definition</li> </ul>
2013	New Companies Act	<ul style="list-style-type: none"> <li>• For the first time ever, the concept of “start-up” has been introduced in the company law.</li> <li>• <a href="http://www.mca.gov.in/MinistryV2/companiesact2013.html">http://www.mca.gov.in/MinistryV2/companiesact2013.html</a></li> </ul>
2015	MUDRA Bank	Access to finance for startup businesses, micro enterprises
	Udhyog Aadhar	Registration of an entity made much easier

### Building Startup ecosystem and entrepreneurship: 21<sup>st</sup> century

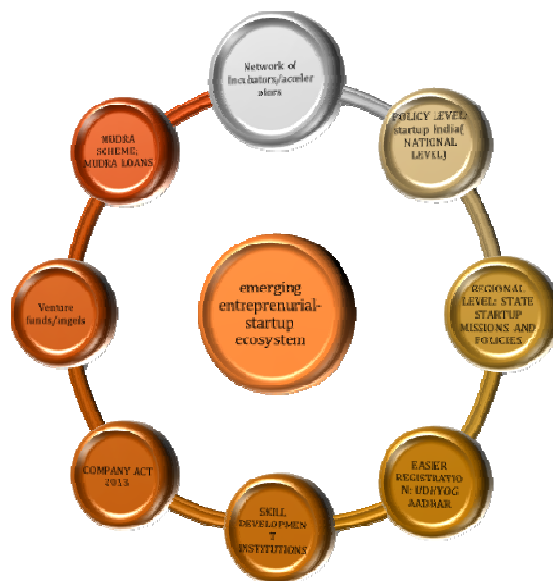
India has made significant progress in strengthening its entrepreneurial and startup ecosystem.<sup>xiv</sup> Institutions, entrepreneurship cells to create awareness in colleges, supporting mechanisms, incubators, funding programs that make credit easier for startups are all part of the ecosystem today (Rao, 2017).

Promotional activities and entrepreneurship & startup initiatives could be seen both at regional level as well as at national level. Policy framework underwent drastic changes. (KAZMIN, 2014) India’s position in the ease of doing business ranking improved.<sup>xv</sup> Unnecessary rules & regulations are being removed. Process of getting clearness to set up a business is much efficient. (World Bank, 2019)

Technology oriented academia- lab born startups as well as poverty alleviating entrepreneurship all being accorded equal priority. All these contributed to the growing numbers of entrepreneurs in the country.

- *Facilitative role of government and reforms:* Creating a climate for entrepreneurship involves reforming the current system and ensuring that entrepreneurs are not hindered by regulatory and bureaucratic hurdles.<sup>xvi</sup> At the policy and regulatory reform front, government works with following focus: (koshy, 2019)
  - Reforming business laws
  - Scrapping of unwanted and archaic rules and cumbersome procedures
  - Entrepreneur and startup friendly taxation system
  - Faster and quicker registration process
- *Startup India:* At the national level, The Start-up India initiative of the Government of India envisages building a robust Start-up ecosystem in the country for nurturing innovation and providing opportunities to budding entrepreneurs.<sup>xvii</sup>
- *State Startup Missions and State policies:* At the state level, state governments have startup promotional programmes, which include state level startup missions, seed capital provision within incubators/accelerators, regional network of angels and individuals.
- *Ranking of states:* States are ranked on various parameters, in order to encourage them to create a conducive business climate for startups, innovations and a culture of entrepreneurship to take shape within their jurisdictions.

- *Government schemes, institutions for financing startups and entrepreneurs:* Government has come up with a number schemes to promote and make access to finance easier.



**Figure 5: emerging entrepreneurial and startup ecosystem in India**

In order to help entrepreneurs to get funds, government has come-up with the MUDRA scheme that refinance financial institutions that lend to entrepreneurs, up to INR One million, based on the specific eligibility criteria. Angel investors, who provides capital in the form of debt or equity, are an important source funding. There are a number of angel networks and venture funds in India, where their portfolio of investments focus on certain sectors like IT, AI, Robotics, FMCG and high-technology intensive sectors. Developing entrepreneurship from the non-traditional business communities and entrepreneurial classes has also been a priority for the government, which comes from the realization that the potential entrepreneurial talent is critical for employment generation, poverty alleviation and attaining sustainable development goals.<sup>xviii</sup> (SDG)

- **Skill development, mentoring and other kinds of support:** Further nurturing the prospects of first-time entrepreneurs and ventures, there are mentoring and training and skill development mechanisms available.
- **Business incubators and accelerators:** Business incubators are another aspect of the startup programme. There are many incubators of different varieties in India. <sup>xix</sup>Number of tech-startup up emerged out of educational institutions. Incubation programmes such as Atal Incubation Centers (AICs); ASPIRE: Livelihood business incubators, incubators under TIDE Scheme of the ministry of electronics and information technology are few examples in this context. (Startupindia, n.d.)

## TO CONCLUDE:

Fair rules, business friendly environment and institutions that support startup creation such as incubators and network of entrepreneur-startup financing agencies would all go a long way in economic development. Economic freedom within a defined framework and understandable rules and laws are essential.

Indian entrepreneurship policy framework and startup ecosystem has evolved over the years as one with potential to facilitate new venture creation at ease. The current ecosystem and reformed regulatory framework is much more entrepreneur and small business friendly. However, much needs to happen at the ground level. Though there is a balanced approach to building institutions like incubators, which is really positive. Livelihood and rural technology incubators as well as technology intensives business incubators created in universities showcase a well balanced approach. However, the benefit of currently evolved startup eco-systems seems to be not really percolating to the entrepreneurs in all the regions.

Enterprises emerged through MUDRA scheme and other such schemes too need business support services, mentoring and periodical counselling etc. Their potential to scale up indeed need professional help, which is often missing. Many of these entrepreneurs find it difficult to hire professionals and the support that they may get from the officials posted in the government agencies are often not adequately equipped, not well versed with the issues, technology and skills and do not match with the requirements of current markets.

A wide network of enterprise service centers, which would also help them in different matters such marketing, recruiting, Business Development, Technology-Digital transformation are much needed today (PrasaAd, 2016). Often such entrepreneurs fail and experience stunted growth due to lack of such effective support services.

India at last has a focused approach towards promoting entrepreneurs. Today, it has a maturing startup ecosystem. However that doesn't mean that all is well. There are issues to be addressed. There will be failures, depressions and recessions. But India has unleashed its entrepreneurial potential by creating an ecosystem, which can create entrepreneurs to come up with solutions, innovations and new approaches to tackle various social, economic and developmental issues.

## FOOTNOTES

<sup>i</sup> Brassware, leather, carpets, silk, textiles, cotton and silk textiles, metal and precious stones, diamond/gold and spices all were part of export basket.

<sup>ii</sup> In 1934 Mahatma Gandhi directed the Congress to include constructive work as a part of the Congress Programme, and to work on reviving village industries.

<sup>iii</sup> It emphasized the importance to the economy of securing a continuous increase in production and ensuring its equitable distribution.

<sup>iv</sup> For the first time ever, the concept of “start-up” has been introduced in the company law by the MCA. There are also few operational and compliance relaxations for a “start-up company”. As per this definition, a start-up company means a private company incorporated under the Companies Act, 2013 and recognized as a “start-up” in accordance with the notification issued by the Department of Industrial Policy and Promotion.

The MCA has not only defined “start-up” through an executive order under the Companies Act, 2013, but has also given few operational and compliance relaxations for a “start-up company”.

<sup>v</sup> India's position in Ease of Doing Business Report is 63 for the year 2020 with a DB Score of 71.0.

<sup>vi</sup> Cumbersome procedures, regulatory burden and red-tape was also causing the growth of informal sector, with entrepreneurs keeping away from time consuming and corrupt government apparatus.

<sup>vii</sup> <https://www.startupindia.gov.in/> is the Startup India portal, which is according to them is the “largest online entrepreneurship platform allows startups to network, access free tools & resources and participate in programs & challenges.”

<sup>viii</sup> Stand Up India Scheme facilitate bank loans between 10 lakh and 1 crore to at least one scheduled caste (SC) or Scheduled Tribe, borrower and at least one women per bank branch for setting up a greenfield enterprise. This enterprise may be in manufacturing, services or the trading sector. In case of non-individual enterprises at least 51% of the shareholding and controlling stake should be held by either an SC/ST or Woman entrepreneur.

<https://www.standupmitra.in/>

<sup>ix</sup> A list of incubators could be found < <https://www.indianweb2.com/complete-list-incubators-india/> >

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## THE ROMANIAN EXPERIENCES ON SMES AND GREEN ECONOMY FOR A SUSTAINABLE ECONOMIC DEVELOPMENT

### ABSTRACT

The green economy becomes in last decades, in a relatively short period, an issue with major importance worldwide militating for continuous improvement of the quality of life taking into consideration the rational and efficient use of the resources. The fulfilment of the transition process toward green economy is going on in a different manner across economies worldwide.

This paper presents the Romanian experiences on SMEs and green economy. The evolution and the role of SME sector in national economy will be analysed, environmental issues will be presented and key-success factors and barriers toward green economy will be identified.

**Keywords:** green economy, SME sector, eco-innovation, Romania, sustainable development

**JEL Classification:** O44, L2, O52, O3

### 1. INTRODUCTION

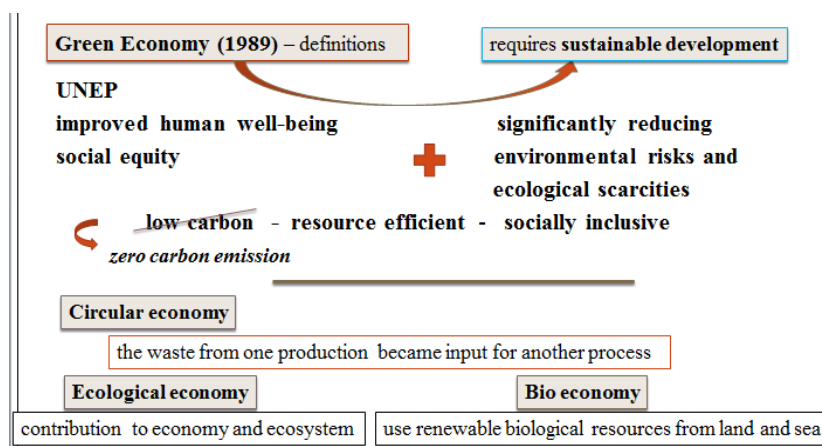
The report of the Club of Rome<sup>33</sup>, published in 1972, is considered the starting point drawing the attention on the contradiction between unlimited growth and consumption in relation to the limited resources of the earth. Its impact on the concept of economic development was powerful. Therefore, in the '80, the concept of sustainable development, *which* requires in fact the redefining of the notion of economic development, it asks for relocation from an ethical perspective, is born out of a stringent necessity. E. B. Barbier (Barbier, 1987) wrote, in 1987, that sustainable development meant “simultaneous maximization” of *the objectives of the biological system* (genetic diversity, biological productivity, flexibility), *the objectives of the economic system* (satisfying basic needs, equity increase, growth in goods and services) and *the objectives of the social system* (cultural diversity, institutional durability, social equity). The evolution of the concept of sustainable development is presented by Szabo (Szabo, 2011).

The term “*green economy*” was used at first time in 1989 by Pearce, Markandya and Barbier, Blueprint for Green Economy (Pearce, Markandya, & Barbier, 1989). There is no internationally agreed definition. The guide for green economy (Cameron & Stuart, 2012) presents eight definitions formulated by: UNEP (2009 and 2011); UNCTAD (2011); Green Economy Coalition (2011); International Chamber of Commerce (2011); UNCSD (2011); Government of South Africa (2011); Danish 92 Group (2012). The guidebook published by the UN division for sustainable development presents an overview of the literature on green economy and on the related concepts of *green growth* and *low-carbon development*. (Cameron & Stuart, 2012; pp 63)

The green economy becomes in last decades, in a relatively short period, an issue with major importance worldwide militating for continuous improvement of the quality of life taking into consideration the rational and efficient use of the resources. Nowadays can't be talk about economic development if it is not sustainable. (See: Figure 1) “With governments...green economy (in its various forms) has been proposed as a

<sup>33</sup><http://www.clubofrome.org/eng/about/4/>

means for catalysing renewed national policy development and international cooperation and support for sustainable development.” (Cameron & Stuart, 2012, pp 5)



**Figure 1:** Green economy and its various forms – definitions

Thus the green economy concept is started to be considered very important internationally. In October 2008 was launched by UNEP the Green Economy Initiatives “to provide analysis and policy support for investment in green sectors and for greening resource- and/or pollution-intensive sectors.” (Cameron & Stuart, 2012, pp 8) Green economy presents one of the two themes for the UN Sustainable Conference (Rio+20) as well.

The outcome document entitled “The Future We Want”, of the United Nations Conference on Sustainable Development, organized in Rio de Janeiro from 20 to 22 June 2012, stated that the UN member States “... consider green economy in the context of sustainable development and poverty eradication *as one of the important tools* available for achieving sustainable development and that it could provide options for policymaking but should not be a rigid set of rules. We emphasize that it should contribute to eradicating poverty as well as sustained economic growth, enhancing social inclusion, improving human welfare and creating opportunities for employment and decent work for all, while maintaining the healthy functioning of the Earth’s ecosystems.”<sup>34</sup>

In 2015 was adopted the post-2015 development agenda by more than 150 world leaders who participated on the UN Sustainable Development Summit organized at UN headquarters in New York at 25-27 September, 2015. The outcome document<sup>35</sup> of the Summit was entitled “Transforming our world: the 2013 Agenda for Sustainable Development” and officially came into force on 1 January 2016. The Agenda became a support for the international community to promote prosperity and well-being for the next period.

A new direction in the global climate effort was presented by the Paris Agreement<sup>36</sup> which was opened for signature on 22 April 2016, on the Earth Day, at UN Headquarters in New York. It entered into force on 4 of November 2016 (after ratification by 55 countries). In the next period other countries started the ratification, in early 2017 reaching a total 125 Parties and in the present 185 Parties have ratified of 197 Parties to the Convention.

The necessity of these adopted agreements was underlined by the Living Planet Report<sup>37</sup> as well. (2016, WWF)

<sup>34</sup> A/RES/66/288 - The Future We Want;

[https://www.un.org/ga/search/view\\_doc.asp?symbol=A/RES/66/288&Lang=E](https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/66/288&Lang=E)

<sup>35</sup> [https://www.un.org/ga/search/view\\_doc.asp?symbol=A/69/L.85&Lang=E](https://www.un.org/ga/search/view_doc.asp?symbol=A/69/L.85&Lang=E)

<sup>36</sup> [https://unfccc.int/files/meetings/paris\\_nov\\_2015/application/pdf/paris\\_agreement\\_english\\_.pdf](https://unfccc.int/files/meetings/paris_nov_2015/application/pdf/paris_agreement_english_.pdf)

<sup>37</sup> <https://whygreeneconomy.org/information/living-planet-report-2016-wwf/>



It can be stated that the signed documents, the Sustainable Development Goals (SDGs) and the Paris Agreement, present a new global consensus on sustainable development and focus the international attention on green economy.

Recognizing the urgency of acting, an increasing number of countries have developed green economy or green growth plans and strategies which have tended to focus on the link between the economy and environment.

It was recognized that "...for green growth to really fulfil its promise, it also needs to focus on people — to tackle the poverty, inequality and exclusion that constrain both growth and environmental sustainability, to realize women and men's aspirations, and to gain broad societal support<sup>38</sup>." Global Green Growth Institute, Green Economy Coalition, IIED (2016)

In order to help companies to achieve sustainability and advance the SDGs in 2017 the UN Global Compact has established a Corporate Action Group for 'Reporting on the SDGs', which is part of a comprehensive toolbox.

In a same time can be mentioned other private sector actions in this respect as: the UN Industrial Development Organization's (UNIDO) partnerships to make cities more sustainable; the insurance industry's efforts to implement the SDG's; the Partnership for Action on Green Economy's (PAGE) encouragement of investments in the green economy; and Dutch fund managers development of standard for SDG investments<sup>39</sup>

Regarding on green economy, green growth, in case of Romania, country and regional publications, projects, relevant green growth policies and additional resources are published on "Green growth knowledge platform-Romania<sup>40</sup>"

This paper studies the Romanian experiences on SMEs and green economy. The section 2 presents the SME sector in Romania, the section 3 will analyse the Romanian SMEs and its environmental issues and the eco-innovation capacity of Romanian SMEs, in section 4 are presented European and national policies, legislation issues to support SMEs toward green economy and in section 5 conclusions are formulated.

## 2. The SME sector in Romania

In Romania the number of SMEs/1000 inhabitants is 29 comparatively with the EU average which is 57. KeysFin is an officially registered company, which elaborates studies based on publicly official databases on the Romanian SME sector. The KeysFin Business Focus 2019 barometer noticed that: „...fiscal instability is the main challenge for businesses this year, influencing investors' appetite for doing business in Romania<sup>41</sup>.”

The SBA Fact Sheet 2018 <sup>42</sup> published by EC presents a detailed report on the main characteristics of Romanian SMEs. Based on the general outlook it is considered the evolution positive, the value added of the SMEs increased, the SMEs employ 65, 8% from the total employee but in a same time is underlined that its contribution to GDP is more under EU average, the productivity of employee in SMEs decreased; Romania is one of the weakest performers in EU in skills and innovation.

The after effect on the business environment of the Governmental Emergency Ordinance (GEO) 114 from 28 of December 2018 regarding on fiscal - budgetary measures, was not positive based on the study<sup>43</sup> realized by the National Council of SMEs. Because of the bank overtax based on ROBOR growth the business environment (mainly micro-enterprises) will suffer in 2019, the new loans will be reduced, reducing investment, consumption and growth.

<sup>38</sup><https://www.greeneconomycoalition.org/assets/reports/External-Reports/Green-Economy-and-SDGs-CAFOD-March-2017.pdf><https://sdg.iisd.org/news/companies-highlight-benefits-of-investing-in-sdgs-green-economy/>

<sup>39</sup> <https://sdg.iisd.org/news/companies-highlight-benefits-of-investing-in-sdgs-green-economy/>

<sup>40</sup> <https://www.greengrowthknowledge.org/country/romania>

<sup>41</sup><https://actmedia.eu/daily/keysfin-business-focus-2019-barometer-romania-s-fiscal-instability-main-challenge-for-businesses-in-2019/79117>

<sup>42</sup> [file:///C:/Users/User/Downloads/Romania%20-%202018%20Fact%20Sheet%20\(3\).pdf](file:///C:/Users/User/Downloads/Romania%20-%202018%20Fact%20Sheet%20(3).pdf)

<sup>43</sup> <https://cniipmmr.ro/2019/01/21/impactul-oug-144-2018-asupra-imm-urilor-din-romania/>

The overcharge of telecommunications companies by 3% on turnover will cause braking of the digitalization of Romania having negative impact on the future economic development. In fact this measure can be in opposite with European Parliament Directive 2014/61/UE.

The digitization of Romanian SMEs meets challenges<sup>44</sup> the lack of skills and employee in the IT field, massive investments, lack of awareness and insufficient level of financial and operational support block the transfer to digital economy.

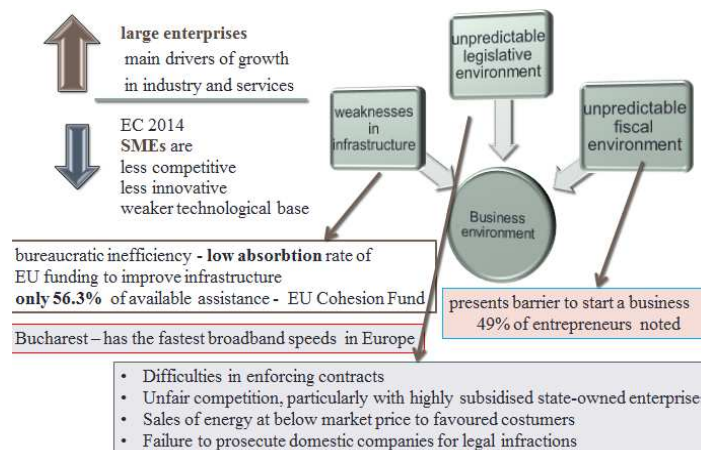
A general overview on Romanian SME sector for the period 1990-2014 was published in February 2015<sup>45</sup>; by KeysFin<sup>46</sup> team (see: <http://www.keysfin.com/EN/#!/Pages/AboutUs>). Based on SBA Fact Sheet<sup>47</sup> and on data from National Institut of Statistics in Romania 99.6 % (was 99.7% in 2018) of enterprises are SMEs. The SMEs employ 67 % (was 65.8% in 2018) of workforce and creates 60.47 % of total turnover.

The evolution of the number of Romanian SMEs didn't present significant changes in the last period. From 2005 the number of active SMEs varies around 400 thousand. On EU28 level, as publicly official data shows, the role of Romanian SME sector in national economy is not significant: the number of SMEs/1000 inhabitants is more under the EU average and can be identified huge differences between counties and regions.

The share of SMEs in GDP place Romania on the 17<sup>th</sup> place and the share of employment rank the country on the 8 place. (Barta, Modreanu, Piti, & colaboratori, 2015)

Based on KeysFin studies 98% of SMEs are located in apartments; the main field of activities is commerce; 71% of the SMEs activates in 5 fields of activities by NACE (34% wholesale and retail trade, 11% professional activities, 10% construction, 9% industry, 7% transport-storage). Only 1% of total SMEs have the main field of activities waste management. 31.2% of medium size enterprizes activates in industry.

Generally the business environment which confront with weaknesses in infrastructure, with unpredictable legislative and fiscal environment needs improvement (see Figure 2).



**Figure 2:** A general overview on Romanian SME sector

*Source:* The Economist Intelligence Unit; Barometrul antreprenoriatului Romanesc, 2015

<sup>44</sup> <https://cor.europa.eu/ro/news/Pages/econ-bucharest-tax-system.aspx>

<sup>45</sup> <http://www.keysfin.com/UC/MediaLibrary/Handlers/ViewDocument.ashx?imageDB=true&tbNail=0&imageType=image&imageID=9803&imageName=&cultureId=3>

<sup>46</sup> <http://www.keysfin.com/EN/#!/Pages/News/NewsDetails&title=studiu-imm-uri-din-romania>

<sup>47</sup> [http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index\\_en.htm#sba-fact-sheets](http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm#sba-fact-sheets)

In 2017 the Ministry for the Environment, Trade and Entrepreneurship launched a new financing program „Start-up Nation” to support the establishment of at least 10,000 new companies. The program was implemented in 2018 and 2019 as well. The positive side of this program is that the Romanians started to think about business again and the number of registered enterprises increased significantly.

### The demography of active enterprises and the number of SMEs

In this section will be presented a radiography of the Romanian SME sector based on publicly available data.

In Romania in the period 1990-2013 were registered totally 2 600 000 businesses. In same time, must take a note, that comparatively with EU average the number of active SMEs in Romania decreased dramatically at the end of this period and the situation not presents improvement (see Figure 3a). The number of active SMEs do not presents significant changes during the time. Approximately 30% of Romanian SMEs were registered from 2000 to 2009. The share of employment nevertheless increasing and tend to EU average. This fact is due to the increasing number of selfemployed people, exists a very high number of micro enterprises with one employee having only social effect, assuring livelihood for the person, but without impact on GDP, on economic development (see Figure 3b).

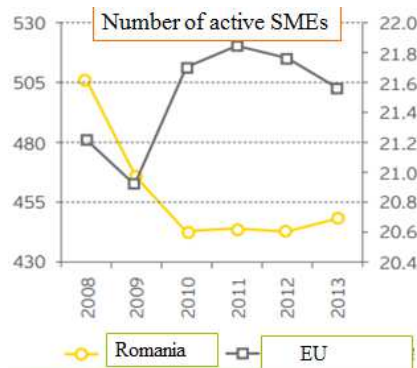


Figure 3a

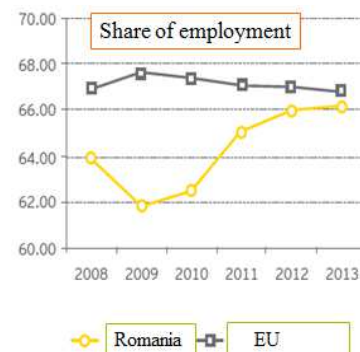


Figure 3b

Source: Ministerul de Finanțe, Registrul Comerțului, Comisia Europeană, Consiliul Fiscal

The demography of active enterprises and the number of SMEs from it, based on data from NIS (National Institute of Statistics) and countered by activity of national economy at level of NACE code, for the period 1992-2011 can be seen in Table 1, Table 2 and Table 3.

**Table 1:** Number of active enterprises in Romania, the period 1992-1999

YEAR	1992	1993	1994	1995	1996	1997	1998	1999
Number								
Enterprises	130.076	217.857	286.501	304.359	312.067	316.751	318.376	318.736
SMEs	126.549	214.349	283.697	301.781	309.454	314.183	315.970	316.593

Source: Romanian Statistical Yearbook, Romania in Cifre, 2008

At the beginning, in the period 1990-1994, were started mainly small (31 %) and medium sized (34 %) businesses but in time increased significantly the number of registered micro enterprises

**Table 2:** Number of active enterprises in Romania, the period 2000-2011

Year / / Number	2000	2001	2002	2003	2004	2005
Enterprises	308 064	311 260	315 105	349 061	394 519	433 030
SMEs	306 073	309 303	313 159	347 064	392 544	431 135

Source: Romanian Statistical Yearbook, Romania in Cifre, 2010

In the first years of the transition period can be observed a dynamic development, but after 2005 manifesting a stagnation in the number of active SMEs. Most of the registered SMEs had a very short lifetime due to different aspects. (Chirac, Moldovan, 2009), (Moldovan, 2018)

**Table 3:** Number of active enterprises in Romania, the period 2006-2011

Year/ / Number	2006	2007	2008	2009	2010	2011
Enterprises	461 812	499857	534 525	488 102	437 035	438 630
SMEs	459 972	498014	532 688	486 461	435508	437 042

Source: Romanian Statistical Yearbook, Romania in Cifre, 2010

98% of SMEs are micro enterprises having 2 employee and with turnover less than 100 mil Ron/year (approximately 21 mil Euro). The percentage of the registered small and medium sized enterprises increases slowly.

Table 4 and Table 5 show the evolution of enterprises in the last period. The share from total enterprises of SMEs and the share of micro, small and medium sized enterprises from the total number of SMEs for the period 2012-2018 can be seen as well.

**Table 4:** The evolution of enterprises in the period 2012-2018

Enterprises	2012	2013	2014	2015	2016	2017	2018
SMEs	529.015	437.126	426.295	449.044	445 537	464 409	480 791
Large	1.527	1.513	1.455	1.637	1 469	1 571	1 664
SMEs/1000 inhabitants	26,37	21,83	21,37	22,60	→		29

Source: SBA Fact Sheet 2012-2018

In Romania in 2015 the SMEs presented 99,6% of total enterprises, but the main drivers of growth in industry and services were the large enterprises.

**Table 5:** The structure of SMEs in the period 2012-2018

Share from total SMEs	2012	2013	2014	2015	2016	2017	2018
Micro	89,6 %	88,7 %	87,4 %	87,1 %	87.7%	88.5%	88.4%
Small	8,5 %	9,1 %	10,4 %	10,7 %	10.2%	9.4%	9.5%
Medium	1,6 %	1,8 %	1,8 %	1,9 %	1.8%	1.7%	1.7%
Large	0,3 %	0,3 %	0,3 %	0,4 %	0.3%	0.3%	0.3%

Source: SBA Fact Sheet 2012-2018

### SMEs contribution to employment

A general overview of the workforce necessary in order to understand its distribution in the private sector and its share in SMEs is presented on Figure 4. The structure and distribution of employees in Romania

was made for 2014 but based on data we can state that in the last period doesn't appeared significant changes in this structure.

In private sector activate more than 83% of the total active workforce. In Romania the self-employment is very high, fact which has importance on societal level in national economy but without contribution on economic development measured in GDP. (Szabo & Herman, 2014)

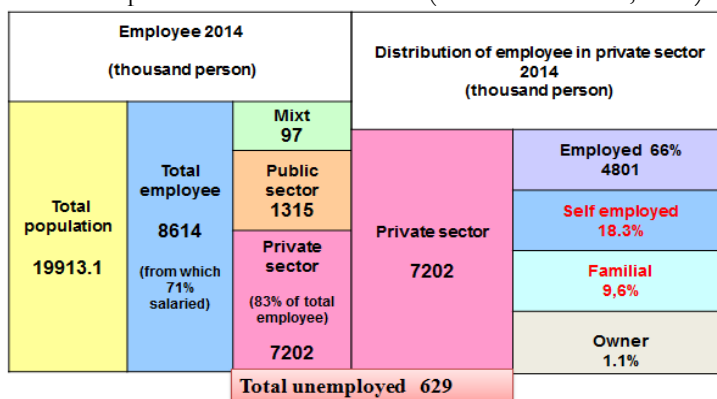


Figure 4: Distribution of employee in Romania; Own calculation

Source: Romania in cifre, NIS, 2016; Forța de muncă în România ocupare și șomaj (AMIGO), trimestrul II 2014

The total employees in SMEs fluctuate between 2000 -3000 thousand persons, as we can see in Table 6. The shares of employment in micro, small and medium sized enterprises show that exist a decreasing tendency in case of medium sized enterprises.

Table 6: Share of employment in SMEs

	2001	2005	2008	2009	2012	2013	2014	2015
Micro (%)	34	34	33	34	37	35	35	33
Small (%)	29	30	33	33	31	32	34	35
Medium (%)	37	36	34	33	32	33	31	32
<b>Total employment in SMEs</b>	2.122.617	2.575.520	2.969.489	2.626.216	2.676.948	2.522.128	2.708.806	2.680.259

Source: National Institute of Statistic, Romania in cifre

Figure 5 shows the weight of employment in active SMEs. The share of the employees in active SMEs presents an increasing tendency.

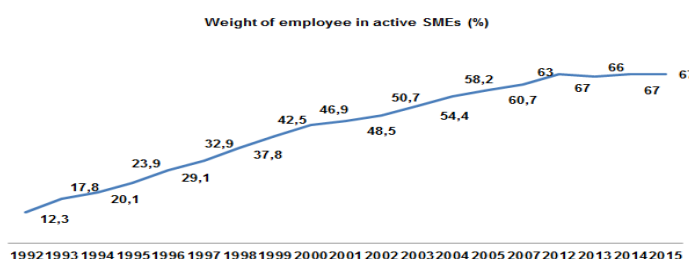


Figure 5: The weight of employee in active SMEs (%) in the period 1992-2015

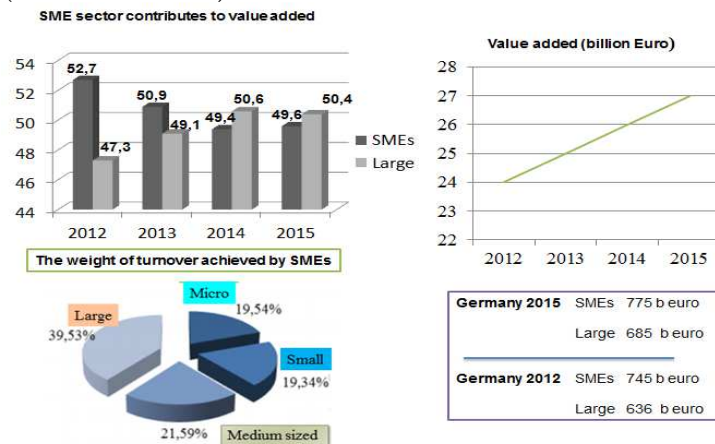
Source: National Institute of Statistic, Romania in cifre

In the period 2016-2018 based on the SBA Fact Sheet the total employment in SMEs reached 2 700 614 employee which means 65.8% of total employment.

### Share of the SME sector in the total economy

In the period 2012-2015 only 0.3 % respectively 0.4% was the weight of large enterprises in total number of Romanian enterprises (see Table 4); but the contribution of SME sector to value added is slightly larger than of large enterprises, as can be seen on Figure 6.

In 2014 the weight of turnover achieved by SMEs was 60.47%. The micro enterprises present more than 87 % of SMEs but their contribution was only 19.54%. In a same time the share of the medium sized enterprises was 1.9% but had the highest contribution to the achieved turnover with 21.59%. Based on SBA Fact Sheet, the SMEs' value added presents an increasing tendency (27b Euro in 2015), but comparatively with the German SMEs' value added (775b Euro in 2015) is more below.



**Figure 6:** The role of the SME sector in the total economy

Source: Contribuția IMM-urilor la creșterea economică – prezent și perspectivă<sup>48</sup>

Source: IMM in Cifre, NIS, 2014

This fact shows that the performance of the SME sector is below under EU average, SMEs are less competitive, less innovative. The improvement of the business environment, the implementation of adequate sustainable policies presents a great challenge and must become a priority for the government.

As a positive tendency we have to notice that based on SBA Fact Sheet 2018 in the period 2013-2017, the value added of Romanian SMEs rose by 28.8 %, exceeding the value added growth of large businesses, with 9.3 %. In 2018 the SMEs value added was 33.9 billion Euros.

### 3. SMEs and environmental issues

As an impact of the Club Rome report, it is accepted worldwide by all governments that development must be sustainable, the economy must be green and only policies which are subordinated to these requirements should be accepted.

Thus can be stated that sustainable development entered in focus across societies and in the next period all activities should be in line with the SDGs. The SMEs must prove in this respect that their products and services follow the instructions and regulations.

Entrepreneurship exists in every country, but the outcomes from entrepreneurial activities are very different across economies. The literature distinguish formal/informal, legal/illegal respectively necessity/opportunity entrepreneurship (Sameeksha Desai, 2009). *Innovation* is considered the engine of growth being an important element of development achievements (Fagerberg et al., 2011). Entrepreneurship is productive only if it is innovation driven. The developed economies are all leaders in innovation.

<sup>48</sup><http://www.cnp.ro/inovatie/docs/seminar-studii-25-06-2012/Rezumat%20studiu%20IMM.pdf>



Economies with innovation driven entrepreneurship are developed economies which have an SME sector with a very important role in their national economy. The adoption and implementation of policies which create a favorable condition for the development of this sector, policies which facilitate entrepreneurship and sustain innovation must be a permanent priority for all governments. The *innovative entrepreneurship* started to be considered a key factor of modern economic development (UN, 2012). Moreover, as the level of economic development increases, innovativeness of entrepreneurs increases as well (GEM, 2012).

The evolution of the Romanian SMEs sector was presented in Section 2. The used publicly available data shows that flagship initiatives of Europe 2020 strategy: innovation, education, information society, climate, competitiveness, labour market all present challenges for Romania.

In Romania the entrepreneurial activity is mainly necessity driven (Figure 7 and Figure 8) and for this reason it is without impact on economic development, measured in GDP. In *Global Entrepreneurship Monitor Report* (2012), it is shown that entrepreneurs may be pushed into starting businesses out of necessity because they have no other work options and need a source of income and/or because they recognize opportunities and choose to pursue them (“improvement-driven opportunity”). (Szabo, Zs; Herman, E 2014)

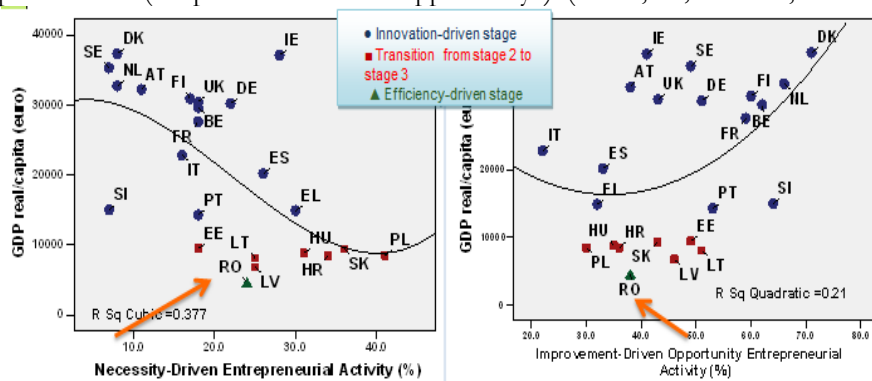


Figure 7 - Necessity driven entrepreneurship across economies

Figure 8 - Opportunity driven entrepreneurship across economies

Source: Own calculations

It is acknowledged worldwide that the economic development must be sustainable, the environment must be protected. In this way “*green economy*” became a major concept internationally and necessarily entered in the focus the new theme “*eco-innovation*”.

In order to have a productive SME sector a healthy entrepreneurial culture is needed and as well a better attitude to environment. In this regard presents an actual research topics the identification of factors which facilitate the transition towards green entrepreneurship and eco-innovation.

On the *Romanian experiences* regarding to transition to green economy were published studies the theme presents a research topic with high interest and it is a hot topic for professionals and policymakers as well.

The achievements and the level of implementation of green economy is monitored; national and European reports analyse and evaluate the level of implementation in the Member States. „Romania is among the countries that have rapidly adopted the concept of green economy; it has natural resources for its development, but has not yet recorded notable performances compared to other European countries.” (Ciocoiu & Cicea, 2015)

We must notice that for SMEs it is much more difficult to comply with environmental legislation than large companies. The lack of expertise, the long duration of approval procedures for new products and the lack of demand are the main obstacles that prevent them from entering on the green markets. In order become competitive on the green market the design of the green products and services need additional efforts, innovative technologies, need legislative support and adequate, solid public policies.

In Romania, except for renewable energy producers, companies do not benefit from tax incentives or subsidies for the implemented greening measures.



Romania, without any doubt, is a country of considerable potential (natural resources, human resources and opportunities) and has a strong base for sustainable development. In this respect it is sufficient to present the: wealth of natural resources, rich agricultural lands, important renewable energy sources (wind, biomass, hydro, geothermal), substantial industrial base, educated work force / well educated human resources, opportunities for expanded development in tourism on the Black Sea and in the Carpathian Mountains. (Eco-innovation scoreboard, 2015)

Making an overview on the existing literature, on official reports on SME activities can be observed that the environmental issues are generally familiar for the SMEs, the energy efficiency measures are popular and most of the SMEs implemented some green measures. A survey realized on the level of SMEs shows that the enterprises made concrete measures to green economy. The SMEs know the energy efficiency measures (reduction of waste products and production materials; separate waste collection; reduction of the use of paper in offices; take advantage of a natural lighting; new energy efficient windows; use of biodegradable materials). A high percent of SMEs use renewable energy source (RES) and generally has better attitude to the environment.

**Table 6:** The share of RES in total electricity

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>RO (%)</b>	28.6	29.9	23.9	29.8	34.5	30.2	26.8	26.8	27.6	34.3	27.1

Source: National Institute of Statistics (2013)

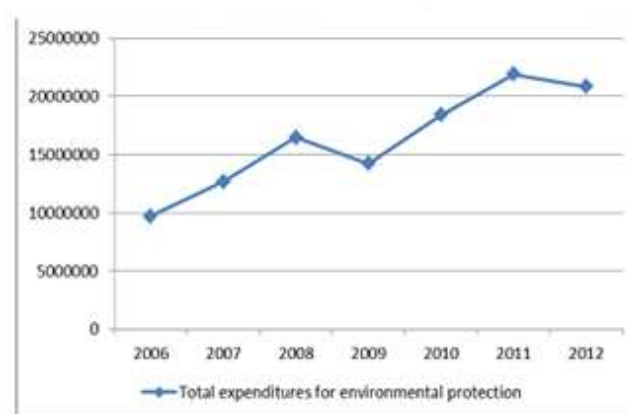
The evolution of of green certificates in Romania is presented in Table 7. The green certificate certified 1 MWh energy obtained from RES.

**Table 7:** Evolution of green certificates

Transactions	2006	2007	2008	2009	2010	2011
<b>Number</b>	7.841	37.703	95.593	141.607	248.694	410.628

Source: OPCOM<sup>49</sup>

Government sustain the efforts of transition to green economy (see Figure 7), allowed as well the efforts to keep foreign investors in the RES sectors, in 2013 in Romania was the highest subsidies in Europe.



**Figure 7:** Evolution of environmental expenditures

Source: National Institute of Statistics

<sup>49</sup>[http://www.opcom.ro/tranzactii\\_rezultate/tranzactii\\_rezultate.php?lang=en&language.x=9&language.y=6&language.e=en#url](http://www.opcom.ro/tranzactii_rezultate/tranzactii_rezultate.php?lang=en&language.x=9&language.y=6&language.e=en#url)

The new emergency ordinance OUG 24/2017 established the new transaction value of green certificates for the next period (till 31 March 2032) which is situated between the minimum value of 29.4 euro/certificate and a maximum value of 35 euro/certificate.

The awareness trainings organized in this field are considered important by entrepreneurs. The TERRA Millennium III foundation registered in Bucharest is an environmental protection organization that promotes sustainable development programs at national and international level in the field of energy, transport and climate change and organizes training programs to help people in the transition process. The foundation activities, annual reports can be consulted on the foundation homepage <sup>50</sup> The Terra Milleniul III Foundation working on a project in partnership with the National School of Political and Administrative Studies (SNSPA) which envisages the creation of the Zero emissions portal, the first of this kind in Romania, dedicated to climate change and especially to the cross-sectoral aspect of this phenomenon. The portal will bring together relevant policies, case studies, academic research, successful projects and alternative development visions and is co-financed by a grant from Switzerland through the Swiss Contribution to the enlarged European Union.

The SMEs are interested in acquiring certificates issued to management systems standards because having an eco-friendly label on their products is commercially good for businesses. In order to identify the key-success factors and barriers of the implementation of green economy a regression analysis was made using publicly available data.

We analysed for 2016 and 2017 *the impact*: of economic development (measured in GDP), innovation capacity (GII -Global Innovation Index<sup>51</sup>), the readiness to use the benefits of ICTs (NRI –Network Readiness index <sup>52</sup>) the development level of information society (IDI index <sup>53</sup>), the development of the knowledge economy (KEI<sup>54</sup>), how the change is managed by the country (Change readiness index <sup>55</sup> (CRI) through the Government capacity score (GCS) and People & civil society capacity (PCSC)); *on the transition efforts to green economy* using the Global Green Economy Index - Performance score<sup>56</sup> (GGEI) and the Sustainable Development Goals index <sup>57</sup> (SDGI).

The Pearson Coefficient ( $\rho$ ) was calculated and the results are presented in Table 8. For data processing, the SPSS software package was used.

It is known that the Pearson correlation coefficient,  $\rho$ , shows a positive strong linear relationship if its value is greater than 0.70; present a moderate relationship if it is not below 0.50 and a weak relationship if the value is below 0.30.

**Table 8:** The key-success factors and barriers of the implementation of green economy

$\rho$	IDI	GDP(US\$)	NRI	GII	SDGI	CRI	GCS	PCSC	KEI
	values								
GGEI	0.656	0.629	0.675	0.692	0.796	0.779	0.788	0.774	0.763
SDGI	0.914	0.763	0.886	0.913		0.944	0.921	0.941	0.933

Own calculations based on data

<sup>50</sup> <http://terramileniultrei.ro/en/who-are-we/>

<sup>51</sup> [https://www.wipo.int/edocs/pubdocs/en/wipo\\_pub\\_gii\\_2016.pdf](https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2016.pdf)

<sup>52</sup> [http://www3.weforum.org/docs/GITR2016/WEF\\_GITR\\_Chapter1.1\\_2016.pdf](http://www3.weforum.org/docs/GITR2016/WEF_GITR_Chapter1.1_2016.pdf)

<sup>53</sup> <https://www.itu.int/en/ITU-D/Statistics/Documents/publications/misr2016/MISR2016-w4.pdf>

<sup>54</sup> [https://www.ulster.ac.uk/\\_\\_data/assets/pdf\\_file/0003/181434/Knowledge-Economy-Index-2016.pdf](https://www.ulster.ac.uk/__data/assets/pdf_file/0003/181434/Knowledge-Economy-Index-2016.pdf)

<sup>55</sup> <https://assets.kpmg/content/dam/kpmg/xx/pdf/2017/07/change-readiness-index-report-2017.pdf>

<sup>56</sup> <https://dualcitizeninc.com/GGEI-2016.pdf>

<sup>57</sup> <https://www.un.org/development/desa/publications/sustainable-development-goals-report-2016.html>

The obtained results highlight that linear positive relationship exists between the considered indicators; the values of the Pearson correlation coefficient are very close to 1. Thus can be stated that the development is sustainable only if the economy is green ( $\rho= 0.796$ ).

The transition process is more successful in the developed economies ( $\rho= 0.763$ ), in the developed knowledge-based economies ( $\rho= 0.933$ ) and information societies ( $\rho= 0.914$ ). At first of all policies needed to emerge the development of knowledge-based economy.

In the transition process it is a determinant factor how the society is able to manage the change ( $\rho=0.944$ ) and in which measure is able to use the benefits of ICT's ( $\rho= 0.886$ ).

### Eco-innovation of Romanian SMEs

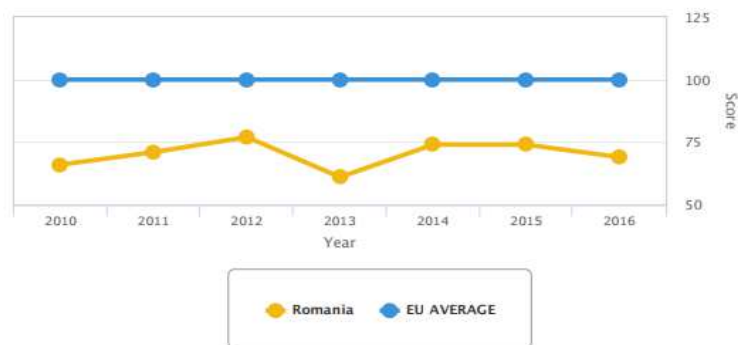
The innovation performance (IUS) of Romanian SMEs is presented by Szabo (Szabo, Soltés, & Herman, 2013). Based on Innovation Scoreboard<sup>58</sup> 2019 Romania is modest innovator and lag behind other EU Member States. After a strong decline between 2011-2015 can be observed after 2015 the innovation performance has started to increase. „...Innovators, Firm investments and Human resources, are the weakest innovation dimensions. Romania's lowest indicator scores are on Lifelong learning, SMEs with product or process innovations, SMEs with marketing or organizational innovations, and SMEs innovating in-house<sup>59</sup>.”

From 2010 an assesement of the eco-innovation (Eco-IS) is made also in order to facilitate the member states in the transition process to green economy. The eco-innovation scoreboard is a useful tool to measure and to compare the eco-innovation performance of EU Member States. The score is calculated based on indicators obtained in five areas: eco-innovation input, eco-innovation activities, eco-innovation output, resource efficiency outcomes and socio-economic out-comes.

Romania (see Figure 8) is situated below EU average, but on the other hand the eco-innovation performance of the country is better than the innovation performance. The innovation scoreboard (IUS) in 2015 ranked Romania on the last place. On eco-innovation (Eco-IS) performance Romania was ranked on 21<sup>th</sup> position in 2013. (see Tabel 8)

Thus the Romanian SMEs are familiar with the importance of environmental issues, generally all the SMEs applied measures to protect the environment, but the SMEs don't have financial capability to invest in innovation.

The eco-innovation performance of Romania can be seen on Figure 8.



**Figure 8:** Eco-innovation index, Romania and EU Average, 2010-2016

Based on the longitudinal data we can observe that the position of Romania is improving as we can see in Tabel 9.

**Tabel 9:** Evolution of eco-innovation performance of Romania

<sup>58</sup> [http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards/index\\_en.htm](http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards/index_en.htm)

<sup>59</sup> <file:///C:/Users/Marietta/Downloads/Romania.pdf>

Year	2010	2011	2012	2013	2014	2015	2016	2017
Rank (EU 27/EU28)	25	22	19	21	21	18	25	23

Source: Eco-innovation scoreboard <sup>60</sup>

[https://ec.europa.eu/environment/ecoap/indicators/index\\_en](https://ec.europa.eu/environment/ecoap/indicators/index_en)

In order to improve the situation, to bring forward the position in the rank need improvement on all components: the eco-innovation inputs, socio-economic outcomes and resource efficiency outcomes. In this respect must be analysed all 16 indicators of the composite index and adequate policies must be formulated and implemented. (Figure 10)

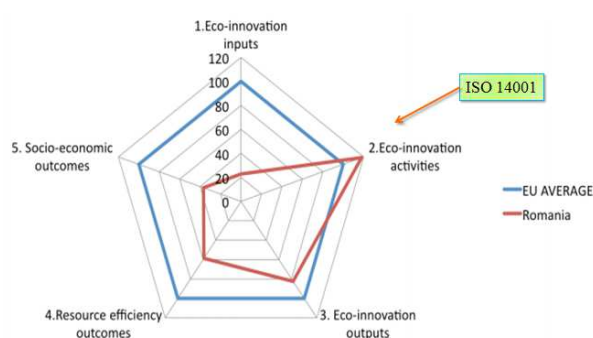


Figure 9

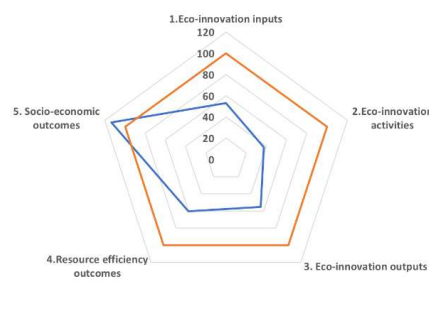


Figure 10

Components of the eco-innovation composite index for Romania

Source: [http://www.ecoinnovation.eu/images/stories/Reports/EIO\\_Country\\_Brief\\_2013\\_Romania.pdf](http://www.ecoinnovation.eu/images/stories/Reports/EIO_Country_Brief_2013_Romania.pdf)

[https://ec.europa.eu/environment/ecoap/romania\\_en](https://ec.europa.eu/environment/ecoap/romania_en) 2017

How can be explained the improvement in ranking? In this respect we analyzed the components of eco-innovation index. Can be observed that on eco-innovation activities the indicator is over the EU average (see Figure 9). On eco-innovation activities one of the indicators is ISO 14001 registered organizations, and this fact is advantageous for Romania. A high number of ISO 14001 registered organizations exists in the country, this process is facilitated by law.

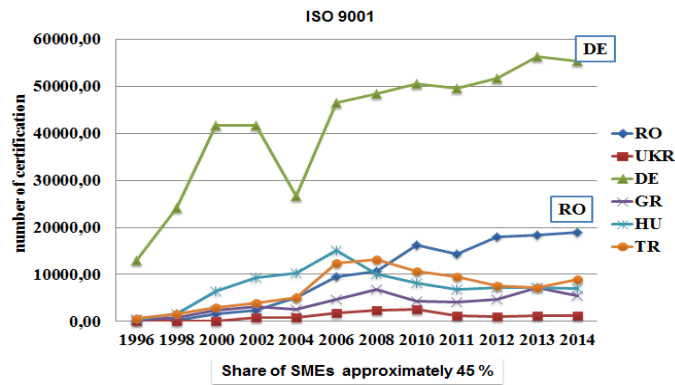
*Legally, public procurement can incorporate environmental criteria in Romania.* In spite of the existing intention of a Green Public Procurement Action Plan 2009-2013, the document remained at the level of public consultation, and has not become a commitment of the government. *Public procurements ask for ISO 14001 and ISO 9001.*

Thus, in this case, the law became an engine for sustainable development, for environment protection. The legal act had positive impact on the eco-innovation of the country. In Romania the share of SMEs in applying quality management system is high comparatively with other BSEC countries. ISO survey presents worldwide the number of valid certificates to ISO management standards. The evolution of the ISO certificates in each country can be followed from 1993, from the year when firstly the ISO management standards were registered. Fluctuations can be observed in data due to the activities of certification bodies.

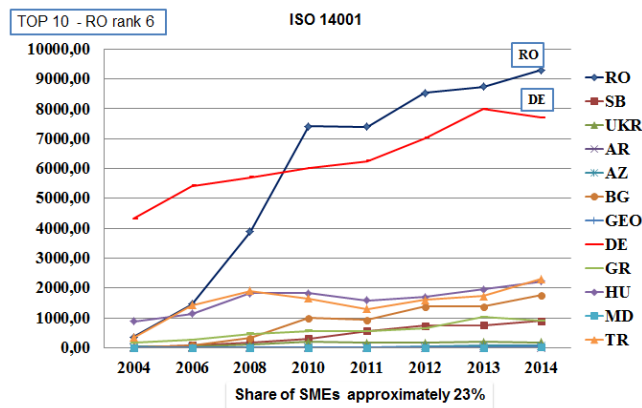
Using ISO Survey <sup>61</sup> data next the evolution of ISO 9001 certificates issued (Figure 11), of ISO 14001 certificates issued (Figure 12) in Romania from 1993. The share of Romanian SMEs in applying Quality Management Systems is presented.

<sup>60</sup>

<http://database.ecoinnovation.eu/#view:scoreboard/indicators:269/countries:249,15,22,34,57,58,59,68,73,74,81,84,99,105,108,121,127,128,136,155,176,177,181,200,201,206,212,232/rScales:/chartType:BarGraph/year:2010/indicatorTabs:269,270,271,272,273,274/order:269>



**Figure 11:** Share of SMEs in applying ISO 9001 Quality Management Systems  
Source: ISO Survey 2015



**Figure 12:** Share of SMEs in applying ISO 14001 Quality Management Systems  
Source: ISO Survey 2015

*Best practice on Eco-innovation activities in Romania can be considered the Government’s National Thermal Rehabilitation Programme as well. The implemented program by the Ministry of Regional Development and Housing is widely recognized and appreciated. The renovation included: thermo-insulation of the terrace with fire-proof polystyrene 16 cm thick; thermo-insulation of the external walls with expandable polystyrene 10 cm thick; (including thermo-system); and the replacing of external woodwork.*

During the derulation of the program some barriers to eco-innovation were identified as: the long waiting time for the rehabilitation project to be approved by the local authorities. The difference in costs from one firm to another. Lack of experience on the part of some firms in carrying out this kind of work. The programme applies only to apartment blocks, not houses. Drivers of eco-innovation in this programme is considered to be the government initiative.

As an impact of the programme, the recognized sustainability effects are: Significant savings on the energy used for heating. More efficient energy use. Contribution to the overall EU goals for reducing greenhouse gas emissions by 20 percent of 1990 levels, and for reducing energy consumption by 20 percent of the projected 2020 levels.

### Characteristics of SMEs relating environmental issue

The Green Revolution Association <sup>62</sup> promote the Green Economy Index (GEI), a barometer of corporate environmental responsibility in Romania and from 2012 started to evaluate and analyse the environmental performance of Romanian businesses.

In Romania can be observed some special activities in order to encourage and sustain the implementation of environmental issues.

Next will be presented some special measures in case of Romania and some characteristics of SMEs toward environmental issues. Companies in the fields of industry, agriculture, trade and services which have impact on environment must employ an *Environmental Officer*; environmental legislation ask only from some SMEs to have environment authorization, depending on their NACE codes activities; corporate Social Responsibility investments focused on the environment - 16% of the total areas of investments (more focused on education, health and social issues); SMEs devote only 1% of their turnover to environmental issues, and most of these expenditures go for compliance with regulations, audits and environmental certifications; Romanian SMEs are less likely to adopt measures to improve their resource efficiency in comparison to the EU average; only 17% of Romanian SMEs, compared to 26% of EU SMEs have been capitalising on the rising demand for ecological services; the Romanian business sector can be characterised by a short time thinking perspective on profit making; in 2010 the Green Business Index<sup>63</sup> (GBI) assesment was introduced in order to benchmark the environmental performance of Romanian companies.

Romania adjusted its *public procurement legislation* in 2006 as a response to the 2004/17/EC and 2004/18/EC Directives on public procurement contracts for public works, goods and services, and in the field of water, energy, transport and post services respectively.

Romania faces various environmental *challenges*. As in Eco-Innovation country Report is mentioned the economy is still based on fossil fuels (40%) the emission reduction remains a challenge (since 1990 has made efforts to reduce CO2 emissions).

The EBRD estimates that (Renewable Energy Resource Assessment) domestic solar water heating for public buildings and hotels, passive solar systems and stand-alone systems for sites - far from the grid to be the most promising applications.

The waste and water management need to receive more attention (UNECE 2013 Environmental Performance Review on Romania); the access to clean water, waste management and wastewater treatment are the main environmental challenges.

At this moment must be noticed that less than 3% of Romania's municipal solid waste is recycled. Another aspect which present an obstacle is that on average 57% of Romania's population and an extremely low rate of 4% of the rural population have access to wastewater collection.

*Barriers* toward development can be considered: lack of investment; a lack of specialist knowledge; lack of efficient management of the available resources that poses problems to sustainable development; are missing many opportunities - fails to recycle its own waste - the private sector import waste for their production activities; difficulties in accessing finance; excessive regulatory burdens.

*Positive trends* -eco-innovation initiatives - in the eco-industry: growing employment and turnover; in the last decade the country has been widely promoting measures on improving energy efficiency in the residential housing and public transport, advancing renewable energy exploitation (biomass, wind, geothermal, hydro); using joint funding the country has set initiatives on supporting eco-innovations in local companies, building collaboration platforms; promoting green public procurement; policy strategies and programmes addressed to eco-innovations with the main focus on infrastructure development and improving entrepreneurial environment; driven by EU-level regulation were adopted policies to further sustainable development solutions; the field of energy efficiency and renewable energy have seen the highest boost in fiscal incentives and available funding in 2013; renewable energy investments have been supported by a generous feed-in tariff scheme by the Romanian government. The high potential for renewable energy has started to be exploited more in 2012-2013, as several investments have started to be made in the wind, biomass and hydro sectors.

<sup>62</sup> <https://greenrevolution.ro/category/business-2/business-business-2/>

<sup>63</sup> <https://www.gbindex.ro/en/>

There are some private sector (SMEs) initiatives in recycling and material re-use that have been strengthened during recent years.

In Romania the number of EMAS Organizations is very low (see Figure 13). The Environmental Management and Audit Scheme (EMAS) is a well-established tool in EU "... aim to address the environmental impact along the whole life cycle, including the increasing number of impacts of European consumption that happens in countries outside the EU where products and materials are often produced and from which they are imported to the EU" (EC 2017a). "EMAS has an important role to play in helping Europe's public and private organizations unlock the potential of the circular economy and in helping Europe use its re- sources more efficiently." (EC, 2017)

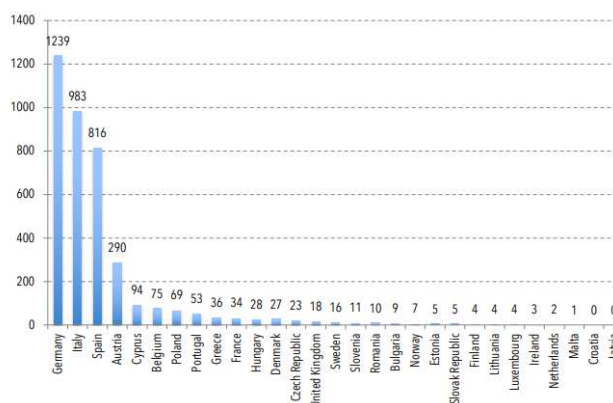


Figure 13: EMAS Organizations in Member States (2018 April)

Source: EMAS Statistic and Graphs<sup>64</sup>

#### 4. EUROPEAN AND NATIONAL POLICIES AND LEGISLATION ISSUES TO SUPPORT SMES TOWARD THE GREEN ECONOMY

The Romanian government recognizes the importance of the environmental issues and sustain the transition to green economy.

The principles of the of EU environmental legislation were adopted in the national legal system. Since 1989 new elements were introduced in Romanian legislation. The main elements of the EU environmental topics were included in the Environmental strategy of the government (Ionescu, 2009). The main environmental regulations are presented briefly in the article published in 2012 (Ioniță & Mișu, 2012).

In 2018 was launched the National Strategy for Green Jobs 2018-2025 and the Action Plan for the implementation of this strategy. The Action plan has three specific objectives: "stimulating entrepreneurship and creating green jobs, with a focus on the high competitiveness sectors identified in the 2014-2020 National Competitiveness Strategy and in the 2014-2020 National Research, Development and Innovation Strategy; developing skills for the workforce in order to ensure quality employment in competitive sectors that can generate green jobs; strengthening cooperation with relevant actors and the dialogue with social partners in sectors with high potential for creating green jobs <sup>65</sup>".

The updated activities, news, legislation, business environment achievements in the transition process of Romania to green economy are published in the Green-Report <sup>66</sup>.

Next we will present some of the most important environmental issues regulated by legal acts: *Law 211/ 2011- waste management*; republished in 2014 - establishes the measures necessary to protect the environment and human health by preventing or reducing the adverse effects of waste and its management and by reducing

<sup>64</sup> [https://ec.europa.eu/environment/emas/emas\\_registrations/statistics\\_graphs\\_en.htm](https://ec.europa.eu/environment/emas/emas_registrations/statistics_graphs_en.htm)

<sup>65</sup> <http://business-review.eu/business/romanian-government-approves-green-jobs-strategy-for-2018-2025-179199>

<sup>66</sup> <https://www.green-report.ro/imm-urile-devin-mai-verzi-pentru-a-fi-competitive/>



overall impacts of the use of resources and to increase the efficiency of their use- this regulation presents a major step; *GO 856 / 2002* –the list of waste and define the dangerous waste; *GO 349 / 2005* – legal act regarding waste storage; *GO 621/2005* – on the management of packaging and packaging waste; *GO 1872 / 2006* modifies and completes the GO nr. 621/2005; *GO 247 / 2011* modifies and completes the GO nr. 621/2005; *GO 2742/3190/205 / 2011* - the procedure, criteria for approval, renewal, review, approval annual issuance and cancellation of operating license, the minimum percentage recovery of packaging waste collected from the population, the economic operators - obligations regarding the achievement of annual targets for recovery and recycling of packaging and for approving the composition and powers of authorization; *GO 235 / 2007* - on the management of waste oils; *GO 1037 / 2010* - waste from electrical and electronic equipment; *GO 1132 / 2008* - on batteries and accumulators and waste batteries and accumulators; *GO 5/2015* –on waste management for a sustainable development; *Law 249 / 2015* - on the management of packaging and packaging waste; *GO 1079/2011* - modifies and completes GO nr. 1.132/2008.

We have to remark that 98% of Romania's waste was being landfilled in 2013 and the target for 2020 is to be recycled or reused 50% of waste, fact which present a great challenge for the country.

The Environmental Implementation Review 2019-Romania<sup>67</sup> presents the main challenges and best practices of the green economy implementation. "Waste management remains a key challenge for Romania. The country's performance continues to be characterized by very low recycling of municipal waste (14 %, including 7 % material recycling and 7 % composting) and very high landfilling rates. This is contrary to the waste hierarchy and comes in spite of the recycling targets set at EU level. Moreover, recycling rates have been stagnating since 2013... "

In January 2014 a new tax<sup>68</sup>, collected by the Romanian Fund for the Environment, was introduced to penalise the waste disposal through landfilling.

*The Green Action Plan (GAP)*, proposed by the EC in 2014, is aimed at helping SMEs turn environmental challenges into opportunities, focuses on resource efficiency, green entrepreneurship and green skills, eco-innovation, greener value chains, and facilitating market access for SMEs; provides tools for the internationalisation of European SMEs, taking advantage of Europe's leadership in green technologies. (EC - green growth opportunities for SMEs<sup>69</sup> - 20 April 2015).

EU initiatives for green economy are: Green Employment Initiative; Roadmap to a Resource Efficient Europe; Green Growth Knowledge Platform (GGKP); PAGE launched in 2013; Green Industry Platform; WIPO Green – The Sustainable Technology Marketplace (WIPO); EaP GREEN; SWITCH to Green Facility; Platform GreenEcoNet.

European initiatives for circular economy are: European Circular Economy Stakeholder Platform (facilitates the exchange of good practices between stakeholders and provides a database that includes good practices at European level); European Cluster Collaboration Platform, ECCP (supports collaboration between thematic clusters in the EU and international initiatives as well); Enterprise Europe Network (it includes about 600 organizations from over 60 countries to support SMEs for access to financing opportunities for eco-innovation, energy efficiency and a resources and others).

It is extremely important to acknowledge the fact that global policies cannot be applied for the implementation of the sustainable development goals, strategies must be applied according to national, even regional and local particularities. Within the UN countries there are huge differences at socio-economic level, and at national level there are inequalities at regional and local level. Therefore, in order to reach the goals set, strategies need to be applied from a lower level, from local, regional, national and international level.

## 5. CONCLUSIONS

Rio+20 in 2012 launched globally the green economy concept. The transition toward green economy can be emerged by appropriate legislation, adequate policies and investments. We can notice that green

<sup>67</sup> [https://ec.europa.eu/environment/eir/pdf/report\\_ro\\_en.pdf](https://ec.europa.eu/environment/eir/pdf/report_ro_en.pdf)

<sup>68</sup> <http://www.raportaremediu.ro/legislatie>

<sup>69</sup> [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS\\_BRI\(2015\)564360](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2015)564360)

economy is considered priority theme internationally and governments are deeply interested in elaboration of meaningful policy framework which assure economic growth ensuring the protection of environment.

Romania has a strong base for green growth it is a country with considerable potential (natural resources, human resources and opportunities) but a recently published country report by EC highlight that Romania has to face many challenges on environmental issues toward a circular, resource-efficient, green, competitive low-carbon economy in order to catch up the leaders. (see: The Environmental Implementation Review 2019-Romania) The report presents the positive aspects of the transition as well and enumerate the measures which are considered best practices in this field.

Last year, in Romania, were made more than 800 changes in the tax regulation. The fiscal instability has a negative impact on the transition process.

The obtained results presented in Table 8 highlight that the implementation of the green economy it is a very complex issue. Based on the obtained results can be stated that the transition toward green economy can be successful in a developed knowledge-based economies which creates the environment for a developed information society encouraging in this way the transition to digital economy. The transition is more successful in the countries which are able to manage the change (measured by change readiness index) and are able to use the benefits of ICTs. The developed green economies are the most innovative economies worldwide. We have to notice that between the Government capacity score (GCS) and the People & civil society capacity (PCSC) and the implementation level of green economy a linear relationship exists.

For the Romanian Government the transition toward green economy is a priority theme and in order to encourage this process adequate policies are needed, the national strategic plan must be applied according to national, even regional and local particularities. Recommendations are formulated in “The Environmental Implementation Review 2019-Romania<sup>70</sup>”.

In the next period are needed: policies to increase competitiveness of SMEs in order to achieve green growth; to encourage and to sustain companies to put environmental products and services on the fast-growing green market; policies and strategies for eco-innovation; to sustain and help the transition to a green economy; the identification of most suitable measures for Romania on how can be promoted green growth and how can be accelerated ‘green-growth’ - is a necessity; investment into green skills and education of the labour force towards sustainable development – measures needed; Romania’s priorities include the greening of production and consumption processes – action plan needed; enhancing the cooperation between the public and the private sectors in tackling environmental challenges; Fiscal facilities for SMEs for investments; Simplified accounting procedures for SMEs; the improvement of business environment (regulatory and finance issues) is needed to encourage business initiatives; to facilitate the business development; to sustain training programs in order to develop attitude to improve the quality of entrepreneurship; to sustain and finance education, innovation which impacted on opportunity driven entrepreneurship – these initiatives must comply with eco-innovation opportunities and green growth initiatives; to adopt a legislative basis of entrepreneurship; digitalization.

The role of legislation in the transition process is significant can be considered engine of sustainable development. In this respect was mentioned the legislation on public procurement.

In order to become sustainable and green the Romanian SMEs have to make environmental improvements in their operations to reduce costs and comply with regulatory requirements. The SMEs are interested to introduce measures to better attitude to the environment (eco resources; ecologically clean production process; bio-degradable materials and products).

Generally the SMEs finance green investments from own sources the EU programs are not popular among them and in this respect education, trainings are needed. One of the main problem is that for SMEs is more difficult to fulfill the environmental requirements stated by law than for large enterprises. A differentiated treatment among SMEs can have positive impact. Improving the wastewater collection infrastructure is a key priority for the Romanian government, suitable measures are needed in this respect. It is acknowledged that

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<sup>70</sup>[https://ec.europa.eu/environment/eir/pdf/report\\_ro\\_en.pdf](https://ec.europa.eu/environment/eir/pdf/report_ro_en.pdf)

low awareness by both SMEs and large enterprises of their impact on the environment and the economic opportunities arising from resource efficiency. In order to improve the situation popularization, trainings are needed.

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## HOW TO IMPROVE THE SERBIAN COUNTRY'S POSITION AS A "MODERATE INNOVATOR"

### ABSTRACT

After six years of stagnation due to the negative effect of the Global crisis, last five years Serbia experienced an economic recovery. It is important to continue with economic development and increase in GDP, as in these circumstances only there is a room for the restructuring of the national economy to more sustainable and innovative one.

Regarding the market reforms, which Serbia has started late in comparison to other East and Central European countries, its position is improving, but it is still fragile. Namely, other economies at the same time want to be advanced in market reforms in an attempt to be more competitive on the global market. One can see that each year there are some steps forward in making business environment more entrepreneurial friendly and more easily.

Similar situation is with innovations. The Serbian index of innovation is improving every year, but is still modest. Together with other 17 countries it is in the group of "moderate innovators". During the transition process a lot of important steps were made regarding the creation of different development strategies, policies and action plans. However, some of these documents have to be reexamined and tailored due to new circumstances and changed economic and political goals. At the end, the crucial step is to implement them.

**Keywords:** innovation, competitiveness, business environment, transition

**JEL Classification:** O25 Industrial Policy, O31 Innovation

### 1. INTRODUCTION

Serbia has a good chance to continue with a recovery after six years of stagnation, as one can see an increase in GDP for five consecutive years and in the future, as well. It is very important for an attempt to improve its economy to make it more competitive and more innovative. Namely, during the recession or stagnation phase the necessary restructuring is not a feasible task.

In order to examine the Serbian position in the market reforms and competitiveness one can see that trends are positive, as the business environment becomes friendlier and companies become more competitive. However, other national economies, especially those in transition, are also improving their economies in an attempt to be better off on the global market.

Similar is regarding innovations, as Serbia is improving, but its position is still modest. In meantime many of necessary documents, like strategies, policies and action plans are adopted. However, due to the global economic crisis and changed position on the world market EU adopted new goals and policies. So, Serbia, as a candidate for the membership, has to moderate its strategies, policies and action plans to new circumstances, and more important, to implement them.

The aim of the paper is twofold: firstly, to envisage the Serbian position in market reforms, competition and innovations and secondly, to note possible necessary changes of development documents and their content.

### 2. DURING THE DEVELOPMENT PHASE IS POSSIBLE TO RESTRUCTURE ONLY

As a consequence of the Global economic crisis Serbia was faced with stagnation in its economic development, as the growth of the Gross Domestic Product, GDP was only 0,6% per year in the period 2009-2014. One can see an economic recovery under way, as GDP increased for five consecutive years 1,9%, 3,3, 2 and 4,4% in the period 2015-2018 [1], and is predicted to be 3,5% in 2019[2]. The increase is realized due to an increase in domestic consumption, mainly the public spending for infrastructure projects, foreign demand due to modest recovery in EU countries, as Serbian main trade partners, and an increase in investments, mainly Foreign Direct Investments, FDI. For next several years the GDP increase between 3-4% per year, can be predicted [2]. Although respectable, this growth for Serbia is below its need, due to fast growth of countries in transition in the neighborhood and Serbian great fall in economic activities during the 1990s.

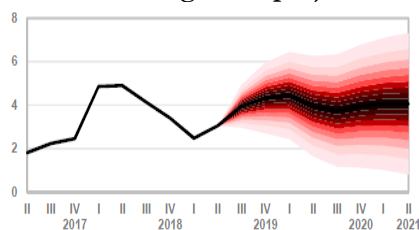
After decades the inflation rate is for the first time comparable to those in EU countries. It was 1.9%, 1.2, 3 and 2% in the period 2015-2018 [1]. Put the inflation under control was the result of the cut in the public spending, as painful measures were introduced, among others, the cut in wages of civil servants and pensions for 10%. Inflation in EU countries was also on the low level and prices of oil, as well. The low inflation rate make local currency more than stable, as dinar was in the period under consideration even overvalued in real terms. So, it is on the back of exporters, but one can be sure that the main interest groups have advocated for this overvaluation, like importers, those with credits and the state itself.

Two main problems of Serbian economy in the period of crisis, the Budget Deficit and Foreign Debt, were fortunately put under control. The Budget Deficit was transformed into a surplus, due to the measures introduced, as it was -3.7%, -1.4%, 1.3% and 1.5% of GDP in the period 2015-2018 [1]. On the one hand, the cut in public spending and, on the other, better collecting of revenues, was more efficient than expected and projected together with International Monetary Fund, IMF, with which the Government signed the stand – by arrangement worthy 1,2 billion Eur. The Public Debt decreased, as the result, from its maximal level of 75% in GDP in 2015 to 56% in 2018[3].

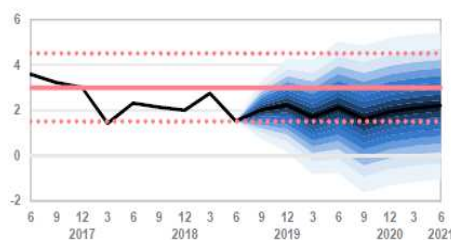
As the result of the increasing export and decreasing import during the crisis Foreign Debt decreased as the share in GDP from 76% to 63% in the period 2014-2018. What is also important is the fact that the balance of payment although still is negative, is covered by positive balance of payment in services, by remittances from our citizens living and working abroad and Foreign Direct Investments, FDI. At the same time the state Foreign Exchange Reserves are increasing and reached maximal level, far more than necessary to cover the six months import value, as a standard [2].

All in all, the recovery is secured in the medium term (3-4% of the GDP growth is projected) [2], with low inflation rate and high level of macro-economic stability. It is very important for the economic future, as the national economy can be restructured to more sustainable and innovative one during the increasing phase of the economic cycle only and not during its slowdown.

**Graph 1: Serbia, GDP growth projection**



**Graph 2: Serbia: Inflation projection**



*Source:* [2]

### 3. SERBIAN POSITION IS IMPROVING, BUT IS STILL FRAGILE ONE

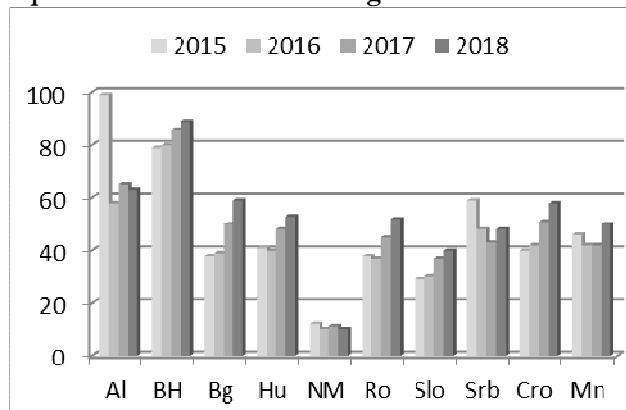
Serbia has started market reforms later than other countries of East and Central Europe. During two decades of the transition it made constant improvements in the business environment, but other transitory economies, as well. So, its position depends on its own improvement, but at the same time, what others did.

There are three dimensions important if one wants to envisage a country’s position on the world market, especially for countries in transition: the achievements in market reforms, the level of competitiveness regarding other economies and the level of innovations involved into the national economy.

Considering overall business environment, one can see that Serbia is improving, but during last several years others did more. The World Bank prepares “Doing Business Report” each year. On the last World Bank Doing Business list Serbia was ranked as the 48<sup>th</sup> out of 190 economies [4]. Its overall score is 73, slightly better than a year before, but at the same time, it is five places worse than a year earlier. Serbia is now above the average of Europe and Asia, better than Hungary, Croatia and Greece, considering countries in the Region.

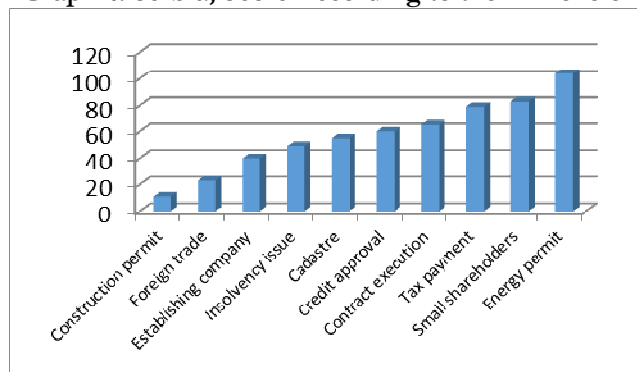
Considering the main achievements, those are related to the construction permit and foreign trade procedures, now more simply and faster than before. However, one can be aware that still there are important limits, as follows: small shareholder safeguarding, contract execution, insolvency problem, credit approval and energy permit (see Graph 2).

**Graph 3: The World Bank Doing Business Overall Score**



Source: [4]

**Graph 4: Serbia, Score According to the Dimension**



Source: [4]

Similar can be said for Serbian competitiveness on the world market. The World Economic Forum prepares “Global Competition Index” on regular basis. Serbia is improving its competitiveness abilities. However, others were even more enthusiastic. The Serbian overall score on the last list was 60.9, out of 100, exactly the same as a year before [5]. At the same time it was placed as the 72<sup>nd</sup>, out of 141 countries envisaged, and seven places worse than a year earlier. Serbia is better placed than other ex - Yugoslav countries, except Slovenia and, at the same time, worse than new EU countries, Romania and Bulgaria.

Considering improvements by dimensions, the main improvements were made in the healthcare (score 79) and its macroeconomic stability (score 75). One can see that low level is in the field of Informatics Computation Technologies, ICT adoption (score 53) and Innovation capability (score 40).

#### 4. THE POSITION OF A MODERATE INNOVATOR IS NEITHER PROMISING, NOR COMPETITIVE

The Global Innovation index is a report prepared from 2007 jointly by Cornell University, INSEAD and World Intellectual Property Organization, WIPO, measuring innovation country performances and successfulness. Although Serbian index of innovation abilities is improved from year to year, it is still modest. In other words, Serbia was put together with other 17 countries in the group of “moderate innovators”. What is good news is the fact that it has higher innovation index than can be expected by its economic development. According to the Last Report Serbia was ranked as the 57<sup>th</sup>, two places worse than a year before, with the index 35,7, slightly more than a year earlier (33) [6]. Comparing to other countries within the Region, its position is better than Bosnia and Herzegovina, North Macedonia and Albania, only. According to the Input Innovation sub-index Serbia is ranked as the 62<sup>nd</sup>, with the overall score of 44,5 (the average is 43,4) and indices by dimension as follows:

**Graph 5: Serbia, Innovation Index (Score and ranking)**



Source: [6]

- Institutions – the score 69 and the rank 47<sup>th</sup> (67 and 50 a year before);
- Human capital – the score 32 and the rank 59<sup>th</sup> (32 and 58, respectively);
- Infrastructure – the score 50 and the and 54<sup>th</sup> (50 and 48, respectively);
- Market sophistication – the score 40 and the rank 103<sup>rd</sup> (39 and 101 respectively);
- Business sophistication – the score 32 and the rank 63<sup>rd</sup> (29 and 79, respectively).

According to the Output Innovation sub-index Serbia is ranked as 57<sup>th</sup> with the overall score 26,9 (the average 23,5) and indices by dimensions as follows:

- Knowledge and technological abilities – the score 27 and the rank 48<sup>th</sup> (27 and 59, a year before);
- Creative abilities – the score 27 and the rank 65<sup>th</sup> (28 and 64, respectively).

#### 5. A LOT OF PAPER WORKS NEED IMPROVEMENTS, BUT THE POINT IS THE IMPLEMENTATION

Due to the Global economic crisis as an answer EU somewhat changed its development documents in line with new goals and its changed position on the global market. During the recent years the entrepreneurial



ecosystem is seen as a framework for foster development through entrepreneurship, innovation and business growth. So, Serbia as a candidate country has to reexamine and reshape its development documents. The new development path emphasizes, among others, the importance of the legal, administrative and regulatory framework, friendly for entrepreneurs. Unfortunately, the overall business environment is still accused as one of the main obstacles by Serbia entrepreneurs [7][8].

The combination of financial models support for entrepreneurs, especially for fast growing small and medium sized companies, SMEs and start – ups, is of the vital importance. At the same time Serbia entrepreneurs pointed access to finance as the main limit for establishment and development of companies and shops [9][10].

Serbia is facing with the deindustrialization process more than two decades. During the 1990s it was due to the split of the ex - Yugoslav united market and the market sanctions introduced by international community and consequently a huge drop in economic activities. During the transition period the deindustrialization was an outcome of a neoliberal approach toward development. As a negative consequence of the deindustrialization Serbia has not enough tradable products for export, which hampers its balance of payment position. The national industrial policy was adopted, but has to be reexamined in line with the support more clean investments and Foreign Direct Investments, FDI into tradable products. The national investment policy would be an active, instead of an emphasize on the subsidization of FDI, running today, as these are investments into non – tradable products mainly [11][12]. Serbia has finished the quantitative phase of SME development until the start of the Global economic crisis. It means that policy measures for their support for establishment and development of SMEs instead of a general sort has to be changed into target one. One of targets is to support fast growing SMEs, so - called gazelles. On the institutional level it would be valuable to establish and develop sophisticated institutions for SME support, like business angels, micro - credit institutions, clusters. It is also important to introduce entrepreneurship as a subject, on all level of the education system, IT and to support start –ups [13].

Research, development and innovations, RDI are keys for the catch – up more advanced economies, but from different reports one can recognize that level of RDI is low and far from its need. Considering the Region of SEE Europe one can conclude that all countries are below the EU average and far from their need. Serbia is above the regional average, it adopted RDI framework, but not fully, and still is far from its implementation [14].

## 6. CONCLUSION

Serbian economy is in a good shape, considering that an economic recovery is secured and also the growth in GDP can be predicted in a medium term. Restructuring process with an aim to increase clean, high research and development companies can be realize only during the increasing phase on the national economy, not in downsizing one.

The market reforms are under way, the competitiveness of companies is improving and implementation of innovations and ITC is higher and higher each year. However, one can see that other countries especially those in transition are also enthusiastic, some of them even more.

Serbia during the transition process adopted dozens of development documents, like strategies, policies and action plans in line with its status of a candidate country for the EU membership. EU changed development goals and policies after the start of the global economic crisis in line with its changed position on the global market. So, Serbia has to re-examine and re-shape those development documents in line with changes made on the EU level. What is even more necessary is to implement them.

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The new statue of the 15<sup>th</sup> century Hungarian Military Hero János Hunyadi was inaugurated with President of Serbia Aleksandar Vučić and President of Hungary János Ader in Belgrade fortress in July 2019.

Photo © by Petar Pavlovic.

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## **LET'S BE INNOVATIVE! DEVELOPMENT OF CREATIVITY, INNOVATION AND ENTREPRENEURSHIP FOR PRIMARY SCHOOL TEACHERS**

### **ABSTRACT**

**The project empowered the innovation mindset in primary schools and trained teachers for innovative work, i.e. in all subjects, in daily situations in school, in real life challenges. Based on developed training materials, we carried out an international joint staff training event. For other teachers, e-Training portfolio was prepared using state-of-the-art andragogical approaches and digital solutions. It was concluded with "real-life" interdisciplinary innovative projects, which required cooperation of a variety of experts. Projects addressed areas such as teaching process innovations, improvements for school and its local environment, e.g. innovations in school's garden; development of tourist destinations, cooperation with elderly people's home and suchlike. All together 83 teachers-mentors from Slovenia, Austria and Hungary were trained and were awarded with ECQA certificates. In addition, 212 teachers, 2111 pupils and 52 stakeholders participated. They developed 16 interesting and real-life innovative projects. We are also proud that an innovative culture in schools was enhanced, thus guaranteeing sustainability and further development of innovative and entrepreneurial mindset.**

**Keywords:** creativity, innovation, entrepreneurship, education, competences, elementary school, teachers

**JEL Classification:** A21, O31

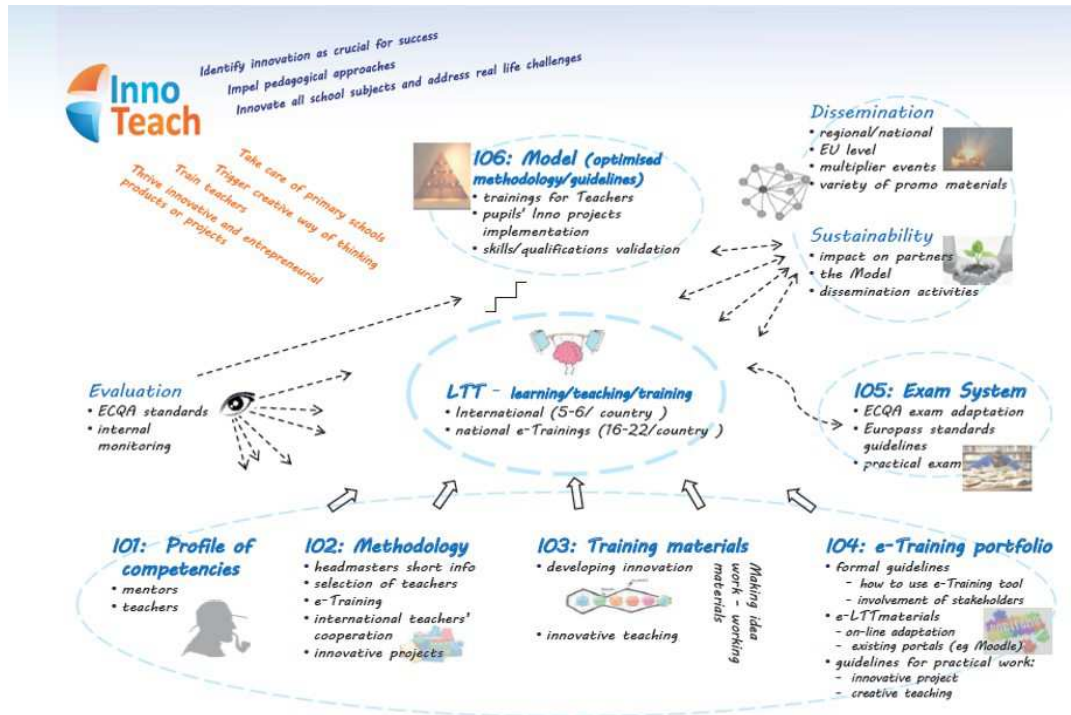
### **1 INTRODUCTION**

The research and development of new and improved services, systems, and products is an important driver for the European market. Innovation necessitates people who can cooperate in innovation teams, generate innovative and new ideas, boost creative environments supporting the creation of innovation and innovation processes that support the entire chain from idea creation to their implementation. Ideas and innovations are closely correlated with entrepreneurship, considered keys to a wealthy and sustainable economy. The InnoTeach project empowers the innovation mind-set in the European Union by way of establishing learning environments in schools which fertilize the grounds for young people to apply innovation principles in problem solving and at the same time learn about entrepreneurship concepts. These can be used everywhere; in all school subjects, in daily situations in school and in real life challenges.

### **2 THE PROJECT**

“InnoTeach” is a European project (Slovenia, Austria and Hungary) that transferred the innovation best practices from industry to the education and provided certification to school teachers.

The project's **target group** were teachers for the 2<sup>nd</sup> and 3<sup>rd</sup> triad in primary schools (pupils aged 9-14). The project's indirect target group were pupils.



Picture 1. Mind map of the project

## 2.1 How does InnoTeach work?

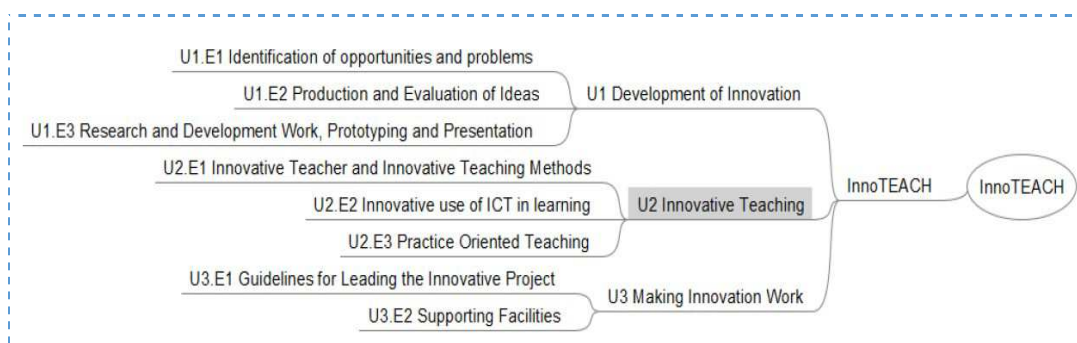
Firstly, the **profile of competencies**, which teachers needed to gain, was defined. With the goal of the validation and recognition of competencies our exam system has been based on the Europass guidelines and ECQA standards.

A comprehensive training methodology was prepared. The InnoTeach training programme addressed three pillars, three main skills units: U1 Development of Innovation, U2 Innovative Teaching, and U3 Making Innovation Work. U stands for Skills Unit (pls. see the picture 1).

Based on the prepared concept and training materials, an **international joint staff training event** (C1) we carried out in Budapest. The trained teachers became mentors to their colleagues from school (C2). For them, and also for the forthcoming generations, **e-Training portfolio** with short power point presentations, additional explanatory sequences, examples, videos, useful links as well as other supporting materials was prepared. We developed an up-to-date blended learning platform; e-learning environment (Moodle), which is supported by internationally trained mentors. The result is a highly motivating and efficient learning environment. Due to hard working participants and dynamic programme the training resulted in teachers' concrete, inspiring and innovative projects, which are presented herein.

Within InnoTeach an international Exam System focused on **validation and recognition of skills** and competences was developed in line with the ECQA (European Certification and Qualification Association) exam methodology. With the aforementioned certificate, we set very high standards for all project activities and presented an additional motivation factor and reference. In addition, teachers-mentors received also the Europass certificate.





Picture 2. Training competencies addressed

### 3 INNOVATIVE PROJECTS DEVELOPED

The final achievements of the InnoTeach Project at the base Project's level are numerous and versatile, starting with the application of different methods and techniques and valuable interaction with the real-life environment – teaching process innovations, improvements for school and its local environment, e.g. innovations in schools garden; development of tourist destinations, cooperation with elderly people's home, local flower shop, local entrepreneurs, etc.; socialisation and closer cooperation of pupils/teachers and parents, entrepreneurial challenges, and suchlike.

It should also be mentioned that the projects are **"real-life" cases**, which required cooperation of various experts. Therefore, many teachers were cooperating in a single project, e.g. ICT, maths, biology and ethics teacher, teacher for pupils with special needs and a student from the field of electro-technical sciences. In many projects, various stakeholders actively participated, e.g. kindergarten, elderly people's home, municipality, parents of pupils involved, etc. The innovative projects developed are:

#### 3.1 Austria

**Exercises for Optimising Concentration Levels of Students** - a tool for teachers which enables them to enhance the pupils' ability to concentrate.

**Facebook page for WIN branch of ORG Schulschwestern** - to make the activities and projects of the new school branch WIN visible to parents, the school community and the wider public (which includes potential new pupils).

**Social Room for Teachers** - to facilitate communication, socialising and relaxation among teachers, who thus have an innovatively-designed retreat and a better infrastructure for problem- and conflict-solving communication.

#### 3.2 Hungary

**Let's Have Fun Together** – so as to break away from daily routines in an innovative way teachers want to organise a project day where pupils, teachers and parents can work together, exchange information, and ask for help if needed. It improves socialisation and innovation ecosystem.

**Career Orientation Day at Hevesy School - Professionals Market** - stalls will be set up in the school yard and classrooms displaying different professions. The idea is to strengthen the link between the pupils, school management, parental community, local environment.

**Tura Tour** - a full day competition entailing knowledge on the city, skill tasks located at several stations of the town, ending with a joint picnic and a party.

**Skywalker Bee** – an innovative board game to help pupils to learn the constellations.

**Read and Write** - to encourage students to read more either in their mother tongue or in a foreign language and write their own stories, thus increasing “classical” literacy which declines in the ICT era.

**National Holiday - in a New Way** - classical National Holiday performance at the Cultural Centre with a twist, i.e. innovative presentation of handicraft activities at 4 locations, historical games at 1 location, singing and song learning at 1 location.

### 3.3 SLOVENIA

**Good Mood Readers** - a project aiming at increase pupils' reading motivation by designing and implementing a stimulating reading environment in cooperation with the local community, resulting in increasing a joy of reading and thereby strengthen literacy.

**School Garden as a Peace Oasis** - to improve the school garden with some innovative solutions: portable beds for vegetables, herbs and flowers, a gutter with plastic bottles for collecting rainwater, benches made out of pallets, etc.

**Silent Clouds Incorporated** - to change the cafeteria into a place with less noise and a cosy atmosphere where pupils can socialize and enjoy the food.

**Active Breaks** - the closing product entails a newly/better organised school breaks; hence, pupils may spend their free time on school playground or take part in different relaxing activities in different locations situated on school corridors and get ready for next school hour.

**Innovative Learning Path – Treasure Hunt in Ljubljana** - the project offers an alternative and innovative learning experience during which the participants get to know the capital city of Slovenia and various typical Slovenian products, while interacting with the citizens as well as business owners.

**Reduction of Noise Levels during Breaks** - a number of projects aimed at reducing unpleasant and harmful noise levels during the school brakes.

**From creative teachers to creative pupils** - application of new knowledge on project management, organisation of teachers' teamwork, multidisciplinary learning based on problems and projects and prototyping in concrete innovative projects (part of the project was ran within the *FIRST*® LEGO®League program, which in Slovenia is organised and carried out by Zavod Super Glavce).

## 4 CONCLUSION

The project addressed at least 3 of top 10 skills for businesses to thrive in the Fourth Industrial Revolution, identified by World Economic Forum (WEF 2016&2020), i.e. Complex problem solving, Critical thinking and Creativity.

At the schools' level, a critical mass of teachers was reached and innovative culture in schools was enhanced by way of applying multidisciplinary approaches. The InnoTeach also received a very good media response. Moreover, the Austrian ORG Schulschwestern used the InnoTeach materials for new school subject called WIN (Wirtschaftlichkeit – Innovation – Nachhaltigkeit). In Slovenia, materials were included in workshops for teachers organised by Slovenian national agency SPIRIT. It also expressed interest to continue the

InnoTeach programme and include other schools. Also the University of Primorska- Faculty of Education expressed interest for cooperation on concrete courses for elementary schools. Based on project proposal evaluation by Slo NA, InnoTeach has a great potential to be transferred to other countries as well as to other educational levels. Based on this fact we have already started activities in the Czech Republic, Italy, Germany and France. Last but not least, prof. Likar's (project leader) student prepared a PhD thesis based on the InnoTeach project. And what is more, our children can eagerly expect highly-motivated teachers, well-equipped with the competences for the 21st century.

## 5 PROJECT BASICS

**English title:** LET'S BE INNOVATIVE!  
Development of Creativity, Innovation and  
Entrepreneurship for Primary School Teachers

**Acronym:** InnoTeach

**Project no:** 2016-1-SI01-KA201-021641

**Programme:** Erasmus+ Strategic Partnership

**Web:** <http://innoteach.itstudy.hu>

**Partners:** SI, AT, HU

- Institute for Innovation and Technology (Korona plus), Slovenia, info@innovation.si (Project leader)
- Osnovna šola Trnovo, Slovenia
- Osnovna šola Louisa Adamiča Grosuplje, Slovenia
- I.S.C.N. GesmbH, Austria
- ORG Grazer Schulschwestern, Austria
- iTStudy Hungary Számítástechnikai Oktató- és Kutatóközpont KÖ, Hungary
- Turai Hevesy György Általános Iskola, Hungary
- Kerepesi Széchenyi István Általános Iskola es Alapfokú Művészeti Iskola, Hungary

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## TURKEY'S EMERGING MARKET

### ABSTRACT

For years many indices have classified Turkey as an emerging market. Many of these indices are true as Turkey has within a short time developed the necessary environment for Investment and Business opportunities to thrive. But when it comes to the world economy, this is where Turkey falls short. Turkey has one of the largest markets in the world, 16<sup>th</sup>. It has a young population; it has an annual Gross Domestic Product increase of about 8%. Its many industry-based economies are one advantage that counts for it. Despite these advantages we've outlined and the vast potentials at its disposal, the global market does not view Turkey as the right place for entrepreneurship. This is according to various studies by independent international bodies. Let's keep these foreign postulations aside and consider the opinions of local citizens. Only about 60% of the Turkish people regard the local business environment as suitable for bolstering the confidence of emerging entrepreneurs. This is a far cry from our expectations. Again, when placed side-by-side with their male counterparts, the number of female entrepreneurs is deficient. It is a male-dominated business environment. The female folks are barely fighting for breathing spaces. This does little to enhance Turkey's entrepreneurial aspirations. So, in this our current study, we will aim to explore the entrepreneurial activities in Turkey. This will be done by determining some of its demographic characters. We will look at what defines the personal perceptions, motivations and worldview of the average Turkish Entrepreneur. We will analyze the current environment for entrepreneurship and finally take an in-depth look at Turkey's place in the international market.

**Keywords:** Entrepreneurship in Turkey, R&D and innovation, Government reforms

**JEL Classification:** L21, L26, L32, 033

### 1. INTRODUCTION

Entrepreneurship is the major reason why economies of upper-middle-income economies like Turkey thrive. Entrepreneurs and entrepreneurship ensure that the well-being, vitality, wealth and flexibility of any economy in the long haul are secured. Turkey's economic growth of present and positioning for the future is down to innovation, job creation, and growth associated with entrepreneurship. Entrepreneurs are the champions of capitalism. Their originality, determination, and imagination drive innovation. This encourages the emergence of better-improved products and a more efficient way of getting things done. A booming entrepreneurial culture ensures that more jobs are created in fast-rising firms that improve productivity growth in modern economies. Entrepreneurs play a significant role in economic growth and development. But a country must have an enabling business environment, easy access to funds, enabling policies and much more before it can enjoy the dividend of a booming entrepreneurial enterprise. Because of the impact of entrepreneurs in modern economies, there is a growing interest in developing more literary materials on people who are most likely to be an entrepreneur and in what conditions they might likely thrive in.

A bulk of the research on entrepreneurship focuses on the economic, financial, regulatory and cultural parameters that ensure it thrives. While these are critical parameters, and cannot be swept asides, a bulk of what makes entrepreneurship so important is sociological and human. This is further bolstered by the fact that the entrepreneurial performance of a country can be directly attributed to its human development performance, the strong correlation between a country's ranking in the 'human development index' and 'global entrepreneurship and development index' clearly demonstrates this. Yet, approaches towards promoting entrepreneurship focuses majorly on economic, financial, and regulatory issues leaving little for issues surrounding human development. It must be noted that an economy must at least have the ability to ensure that social opportunities are accessible to all segments of its society as are economic and financial basics.

## 2. THE IMPORTANCE OF ENTREPRENEURSHIP IN ECONOMIC PRACTICES

In today's market of competitive globalization and unstable financial markets, entrepreneurs sustain their competitive edge and continue to develop economies by identifying what their unique opportunities and threats are to stay innovative and adapt to change. With a population of 82,003,882 (TUIK, 2019), Turkey has a considerable cash and market potential, but there are many obstacles in the way, and this limits the investment and market potential of the country. Even though the country is a potential gold mine in terms of starting a business and finances, it will not attain its entrepreneurship potential without government and societal support. Entrepreneurship is vital to improving economies, social integration and poverty reduction. There are endless possibilities for entrepreneurs in countries like Turkey, provided issues militating against entrepreneurship improves.

Economic growth and political stability are essential for a country that is attempting to position itself as an investment destination. For instance, because of improved stability, mergers and acquisition involving Turkish assets reached \$25.6 billion in 2010, this is an improvement from the \$1.1 billion such acquisitions attracted in 2000 (Scott, 2011). There is also a push for the privatization of government-owned industries in Turkey. These privatizations are not limited as the energy, telecommunications, and airline industries are also very much for grabs by entrepreneurs, this is to ensure that these industries are not limited in their investments and financial potentials. Even though Turkey is renowned for its vast business potential, it is not regarded as a thriving location for entrepreneurship by the global market. A publication by the Legatum Institute rates Turkey's prosperity index as 75<sup>th</sup> out of 110 countries based on an annual Prosperity Index. The Prosperity Index (2019) assesses the 110 countries that represent approximately 93% of the world's population and 97% of global GDP. Turkey's inflation rate is put at more than 6%, and its gross domestic savings rate is low at 14% of GDP based on the same publication. These numbers show that Turkey is not an ideal place for investments when compared to countries with lower inflation rates and higher domestic savings.

However, not everything in the Legatum Institute's report is terrible. It also shows some positive findings. This includes above-average confidence in state institutions and a 94% literacy rate. Turkey is the 16<sup>th</sup> largest market in the world further cementing its high potential for output, and this is a good foundation for growth even when it is below global average rate of GDP per capita growth is considered. In 2018, there was a 2.6% increase in GDP. The potential for future economic growth is excellent when you think that in its prosperity index high-tech exports account for less than 2% of manufactured goods and that its Heritage/WSJ Economic Freedom Index (2019) is ranked 68<sup>th</sup> out of 179.

The economic potential of countries with a plentiful youth population is endless. Each year in Turkey more than one million people attain the country's legal drinking age, a lot of international companies are privy to this information ensuring that Turkey's markets continue to be flooded with their products. The advantage of doing business in Turkey is helped by its diverse industry base, its never-ending talent pool, a robust local market, and the economically weak neighboring economies that surround it. It also takes a shorter time frame for one to start a business in Turkey, unlike other more established economic powerhouses, in six days one can start a new business in Turkey. Even with all of these enabling factors, only about two out of thirty people are termed as entrepreneurs; this is a low rate. Because of this, Turkey is ranked 52<sup>nd</sup> in the world for entrepreneurship and opportunities.

Labor laws ensure that it is difficult to employ and sack people in Turkey, a Turkish website, Endeavor Turkey says. This as an obstacle to entrepreneurship in the country, Endeavor Turkey further listed the complexities and irregularities of Turkish bureaucracies, difficulties in protecting intellectual property and a monopoly culture in the market place as more obstacles. The site recommends that the government should take steps to transform labor laws and give small businesses incentives in the hope of encouraging more entrepreneurs.

For entrepreneurship to thrive even after government reforms, the societal perception has to change to ensure that a thriving business atmosphere for start-ups is cultivated. Social stigmas surrounding entrepreneurship in Turkey undermine the innovation and entrepreneurship abilities of the populace. Even though entrepreneurs are respected for their immense work ethic, entrepreneurship is still being discouraged especially when there is a credible work alternative. Compared to the rest of the world, only six in ten Turks consider their immediate environment to be good enough for fostering entrepreneurs and entrepreneurship. The female-male ratio for entrepreneurs is quite low; there are about 80,000 female entrepreneurs to 1.3 million male entrepreneurs. This is a barrier in promoting a positive and inclusive environment for sustained entrepreneurial growth. However, this may be as a result of Turkey being a Muslim country, where women have traditional societal and economic roles than men. This also influences how more difficult it is for women to access the same financial and family support as men when they decide to begin their entrepreneurial enterprise.

Turkey is one of the unindustrialized markets in the world and has many plusses to be eye-catching to international investors. Turkey, regardless of having a large market with a young population and a growing gross domestic product, is

still unappealing to the global stakeholders. However, gender inequality in entrepreneurship and some other factors hinder the growth of the country. This write-up will emphasize on the possible ways in which Turkey has been encouraging entrepreneurship and creating a global profile that is of great benefit to the country.

The jobless rate in the country turned many youths to prospective entrepreneurs; they are forced to enter the labour market. A research carried out by the Turkish Statistical Institute shows that Turkish government provides excellent access to communication technology, making the country one of the best in the world for good access to Internet bandwidth and secure-Internet servers per capita. This may cause a steep rise of interest in progressive entrepreneurship opportunities.

Turkey entrepreneurship is male-dominated; the female is less than 5 per cent of the total number. The Turkish government has begun to organize programmes that would encourage more female entrepreneurs in the country. One of these programmes is the Goldman Sachs Foundation-run (2019) tagged '10,000 Women Entrepreneurs' contest and conferences ever since 2010. The foundation selects 100 candidates out of over a thousand Turkish applicants for free entrepreneurship conferences and a year of aftercare. A year of aftercare offers a connection between entrepreneurs' formal training and noticing the progress of their businesses. It also facilitates entrepreneurs to surge their earnings and provide healthier lives to their families. These services are only available to women entrepreneurs who are challenged with business integrity and have low networking skills as compared to men. Furthermore, Turkey continues to incorporate its economy with the European Union, which nurtures progression, guarantee for entrepreneurship, and societal restructurings.

The Turkish government pledged to create a constructive atmosphere for entrepreneurship and has flung successions of programs aimed to increase growth and reinforce entrepreneurship. The government likewise instigated a tax reform to decrease corporate tax rates from 30% to 22% for the tax periods 2018, 2019, and 2020; however, the Council of Ministers is mandated to reduce the 22% rate to 20% (Turkey Ministry of Finance, 2019). Moreover, Small and Medium Enterprises Development Organization provide support and training, so that entrepreneurs expand their competence and confidence in their business skills.

### 3. CONCLUSION

Ultimately, the Turkish government approved the European Charter for Small Enterprises in 2002 and partook in the Multi-Annual Programme for Enterprise and Entrepreneurship (De Man *et al.*, 2016). Turkey arranged several five-year development plans that intend to escalate small and medium enterprises' access to financial markets and enable the usage of new communication technologies. In due course, the Turkish economic and manufactured goods markets are quite large and continue to grow. Also, while located in a region with a noteworthy political and economic disorder, Turkey remains active in both of these areas, giving it additional worth in the global market.

There are quite a large number of obstructions to fruitful investment and entrepreneurship opportunities in Turkey, but there are factual circumstances that are facilitating the country to adopt healthier environments. For example, its sustained relationship with the European Union and upsurge of a youth market establish that Turkey is likely to become a better environment for this entrepreneurial investment shortly. With upgraded government regulations that increase prospects for investment and that help break the barriers to opportunities, Turkey has the potential to become a suitable location for entrepreneurs.

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