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CONTENTS

- I. Horațiu DAN: THE INFLUENCE OF CULTURAL ELEMENTS ON FISCAL BEHAVIOUR IN THE EUROPEAN UNION**
- II. Andreea IBĂNESCU, Nicoleta Dorina RACOLȚA-PAINA; Dan IONESCU: MANAGERS' PERCEPTIONS REGARDING MANAGEMENT CHALLENGES AND THE DEVELOPMENT OF ROMANIAN SMES. SELECTED FINDINGS FROM 2012-2015**
- III. Kaloyan SIMEONOV: EU CAPITAL MARKETS INITIATIVES FOR BETTER FINANCING SMEs**
- IV. Kornélia LAZÁNYI: WHAT MAKES A START-UP SUCCESSFUL? – SMALL BUSINESS VENTURES IN FOCUS**
- V. Veronica Maria MATEESCU: PERSPECTIVES ON DIVERSITY MANAGEMENT AT WORKPLACE. THE EUROPEAN SMES CASE**
- VI. Mihaela Adriana OPRESCU: EUROPEAN LEGISLATION IN THE MATTER OF SALES - A USEFUL TOOL FOR SMALL AND MICRO-ENTERPRISES OR A SOURCE OF LITIGIOUS PROBLEMS?**
- VII. Dominiek POST, Han van der MEER, Matthijs HAMMER: ORGANISATIONAL BLUEPRINTS FOR GROWTH IN SERVICE FIRMS**

THE INFLUENCE OF CULTURAL ELEMENTS ON FISCAL BEHAVIOUR IN THE EUROPEAN UNION

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Abstract: *The paper aims at identifying and describing potential ways in which cultural elements are influencing fiscal behaviour within the European Union, in an attempt to find some of the structural causes underlying the fiscal issues that Member States are confronting. In an European economic environment characterized by highly heterogeneous fiscal behaviours on a national level, doubled by the membership (present or aimed) in the monetary union, understanding why Member States tend to adopt certain fiscal approaches (which sometimes are inconsistent with the Maastricht Criteria) represents a key requirement for the efficient continuation of the European economic integration process. By matching fiscal behaviour exhibited at both government and private sector levels with a set of national cultural dimensions, the study analyses the cultural / fiscal relationship, understanding its role in improving the European economic context by fostering a stronger European cultural identity that may lead to a more fiscally integrated EU.*

Keywords: European economic integration; National culture; Public finance; Shadow economy.

1. Introduction

The recent economic crisis has exposed a series of major weaknesses in the European economic construction, one of the most prominent sources of such profound

fragility being the Euro Zone dichotomy between a single monetary policy and nineteen different fiscal policies¹, as discussed in Dan (2014). The situation is doubled by structural weakness in the initial version of the Stability and Growth Pact (SGP) and the subsequent difficulties in enforcing the fiscal provisions of the Maastricht Criteria. As a consequence, even if these fiscal provisions were met before joining the Euro Zone, many Member States have deviated from them afterwards. The issue is currently being addressed by the additions made to the Stability and Growth Pact, namely the measures contained by the 2005 and 2011 SGP reforms and the so called “Six Pack” (in 2013), “Two Pack” and “Fiscal Compact” (both in 2014) packages. The Fiscal Compact, however, which contains the provisions most relevant to fiscal discipline enforceability, takes the form of a treaty which officially falls outside EU’s legal framework and which was voluntarily signed by all the Euro Zone Member States and by 7 non-Euro Zone ones, the latter being able to choose whether to fully or only partially comply with its provisions. The Fiscal Compact’s efficiency in ordering the heterogeneous picture of the fiscal behaviour displayed by Member States and of solving, at a European level, the economically problematic situations generated by governments at a national level, is however yet to be determined. These being said, without denying the importance of the improvements made to the SGP and the creation of the Fiscal Compact, we must express our scepticism regarding their capacity to efficiently solve EU’s fiscal issues and to impose EU-28 wide fiscal discipline.

In this context, we bring forth the hypothesis that national culture and the cultural factors that generate it are influencing fiscal behaviour and that understanding the dynamics behind this influence could prove beneficial in achieving a higher degree of fiscal stability across the EU. Since the terminology in the field of culture can prove to be rather subjective and thus the danger of its ambiguous understanding, we will operate with the definition of culture as set forth by Mulholland (1991), who perceives culture as “a set of shared and enduring meaning, values, and beliefs that characterize national, ethnic, or other groups and orient their behaviour” and will regard as cultural factors all the elements that are included in the composition of national culture, thus exerting an influence on

¹ When writing this article, the Euro Zone consists of 19 Member States

culturally determined collective behaviour. As previously stated, it is our hypothesis that there is a real connection between national culture and fiscal behaviour on a national level, a term by which we understand those governmental and/or private sector actions that influence the quantitative relation between government revenues and expenses and any subsequent financing activity meant to cover eventual gaps between the two budgetary components, i.e. the budgetary deficit and the debt rate, expressed as a percentage of the GDP.

Moreover, we depart in our investigation from the premises that if these cultural factors are not fully understood and if differences between such factors exhibited at a national level are not considered, the existing legal framework will prove to be insufficient in delivering the improvement in EU fiscal integration that is required for a more functional European economy. Consequently, the primary objective of the paper is to investigate which cultural factors exert an influence on fiscal behaviour in the European Union. In order to identify such connections between cultural factors and fiscal behaviour, we refer to the work of Hofstede (2001, 2011) and Hofstede, Hofstede and Minkov (2010), who defined and measured cultural dimensions at a national level, thus designing a tool meant to facilitate international cultural comparisons. The six cultural dimensions are:

1. power distance, a dimension that measures the extent to which the less powerful members of society accept (and even expect) an unequal distribution of power;
2. uncertainty avoidance, a dimension that illustrates the degree of tolerance to ambiguity and the unknown;
3. the degree of individualism (vs. collectivism), measuring to what extent are the members of a given society integrated into groups;
4. the degree of masculinity (vs. femininity), a dimension that is based on the differentiation between masculine values (such as ambition, competition and material reward for success) and feminine values (like modesty, cooperation and the emphasis put on the quality of life) and that positions national cultures according to the mix between these two sets of values that they exhibit;

5. Long term orientation (vs. short term), a cultural characteristic defining the relation, in a given society, between focusing on the future and focusing on the near future, present or past;
6. Indulgence (vs. restraint), where “indulgence stands for a society that allows relatively free gratification of basic and natural human desires related to enjoying life and having fun”, as opposed to restraint, which “stands for a society that controls gratification of needs and regulates it by means of strict social norms” (Hofstede, 2011: 15).

After in Dan (2015) I have analyzed the relation between cultural characteristics and intra-EU migration, this article will continue the study of the association and interaction between the national cultural attributes exhibited by EU countries and European economic integration by focusing on the cultural / fiscal relationship and on how culture affects fiscal behaviour, in an attempt to draw conclusions that are relevant to the discussion regarding the outline of a stronger European cultural identity and its potential role in achieving a more fiscally integrated European Union.

As a consequence, the next sections will be dedicated to exploring the connections between cultural elements as defined by Hofstede and key components of what we can broadly identify as fiscal behaviour. These components are general government deficit/surplus, government debt (two main indicators of how fiscal policy is being conducted) and the size of the shadow economy, by which, departing from the definition of Mroz (2002) as presented in Schneider, Raczkowski and Mroz (2015), we understand the set of unregistered economic activities aimed at generating tangible benefit for at least one of the parties involved. Consequently, the shadow economy is dependent on both individual choices made within the private sector and on the government's tolerance to tax evasion and illegal economic activity and represents a complementary picture to the one depicted by the government finance indicators, thus enabling us to develop a more complex understanding of the impact of cultural elements of fiscal behaviour.

As a final introductory remark, we note that analysis is conducted in full awareness that fiscal behaviour is influenced by a wide range of factors. On one hand, in the case of public deficit/surplus and debt, these factors include legal provisions like those mentioned earlier, the electoral cycle (Shi and Svensson, 2002; Shi and Svensson, 2006; Afonso and

Hauptmeier, 2009), institutional design and processes (Kontopoulos and Perotti, 1999; Alesina and Perotti, 1999; Shi and Svensson, 2006), policy spill-over generated by the actions of other Member States (Giuliodori and Beetsma, 2007), the electoral system (Stein, Talvi, and Grisanti, 1999), or even the personality of the Finance Minister (Hallerberg and von Hagen, 1999). On the other hand, regarding the illegal or illicit fiscal behaviour of economic agents, ranging from private persons to SMEs and large corporations, the characteristics of the resulting shadow economy are being shaped under the influence of a series of elements like institutional factors (Alm and Martinez-Vazquez, 2003), the unemployment level (Schneider and Enste, 2000; Schneider and Williams, 2013) or sociological and even psychological determinants (Schneider and Williams, 2013: 138). In this context, in our analysis meant to determine the role that cultural factors play in this mix of influence factors we are fully aware that in such complex environments it is most difficult to isolate lurking variables in order to transcend association and accurately prove causality.

2. Cultural Dimensions and Government Finances

This section of the paper is dedicated to the analysis of the potential influence that national cultural dimensions, as measured and reported by Hofstede (2001, 2011) and Hofstede, Hofstede and Minkov (2010) exerts on how the EU governments chooses to conduct their fiscal policy regarding public deficit and debt. Of course, as mentioned earlier, there are numerous factors influencing government finances, ranging from the level of fragmentation characterizing the institutional design, understood as the number of participants to the outlining of fiscal policy (Kontopoulos and Perotti, 1999), to the degree of proportionality exhibited by the electoral system (Stein, Talvi, and Grisanti, 1999), thus making the effect of cultural characteristics difficult isolate.

As a first step in our analysis, we have calculated the correlations between the values of the six cultural dimensions considered and public deficit and debt respectively, for all EU Member States except Croatia, who joined the EU only in July 2013 and Cyprus, due to the lack of national cultural dimensions data availability (Table 1). This

focus, other than being natural taking into consideration our desire to study the European Union, generates some advantages due to the relative homogeneity when it comes to the level of democracy and, even if perhaps to a lesser extent, regarding institutional design and economic development, thus partially limiting the effect of these variables to the dependent variables considered.

Table 1: Correlations between cultural dimensions and government deficit / government debt

Cultural dimension	Correlation with gov't deficit		Correlation with gov't debt
	2003-2010	2011-2014	
PD	0.33	0.25	0.05
UA	0.42	0.24	0.32
I/C	-0.13	-0.23	-0.06
M	0.51	0.14	0.30
LTO	-0.23	-0.5	-0.37
I/R	-0.16	0.16	0.27

Source: Own calculations based on Eurostat data on government finance and on cultural dimension data provided by Hofstede (2001) and Hofstede, Hofstede and Minkov (2010) and accessed via the Hofstede Centre.

Let us continue by looking at the association levels between cultural dimensions and government deficit in the 2003 – 2014 time frame. In order to isolate the effects of the financial crisis and resulting pressure towards fiscal contraction, we divided the considered time frame into two periods by identifying the year 2010 as the year in which the sovereign debt crisis reached its peak, thus changing the fiscal paradigm and decisively pressuring governments to engage in fiscal contraction measures. Consequently, due to the different context, we have decided to analyze the two periods separately and determine what is the association between each of the six cultural dimensions as manifested at the national level of each Member State and the corresponding Member State average national government deficits in both time periods.

We will now analyze the results for the 2003 – 2010 period, when fiscal contraction pressures were weak (in the years before the 2007 onset of the economic crisis) or

increasing but not at climax (in the 2008 – 2010 economic crisis years). Applying the evaluation scales provided by Taylor (1990) and Zady (2000), the analysis reveals that two out of six dimensions exhibit low or moderate association with the average public deficit values. These are masculinity (moderate positive relationship) and uncertainty avoidance (low to moderate positive relationship). Even if the relationships are not nominally strong, they are relatively strong and sufficient to indicate a potential causal connection between the variables, because of an environment where the dependent variable is influenced by many factors and it is not expected that any independent variable would alone be able to determine an outcome.

When focusing our attention on the 2011-2014 period, when pressures for austerity measures intensified, the levels of association between the government deficit and these two cultural dimensions (masculinity and uncertainty avoidance) decrease well into the “low” zone, while the long term orientation dimensions becomes more relevant, exhibiting a 0.5 correlation with the government deficit.

Taking a look behind the numbers, the dynamics of the cultural dimensions and the government deficit seem to be consistent with the calculated association levels. Hofstede's studies reveal that masculine societies are characterized by ambition, a developed sense of competition and a clear relation between performance and success. It is highly plausible that in a society driven by competition government expenditure and a slack fiscal stance are appreciated, while government deficits are, up to a certain point, tolerated. However, when government deficits (and the debt they generate) threaten to weaken the economy, the competitive character helps understand the risks and, consistent with the results of our calculations, the association between masculinity and government deficit fades.

Regarding the uncertainty avoidance dimension, according to Hofstede, societies exhibiting high levels are characterized by discomfort in the face of uncertainty and a need to control the future. This means that as long as the public deficit is regarded as being reasonable, an expansionary fiscal policy will help decrease economic uncertainty, at least at the perception level. Nevertheless, when the deficit level increases beyond a certain threshold and the perceived benefits of the expansionary policy are overshadowed by a bleak macroeconomic situation that fuels uncertainty, uncertainty avoidance principles

would better accommodate fiscal contraction and thus the strength of the relationship between this cultural dimension and the level of government deficit decreases, as shown in the quantitative model.

Let us now turn our attention towards the other two cultural dimensions that seems to be associated with public deficits: long term orientation and power distance.

As Hofstede observes, long term oriented societies are ready to let go of their past and, adopting a pragmatic attitude, are more focused on their future. This pragmatic dimension explains why the negative association between the long term orientation dimension and public deficit intensifies when economic health is threatened.

Regarding the power distance dimension, the low level of positive association identified suggests the possibility of a real relationship with the level of government deficit. These results would imply that the acceptance by the citizens of an uneven power distribution could enable its politicians to engage in more expansive fiscal policy, a result which, at a first glance, seems counter-intuitive. This is because in such an environment, the general public theoretically either generates less critical opinions regarding governing class, or these opinions translate themselves more seldom in actions that would challenge the existing distribution of power, thus making the governing class less sensitive to negative perceptions and, consequently, not so much in need to promote a series of social measures that would deteriorate government finances. However, before dismissing this association as accidental and non-causal, a deeper research on the dynamics behind this relationship should be conducted.

When it comes to debt, all associations with cultural dimensions are borderline moderate, weak or even negligible, even those which apparently play a role in the complex phenomena behind government deficits. Even if at a first glance this could come as a surprise, it is actually consistent with the cultural dimensions – government deficit relationship dynamic discussed earlier. As deficits rise and add up to more and more debt, other factors come into play. And even if some cultural dimensions such as uncertainty avoidance could play a role in actually diminishing excessive debt, such an effect would not be easily captured by the applied quantitative tools because, as we have already established, in times characterized by economic growth, the positive relation between

uncertainty avoidance and deficit is clearly present. Consequently, in these time periods, uncertainty avoidance is also positively correlated to debt creation. This does however not mean that when the economic environment changes dramatically, this positive relation could not change direction. Unfortunately, it is highly difficult to isolate the effect of any cultural dimensions on the sovereign debt dynamics during the last economic crisis, due to the numerous factors that influence it. With the exception of Germany and Hungary, all Member States which had at the end of 2010 a debt level exceeding the 60% of GDP limit stipulated in the Maastricht Treaty, saw, by the end of 2014², their debt to GDP levels increase as a result of economic recession and the lack of government surplus, even if deficits fell.

3. Cultural Dimensions and the Shadow Economy

As clarified in the introductory section, departing from the definition of Mroz (2002) as presented in Schneider, Raczkowski and Mroz (2015), the shadow economy may be understood the set of unregistered and economic activities aimed at generating tangible benefit for at least one of the parties involved. For a deeper understanding of the phenomenon, we refer to Jensen and Wöhlbier (2012), according to whom the shadow economy is made up out of “legitimate productive activities in which a payment or a quid pro quo barter is taxable but the seller – often in common understanding with the buyer – neglects to pay taxes (including social security contributions and excise duties)”. Consequently, even if some definitions of shadow economies include illegal activities such as drug dealing, trade of stolen goods, gambling or prostitution (Smith, 1994; Mirus and Smith, 1997), for the purpose of this study, our perspective of the concept focuses on economic activities that are legitimate in essence, but become unlawful due to the refusal of those involved to comply with fiscal regulation. The economic incentives for this refusal

² The reason for which we have chosen to analyze only Member States with excessive public debt (more than 60% of GDP) lies in the observed economic contextual differences in the dynamics of the uncertainty avoidance – deficit relationship.

clearly lie in the financial benefits generated by such actions, coupled with the perceived risk and magnitude of punishment. However, the shadow economy is influenced also by other factors such as the institutional factors (Alm and Martinez-Vazquez, 2003), the unemployment level (Schneider and Enste, 2000; (Schneider and Williams, 2013) or sociological and even psychological determinants (Schneider and Williams, 2013: 138; Falkinger, 1995), thus generating high variations across countries even if extreme economic and political environments are disregarded from the analysis, as shown in the study involving 38 OECD countries of Buehn and Schneider (2012).

In this section of the paper, we will focus of investigating the impact of cultural elements on the shadow economy, a sector that comprises informal activities of a diverse spectrum of taxpayers, including both individuals and companies ranging from big corporations to to SMEs, with the latter being particularly prone to trading in cash as a means to evade taxes (Schneider, 2013a). For this purpose, we have used the 2013 data provided by Schneider (2013b) regarding the size of the shadow economy in 26 Member States³ in order to find associations with Hofstede's national cultural dimensions. The results are shown in Table 2 below.

At the first glance, it seems that the size of the shadow economy is very little, if at all, influenced by Hofstede's cultural dimensions. The only two dimensions that exhibit a significant level of correlation, even if at a low level, are Individualism/Collectivism and Indulgence/Restraint. The result partially fits the conclusions of Richardson (2008), whose study on 47 economically and socially diverse countries reveals, after controlling for economic development, a connection between tax evasion on one hand and individualism and uncertainty avoidance on the other.

³ All Member States except Croatia due to the late EU admission and Cyprus due to the lack of national cultural dimensions data availability

Table 2: Correlations between cultural dimensions and the size of the shadow economy

Cultural dimension	Correlation with shadow economy size (2013)
I/C	-0.24
LTO	0.05
IND/R	-0.27
M	0.13
PD	0.07
UA	0.1

Source: Own calculations based on shadow economy data provided by Schneider (2013b) and on cultural dimensions data provided by Hofstede (2001) and Hofstede, Hofstede and Minkov (2010) and accessed via the Hofstede Centre.

When confronting our results with Richardson's research, some interesting observations can be made. First, regardless of the sample considered, the level of individualism is negatively associated with the shadow economy (the tax evasion considered by Richardson being its main component). Second, the fact that our analysis does not find real evidence for a relationship between the shadow economy and uncertainty avoidance reveals that the connection between cultural dimensions and the shadow economy is heavily dependent on the considered sample, thus making the validity of the relationship difficult to generalize. Third, Richardson's study does not include the Indulgence/Restraint dimension, so further research on an extended sample would be most useful.

Let us now turn our attention to the (weak, but apparently relevant) negative association between the level of individualism and the size of the shadow economy. Even if at a first glance the negative character of the relation could seem counter-intuitive, the dimension, as conceptualized and measured by Hofstede implies that, in an individualist society, there is strong inclination towards universalism, i.e. the belief that standards should apply to all members (Hofstede, 1980) and that “transgression of norms leads to guilt feelings” (Hofstede, 2011). Moreover, as Trompenaars and Hampden-Turner (1998) argue, universalism involves a fair and unbiased perspective on others and the strive for

designing uniform procedures and legislation, that should be upheld by all members. Obviously this applies also to tax legislation that is thus more likely to be equitable in individualist countries. This becomes relevant when analyzed in the light of the conclusions of Etzoni (1986) and Falkinger (1995), who argue that the perceived fairness of the tax system is in a negative causal relation with tax evasion, i.e. when taxpayers perceive the tax system to be equitable, tax evasion will be lower, while an environment with a tax system perceived as unfair will increase the level of tax evasion. A similar reasoning, directly connecting individualism to the size of the shadow economy, is employed by Richardson (2008).

As a last remark, the validity of the above described relationship is enforced by the assumption, stemming from the definition of individualism, that there is an implied negative relation between individualism and loyalty, as, according the findings of Schneider and Enste (2000), a low level of loyalty towards public institutions constitutes a cause for the existence of the shadow economy.

The negative correlation between indulgence and the size of the shadow economy is on the other hand more puzzling, as we are unable to identify the mechanisms through which a high level of perceived happiness, emphasis on leisure and less interest in maintaining order (Hofstede, 2011) would help combat the shadow economy. Consequently, more research more research is needed in order to validate this relationship or, on the contrary, dismiss the association as incidental and non-causal.

4. Conclusion

After analyzing the relationship between national cultural dimensions and two key factors defining fiscal behaviour on a national level (government finances and the size of the shadow economy), the study finds evidence that some of the considered dimensions indeed play a role in shaping the fiscal behaviour within the European Union. Namely, we have found evidence that masculinity, uncertainty avoidance, power distance and long term orientation are associated with the level of government deficit, while the level of individualism is negatively correlated with the size of the shadow economy. Moreover, the

analysis has uncovered elements that indicate that these relationships go beyond mere association and point out the existence of causal relationships. Even if these cultural dimensions are just a few of the many elements that end up shaping fiscal behaviour in the European Union, fostering a stronger European identity that leads to an EU-wide uniformization process of cultural dimensions could open the way for more efficient and effective European governance and could improve economic integration perspectives. This is highly important as an enhanced common identity along these cultural dimensions could prove to be beneficial in tackling the some of the inefficiencies generated by differences in integration between fiscal and monetary policy, thus addressing what we perceive to be one of the biggest deficiencies in today's European governance structure.

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**MANAGERS' PERCEPTIONS REGARDING MANAGEMENT
CHALLENGES AND THE DEVELOPMENT OF ROMANIAN SMES.
SELECTED FINDINGS FROM 2012-2015**

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Abstract: *The importance of small and medium sized enterprises (SMEs) to the economy of Romania is fully demonstrated by indicators such as the number of enterprises, the number of employees, and the value added generated by this sector. If the level of the value added and the rate of employment are taken into account (both lower in 2013 than in 2008, when the financial crisis started), it may be stated that the recovery of this sector has not yet been accomplished. However, this article, focusing on the SMEs business environment in Romania, argues that this sector is slowly but steadily improving its performance. By investigating SMEs management practices as perceived by their managers, primary quantitative research was employed in order to collect data through four online annual surveys addressing Romanian SMEs throughout the period 2012-*

2015. Secondary research was also used in order to outline frames of reference describing the national context of business development. The findings of this paper highlight two dimensions of Romanian SMEs – one at the organizational level (aspects related to perceived organizational performance) and one at the individual level (particular attributes of people with leadership positions). From a practical standpoint, our empirical findings are relevant for both academics and practitioners who are interested in Romanian SMEs practices. The study is particularly valuable as it identifies trends in the evolution of Romanian SMEs management practices, as reported by their managers in the post economic crisis context (2012-2015).

Keywords: Romanian SMEs, management practices, leadership challenges, subjective ratings

1. Perceived Business Environment in Romania

The sector of small and medium sized enterprises (SMEs) plays an important role in the economy of Romania, one that has been demonstrated by several indicators (according to values estimated in 2013), such as the number of enterprises (99.7% versus 99.8% in the case of the EU-28 average), the number of employees (66.7% of the total number of employees, the EU-28 average being 66.9%) and the value added generated by this sector (49.4% of the total value added versus 58.1% which is the EU-28 average) (European Commission, 2014a). The economic crisis (which started in 2008) has had a tremendous negative effect on the European SMEs sector, the major influences on SMEs being a very high drop in demand for goods and services and a restricted access to financial resources (in terms of financial loans). From the perspective of SMEs, Romania is part of the group of very weak performers (along with another nine countries from the EU), according to the following indicators: the level of value added in 2013 by SMEs in the non-financial business sector (17% lower than in 2008 versus the EU-28 average that increased with 1%) and the employment rate (down by 7% in 2013 relative to 2008, while the EU-28 average decline was 2.6%) (European Commission, 2014b).

This article focuses on SMEs business environment in Romania and SMEs management practices as perceived by their managers. The paper has two main parts: a theoretical one, which briefly presents the SMEs business environment and entrepreneurial

culture in Romania, and a practical one. The latter is a primary quantitative research, based on data collected through four online annual surveys, during 2012-2015. The data are used to analyze the evolution of two dimensions of Romanian SMEs – one at the organizational level (aspects related to perceived organizational performance) and one at the individual level (particular attributes of people with leadership positions). Our research question is “How Romanian SMEs have evolved after the economic crisis and what is their current situation, according to their managers?”

The SMEs’ performance is highly influenced by the entrepreneurship culture and by the business environment, as well as by specific characteristics of SMEs, such as the closeness to customers and a flexible and informal environment, the openness to risk-taking and to trying new ways of working, and the focus on incremental innovation rather than on radical innovation (Laforet and Tann, 2006; Oke et al., 2007; Forsman and Rantanen, 2011).

From the perspective of the entrepreneurial culture, Romania is characterized by low tolerance to failure. Business failure in Romania is perceived: as a barrier for future business projects (according to 37% of the respondents in 2014 versus 34% in 2013), as a failure in career (according to 17% of the respondents in 2014 versus 24% in 2013), or as the lack of skills needed to be an entrepreneur (according to 11% of the respondents in 2014 versus 24% in 2011) (EYGM Limited, 2015, 2013). However, the same studies indicate an increase of the percentage of respondents that consider business failure as a learning opportunity (from 5% in 2013 to 29% in 2014); therefore, we consider that there is an improvement of this dimension of entrepreneurial culture in Romania.

The order of the importance of motivational factors when it comes to Romanian entrepreneurs is as following: necessity (40.45% of the respondents in 2013, 35.9% in 2012 and 48.65% in 2011), and mixed motives - necessity and opportunity (24.15% of the respondents in 2013, 29.25% in 2012 and 13.8% in 2011) (Nagy et al., 2014). According to the same source, the opportunity motives (such as an increased income and independence) register lower values (35.31% of the respondents in 2013, 34.09% in 2012 and 36.50% in 2011). Therefore, necessity or mixed motives determine the set-up of companies by Romanian entrepreneurs. In comparison to the EU entrepreneurs, Romanian entrepreneurs

seem quite similar (43% of the respondents are opportunity driven versus 49% in 2014) (EYGM Limited, 2013, 2015).

According to the CNIPMMR⁴ (2014) as cited by Anghel (2014), in Romania the economic environment is perceived by SMEs managers as unfavorable to business development (by 39.20% of the respondents in 2014, 43.38% in 2013, 54.45% in 2012, 69.61% in 2011 and 78.13 in 2010) and permissive or neutral (by 44.17% of the respondents in 2014, 41.28% in 2013, 33.74% in 2012, 22.66% in 2011 and 17.96 in 2010). By looking at the above data, it can be seen that there are slightly positive changes in SMEs managers' perception of economic environment, in the last five years. On one hand, this may seem positive, since it indicates a rise of the percentage of SMEs managers who perceived the business environment as favourable; on the other hand, it may be a negative sign of the general business environment, generally perceived as either unfavorable or, at most, permissive or neutral to business development.

The perceived business opportunities for SMEs in Romania are: the increase of sales on the domestic market (63.48% of the respondents in 2014, 64.67% in 2013 and 74.08% in 2011), the assimilation of new products (60.93% of the respondents in 2014, 50.75% in 2013 and 48.27% in 2011), entering new markets (42.77% of the respondents in 2014, 44.40% in 2013 and 47.58% in 2011), the use of new technologies (30.66% of the respondents in 2014, 27.37% in 2013 and 28.03% in 2011), new business partnerships (30.27% of the respondents in 2014, 26.93% in 2013 and 28.54% 2011), the increase of exports (9.75% of the respondents in 2014, 7.32% in 2013 and 7.28% in 2011), and obtaining grants (7.65% of the respondents in 2014, 11.31% in 2013 and 15.12% 2011), according to the CNIPMMR (2014) as cited by Banila (2014), CNIPMMR (2013, 2011). On the basis of the above data, it could be stated that Romanian SMEs are mainly focused on domestic markets and on the introduction of new products; a lower level of attention is paid to innovation and internationalization. According to the above mentioned sources, the

⁴ The National Council of Small and Medium Sized Private Enterprises from Romania is a national employers' association that publish annually the White Paper of SMEs (that contains results of surveys conducted with Romanian SMEs managers).

main (perceived) difficulties faced by SMEs in Romania are: excessive taxation (58.06% in 2014, 54.25% in 2013 and 48.44% in 2011), inflation (55.45% in 2014, 50.27% in 2013 and 67.77% in 2011), the reduction of domestic demand (55.39% in 2014, 70.08% in 2013 and 67.77% in 2011), bureaucracy (45.70% in 2014 and 41.39% in 2011), excessive administrative controls (44.55% in 2014 and 31.15% in 2011), unfair competition (40.92% in 2014), and corruption (32.25% in 2014). By analysing these results, it seems that the main difficulties faced by SMEs in Romania are related to tax and regulation.

In this context, in which the Romanian business environment is perceived as a threat to SMEs, managers have a difficult task. The SMEs managers' activity is highly influenced by several specific characteristics of this type of companies, such as limited resources (money, time, and people), a lesser number of formal mechanisms and practices comparing to larger organizations and a shortage of trained and experienced staff. Therefore, the assessment of SMEs managers' perspectives regarding several management practices would add valuable information about this important sector of economy.

2. Methodology

Aim of the study: The aim of the present study is to investigate Romanian SMEs practices, based on managers' perceptions.

Research question: Specifically, the study analyzes the evolution of two sets of variables – one at the organizational level (aspects related to perceived organizational performance) and one at the individual level (particular attributes of people with leadership positions) – related to Romanian SMEs between 2012-2015. Therefore, we are interested in finding out how Romanian SMEs have evolved after the economic crisis and what is their current situation, according to their managers.

Research objective(s): Considering the aim of the study and the research questions, the following research objectives are proposed: (1) to investigate key Romanian SMEs management practices, as reported by their managers, and (2) to identify trends in their evolution, especially in the post economic crisis context (2012-2015).

Design: Taking into account the research objectives, this primary research study is based on a quantitative observational design. Specifically, two types of variables were measured: (1) aspects related to perceived organizational performance (perceived impact of the general economic climate on organizations, organizational changes encountered in the previous year, main challenges faced by organizations in the previous year, strategies employed in order to overcome specified challenges), and (2) particular attributes of people with leadership positions in organizations (perceived stressors and motivators for managers' performance, essential qualities for a managerial position).

Participants: The data pool was selected from a national survey investigating Management Challenges and the Development of Romanian Organizations, conducted yearly by Danis Consulting, a management-consultancy firm from Cluj-Napoca, Romania, with the support of Babeş-Bolyai University (Danis Consulting, 2015; 2014; 2013; 2012a). The Annual Survey (Danis Consulting, 2015; 2014; 2013; 2012a) is addressed to people with leadership position in various private organizations in Romania, irrespective of their size and field of activity. Since 2007, Danis Consulting has developed their own database of Romanian organizations, at the national level, as potential respondents for this research (based on public national databases). For the present study, only participants from SMEs (up to 250 employees) were selected from the Annual Survey 5th-8th Editions, conducted yearly between 2012-2015. Specifically, there were: 86 participants in 2012, 220 in 2013, 112 in 2014, and 113 in 2015 respectively. In addition, results from a previous study (targeting Romanian SMEs immediately after the economic crisis and investigating the same sets of variables; Palade et al., 2011) were also integrated in the analysis, as a reference point for comparing previous and present results. Participation was entirely voluntary. In all editions participants' roles ranged mostly from top management positions – top/ general managers/ CEOs/ presidents (47.5% of respondents in 2015; 57% in 2014; 74.9% in 2013; 60.2% in 2012) to middle and line management positions – department managers (29.7% in 2015; 22.5% in 2014; 12.2% in 2013 and 30.2% in 2012) and line managers (12.2% in 2015; 0.7% in 2014; 2.7% in 2013 and 6.3% in 2012); approximately 10% of respondents from each study's edition had non-managerial positions.

Instruments: The questionnaire was developed by Danis Consulting, with the support of academics from the partner university. It addresses several areas regarding organizational life and management practices in Romanian companies. Specifically, it includes items referring to perceived influence of the economic climate, key aspects of organizational life (organizational changes, current challenges, strategies employed in order to overcome specified challenges etc.), management characteristics (leadership attributes, needs for development, motivators, stressors etc.), as well as demographic characteristics of organizations (size, field of activity etc.) and of respondents (age, sex, professional experience, current position in the organization etc.). The survey was modified from one edition to the next (on average, it had 29 items), both in order to improve the measure and to adapt it to specific trends in management research (for instance, in 2013 and 2014 items concerning the use of online communication means were added to the questionnaire). However, there is a set of items, included in the present research, that has been consistent across all editions, in order to identify trends in the dataset and investigate the evolution of Romanian organizations; they refer to: perceived impact of the economic climate, organizational changes, current challenges and the strategies employed to overcome them, stressors, motivators and essential qualities of people with leadership positions.

Procedure: The questionnaire was administered via an online platform designed for different types of research studies. Participants were selected from Danis database, and the invitation for participation, with the link to the survey, was sent via email.

Data analysis: Firstly, frequency distributions were analyzed for all items of the questionnaire. In addition, trends in the dataset (from 2012 to 2015) were identified. In order to preserve the accuracy of the data, it should be noted that the percentages presented here are not adjusted for sample size (considering that sample sizes were different every year and, sometimes, they were different between items).

3. Results concerning the evolution of Romanian SMEs management practices between 2012-2015

3.1. Aspects related to perceived organizational performance

Firstly, we were interested in the perceived *impact of the economic climate* on organizations, with its political, social, and macro-economic uncertainties. As shown in Chart 1, most respondents consider their companies' performance just as expected. However, it should be noted that in 2013 and in 2014, the percentages are below the results in 2011; however, a significant increase appears in 2015, when over 50% of respondents consider that their organizations's results matched their initial expectations. It seems that the economic crisis seriously affecting organizations during 2008-2011 (Palade et al., 2011) has gradually decreased its negative influence: only 17.7% of respondents report having achieved results below expectations in 2015.

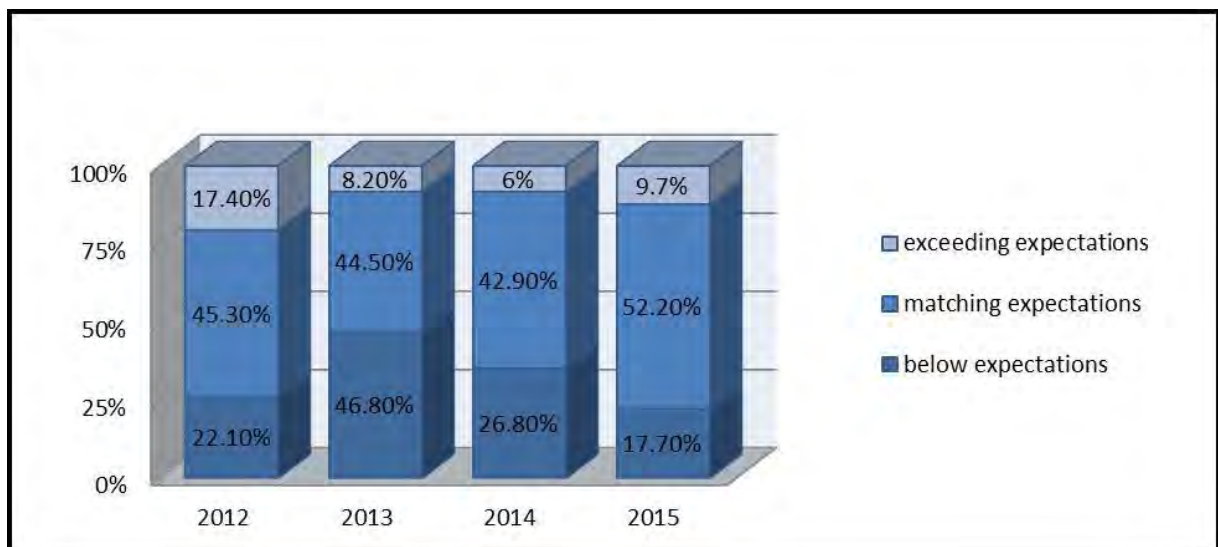


Chart 1. Respondents' perceptions regarding the reached versus the expected level of organizational performance in the previous year (measured yearly during 2012-2015)

We also investigated the types of *organizational changes* encountered by organizations in the previous year (Chart 2). Strategic changes (related to markets, products, or other similar activities) turn out to be the most frequent in all four years

examined (mentioned by 42% up to 48.6% of respondents). In addition, some participants mention changes related to organizational systems and procedures (17% - 23.9%), as well as related to organizational structure and functions (19.6% - 26.7%). Interestingly, a negative trend appears with regard to layoffs and restructuring in the last 3 years: whereas in 2013, 26.8% of respondents select this option, only 10.6% report it in 2015. Lastly, even though changes in top management are mentioned by 14% of respondents in 2012, between 2013-2015 the results are quite similar (on average, only 8% of participants report it).

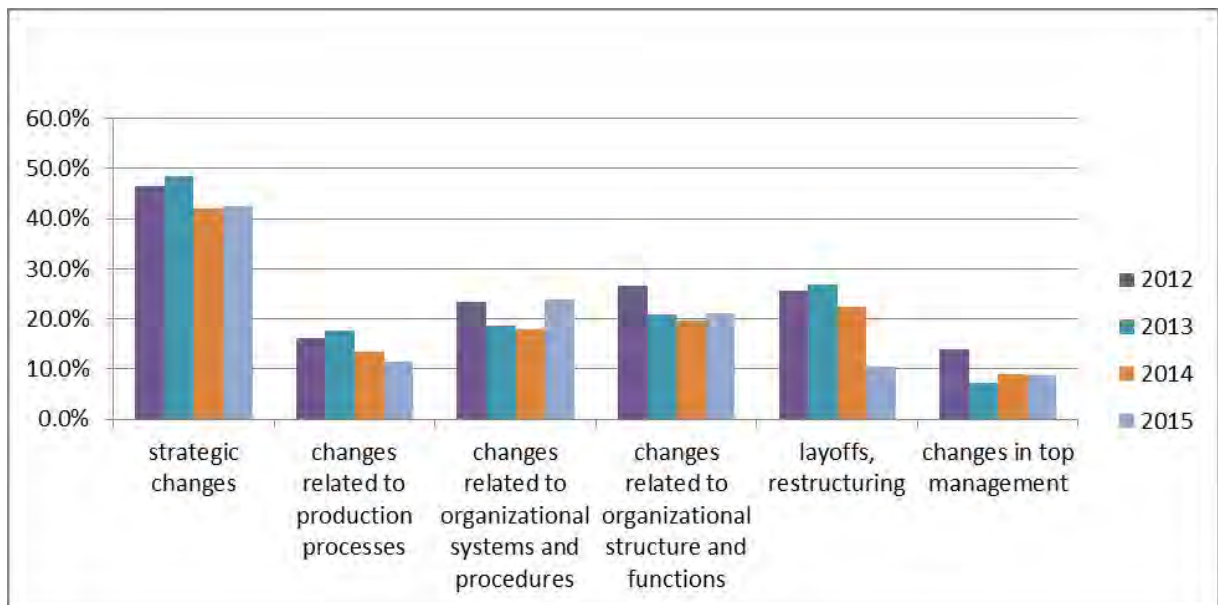


Chart 2. Types of organizational changes experienced by respondents in the previous year (measured yearly during 2012-2015)

With regard to the main *challenges* faced by organizations in the previous year (Chart 3), the top three are related to workforce quality, cash flow management, and cost reduction. However, whereas in 2012, workforce quality was the most significant challenge, reported by 79.1% of respondents (since then evolving a negative trend), in 2015⁵ it is overtopped by the challenge of developing new products and services, which is

⁵ It must be noted that during 2012-2014, the survey item referring to organizational challenges included a Likert scale (1 – not at all; 7 – to a high extent) in order for respondents to select the extent to which each

affecting 40% of respondents. It has been shown before, however, that Romanian SMEs are oriented towards domestic markets and on the development of new products (CNIPMMR, 2014 as cited by Banila, 2014 and CNIPMMR 2013, 2011). Although perceived as an opportunity of the business environment, offering new products seems to be challenging for the respondents, probably as a result of their low tolerance for failure associated with the entrepreneurial culture in this country (EYGM Limited, 2015; 2013). Consequently, although the business environment is perceived to offer opportunities related to the assimilation of new products and services (CNIPMMR, 2014 as cited by Banila, 2014 and CNIPMMR 2013, 2011), actually offering them seems to be difficult for Romanian SMEs managers, who are rather risk averse (a cultural trait of the Romanian people; David, 2015). Moreover, following the results from the previous study on Romanian SMEs during the economic crisis of 2008-2011 (Palade et al., 2011), it seems that employee attraction and retention are increasingly challenging in the present business environment, where workforce mobility has reached an unprecedented rate.

option presented was a significant challenge for their organization in the previous year. In 2015, the item was rephrased and participants were asked to identify top 3 most significant challenges that they faced in the previous year.

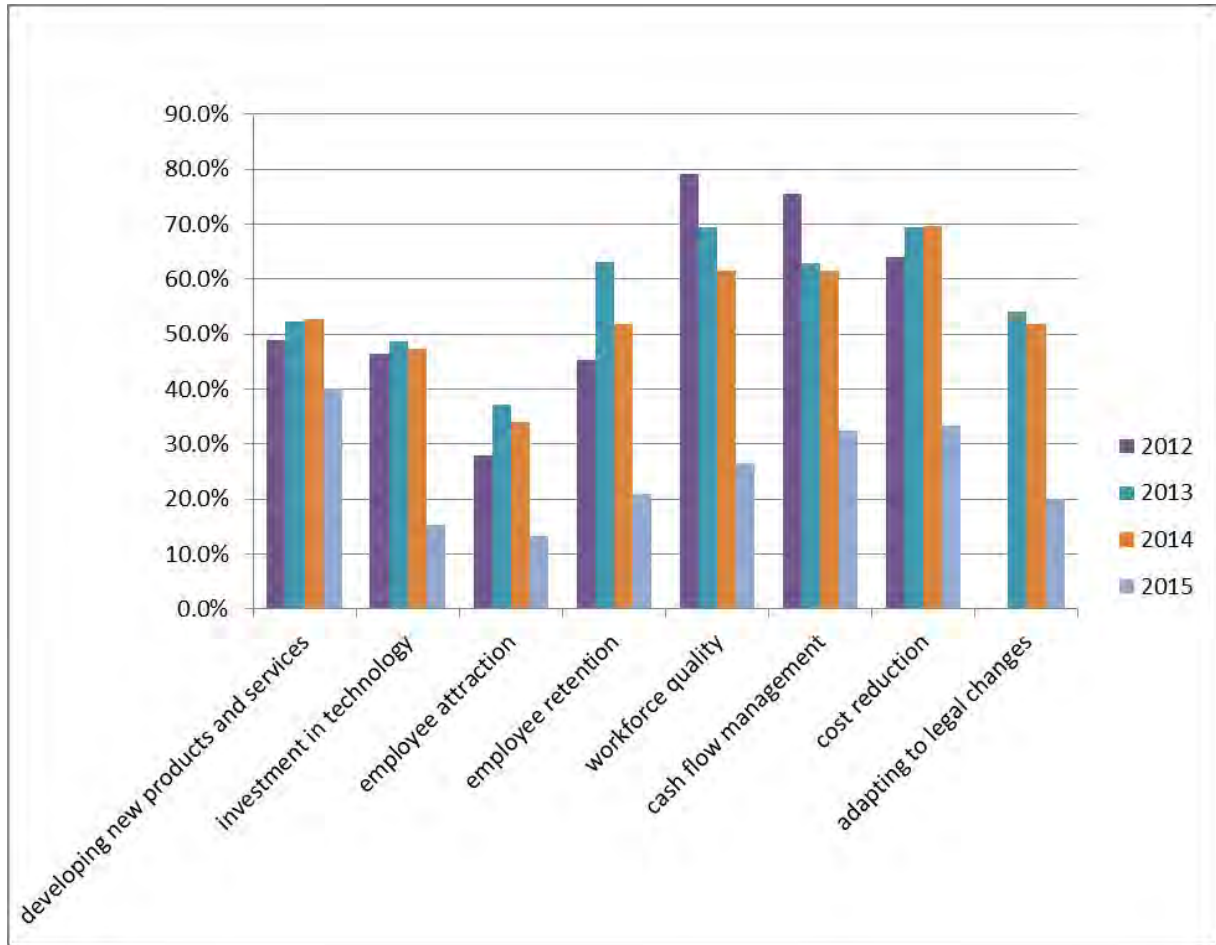


Chart 3. Types of organizational challenges experienced by respondents in the previous year (measured yearly during 2012-2015)

Lastly, we were interested in the *strategies* employed by organizations in order to overcome perceived challenges (Chart 4). The focus on core business and reengineering seem to have an evolving negative trend (from 68.6% to 39.8%; and from 24.4% to 15% respectively). Cost reduction strategies seem to be preferred in 2012 and in 2014 (when 62.8% and 58% of respondents selected this option), but, in 2015, only 45.1% of participants report it. Moreover, offering new products and services and looking for strategic partners have evolved a positive trend in the last 3 years: in 2015, 52.2% and 41.6% of respondents report their organizations have used these strategies in order to overcome economic challenges. It was mentioned before that although perceived as an

opportunity of the business environment (CNIPMMR, 2014 as cited by Banila, 2014 and CNIPMMR 2013, 2011), offering new products seems to be challenging for respondents, probably as a result of their low tolerance for failure associated with the entrepreneurial culture in this country (EYGM Limited, 2015; 2013). At this point, however, we can infer that more and more efforts are made by Romanian SMEs managers to overcome their cultural biases in order to capitalize on perceived business opportunities. These results may support the idea that Romanian managers are taking steps towards broadening their business strategies.

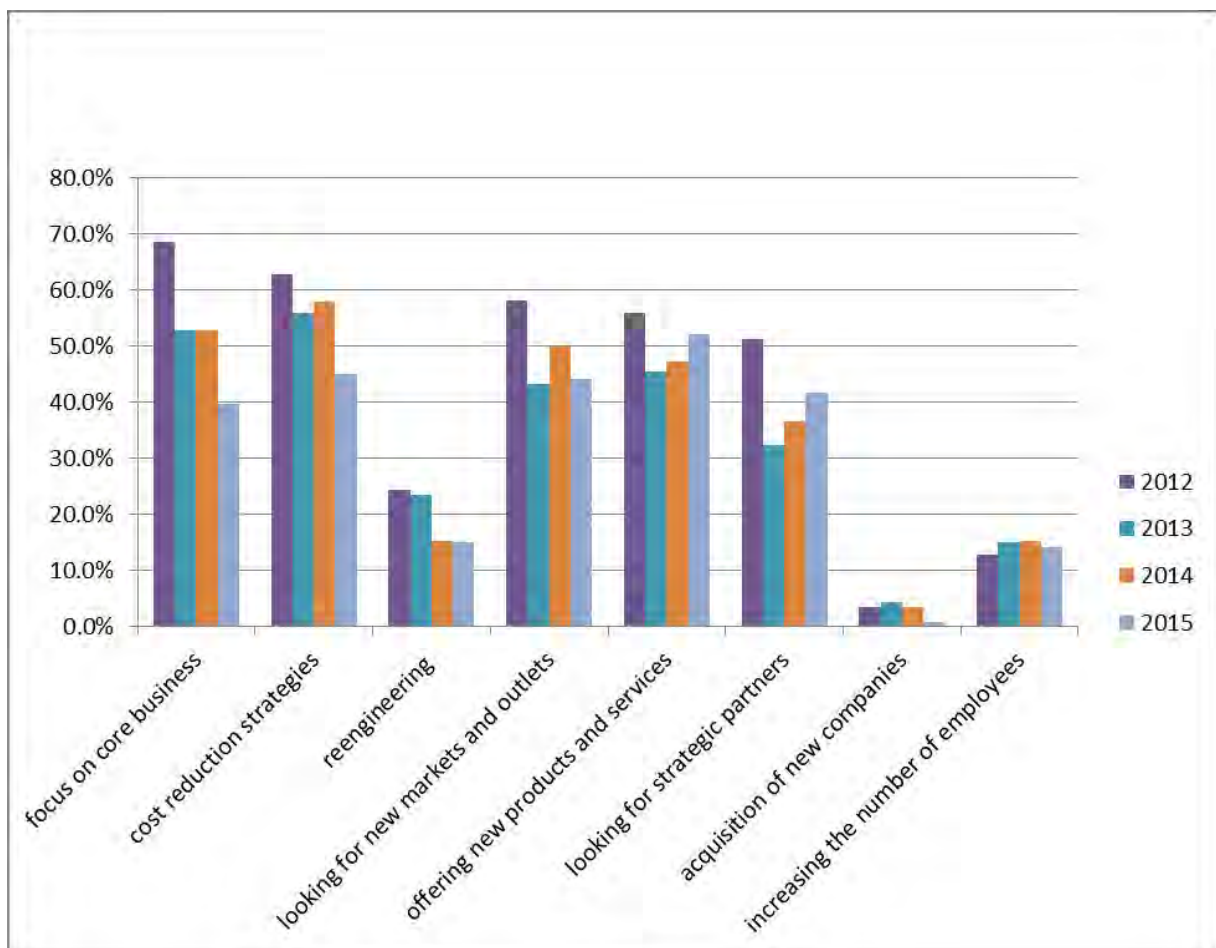


Chart 4. Types of strategies employed by organizations in response to perceived challenges in the previous year (measured yearly during 2012-2015)

3.2. Characteristics of people with leadership positions in Romanian SMEs

When it comes to people with leadership positions, it is of paramount importance to identify *stressors* affecting managers' performance (Chart 5).

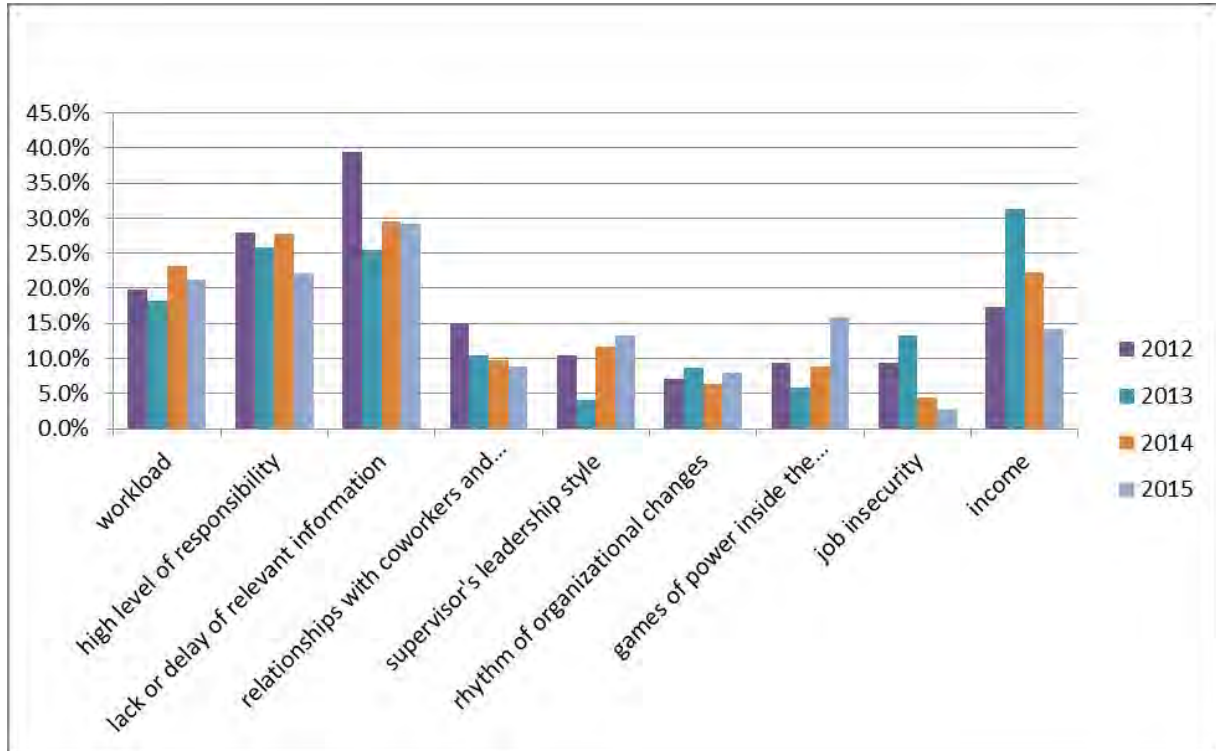


Chart 5. Perceived workplace stressors (measured yearly during 2012-2015)

In Romanian SMEs, lack or delay of relevant information appears to be the most significant source of stress: even though there was a decline from 2012 to 2013 (from 39.5% to 25.5% of participants reporting it), over the last two years the results remain similar (29.5% in 2014 and 29.2% in 2015, respectively). In addition, high levels of responsibility represent another stressor that affects managers from Romanian SMEs, although to a somewhat lesser degree in 2015 (only 22.2% of respondents mention this option, whereas in 2012 it is reported by 27.9% of participants). Workload seems to have relatively the same impact during 2012-2015: on average, 20% of respondents perceive it as a significant stressor. Interestingly, games of power inside the organization are perceived to a much greater extent in 2015, as mentioned by 15.9% of respondents, as compared to the previous years, when, on average, it is reported by only 7% of

participants. Another key finding is that both job insecurity and income have dramatically reduced their influence: in 2015, only 2.7% of respondents consider job insecurity causes stress, and only 14.2% of them perceive their income as a source of stress. Therefore, it can be inferred that current causes of stress at work are related to (high) levels of responsibility or (lack of) access to information; job and financial insecurity are, in the post economic crisis context, no longer so significant. Moreover, considering the national culture and the historical context of Romania, it seems natural that managers perceive high levels of responsibility as stressful (consistently throughout the period investigated): while in the past (during the communist era), roles and work tasks were clearly defined from the top, in the present managers are required to take the initiative, and to assume multiple and flexible roles; this shift in perspective can be difficult for respondents.

Apart from stressors, *motivators* supporting managers' performance are also important to investigate, as they can offer organizations an insight into practices that are worth being supported and even adopted from scratch in order to create a positive working environment, in which employees can both reach professional targets and find meaning in their work. In the case of managers from Romanian SMEs, it appears that several factors

contribute to their work motivation (Chart 6⁶).

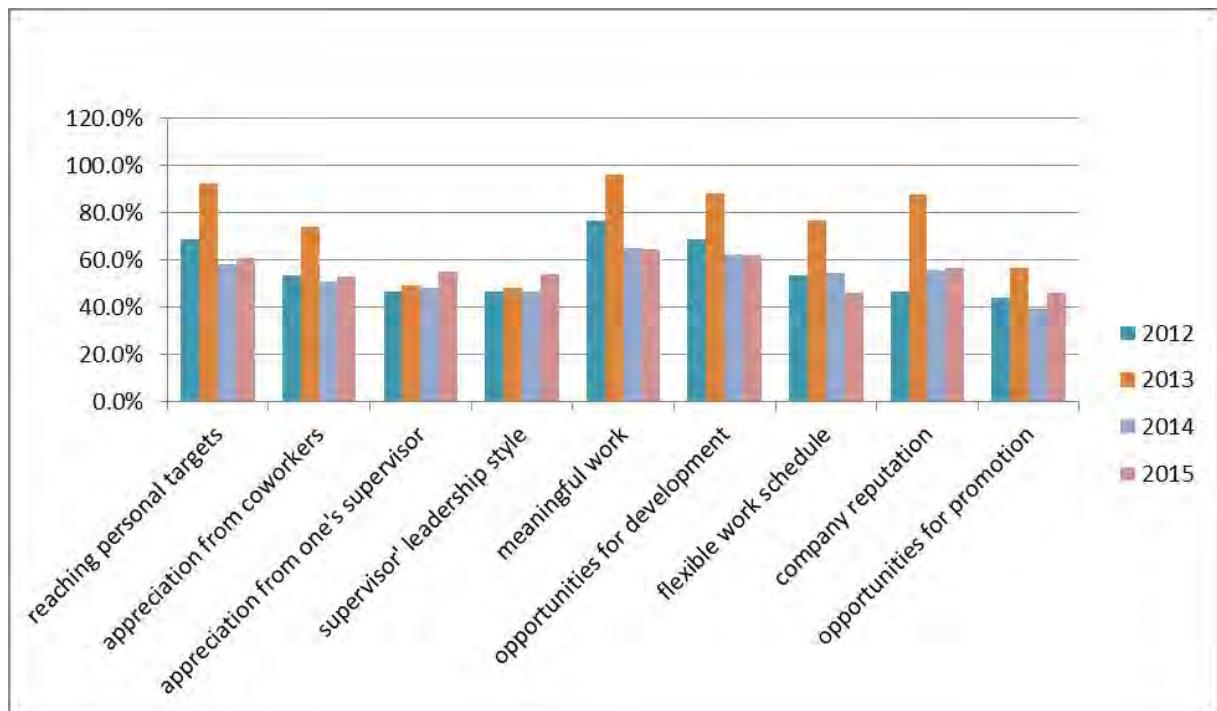


Chart 6. Perceived workplace motivators (measured yearly during 2012-2015)

Specifically, finding meaning in one's work is reported as such by the majority of respondents throughout the whole period investigated (on average, 80% of participants). In addition, opportunities for development are relevant, on average, for 70% of respondents, and reaching personal targets for 62% of them. Appreciation from coworkers and a flexible work schedule seem to have a similar importance, as they are reported, on average, by 52% and 50% of participants in the four editions of the study. It is worth mentioning that, according to 54% of respondents, appreciation from one's supervisor and the supervisor's leadership style have a relatively greater significance in 2015, as opposed to the previous years. Lastly, it seems that opportunities for promotion are, once again in 2015, strong motivators, reported by 46% of participants.

⁶ It must be noted that percentages are influenced by sample size, which differed significantly in 2013 (220 participants answered this question) from the rest (on average, 72 respondents answered this question).

Another key area of research refers to what it takes to have *a top management position*, in terms of *skills, abilities, and attitudes*, as perceived by Romanian managers. As shown in Chart 7.1. and 7.2., strategic thinking and managerial decision making are by far the most consistent qualities that respondents consider essential for such a role, throughout the period 2012-2015.

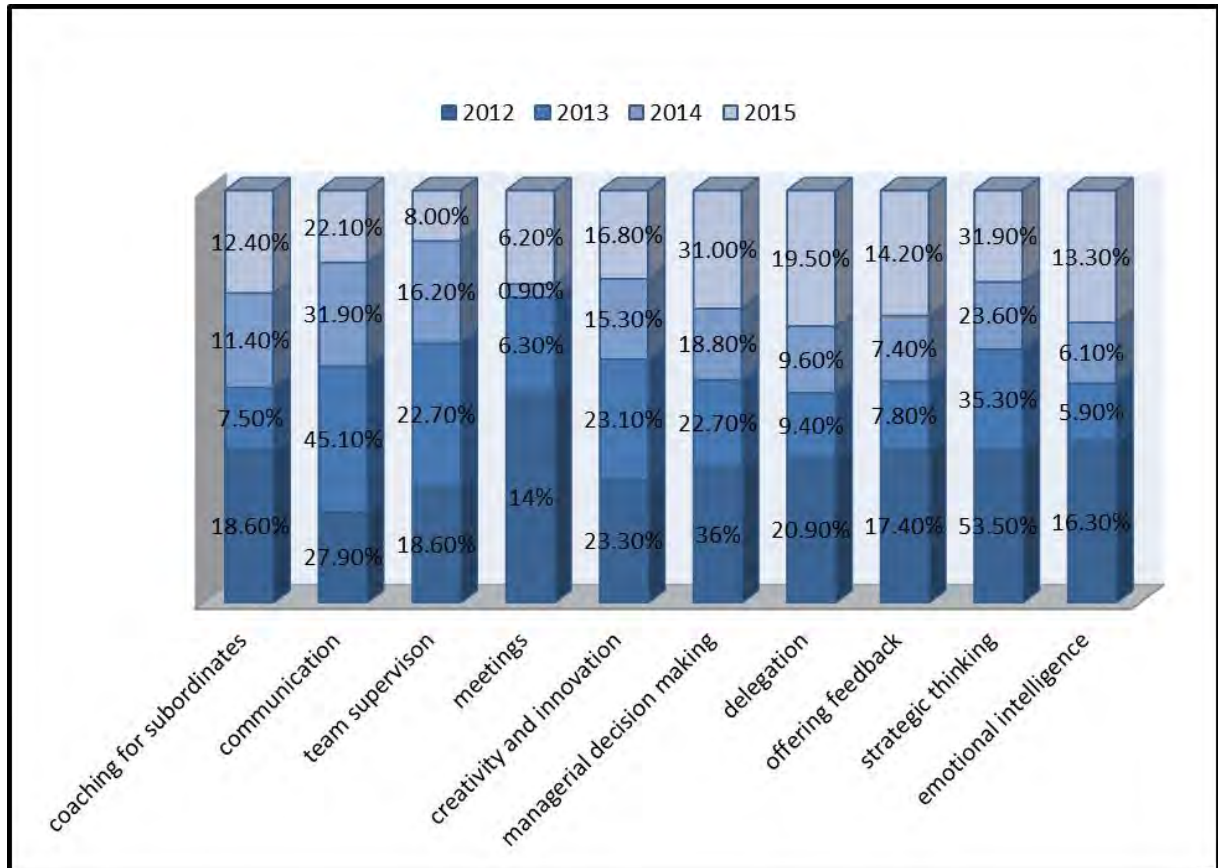


Chart 7.1 Essential qualities for a top management position, according to Romanian SMEs managers (measured yearly during 2012-2015)

Communication skills are also significant, even though in the last 3 years they have been ranked by fewer participants. Surprisingly, there is a series of qualities that seem to become increasingly more important, since the negative trend during 2012-2014 has shifted in 2015: stress management declined from 12.8% in 2012 to 4.4% in 2014, only to reach 10.6% in 2015; mentoring declined from 17.4% in 2012 to 3.5% in 2014, only to reach 10.6% in 2015; negotiation declined from 24.4% in 2012 to 3.9% in 2014, only to

reach 15.9% in 2015; finally, motivation declined from 25.6% in 2012 to 10% in 2014, only to reach 17.7% in 2015. Taken together, the results point to the conclusion that there are systematically more and more critical skills and abilities that top managers are required to have in order to be efficient and reach organizational goals.

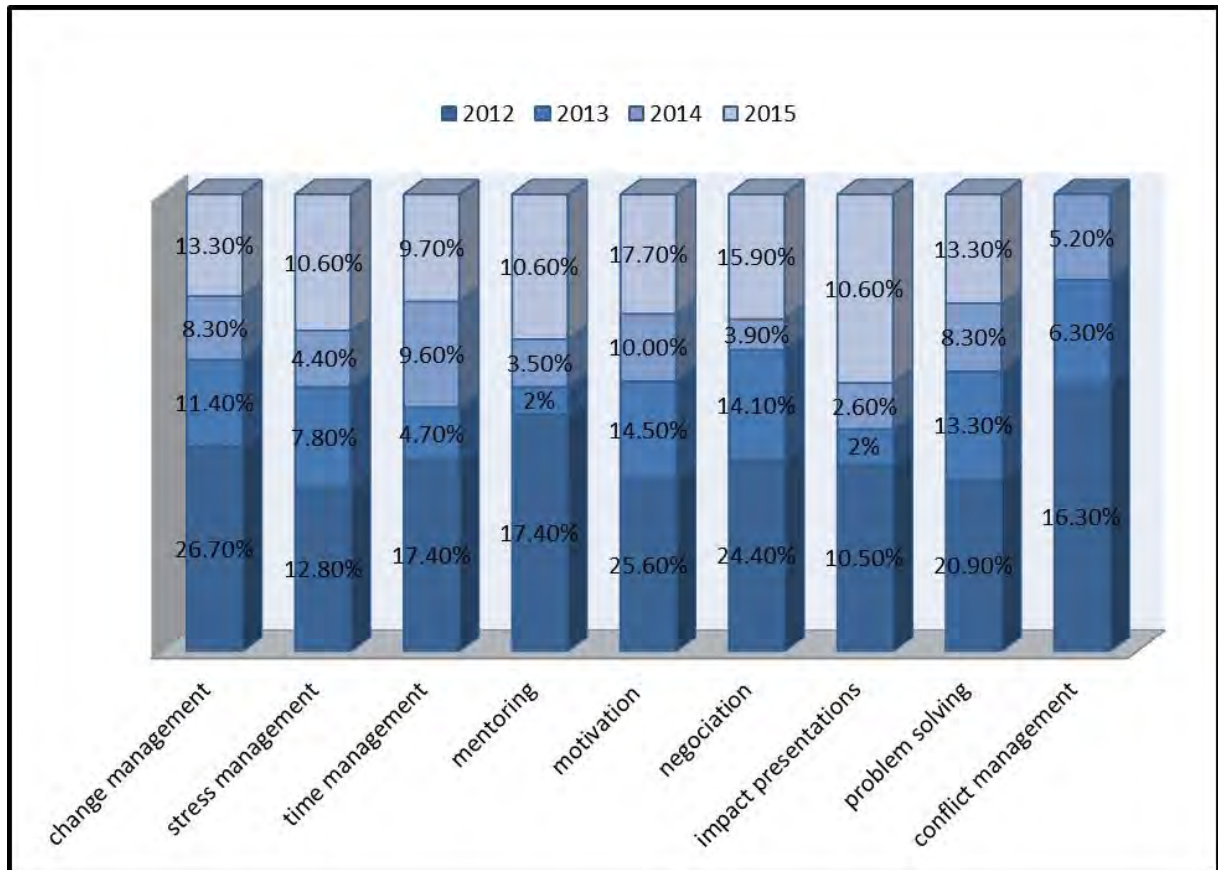


Chart 7.2 Essential qualities for a top management position, according to Romanian SMEs managers (measured yearly during 2012-2015)

4. Conclusions and discussion

It can be inferred that SMEs, an important sector of the Romanian economy, are still in the process of recovery after the economic crisis if the level of the value added by this sector and the employment rate in this sector are taken into account (in both cases, the values are lower in 2013 than in 2008). Moreover, Romanian SMEs seem to operate in a business environment perceived as either unfavourable or permissive or neutral at most

(according to almost 80% of Romanian SMEs managers investigated; CNIPMMR, 2014 as cited by Banila, 2014). According to the same respondents, the Romanian business environment is characterized by both opportunities (such as the increase of sales on the domestic market and the assimilation of new products) and threats (excessive taxation, inflation, bureaucracy and excessive administrative control).

However, the results of the present quantitative study show a more complex picture of Romanian SMEs, as perceived by their managers. Specifically, key Romanian SMEs management practices (as reported by their managers) were investigated, identifying trends in their evolution in the post economic crisis context (2012-2015): aspects related to perceived organizational performance and particular attributes of people with leadership positions in organizations were analyzed. On the one hand, it has been shown, at the organizational level, that Romanian SMEs have overcome the economic crisis since the negative trend between 2012-2014 has been replaced by an increase in the number of organizations that have achieved results matching or exceeding their initial expectations. In addition, strategic changes, although the most frequently experienced, have declined during the last three years, which may account for a more stable business environment. Moreover, the three types of organizational challenges that remain consistently significant throughout the whole period investigated (i.e. workforce quality, cash flow management and cost reduction) are not surprising in the case of SMEs, since they are more prone to workforce mobility and to unsystematic and informal practices when it comes to cash flow management. Lastly, in support of the above mentioned positive trend that Romanian SMEs have overcome the financial crisis are the results that show most organizations have gone from defensive business strategies (focus on core business) to expansion and development – offering new products and services or looking for strategic partners.

At the individual level, the profile of Romanian SMEs managers seems to be a complex one, accounting for a variety of skills, abilities and attitudes that are necessary in order to be successful on the job. Specifically, apart from the most obvious characteristics that are essential for a top management position (i.e. strategic thinking, managerial decision making, communication skills), participants seem to acknowledge that these should be supplemented by other critical skills, such as stress management, mentoring,

negotiation, or motivating others. Therefore, leadership roles are perceived as increasingly more complex, especially since most participants report that workload, lack or delay of relevant information and high levels of responsibilities are the most prevalent causes of stress. Interestingly, financial and job insecurity have declined in 2015, which most likely is related to the positive economic evolution of SMEs during 2012-2015. On the other hand, games of power inside the organization have increased dramatically in 2015 as a stressor, which may be related to the increased efforts of the Romanian authorities to reduce corruption and violations of the law. Last but not least, it seems that motivation at work cannot be attributed to one aspect only; rather, Romanian SMEs managers report that a wide array of factors contribute to their motivation, among which finding meaning in one's work, opportunities for development and reaching personal targets stand out. It follows, therefore, that fulfilment at work involves a lot more than just money making. This is in accordance with a previous research study on leading organizations, conducted by Danis Consulting (2012b), which shows that good leaders are curious, and constantly looking to learn more; they build a strong vision that embodies their core values and are able to instill it into others and make them adhere to a common goal.

Implications of the present study. From a theoretical standpoint, the results of the present study offer an interesting avenue of research in order to investigate Romanian SMEs from managers' perspective. As key decision makers, these leaders' perceptions and behaviours need to be analyzed if we are to understand and even influence organizational performance. Their expertise and experience ought to be investigated in-depth so that bottom up theoretical models of management and SMEs practices could be developed. This way, the state of research concerning Romanian SMEs can be advanced, particularly on specific topics that are relevant to the local business environment.

From a practical standpoint, the results of the present study can support Romanian managers to assess their current practices, and even improve their decision making, identifying trends and the evolution of similar organizations in Romania. They can be used to infer causes and relationships between various aspects of organizational life, which may be of use not only for managers themselves, but also for business, management and organizational development consultants as well.

Limitations. As any other research, this study is not without limitations. Although a mixed-method approach is ideal, the present study used only one data collection method – managers' subjective ratings, based on predefined questionnaire items. This constraint was a result of the fact that large, national samples were used; in addition, participants' role made it difficult for them to allocate much time for answering the research questions. Therefore, an approach that would minimize participants' effort and maximize the data collection process was employed.

Future research areas. Future research studies should continue investigating the evolution of Romanian SMEs in the same regard, outlining trend every four years. In addition, future studies may also employ more complex research designs, such as a multi-trait multi-method approach (investigating a larger set of variables through an array of methods). In this regard, qualitative research methods would be particularly relevant, since most management research is quantitative and, therefore, limited. Last but not least, an interesting avenue for future research would be developing joint research groups from different countries of the EU in order to investigate the profile of Romanian SMEs in comparison to other European SMEs, particularly since the EU is strongly supporting this sector. This way, benchmarks and frames of reference could be developed in order for SMEs to assess and improve their practices, taking into account the broader European business trends.

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EU CAPITAL MARKETS INITIATIVES FOR BETTER FINANCING SMEs

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Abstract: *SMEs play a significant role in economic activity. They ensure a large percentage of the employment and contribute to a great extent to the economic growth and development of the EU and its Member States. However, ensuring financial resources for SMEs and for their own development it is not always easy to achieve. And it is much more difficult for SMEs to attract financial resources compared to the large companies. SMEs in the EU usually rely on banks in order to get loans and other types of financing. However, the last economic and financial crises proved that bank lending to SMEs may not be considered as the only viable solution for financing their activities. It became much clearer that other alternative resources of financing shall be promoted and most notably these alternatives shall be derived by the EU capital markets. Capital markets financing of SMEs is complementary to the bank lending. It may provide for more diversified resources and not replace completely the role of the banks. This paper looks at the barriers of SMEs in finding financial resources at affordable costs. Then it presents the new EU initiative on building a Capital Markets Union and how it will amend the perspectives of SMEs on finding more easily and at better price financial resources in the future. It presents also the other EU initiatives and measures that aim to boost financing to SMEs. Financing of SMEs will never be a simple task but if capital markets learn to play a greater role this task may become much more easy and affordable.*

Keywords: SMEs, capital markets, Capital Markets Union, financing

1. Introduction

Direct bank lending was always the greatest resource of providing finances to SMEs in the European Union. This may not and this shall not be changed overnight.

However, the last economic and financial crisis that started in 2007-2008 and culminated in 2009, which effects are still seen and still have impact over the EU real economy, proved that there shall be other and more diversified sources of financing, especially for the SMEs. The capital markets are better suited to play that role as complementary source of financing to SMEs. This will not be at the detriment to the role of banks but they will rather contribute further to SMEs financing, development and growth. Capital markets in the EU even today play a significant role for financing of SMEs and they are the second source of financing after the banks. However, their potential is not used and there are many opportunities that shall be explored in order to enhance capital markets role for providing financial resources to the SMEs.

As demonstrated by the figures in the next section, the capital markets in the US succeed to have quite greater role in financing the real economy, including SMEs, than it is the role of capital markets in EU. Financial services in the EU are still strongly dominated by banks. As the capital markets are usually more flexible than banks, the financial industry in the US recovered much more quickly from the financial crisis than the financial industry in the EU, partly because of the greater percentage of the capital markets in US and their greater opportunity to absorb shocks. Taking into account the greater dependence of SMEs in EU on bank lending, this makes them more vulnerable to the last economic and financial crisis.

Large companies also struggled to a certain degree to find financial resources during the crisis. However, due to their size; due to their greater human, capital and financial resources and reserves; due to their credit record as well as due to the greater confidence in their capabilities and opportunities to reimburse financial resources, large companies did not experience such strong problems in finding capital like SMEs.

Therefore, it became even more appealing to improve the existing alternatives to bank lending to SMEs as well as to create and develop other alternatives for financing SMEs. The capital markets provide for such alternatives but they shall be better used and channelled in order to bring the necessary results.

The Green Paper on building a Capital Markets Union, issued by the European Commission as a consultative document in February 2015, provides a large room for discussions on how to improve capital markets financing for SMEs.

The European Commission has recognised the need to ensure better financing for SMEs quite before the adoption of the Green Paper on Capital Markets Union. One of the documents that summarise the EU initiatives in this area is the Action Plan to improve the access to finance to SMEs that was issued in December 2011. This Action Plan outlines the actions that will be undertaken by the EU that have legal, institutional, financial or other character and that shall boost more financial resources and on a better cost to the SMEs. The Small Business Act from June 2008 is another Commission document that reflects the central role of SMEs in the EU economy.

This paper presents the programme documents that aim to consult and discuss the EU policy towards better financing SMEs. It also focus on the legal and financial initiatives of the EU institutions that have as an objective to ensure greater financial resources at better price for SMEs.

The next section of this paper provides some figures about the SMEs, the capital markets and their current role in ensuring financial resources for small and start-up companies. The section that follows lists the main problems related to capital markets financing of SMEs in EU. The two sections afterwards analyse the Green Paper on building a Capital Markets Unions and the short term measures under this paper – review of Prospectus Directive and rules on securitisation. The section afterwards lists and discusses briefly some other EU initiatives that aim to boost capital markets financing of SMEs. The last section concludes.

2. Some figures for SMEs

In order to understand better the needs of SMEs and the prospects of capital markets for diversifying financing to these companies, it is preferable to illustrate some concrete and updated figures.

Large companies are important for the development of the economies of the EU Member States. However, SMEs have also significant importance for the economic growth and even greater significance when it comes to employment. As assessed by the European Commission, Europe's economic success depends largely on the growth of Small and Medium Sized Enterprises and on the degree they achieve their potential.

SMEs contribute more than half of the total value added in the non-financial business economy and provide 80% of all new jobs in Europe in the past years. In 2011 the number of SMEs in Europe is around 23 million companies. A survey from the same year shows that difficult access to finance is among the top concerns (15%) of SMEs. According to that survey, almost two-thirds (63%) of the EU SMEs who applied for a bank loan during the preceding six months received the whole amount they asked for. However, 11% of the applications were rejected and 17% received less than they applied for. In addition, 4% declined the loan offer from the bank because they found the conditions unacceptable. Therefore about one third of the SMEs did not get the finance they applied from the bank industry (European Commission 2011b).

The capital markets in the EU are less developed and deep than the capital markets in the US for example. US public stock markets are almost double in size and stock market capitalisation⁷ is 138% of GDP in the US vs. 64.5% in the EU in 2013. Relative to the size of the economy, even stock market capitalisation in China exceeds that of the EU with 74% of GDP in China.

Another problem is that domestic stock market capitalisation varies significantly from one EU Member State to another one. The stock market capitalisation exceeds 121% of GDP in the UK and 98% in the Netherlands. On the other specter are Latvia, Cyprus and Lithuania which have stock market capitalisation less than 10% of GDP. These countries provide quite few opportunities for SMEs financing through capital markets.

Below, some further figures comparing the US and EU markets are also provided. In principle, Europe's stock markets, equity markets and venture capital markets are less

⁷ Stock markets capitalisation defines the aggregate market value of the issued share capital of all publicly-traded companies.

well developed when measured against comparable economies like the US one. For example, US corporate (non-financial) debt securities markets⁸ are three times as large as in the EU: total value of corporate non-financial debt outstanding is 40.7% of GDP in the US vs. 12.9% in the EU in 2013.

The Venture Capital markets are the markets for higher-risk ventures and start-up companies that focus on new and innovative business. In the US these markets are about five times bigger in terms of the amounts invested than in the EU. It is also measured that if EU venture capital markets were as developed as those in the US, an additional €90 billion of funds would have been available to finance companies between 2008 and 2013. At the same time, in such a situation more than 4,000 additional venture capital backed deals could have been executed (European Commission 2015c).

All these figures show at one hand that EU capital markets are underdeveloped. On the other hand, they demonstrate that these capital markets have further potential for future enhancement and deepening in order to serve better the needs of SMEs. Developing capital markets for SMEs will mean also providing further opportunities for investors to invest their funds. Before that, many obstacles and barriers in front of the capital markets shall be successfully tackled.

3. Problems related to capital markets financing of SMEs in EU

There are different obstacles for better financing the SMEs. Before analysing the measures that the European Union institutions undertake aiming the capital markets to improve the access of SMEs to financial resources, we will have a look on the main barriers that exist today in the EU in that field.⁹

⁸ These are markets that refer to debt issued by a government or corporation that may be traded on secondary markets, such as bonds, notes or money market instruments.

⁹ The analysis and the list of barriers is based mainly on the following document: European Commission (2015e). For further in-depth analysis on the problems for financing the EU companies and particular SMEs, see: ASSOCIATION FOR FINANCIAL MARKETS IN EUROPE (2013).

One of the main obstacles is the **size and the fragmentation of capital markets** within the EU. Although there is substantial EU law already adopted and implemented in the area of capital markets, there are still many provisions and rules that differ across EU Member States. This barrier shall be also overcome to a certain extent by the Capital Markets Union. However, the small size of some national capital markets may not be easily tackled through legal or administrative measures. The small size of these markets does not allow their deepening and liquidity, hindering also the possible financing to SMEs. Small markets may not also realise economies of scale and they may not attract easily the consumer and investor confidence.

Another problem is the availability of **different national supervisory authorities and practices**. Although substantial progress has been achieved by the EU in the recent years with the establishment of the European Securities and Markets Authority (ESMA), the development of the Single Rulebook in the securities area and the adoption of common rules, the supervisory practices in the EU Member States still continue to vary among them. The national authorities continue to have a wide range of discretion when they adopt decisions for the regulation and supervision of their own markets. The Capital Markets Union does not envisage at this stage the establishment of single supervisory authority and mechanism like the European Central Bank and the Single Supervisory Mechanism within the Banking Union that currently apply for the Eurozone.¹⁰ Last but not least, national markets tend to integrate in period of economic growth but they become much more fragmented within national borders in periods of economic and financial crises.

A substantial challenge for SMEs in finding financial resources is still the **overdependence of bank lending** to these companies. It shall be reminded also that there is a significant information asymmetry between banks and SMEs. While the banks have much more access to necessary information for SMEs, the latter have less expertise and access to information that may influence their financial decisions.

¹⁰ For the differences between the Capital Markets Union and the Banking Union, see: SIMEONOV, K (2015). For the need to develop capital markets solutions, in addition to the establishment of the Banking Union, see: ANDRÉ, S. and WOLFF, G.B. (2013).

A significant problem in the EU continues is the **low development of markets for risk and start-up capital**. At the beginning of their development, in the start-up period, SMEs usually need more capital in order to realise their business ideas. Very often SMEs aim to perform more risky activities or they have innovative ideas that also need financing from financial markets. Banks do not lend easily money to such business ideas and capital markets that lack venture capital segments miss to be a real alternative to the banking sector for the attraction of venture capital for SMEs.

Other problems and barriers that are associated with capital markets within the EU that further impair financing to SMEs are:

- Insufficient market data for investors to take effective decisions, including lack of available market data for SMEs;
- Diverse and non-harmonised legal framework for some of the financial instruments;
- Lack of sufficient harmonisation in key areas for the development of the capital markets, such as company law, corporate governance, taxation and insolvency;
- Lack of trust of small and even bigger investors in capital markets;
- Lack of adequate financial expertise in the SMEs;
- Languages and technical barriers are also an important barrier in the EU, especially for cross-border capital markets developments.

These are only few of the main problems and barriers that exist in capital markets in the EU and impair the proper financing of SMEs. These problems and obstacles shall be overcome by the new EU initiatives in the areas of capital markets, especially by the core element of the reforms through the establishment of the Capital Markets Union.

4. Capital Markets Union as a new strategy for boosting SMEs financing

The establishment of Capital Markets Union is one of the key initiatives that were launched by the new European Commission presided by Jean-Claude Juncker. The EU legislation in the area of capital markets is well developed even before the launch of this new initiative. However, the capital markets remained to a certain level fragmented within national borders among EU Member States and there is still wide potential to develop

further capital markets within the EU single market. One of the main goals of this initiative is to facilitate and to stimulate the financing of SMEs.¹¹

The new European Union Commissioner that is responsible for a new portfolio, named “Financial Stability, Financial Services and Capital Markets Union”, Mr. Jonathan Hill, also highlighted the SMEs as one of the key targets of this initiative during its opening statement for the presentation of the Green Paper on Capital Markets Union, published on 18 February 2015: *“The direction we need to take is clear: to build a single market for capital from the bottom up, identifying barriers and knocking them down one by one. Capital Markets Union is about unlocking liquidity that is abundant, but currently frozen, and putting it to work in support of Europe's businesses, and particularly SMEs”* (European Commission 2015d).

The Green Paper on Building Capital Markets Union identifies this new initiative as a key element of the programme of the new European Commission. This Commission document recognises that its main targets are to reduce the cost of raising capital as well as to ensure greater opportunities in the funding of the EU economy that still struggle to recover after the recession due to the economic and financial crises (European Commission 2015b).

The Green Paper represents a consultation document for the capital markets industry, the branch organisations, SMEs, etc. in order to determine the next steps that shall be undertaken in that area. On the basis of the outcome of this consultation, the Commission aims to identify the actions that are necessary to achieve the following objectives:

- improve access to finance for all businesses and infrastructure projects across Europe;
- help SMEs raise finance as easily as large companies;
- create a single market for capital by removing barrier to cross-border investments;

¹¹ For the rationale of establishing the Capital Markets Union in the EU, see: VÉRON, N. and WOLFF, G.B. (2015); VÉRON, N. (2014); INTERNATIONAL REGULATORY STRATEGY GROUP (2014). The opinion of the ECB is expressed in the following speech: EUROPEAN CENTRAL BANK (2014).

- diversify the funding of the economy and reduce the cost of raising capital (European Commission 2015d).

As it is stipulated by the European Commission, to ease the financing to SMEs is one of the key elements of the new strategy towards development of the capital markets within the EU. This new strategy will have short term goals that shall be realised in the next one-two years, as well as some long term goals. This new strategy will not always relies on legislative proposals by the European Commission. Therefore, other policy responses will be also searched in order to achieve the objectives of building the Capital Markets Union. The European Union institutions expect also the capital markets and their participants to propose and to develop solutions in order to further promote and facilitate financing through those markets.

The Green Paper represents several measures that shall be undertaken in order to enhance access of SMEs to financing. One of the key measures is to improve the credit information for SMEs. The European Commission stresses that the development of common minimum set of comparable information for credit reporting and assessment should help to attract additional funding for SMEs through the capital markets. The problem is that currently such information is hold usually by banks and this is relevant only for some SMEs that have credit history. Attracting funding by the capital markets will also require sufficient information for the potential investors in order to take appropriate and effective decisions for investments in SMEs. The requirements for such credit information shall be, however, proportionate in order not to overload SMEs with providing too much information at a very high cost. One of the achievements on EU level could be to set up comprehensive and easy to follow common standards in providing such credit information.

The development of measures under the establishment of Capital Markets Union will have another positive effect on SMEs – diversifying the sources of financing of their activities. As already pointed out, one of the problems for SMEs is that currently they count mainly on bank financing for their activities. Ensuring and stimulating further financial resources through the investors and participants in the capital markets will be of

significant importance for SMEs. It will provide also greater opportunities for improving the competition and enhancing the effectiveness of financing the SMEs.

The Green Paper of the European Commission highlights also that in order to stimulate the development of SMEs as well as cross-border transactions and operations within the EU Internal Market, there shall be more profound reforms in the EU in the areas of company law, corporate governance, insolvency and taxation. There is already some harmonisation on EU level about company law rules but it is not sufficient in order to develop a trough Single Market for SMEs. The same is relevant also for corporate governance, where there are few common standards and rules. Common and harmonised EU rules for insolvency regime and taxation may further benefit the establishment of common market for SMEs within the EU. However, further harmonisation in all these areas will not be an easy one due to many complex reasons. These areas are usually substantially linked to national sovereignty that Member States are not always willing to transfer to the European Union institutions. In some areas as taxation, there is a need of unanimity among all Member States and not qualified majority, in order to reach an agreement for a common decision. Last but not least, the current national standards in these areas are very different across the Member States, they are applied in different national environments for many years and it will be difficult to elaborate and agree on common EU standards.

The deadline for comments and answers to the questions listed in the Green Paper was set up to be mid-May 2015. The European Commission has received numerous answers and replies from different stakeholders and started to analyse them in order to plan its further steps. The ultimate aim of this consultation is to draw up a roadmap in the form of an Action Plan that shall identify the building blocks in order to achieve a fully functioning Capital Markets Union by 2019.

5. Review of the Prospectus Directive and the rules on securitisation

The reviews of the Prospectus Directive and the rules on securitisation are also part of the new initiative on building a Capital Markets Union. In mid-February 2015

simultaneously with the launch of the Green Paper consultation, the European Commission has launched also two other consultations: the consultation on the review of the Prospectus Directive (European Commission 2015f) and the consultation on building a framework in the EU for simple, transparent and standardised securitization (European Commission 2015g).

Both consultations ended at the same time that was also the deadline for sending comments to the Green Paper, i.e. by mid-May 2015. Both consultations were targeted to possible short to medium term measures that may be undertaken by the European Union institutions in order to boost the development of EU capital markets. Last but not least, both consultations have also direct link to the improvement of the financing for the SMEs through the capital markets. These two consultations will be subject to some brief comments under this section with the focus on ease of raising capital to SMEs.

First, we will look on the **revision of the Prospectus Directive**. The current Prospectus Directive was adopted in 2003 and published in the Official Journal of the EU. This is Directive 2003/71/EC that was approved by the European Parliament and the Council by the co-decision procedure. The aim of this directive was to upgrade, to update and to group together into a single text two directives from 1980 and 1989 respectively. Directive 2003/71/EC have been amended several times so far but the most substantial amendment was done in 2010 by Directive 2010/73/EU. The main aim of the 2010 amendment was to make the obligations under the Prospectus Directive less burdensome to companies without compromising the protection of investors and the proper functioning of the securities markets in the European Union.

As assessed by the European Commission, the Prospectus Directive provides for an EU-wide regime for capital market prospectuses which are required when a public offer of securities is made or admission on a regulated market is sought. It shall be highlighted that prospectuses are in fact legal documents required to be used by companies to seek investment. They are of great influence to the transparency of capital markets as they contain facts that shall help investors make informed decisions. As the Prospectus Directive is transposed in all EU Member States it provides for an equivalent level of

investor protection across the EU and it enables the comparability of investment options for investors across the EU.

Even after the adoption of the 2010 amendment to the Prospectus Directive it appeared that the rules for issuing prospectus remained to a certain degree burdensome to EU companies and especially to SMEs. As outlined by the European Commission certain current requirements may constitute unnecessary administrative burdens for companies, including SMEs, which draw up a prospectus with very detailed information reaching hundreds of pages. It was assessed that the amount of administrative, human and financial resources needed to draw up prospectuses make it very difficult for SMEs and start-ups to attract the investment they need to grow. Therefore, the review of the Prospectus Directive is considered as one of the main objectives in the framework of the building of a Capital Markets Union. It is estimated that the review will look at situations when a prospectus is required, at streamlining the approval process, and at simplifying the information included in prospectuses (European Commission 2015c).

All these measures and amendments to the Prospectus Directive shall facilitate SMEs in finding more easily and at fewer costs access to financing their activities. The proposal of the European Commission for the revision of the Prospectus Directive is still pending. After the publication of this proposal, it shall be adopted by the European Parliament and the Council.

The second consultation, apart from the Green paper consultation, that was launched by the European Commission in mid-February 2015, was for the building a framework in the EU for simple, transparent and standardised **securitisation**. The aim of this consultation was to gather information and views from stakeholders on the current functioning of European securitisation markets. Another aim was to assess how the EU legal framework can be improved to create a sustainable market for 'high-quality' securitisation.

Securitisation played an important role for financing the economy before the start of the last economic and financial crisis. Because of risky securitisation practices that influenced the strength of the financial crisis, the investors have lost confidence in such

instruments. However, if better managed and regulated, these instruments may improve the financing of the economy, including for SMEs.

According to data by the industry, cited by the European Commission, securitisation issuance in Europe amounted to some €216 billion in 2014 quite below the pre-crisis levels. In 2007 securitisation issuance amounted to €594 billion. The same picture may be observed when looking on SME securitisations. The issuance level of SME securitisations still stands at only roughly half the amount prior to the crisis - €77 billion in 2007 compared with €36 billion in 2014. In accordance with the European Commission opinion, if the SME securitisation market could be revived safely just half way back to previous levels, it could generate some €20 billion of additional funding (European Commission 2015c).¹²

It is expected that if the securitisation is soundly and more safely structured, it may ensure a different and more diversified source for funding the real economy. It may also better distribute the risk by removing part of the risk from the banks' balance sheets. The latter may allow the banks to transfer assets to institutional and other investors as well as to allow them to lend more to the real economy, including to the SMEs. The future legal and other measures in relation to securitisation will aim to revive these markets on more sustainable levels, to allow for efficient and effective risk transfers to a broad set of institutional investors as well as to protect better investors and manage systemic risk.

6. Other capital markets initiatives trying to influence SMEs financing

Other capital markets initiatives also aim to further facilitate the financing of SMEs. Some of these initiatives and their rules will be also presented in this section.

¹² In European Commission (2015c) the Commission gives also a certain definition of securitisation. According to this definition, securitisation refers to a transaction that enables a lender, often a bank, to refinance a set of loans/assets (e.g. mortgages, auto leases, consumer loans, credit cards, receivables) by converting them into securities. The lender pools a portfolio of its loans and structures (package) them to tailor to different investor risk/reward characteristics. The end investors are then repaid by the cash-flows generated by the underlying loans in the package.

One of the cornerstones of the legal framework related to such markets is the **Markets in Financial Instruments Directive** (MiFID). Recently the new **MiFID 2** or Directive 2014/65/EU has been adopted and published in the Official Journal of the EU. It replaces the previous MiFID adopted sever years earlier (Directive 2004/39/EC). The EU Member States shall transpose this new directive, i.e. they shall adopt and publish the laws, regulations and administrative provisions necessary to comply with it, by 3 July 2016. These measures shall apply in the EU from 3 January 2017. The new framework for markets in financial instruments for the first time includes also a basic directly applicable regulation on level one, i.e. measures adopted by co-decision from Council of the EU and European Parliament. This is Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments.

The new MiFID 2 framework is also a post-crises framework that aims to take into account the lessons from the last economic and financial crises that started in 2007-2008. The new legal framework seeks to improve further the competitiveness of EU financial markets by developing the single market for investment services and activities. The first and second MiFID frameworks both aim to ensure a high degree of harmonised protection for investors in financial instruments, such as shares, bonds, derivatives and various structured products. They provide for greater competition across Europe in the provision of services to investors and between trading venues that contribute to deeper, more integrated and liquid financial markets. These frameworks shall also drive down costs for issuers, delivering better and cheaper services for investors. Ultimately, they aim to contribute to economic growth and job creation in Europe. The second framework in MiFID has made also substantial changes to the first one. Some of the elements of the reform are: introduction of new trading venues under EU regulation, increase of equity market transparency, strengthening of supervisory powers, introduction of trading controls for algorithmic trading activities, further strengthening of the competition and investor protection, enhancing the sanction regime, etc. (European Commission 2014a).

The whole new MiFID framework shall have positive effects towards SMEs. However, one of the new reforms in MiFID 2 is directly targeted to SMEs. This is the opportunity for an operator of a Multilateral trading facility to apply to its home competent

authority **to register as a SME growth market**. This is a possibility but not an obligation for such operators.

The opportunity to register a SMEs growth market is a measure that shall further facilitate access to capital for smaller and medium-sized enterprises and development of specialist markets that aim to cater for the needs of smaller and medium-sized issuers. The creation of this new sub category of markets and the registration of those markets is expected to raise their visibility and profile. It shall also aid the development of common regulatory standards in the Union for those markets. In order for that new category of markets to benefit SMEs, at least 50 % of the issuers whose financial instruments are traded on a SME growth market should be SMEs. That assessment should be made on an annual basis but it will be applied also in a relatively flexible way.

The possibility for the registration of such SMEs growth markets may not bring automatically benefits for the SMEs. It is expected additional legal framework to be developed in order to ensure real additional benefits for SMEs and to promote their participation in such voluntary registered markets. The European institutions also recognise that attention should be focused on how future regulation should further foster and promote the use of such markets so as to make them attractive for investors, to provide a lessening of administrative burdens and to ensure further incentives for SMEs to access capital markets.¹³

Another EU legal initiative that has implications towards better financing of SMEs is the **Regulation on European Long-term Investment Funds (ELTIFs)**. The European Commission has issued its proposal on 26 June 2013.¹⁴ The European Parliament has reached a final agreement on this proposal in March 2015 and the Council of the European Union adopted it on 20 April 2015. The ELTIFs represent an opportunity for alternative investments in markets that are not sufficiently liquid.

The aim is that the creation of clearly defined ELTIFs will help tackle barriers to long-term investment. ELTIFs will only focus on alternative investments that fall within a

¹³ For more details, see recitals 132-135 as well as Article 33 of Directive 2014/65/EU.

¹⁴ See: Proposal for a Regulation of the European Parliament and of the Council on European Long-term Investment Funds, COM(2013) 462 final, Brussels, 26.06.2013.

defined category of long-term asset classes whose successful development requires a long-term commitment from investors. There are eligibility criteria for ELTIFs. Only EU alternative investment funds that are managed by alternative investment fund managers, authorised in accordance with directive 2011/61/EU on alternative investment fund managers, will be eligible to market themselves as ELTIFs. It is envisaged that ELTIFs are subject to additional rules requiring them, inter alia, to invest at least 70% of their capital in clearly-defined categories of eligible assets. Trading in assets other than long-term investments will only be permitted up to a maximum of 30% of their capital (European Commission 2015a).

The idea is that the ELTIF will be able to invest in all kind of assets that are not traded on regulated markets. These assets are usually illiquid and require a fund to make a long term commitment when purchasing them. The European Commission recognises that assets which are not traded on a secondary market and whose owners would require considerable time in finding a purchaser may comprise the following categories:

- investments in infrastructure projects, such as in the field of transport, energy or education;
- investments in unlisted companies, in practice mainly SMEs;
- investments in real estate assets, such as buildings or direct purchase of an infrastructure asset.

In the preamble of the proposal for the Regulation on ELTIFs, the European Commission stresses that financing can be scarce especially for projects regarding transport infrastructure, sustainable energy generation or distribution, social infrastructure (housing or hospitals), roll-out of new technologies and systems that reduce use of resources and energy or the further growth of SMEs.

The financial crisis that emerged in 2007-2008 has clearly shown that there is a need to better mobilise capital markets in order to complement bank financing. This will allow wider variety of financing sources in order to tackle financing gaps. It is expected by the European Union institutions the ELTIFs to play a significant role in this respect (European Commission 2013).

Some other EU initiatives that aim to facilitate financing for SMEs will be presented more briefly. The list below is also not exhaustive but provides for some of the other main measures of the EU that have as an objective to stimulate and ease the attraction of financial resources for SMEs. Such initiative and measures are grouped below in three main groups: Action Plans and other planning documents by the European Commission; other EU legal measures that further facilitate financing to SME as well as financial and EU programme initiatives:

A. Action Plans and other planning documents by the European Commission

- The **Action Plan to improve the access to finance to SMEs** that was issued by the European Commission in December 2011 (European Commission 2011a) and that was cited above is one of the key EU documents that outline the need for better access to finance to SMEs. It is a strategic document that represents a summary of the actions undertaken and further planned in that area.
- The **Single Market Act** is another European Commission initiative that is specifically designed to help the EU economy, including SMEs. The Commission adopted the Single Market Act I and II that contain series of measures to boost the European economy and create jobs. The Single Market Act I was presented by the Commission in April 2011 and it sets out twelve measures to boost growth and strengthen confidence (European Commission 2011c). In October 2012 the Commission proposed a second set of actions in the framework of the Single Market Act II in order to further develop the Single Market and exploit its potential (European Commission 2012).
- The Small Business Act from June 2008 (European Commission 2008) is another earlier document of the European Commission that reflects the central role of SMEs in the EU economy and that puts into place a comprehensive SME policy framework for the EU and its Member States.

B. Other EU legal measures that further facilitate financing to SMEs

- The **Regulation on European venture capital funds** that was adopted in April 2013 (Regulation (EU) No 345/2013) is one of the other EU legal measures, apart from the

already cited, that aim to boost finance to SMEs, especially for more risky and start-up activities. This Regulation lays down uniform requirements and conditions for managers of collective investment undertakings in relation to the marketing of qualifying venture capital funds in the Union and to the contribution of the smooth functioning of the venture capital in the EU internal market. The core activities of venture capital funds are to provide finance to SMEs through primary investments.

- The **Regulation on European social entrepreneurship funds** (Regulation (EU) No 346/2013) is another legal measure that aims to boost financing. It is also adopted in April 2013. It is designed to allow funds investing in social enterprises, including SMEs, to raise funds and invest across Europe.
- Another initiative is the **reduction of the costs and the burden for SMEs** through the Transparency Directive (Directive 2004/109/EC) by simplifying and reducing reporting requirements. This was done with October 2013 amendment of the Transparency Directive (Directive 2013/50/EU). As explained in the preamble of this amendment directive, it was driven by the idea the administrative burden associated with obligations linked to admission to trading on a regulated market to be reduced for small and medium-sized issuers in order to improve their access to capital.
- Another initiative of the European Commission was the issuance of **Guidelines on State aid** to promote risk finance investments (European Commission 2014b). As explained by the Commission itself, these Guidelines take the view that the development of the risk finance market and the improvement of access to risk finance for small and medium-sized enterprises, small mid-cap and innovative mid-cap is of great importance to the EU economy.

C. Financial and EU programme initiatives

- One of the leading EU financial initiatives for enhancing resources to SMEs is the **EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME)**. This is a programme that runs in the period 2014-2020 with a planned budget for that period of €2.3bn. It replaced the previous Competitiveness and Innovation Framework Programme (CIP) that was available for the period 2007-2013.

COSME supports SMEs in better access to finance; access to markets; supporting entrepreneurs as well as more favourable conditions for business creation and growth. The Commission reinforces its loan guarantee and venture capital facilities under this programme. These loan guarantees are used in cases where the entrepreneur or the small enterprises do not have sufficient collateral to offer and the bank is not expected to provide a loan. It is estimated that 90% of the beneficiaries of that programme have 10 or less employees which is the category that has most difficulties to get a loan. It is assessed also that the average guaranteed loan is about €65 000.¹⁵

- Another EU programme that helps raising money for SMEs in relation to specific purposes is **Horizon 2020**. This is the biggest EU Research and Innovation programme with nearly €80 billion of funding available over 7 years for the period 2014-2020. Horizon 2020 is investing in research and innovation and is helping to bring more focus to science, industrial leadership and societal challenges. This programme is part of the development of the European Research Area and its investments facilitate the establishment of a genuine single market for knowledge, research and innovation. SMEs usually face difficulties when they search financial resources for research and innovation and this programme shall help them to meet this challenge.¹⁶
- Another key element of the financial instruments for boosting the EU economy by the Junker Commission is the **European Fund for Strategic Investments (EFSI)**. The EFSI aims to overcome the current investment gap in the European Union (EU) by mobilising private financing for strategic investments which the market cannot finance alone. It shall support strategic investments in infrastructure as well as risk finance for small businesses. One of the types of projects that will be eligible for financing under EFSI will be the support to SMEs and mid-cap companies.¹⁷

¹⁵ For more information on COSME, see the website of the programme: <https://ec.europa.eu/easme/en/cosme>.

¹⁶ For more information on Horizon 2020, see: <http://ec.europa.eu/programmes/horizon2020/>.

¹⁷ For more information on EFSI, see: http://ec.europa.eu/priorities/jobs-growth-investment/plan/index_en.htm.

- The **European Investment Bank (EIB)** has also specific policy and initiatives towards SMEs. It is expected that EIB will continue to maintain its SME loan activity at a sustained pace and it will provide funding opportunities to SMEs.
- The **Structural Funds** also provide additional resources to economies of the EU Member States, including to SMEs. It is beneficial that the financial resources from these funds represent grants and not loans that shall be reimbursed. However, SMEs and other companies shall find additional resources for co-financing the projects under the Structural Funds which co-financing usually range between 25% to 75% of the projects.
- The European Commission will continue to facilitate access to EU financial instruments by reinforcing the financial advisory capacity of the **Enterprise Europe Network** bringing business support to organisations and providing a single online portal on EU financial instruments.

7. Conclusions

Over the last years SMEs in EU continue to face problems in financing their activities. These problems were aggravated after the start of the last economic and financial crisis. SME funding continued also to be largely dominated by banks.

Capital markets financing is the second source of financing of SMEs. However, there is still a large potential in order these markets to play more significant role for SMEs activities and financial needs.

EU has a special policy towards SMEs for many years. This policy introduced different initiatives in order to provide much easier financing to them at a better cost. The EU policy in that area was reinforced by a completely new framework initiative by the European Commission, namely the building of a Capital Markets Union. SMEs are at the core of its objectives and measures. The focus is on improving the opportunities for financing SMEs activities and initiatives. The Capital Markets Union contains both short and long term measures. Some of the important short term measures are the review of the Prospectus Directive and the review of the rules on securitisation.

The EU has recently developed and implemented many other measures to improve the financing to SMEs. The list of measures is very long and with different character – legal, institutional, financial, etc.

In order these measures to bring effect and to realise their potential, they shall establish a coherent common framework. The link between these measures is also of significant importance as well as the success of the multiplication of the effects of the different measures.

Financing SMEs is a challenge. Improving such financing in EU through capital markets is also not an easy task. However, this is a task with great potential that shall be used and enhanced in the next years in the EU.

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WHAT MAKES A START-UP SUCCESSFUL? – SMALL BUSINESS VENTURES IN FOCUS

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Research interests: Researcher is interested in topics related to entrepreneurship, such as entrepreneurial skills, competencies and motivation, in addition to the stressors and coping strategies of owners of Hungarian SMEs and typical problems and strategic solutions for start uppers.

Abstract: *The economic significance of SMEs in the EU is very high, and in Hungary it is even higher. However, Hungarian SMEs' efficiency is below the average. What is more, according to SBA (2014) data they have even been decreasing in number as well as in number of people employed by them during and ever since the crisis. What is more, the death rate of Hungarian SMEs is one of the highest in the EU28 (Eurostat, 2013c). Hence, it is of utmost importance to explore the threats SMEs are facing, especially in their start-up phase, where they are the most vulnerable. In order investigate the major drawbacks successful Hungarian start-uppers have faced an online research has been initiated in the first quarter of 2015. Although the sample involved in the research (N=44) was far from representative, the findings are interesting and might provide ideas for those considering starting their own business, where to focus their attention in order to create a fruitful and lasting business venture.*

Keywords: entrepreneurship, entrepreneurial skills, SME, students of tertiary education, genders

1. Introduction

SMEs play a crucial role in the European economy. They are regarded as the engines of economic growth, since the sector is famous of its high employment potential at

low capital cost. They represent 99% of all business ventures in the EU. What is more, in the past five years, they have created around 85% of new jobs and provided two-thirds of the total private sector employment in the EU (European Commission, 2015). They could be a main driver of eco-efficiency innovation (Tóth 2002-2007.)

In the EU28 in 2013, around 21.6 million SMEs in the nonfinancial business sector employed 88.8 million people and generated €3,666 trillion in value added. To put it another way, 99 out of every 100 businesses are SMEs, as are 2 in every 3 employees and 58 cents in every euro of value added (European Commission, 2014a).

In 2013, micro-enterprises accounted for 92.4% of all enterprise in the EU28. However, the distribution of employment and value added across the three groups of SMEs – as displayed in Table 1. - was far more equal, with micro, small and medium enterprises (Eurostat, 2013a).

Table 1. Distribution of SMEs in the EU28 – and their effect on the economy

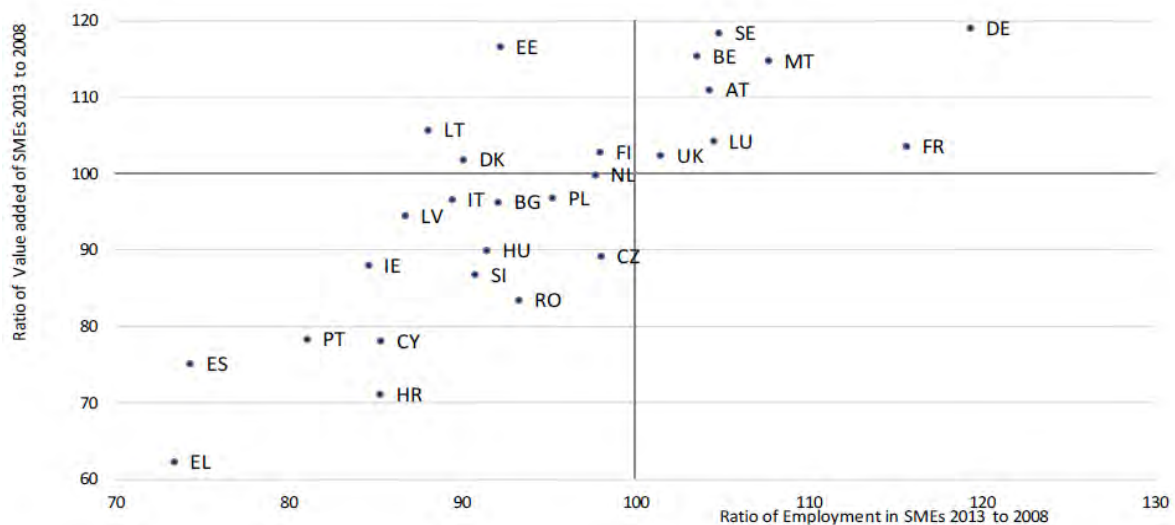
Number of enterprises	Micro	Small	Medium	SMEs	Large	Total
% of enterprises	92.4%	6.4%	1.0%	99.8%	0.2%	21 614 908
% of employment	29.1%	20.6%	17.2%	66.9%	33.1%	132 897 040
% of value added at factor costs	21.6%	18.2%	18.3%	58.1%	41.9%	6 310 557 M EUR

Source: Eurostat, 2013a

The numbers indicating the economic significance of SMEs might be substantial, however, compared to the data of large companies (also indicated in Table 1.) they are not so impressive. On the one hand, it is one of the SMEs' features to concentrate on the more labour intensive sectors and markets, hence working with less value added products and services. SMEs are supposed to be more sustainable from a social and environmental point of view (Tóth 2003, 2007). On the other hand the SMEs are still influenced by the

economic crisis and its lasting effects (Csiszárík-Kocsir, Medve, 2012). As it is displayed in Graph 1, in the past years the majority of SMEs experienced significant difficulties.

Not even 30% of the member countries could register growth in both ratio of value added and number of people employed between 2008 and 2013. More than half of the EU28 members were in both dimensions less productive than before the crisis. What is more, even in 2013, there has been a decline in both the number of SMEs (-0.9%) and the number of people employed by SMEs (-0.5%) in the EU28 (European Commission, 2014a).



Graph1: Changes in value added and employment within EU28's SMEs between 2008 and 2013

Source: European Commission, 2014a

Unfortunately the situation of Hungarian SMEs – in line with data displayed on Graph 1 – is not enviable. Although 2.4 % of all EU28 SMEs are Hungarian, they only account for 0.7% of the total value added and for 1.9% of total employment by SMEs. Hence, the productivity and the labour engagement potential of Hungarian SMEs are lagging behind that of the EU28's average (European Commission, 2012). What is more, between 2008 and 2013, the number of SMEs has decreased from 0.57 Million to 0.53 Million, while their value added also declined by 6 percent, from 0.03 Trillion Euros to 0.02. The number of people employed by SMEs has decreased in the very same period,

from 1.88 Million to 1.72 (European Commission, 2014b). This phenomenon is particularly dangerous, since in terms of employment, SMEs in Hungary are of greater importance than in the EU on average - they account for 71 % of all employees, 5% more than SMEs in the EU (SBA, 2014).

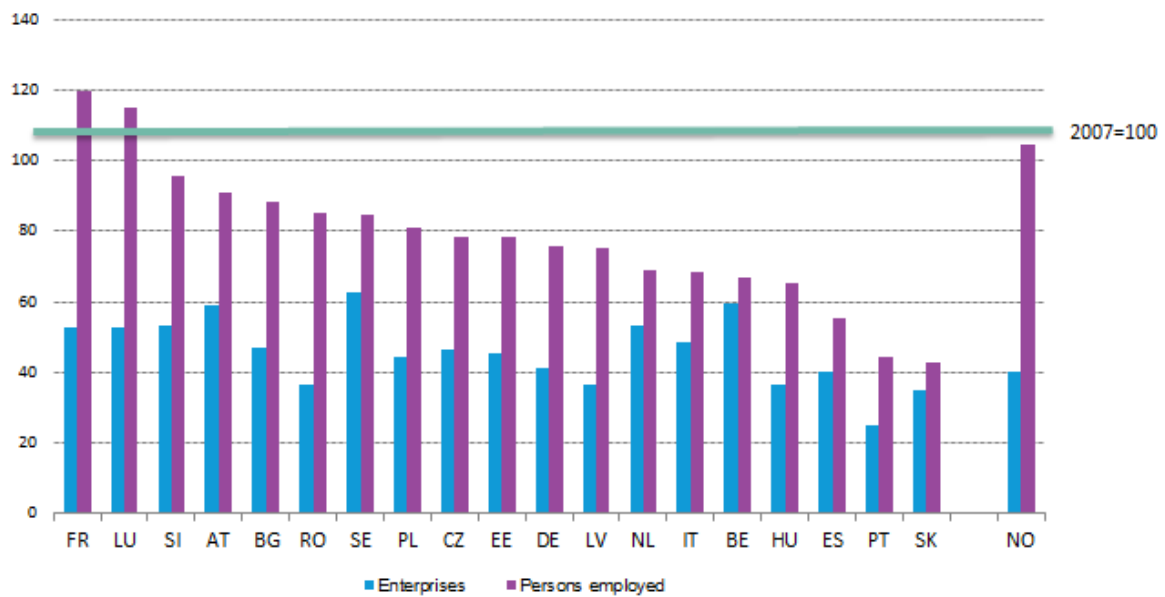
Another significant difference - compared to the majority of the EU - lies in the ratio of micro, small and medium-sized companies (Table 2). Around 36 % of all Hungarian companies employ less than 10 people, which makes micro companies not only the most frequent participants of the Hungarian economy, but the employment at micro sized enterprises the main form of employment (Borbás, Kadocsa, 2010, Francsovcics, Kadocsa, 2012). This wouldn't be a problem in itself; however, their high relative ratio is not mirrored in their value added.

Table 2. SMEs in the European Union and in Hungary

	Number (%)		People employed (%)		Value added (%)	
	Hungary	EU	Hungary	EU	Hungary	EU
Micro	94.5	92.4	35.7	29.1	18.5	21.6
Small	4.5	6.4	18.4	20.6	16.2	18.2
Medium	0.8	1.0	16.7	17.2	19.2	18.3
Big	0.2	0.2	29.2	33.1	46.1	41.9

Source: Eurostat. 2013b

Another unfortunate Hungarian phenomenon is the high death rate of SMEs (12%) while their competitiveness is correspondingly suboptimal (Eurostat, 2013c). Many Hungarian SMEs close down and go bankrupt within their first two and five year of operation and much more are struggling to survive the fierce competition on the Hungarian and global markets, making their employees uneasy (Graph 2).



Graph 2. Enterprises surviving a five-year period (2007-2012)

Source: Eurostat, 2013c

The high early death rate is especially damaging while most new ventures start up as small companies with a relatively slight growth rate and only after several years do their revenues start to grow at an increasing rate and are they able to enter global markets and/or grow in size and number of employees.

2. Research method and participants

In order to investigate, what might be the general problems with small size start-ups, a research has been established in the first quartile of 2015. The research was focusing on factors that might be issues for businesses in the start-up phase. The aim was to identify main threats for new business ventures.

With the help of an online questionnaire I tried to reach entrepreneurs who regard themselves as successful. Beside the self-evaluation some other criteria had also to be fulfilled, namely:

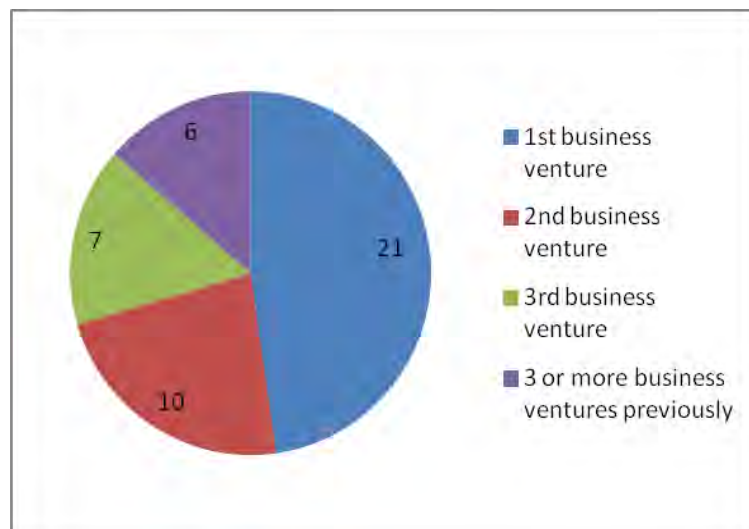
- no more than 50 employees,

- at least one non-family-member employee,
- at least one year with positive profit,
- less than 25% of fluctuation.

On the basis of these criteria out of the 73 volunteers 44 were up to the research criteria. 28 of them were males and 16 females; however, despite the smaller number of female entrepreneurs, they were still overrepresented in the sample regarding the average Hungarian entrepreneurial population (Szekeres, 2010). Their average age was 39.763 (Std. Dev.: 7.945).

It is important from the viewpoint of the research data's validity that many of them did not only have one year with positive profit (N=19), but 2 (N=12) or even more (N=13), meaning that they might have found the clue for lasting success.

Remarkably many of them have already had a history as entrepreneurs before their present business venture (Graph 3). Interestingly, 6 of them on the other hand did not even have any former work experience (before starting his/her successful venture).

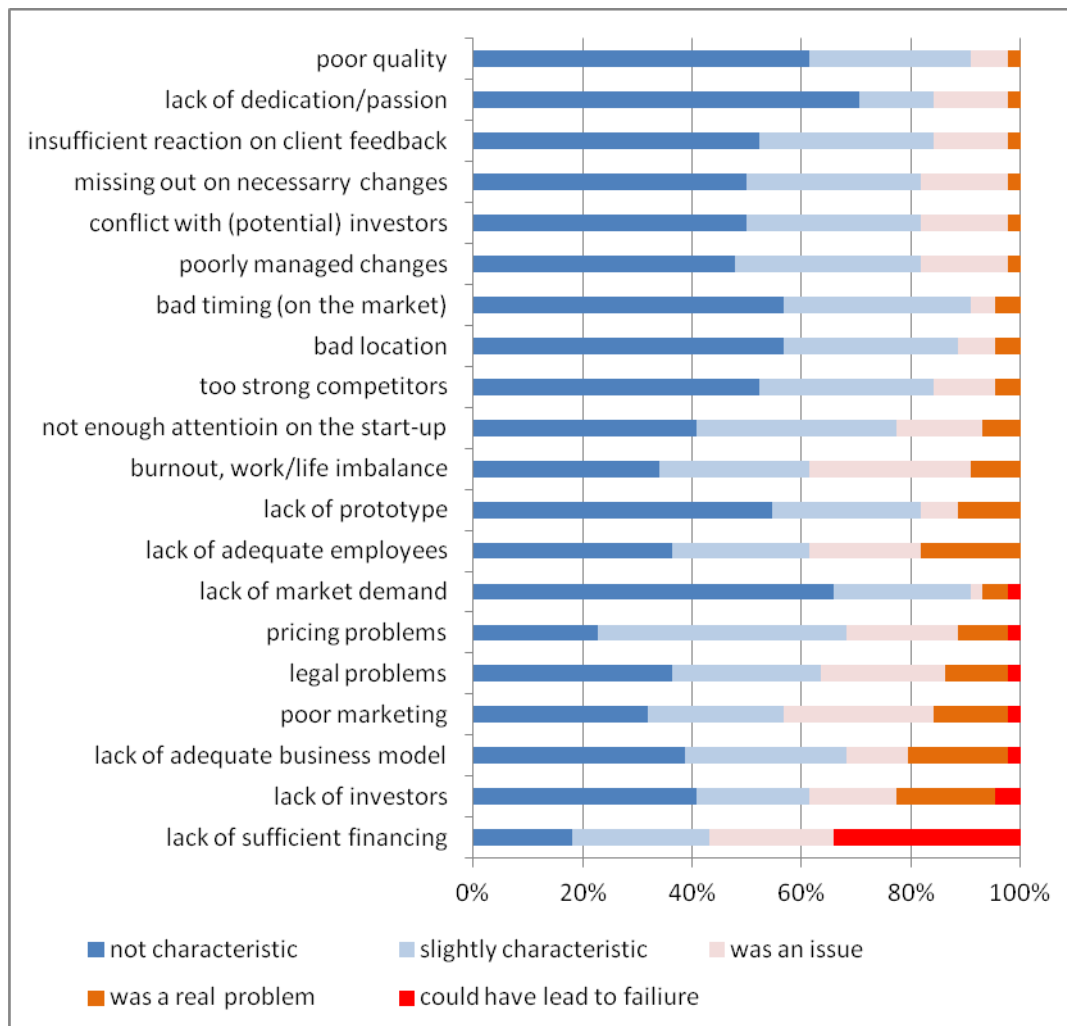


Graph 3: Personal history as entrepreneur - How many business ventures did you have so far?

Source: Own data

3. Results

Successful entrepreneurs were requested to share the threats they have been facing in the start-up phase with their business ventures. They have been listed several potential hazards – and they were asked to evaluate them on a five-point Likert –scale. Hence, each and every threat was rated either as not or slightly characteristic for a start-up in Hungary (cold colours), or as a real, imminent threat (warm colours) (See Chart 4).



Graph 4: Threats for new business ventures in the start-up phase

Source: Own data

On the basis of the respondents' evaluation, the most imminent problem of their start-ups was lack of sufficient financing (relevant for 34% of respondents) and lack of interest on behalf of potential investors (23%). This is in line with the OECD findings on SMEs in general (OECD, 2013). The abundance of a well prepared business model (and maybe the lack of skills necessary for it) was also a very frequently indicated problem (20%). Every fifth to sixth successful entrepreneur has also encountered HR, (18%), marketing (16%) and legal (14%) problems.

On the other hand lack of dedication, conflict with (potential) investors, or customers, low quality of goods/services or inability/unwillingness to adopt to the external environment's expectations was hardly ever (only for 1-1 person) an issue.

	% difference in importance rating	
	1st venture - nth venture	
	real danger	not at all important
missing out on necessary changes	17	-4
poorly managed changes	17	-4
lack of adequate business model	15	-12
poor quality	8	-4
lack of prototype	7	-4
pricing problems	7	6
bad location	4	0
too strong competitors	3	0
insufficient reaction on client feedback	3	5
lack of adequate employees	1	-17
bad timing (on the market)	-1	0
lack of dedication/passion	-6	-4
burnout, work/life imbalance	-8	1
lack of market demand	-10	5
conflict with (potential) investors	-11	-4

legal problems	-12	1
lack of investors	-17	11
lack of sufficient financing	-19	17
not enough attention on the start-up	-20	5
poor marketing	-27	15

Graph 5: Difference in perception of potential threats on the basis of start-upper history

Source: own data

As attention has already been called to it, the group of respondents was not homogenous. Interestingly it was not gender or age of respondents that made a difference in their perception of threats, but their personal history. While some did not have previous experience either with working for someone or starting one's own business, some others had a long history of start-ups behind them.

Those who had previous experience with starting a business venture regarded the topic of change, and that of a business model less pressing. This might have happened for two reasons:

1. Those already experienced in start-up issues are well aware of the importance of re-, or proactive change, as well as a strategically constructed business plan.
2. On the other hand, it is also a possibility that not being aware of the importance of these factors made them start new business ventures, while previous ones were not successful.

Respondents with start-upper history regarded lack of marketing and financial instability of a business venture along with insufficient attention to the start-up as real dangers, contrarily to those with their 1st business venture. The increased perception of danger might be owing to issues threatening their present start-up or due to past experience.

Another interesting phenomenon is that those with previous start-upper history were less afraid of lack of good employees harming their ventures. Yet again, the reason might be twofold. On the one hand, past experience might already have taught them the importance of human resources, and in their present venture they already have paid special

attention to the employees – hence they did not pose threat to the normal functioning of the business. On the other hand, the co-workers might never have been in the forefront of their attention and they have the price for this yet to pay.

4. Conclusion

As the constitution of the sample is suggesting, neither prior work experience, nor previous experience with other start-ups is necessary to establish and run a successful business venture.

However, according to the respondents' point of view start-ups should pay special attention to financial issues and it is also a must, to have a well prepared business plan before starting a business. HR, marketing and legal issues should also be in the forefront of an entrepreneur's attention.

An interesting outcome of the research was that new start-uppers and those with a previous history with starting other businesses regard potential threats differently. Those with their first venture rather dedicate their attention to creating a business model and adapting to their environments expectations, while those already experienced rather focus on financial issues, and regard insufficient attention paid to the start-up as one of the main threats.

Although the sample involved in the research was far from representative, the findings are interesting and might provide ideas for those considering starting their own business, where to focus their attention in order to create a fruitful and lasting business venture.

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PERSPECTIVES ON DIVERSITY MANAGEMENT AT WORKPLACE. THE EUROPEAN SMEs CASE

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Abstract: *The interest in diversity at workplace stems from an instrumental perspective on diversity, which is correlated with positive effects on organizational performance. Currently, due to the growing internationalization, SMEs are facing more and more challenges of cultural diversity, thus determining the need for a diversity management and the possibility to follow the patterns of MNCs in this area. This article addresses the issue of cultural diversity management in European SMEs, focusing on Romanian SMEs and aiming to highlight its specificity.*

Keywords: cross-cultural management, diversity management, European SMEs, human resource management

1. Introduction

The current increasing interest in diversity management at workplace is mainly the result of an instrumental approach towards diversity. Instrumental approach means “...human resource decisions being based solely upon their expected contribution to the achievement of the goals of the organization, goals which are set by the ‘owners’ of the organization” (Hough, 2006: 1). Thus, most often, diversity at workplace is promoted

through its perceived positive effects on organizational performance. Some of the benefits often associated with cultural diversity are increased innovation and creativity, better adjustment to market needs, and a good image and reputation.

While MNCs already have documented and clearly defined diversity management policies and programs, diversity and cultural awareness training being some of the most common initiatives (Gotsis & Korte, 2015: 7), this is not the case for SMEs. However, diversity awareness and diversity management are challenges that SMEs face more and more, in particular due to their growing internationalization. Because, besides the increasing number of business opportunities for MNCs internationally/globally, there are more and more significant opportunities in terms of markets, resources and/or networks for internationalized SMEs (Jones, Dimitratos, Fletcher and Young 2009: 1).

In these circumstances, SMEs are considered to benefit from diversity, as large companies do, aiming at awareness-raising in this direction. A challenge for SMEs is to develop specific diversity management solutions tailored to their size, because SMEs are not just scaled-down versions of large companies, but they operate in a different way.

At EU level, the interest in diversity management in SMEs has resulted in research at the initiative of the European Commission, following which a number of recommendations were formulated. However, it can be said that these recommendations remain fairly general, a possible explanation being both the absence of a significant number of studies on diversity issues in SMEs and the larger variety of SMEs compared to MNCs. Nonetheless, the detailed research results allow us to better understand the functioning of diversity management in SMEs. In Romania, the situation is relatively similar; diversity management is mainly practiced by MNCs and brought to the attention of SMEs and the general public through projects that are mainly from the non-governmental sector. By conducting a qualitative research among SMEs with foreign capital operating in Romania in the OPT system (Outward Processing Trade), we tried to capture the specific reality of diversity management among them, and most of the study results confirm the results of the research carried out at the wider European Union level.

2. Diversity management at workplace – definitions and perspectives

The issue of diversity at workplace is the preferred field of study of cross-cultural management. Cross-cultural management has developed as a field of study in its own right in the 1980s. However, it is not yet a clearly defined field (Søderberg, Holden, 2002: 103), there are questions regarding its coverage area, its theoretical basis, its research methodology and its practical applications (Chevrier, 2003: 6-7). One of the factors that generate this lack of clarity is the overlap with the scope of other disciplines studying the cultural phenomenon in the organization, such as: international management, international human resource management, international marketing, intercultural communication, organizational sociology, organizational psychology, organizational behavior etc. Another factor is that the notion of culture was borrowed by the researchers in the organizational field from other social sciences, such as anthropology, sociology and psychology, and its definition has been changed so as to serve different interests and orientations of research in this area (Yeganeh, Zu, 2006: 365).

More than other disciplines studying culture, intercultural management is measured by its practical results and the ability to effectively guide management actions (Bond, Fu, Pasa 2001: 25). Therefore, one of the main problems faced by researchers in the field is an adequate definition of culture. The definitions of culture used in intercultural research in the organizational field are either too reductive, not allowing us to understand the complex phenomenon of culture, or too comprehensive, as they include non-cultural factors (Yeganeh, Zu, 2006: 366). This last aspect of including non-cultural factors in the definition of culture is part of a wider debate on the difficulty of separating the influence of cultural factors from that of the factors considered to be non-cultural on the management of an organization. To what extent and how culture influences the management of an organization is one of the questions to which cross-cultural tries to give an answer (Adler 1983: 4) but, although the debate is old, no answer considered to be fully valid has been given yet.

Moreover, the difficulty in delimiting the field of cross cultural management is a result of the poor development of its theory. For although the field has passed its early

stage, the theory was little refined during this period (Aycan, 2000: 111). Research in cross cultural management is dominated by a deterministic and 'positivist' perspective on culture (Aycan, 2000: 117). The main unit of analysis is the national culture, focusing generally on cultural differences which are usually seen as differences between value systems.

A recent trend among the researchers in this field is the questioning of the dominant theory and methodology. An approach is thus proposed to explain the different management practices within a culture (Smith 2001: 22) and clarify the meaning of the concept of 'culture' (Triandis 2001: 18). In addition, a change is proposed in the level of analysis, i.e. to move from national culture to cultural interactions (Smith 2001: 22). A change is also proposed in the research methodology, namely a transition from the quantitative research, generally based on the framework given by different patterns of national culture size/orientation, to a qualitative field research, which would allow a better understanding of the studied cultural phenomenon.

The concept of diversity management is used interchangeably with the concept of cross-cultural management. The diversity management phrase seems to be more comprehensive, as attempts to define this field take into account the multiple levels of analysis of a culture, emphasizing the multiple cultural identities that may be encountered in a workplace.

Below are some examples of definitions of cultural diversity management, taken from publications intended to increase awareness of SMEs and which capture the comprehensiveness of the phrase:

"Diversity management refers to a set of conscious practices which acknowledge, tolerate and value difference. Diversity management at the workplace is: an ability to recognize that the differences between people in the workplace and in the marketplace can be turned into business opportunities." (EC, For Diversity Against Discrimination: 2)

"An organization practices diversity management when it promotes behaviors and individual actions that create an environment conducive to diversity, including cultural differences, differences in work style, thinking, age, race, gender and sexual orientation, and employees find and use different views that allow new solutions, creative ideas and

added value.” (Merton apud CPE, 2008: 9)

In the relevant literature, although there is a variety of approaches to diversity in the workplace, a consensus has been reached on diversity as a two-dimensional construct and as a socially constructed term (Qin et al. 2014, p. 146). There are two core dimensions: visibility - the social aspects of diversity and job-relatedness - the information dimension of diversity. Also, many theorists (Alcazar et al. 2013; Harrison and Klein 2007; Shore et al. 2009; Podsiadlowski et al. 2013) differentiate between the more salient diversity dimensions - i.e. age, gender, race and ethnicity, and the more subtle diversity dimensions - i.e. educational level, financial status, social class, religion, sexual orientation etc. (Gotsis & Kortezi, 2015: 1)

The main unit of analysis in cross-cultural management was, for a long time, and we can say that still is MNC. Interest in a MNC may have several explanations: the long presence at international level, which inevitably involved the cultural diversity of human resources; the financial strength which allowed investing in research aimed at the impact of cultural differences on business; the economic strength and visibility in the eyes of the general public etc.

Currently, the sphere of interest of the researchers in this field has started to include also SMEs which have internationalized their business or those operating nationally and having a culturally diverse human resource, if cultural diversity is understood more broadly, not just as national cultural diversity. The use of SMEs as analysis unit in intercultural research has a number of advantages compared to MNCs. Some of them are: they are less biased by the discourse on valuation/recognition of cultural diversity which, in MNCs, has turned the issue into a matter of social convenience; smaller size enables more in-depth study of cultural interactions; there is the possibility of studying the way in which cultural diversity management is achieved in the absence of knowledge and/or formal management tools/practices. Moreover, ‘small scale’ research enables a better understanding of cultural interactions and taking into account the different ‘conditionalities’ of the social actor.

The interest in diversity management stems from an instrumental perspective on diversity as it is often associated, at least at the discourse level, with positive organizational

outcomes. The benefits often associated with a heterogeneous workplace are: a) an improved decision making processes due to the different perspectives of the members from different cultural backgrounds; b) an increased creativity and innovation due to the ‘out of the box’ thinking; c) better problem-solving as a result of the ‘groupthink phenomenon’ decrease; d) a competitive advantage as a result of the access to a wider range of candidates; e) a better response to customers’ demands (Gotsis & Korte, 2015: 2-3); f) increased loyalty and sense of belonging among employees etc. (GESDIMEP Project, http://explotacion.mtin.gob.es/oberaxe/documentacion_descargaFichero?bibliotecaDatoId=4051: 7)

A more critical approach takes into account also the detrimental organizational outcomes: a) a higher risk of prejudice, discrimination, and stereotyping; b) lack of communication; c) identity conflicts; d) decreased cooperation and group cohesiveness; e) lower employees’ satisfaction etc. (Gotsis & Korte, 2015: 3)

However, although a number of studies have identified both positive and negative effects between diversity and organizational performance, there are meta-analytic reviews showing no statistically significant relationship between diversity and organizational performance (Gotsis & Korte 2015: 3). But this approach is marginal; the predominant approach is that there is a positive connection between diversity and organizational performance.

3. Diversity management at workplace - the European SMEs case

As mentioned in the previous section, although MNCs are still the favorite subject of analysis in the field of diversity management, the interest is starting to shift also towards SMEs. One of the main reasons is their increasing internationalization and, as a result, the contact with people who come from different cultural backgrounds. In addition, it is believed that SMEs could benefit from diversity, like large companies do, aiming at awareness-raising in this direction (EC, DGESAE. September 2005: 29)

At academic level, for several years there has been a debate on whether small companies are rather scaled-down versions of large companies or they operate distinctly

from the management standpoint, and the conclusion goes towards distinctiveness (Lind, 2012). This is also confirmed by the results of the studies, although few in number, on the diversity management practices in SMEs.

One of the most extensive research on European SMEs conducted in 2008 at the initiative of the European Commission (more than 1,200 SMEs from across 27 European States, 100 SMEs, and 70 SME intermediaries) indicates, for example, that only a few SMEs have formal human resource strategies for diversity management, although most of them are aware of the benefits of diversity for the organization. Some of the reasons for this situation include the company size which, most often, does not allow them to employ personnel with diverse backgrounds, and the fact that, in many cases, only family members are employed. In these circumstances, cultural diversity is more relevant for marketing than for the management of a company, by identifying/creating products and services tailored to market needs (Focus Consultancy, 2008: 4).

Some of the distinctive features of SMEs influencing diversity management, as compared to that practiced by large companies, are: a) low number of staff employed (the average is 6.8 staff members); b) employment of family members; c) low financial, time and human resources; d) economic insecurity; e) the lack of formal human resource management practices (Focus Consultancy, 2008: 6).

Regarding the benefits of diversity the research results indicate a difference depending on the size of the company, micro-enterprises identifying fewer benefits for the company than larger SMEs (79%). Of those that recognize the benefits of diversity, 60% indicate an increased capacity to recruit and retain high quality employees, while 40% see a link between diversity, creativity and innovation (Focus Consultancy, 2008: 14). Other benefits are: reduced absenteeism and employee turnover, increased client loyalty and brand value, increased loyalty to company, increased ability to access new markets, a good image and reputation (Focus Consultancy, 2008: 16).

However, a very small percentage (17%) has formal written diversity management policies under the form of an equal opportunities policy (Focus Consultancy, 2008: 16). Some of the reasons given by SMEs with unwritten policies are: equal opportunities is a mind-set, not a policy; lack of time or resources; creating additional restrictions for

business; the possibility of informal communication of equal opportunities policies in the context of a low number of employees (Focus Consultancy, 2008: 18-19).

As regards the HRM activity, it is most often informal, while the workforce is reduced, employees are, in many cases, family members, the owner-manager is responsible for HRM-related issues, recruitment is informal, using personal networks and the emphasis in recruiting is placed on competence, not on diversity (Focus Consultancy, 2008: 19-21). These results reconfirm the situation identified in 2005 among European SMEs, showing that very few SME owners or managers have time to think about their company's development as they are constantly involved in daily activities. One of the reasons behind this situation is placing too much emphasis on the personal values, attitudes and beliefs of the company owner. (International Society for Diversity Management, 2007: 20).

The barriers to creating a diverse workforce include: attitudes of employees – they are perceived by owners-managers as raising barriers to diversity, but actually it is possible that the managers' attitude is projected on others; unclear legislation; nature of work; negative effects of diversity - i.e. distrust and a lack of cohesion etc. (Focus Consultancy, 2008: 23).

In response to the identified problems, documents have been developed in the form of guidelines that are intended to raise awareness and provide solutions in terms of diversity management for SMEs. However, these recommendations remain on a general level. A possible explanation would be both the absence of a greater number of studies to allow the formulation of recommendations specific to the SMEs sector and the distinctiveness of the operation of SMEs as compared to MNCs. For example, the brochure prepared by the EC following the research on diversity management in SMEs presents 8 steps that can be followed to manage diversity in the workplace, starting with a general analysis of the business, through an objective and formal recruitment process (based on objective criteria and job description), an analysis of the market and consumers, and continuing through consultation with organizations that can provide the necessary help for diversity management (European Commission, DG Employment, Social Affairs and Equal Opportunities, Diversity at work. 8 steps for small and medium-sized businesses. <http://www.hfhrpol.waw.pl/pliki/DiversityAtWork8StepsForSmallAndMediumsizedBisines>

[ses.pdf.](#))

4. Diversity management at workplace - the Romanian SMEs case.

In Romania, we can say that diversity management is still a new field; the interest in this field comes mainly from the non-governmental area (i.e. the Center for Partnership and Equality, which has developed a series of publications in this direction). Diversity management is promoted in particular through projects financed by European funds – i.e. ‘Real not conceptual equality’ (<http://www.femeiactive.ro/managementul-diversitatii-exemple-de-bune-practici/>); ‘Social Inclusion Centers – an opportunity to facilitate participation of vulnerable groups in the labor market’ (<http://cisromania.ro/managementul%20diversitatii.html>), ‘Multi-regional network of anti-discrimination counseling services for social inclusion of discriminated persons’ (<http://nondiscriminare.ro/#>) etc., focusing primarily on gender diversity.

In these diversity management projects, the focus is on raising awareness of diversity elements, the discrimination that can result from these elements, and measures for combating discrimination – i.e. CPE (2007), ‘Managing Diversity in Organizations. Benefits for employees and companies. Implementing measures’, ‘How do we promote diversity management in organizations’ (CPE, 2008), ‘Promoting equal opportunities and diversity management’ (CRJ, CNCD, FGB, 2011) etc.

At academic level, cultural diversity at the workplace is addressed rather indirectly, through works that address mainly the issue of organizational culture. In these works, cultural diversity is seen predominantly in terms of national cultural differences and differences of work ‘mentality’ (hence in terms of work ethics), there is a polarization of the so-called ‘communist’ and ‘capitalist’ mentalities (Mateescu, 2009: 52-60).

The issue of cultural diversity in SMEs is not addressed/studied directly; to the best of our knowledge, no extensive research has been carried out in this area in Romania.

In 2008, a research we conducted through a qualitative methodology, which involved three case studies and comparative analysis of three SMEs with Italian capital working in the OPT system (Outward Processing Trade) in Romania, revealed the

following situation regarding the management of cultural diversity:

- An influence of cultural diversity on company business, but unawareness of this influence;
- The existence of an intuitive management of cultural diversity;
- The lack of formal human resource management practices;
- Human resource recruitment was conducted informally, through personal networks of company managers and employees;
- The nature of work, the ethnocentric tendencies and the orientation of foreign investors towards cost advantage generated a tendency to ignore or minimize cultural diversity;
- A relatively high degree of employees' economic dependence on the companies made their cultural diversity be neglected by the management of the companies, without major negative consequences;
- The main HRM process where the influence of cultural diversity could be noticed was compensation and employee motivation, which took into account, for example, the predominantly female workforce, religious and traditional practices of the community, socioeconomic situation of employees' families.
- Cultural diversity was perceived primarily in terms of national cultural differences and differences in values and behaviors at work (work ethics); the issue of work ethics is raised in terms of 'mentality': a 'communist' mentality – negatively valued and a 'capitalist' mentality – positively valued.

As one can see, some of the results of this study confirm the results of the research among European SMEs mentioned in Section II of this article. We believe that work ethics is a significant element of diversity in the workplace which should be studied, especially in organizations of post-socialist countries where it worked and still works under the form of 'mentality' ('communist' versus 'capitalist'), as a source of conflict, marginalization and ideological instrumentalization in the labor market (Mateescu, 2009: 69-75)

5. Conclusions

Diversity management in SMEs is addressed, as in the case of MNCs, from an instrumental perspective on diversity, seen as a potential source of benefits for organizational performance. The SME distinctiveness, given by the small number of employed personnel, the employment of family members, the low financial, time and human resources, the economic insecurity, and the lack of formal human resource management practices, makes it difficult to formulate ‘customized’ recommendations on diversity management. A specific element of cultural diversity in Romanian SMEs (and not only, as it can be extended to another type of organization) which requires further research is work ethics, most often seen in terms of work-related ‘mentality’, differentiating between a ‘communist’ mentality – negatively valued and a ‘capitalist’ mentality – positively valued. Further research, both quantitative and qualitative, is needed to capture the realities of diversity management in Romanian SMEs in order to better understand the way they work and to find appropriate solutions specific to the operation of small companies.

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EUROPEAN LEGISLATION IN THE MATTER OF SALES - A USEFUL TOOL FOR SMALL AND MICRO-ENTERPRISES OR A SOURCE OF LITIGIOUS PROBLEMS?

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Abstract: *It is evident that all forms of trade, either traditional or recently-emerged, between partners from different countries, are based on the fundamental principles of the purchase and sale contract, whose thorough knowledge greatly eases the comprehension of all other types of contracts in the economic field. Contract law exhibits, however, notable differences among member states of the European Union, thus raising obstacles before traders wishing to conduct cross-border activities on the internal market. Due to legal discrepancies in contractual matters, companies face the need to adapt to 28 different legislations, with linguistic barriers also forcing actors on the market to resort to the services of an attorney who is knowledgeable of the national legislation applicable to the contract envisaged. Under these circumstances, it is obvious that the need of traders to adapt to different national legislations in contractual matters which may apply during cross-border transactions increases the cost and complexity of cross-border trade in relation to internal trade, both with regard to business-to-business transactions between companies (especially SMEs, in which case access costs to foreign markets can be extremely high compared to total revenues), and in the case of transactions between companies and consumers – business-to-consumer. In this context, on 11th October 2011, the European Commission made public the Proposal for a Regulation of the European Parliament and of the Council on a Common European Sales Law {SEC(2011) 1165 final}, presented to the European Parliament, which acted upon it according to the ordinary legislative procedure – first reading, through the Resolution of 26th February 2014. The Commission's initiative raises a series of questions in perspective. If the current proposal deals with business-to-business and business-to-consumer sale contracts which refer exclusively to mobile assets, what guarantee is there that the interference in the internal legal order will not extend to other types of transactions (for instance, real estate)? Can we speak of*

competition between national civil law and the parallel European law, and if so, is it beneficial? Then, it is not excluded that the optional instrument be neglected in practice, not only because the contracting parties are unaware of its existence, but also because they prefer to opt for internal, traditional and well-known legal regulations. Beyond these questions, whose answer will take a few years to take shape, the advantages of the Regulation proposal are undeniable. Firstly, the Common European Sales Law, available in all the official languages of the European Union, provides a clear set of norms which society could integrate into all distance cross-border contracts.

Keywords: internal market, sale contract, second contractual juridical framework, cross-border distance contracts, optional instrument

1. General aspects

Through the Treaty on the Functioning of the European Union (TFEU), which has replaced the old Treaty on the European Communities (TEC), following the adoption of the Treaty of Lisbon, an internal market (the Union's market)¹⁸ has been created, a notion that replaces the previous formula, i.e. "common market".

The evolution of the phrase "common market", starting with the Single European Act (SEA)¹⁹, towards the new concept of "internal market", is the result of the efforts to liken the European market to a national market, lacking any barriers.

Such assimilation was to present a new configuration. In fact, before the SEA, the Community chiefly acted by striving to suppress obstacles to exchange, through different

¹⁸ According to Art. 26 of TFEU, as published in its consolidated version in the Official Journal of the European Union, no. C 115/09.05.2008, the internal market comprises an area without internal borders, in which the free movement of goods, people, services and capital is guaranteed.

¹⁹ The Single European Act, signed on 28th February 1986, entered into force on 1st July 1987 and emphasised the deficiencies of the common market, while creating a programme meant to transform the latter into a single market before the end of 1992. According to Art. 8a of the EEC Treaty (text introduced by Art. 13 of the Single European Act), *The Community shall adopt measures with the aim of progressively establishing the internal market over a period expiring on 31 December 1992 (...) The internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this Treaty.*

forms, while since the affirmation of this new entity - the internal market - the community institutions have been attempting to uphold and reinforce a process of convergence between national legal orders, by setting in place community policies leading to economic integration (BOUTAYEB, 2009:21).

It becomes apparent that the amplification and diversification of trade relations nowadays have caused great change at the level of law, leading, for instance, to the appearance of new types of contracts, the diversification of contracting techniques (on the grounds of general conditions, adhesion contracts, framework agreements etc.), the simplification of methods of concluding conventions (e.g. through electronic means) and, last but not least, a variety of clauses aimed at maintaining contractual balance, by avoiding the risks generated by currency and non-currency fluctuations. In this age of globalisation, it is only natural that cross-border and international exchange has intensified, giving rise to numerous trade links between areas that are more or less remote, from a geographical and/or cultural standpoint (OPRESCU, 2012:50).

Regarded as an economic category, the notion of international commercial transaction is, without a doubt, extremely broad, encompassing all activities pertaining to negotiation, sealing and applying the terms of a contract (delivery-transport, price reimbursement etc., needed so as to transfer, factually and lawfully, ownership of goods from seller to buyer, people usually located in different countries).

It is evident that all forms of trade, either traditional or recently-emerged, between partners from different countries, are based on the fundamental principles of the purchase and sale contract, whose thorough knowledge greatly eases the comprehension of all other types of contracts in the economic field.

Contract law exhibits, however, notable differences among member states of the European Union, thus raising obstacles before traders wishing to conduct cross-border activities on the internal market. Due to legal discrepancies in contractual matters, companies face the need to adapt to 28 different legislations, with linguistic barriers also forcing actors on the market to resort to the services of an attorney who is knowledgeable of the national legislation applicable to the contract envisaged.

Under these circumstances, it is obvious that the need of traders to adapt to different national legislations in contractual matters which may apply during cross-border transactions increases the cost and complexity of cross-border trade in relation to internal trade, both with regard to business-to-business transactions between companies (especially SMEs, in which case access costs to foreign markets can be extremely high compared to total revenues), and in the case of transactions between companies and consumers – *business-to-consumer*.

In their relations with larger companies, SMEs generally have to accept the application of legislation to their trade partner and bear the costs of gathering information on the contents of foreign legislation applicable to the contract and respect for the latter. In the case of contracts concluded between SMEs, the need to negotiate the law applicable is a significant obstacle to cross-border trade. For both types of contracts (contracts concluded between companies and contracts concluded between companies and consumers), for an SME, such additional costs of transactions can even be disproportionate compared to the value of the transaction.

These additional transaction costs increase proportionally to the number of member states in which a trader exports. Indeed, the more country a trader exports to, the more importance it gives to differences pertaining to contract law, the latter being an obstacle to trade. SMEs are particularly disadvantaged: the lower their revenues, the greater the share of their transaction costs (http://www.europarl.europa.eu/meetdocs/2009_2014/documents/com/com_com%282011%290635_/com_com%282011%290635_ro.pdf).

Without a doubt, the obstacles raised by such differences have a dissuasive effect on traders, chiefly on SMEs, with respect to conducting cross-border trade activities or to expanding onto new markets of member states.

In fact, at present, regardless of the size and area of activity of a company, its involvement in the process of business development at international level becomes a condition not only for increasing profit, but also for the very existence of that company. Mainly for small and medium-sized enterprises, the involvement in export/import operations becomes the primary form of internationalisation of their activity.

In this context, on 11th October 2011, the European Commission made public the Proposal for a Regulation of the European Parliament and of the Council on a Common European Sales Law {SEC(2011) 1165 final}, presented to the European Parliament, which acted upon it according to the ordinary legislative procedure²⁰ – first reading, through the Resolution of 26th February 2014²¹.

2. Juridical nature

By reading the provisions of the Regulation Proposal, along with the provisions of the Resolution of the European Parliament, it becomes apparent that the instrument chosen harmonises the legislations in contractual matters of the member states, not by imposing a review of previously adopted contractual law, but by creating a second contractual juridical framework within each member state, for contracts that fall under the auspices of the latter.

²⁰ The procedure utilised is the ordinary legislative procedure, which, described at Art. 289 of the Treaty on the Functioning of the European Union, implies an agreement between the European Parliament and the Council on a text proposed by the Commission. It is difficult, at this time, to estimate the time it takes until the text is potentially adopted. However, being modest compared to the first projects, the proposal could gather the adhesion of the institutions. The text is meeting the formal conditions necessary for its adoption: the Union has verified its competence, by endowing the text with a juridical basis (Art. 114 of TFEU, which enables the adoption of measures meant to bring closer the provisions referring to the common market) and by checking compliance with the subsidiarity and proportionality principles.

²¹ Since 1998, the European Parliament and Council have had on their agendas various initiatives that have revealed the need to adopt measures at European level, in the area of contract law, so as to provide them with a coherent nature and due functioning; the European Parliament Resolution from 1989, the Communication from the European Commission to the Council and the European Parliament of 11th June 2001 on European Contract Law [COM(2001)398], the Resolution of 15th November 2001 of the European Parliament, on the approximation of the civil and commercial law of the Member States, the Communication of the European Commission of 12th February 2003, on the Action Plan for a European contract law [COM(2003)68], the Green paper adopted by the Commission in July 2010, on policy options for progress towards a European contract law for consumers and businesses [COM(2010)348] etc. For more details on initiatives at European level in this matter, see OPRESCU, 2012: 51-65.

Hence, the Regulation does not constitute too aggressive an intervention in the internal legal systems of member states, as these coexist with European law, in contractual matters. From a psychological point of view, this Regulation presents itself as a *soft* legal document, enabling member states to maintain their autonomy in the legislative process, as, innovatively, the optional Common European Sales Law will become applicable in parallel with the national civil law of member states, and it will be optional in the case of sales contracts with an EU extraneity, on condition that the contracting parties agree with this voluntarily and expressly²².

The regime in contractual matters proposed by the European Commission does not aim to be a replacement for the National civil codes of member states (28 in total), or to interfere in any way with material provisions and the coherence of such codes, while circulating in parallel with them.

Thus, the European lawmaker proposes, in sales matters, a set of uniform rules of contract law (similarly to a new law), which can be chosen freely - alternatively to national law – by traders that wish to buy or sell across borders, chiefly at a distance and online. By concluding a contract for the sale of mobile assets, the contracting parties will not be able, however, to convene that certain provisions of the contract be regulated by the Common European Sales Law and others by common national law.

It is our view that the simplicity and absence of formalism present clear advantages compared to solid internal legislations, based on undisputed rules, some of which are almost two centuries' old.

On the other hand, it remains to be seen whether the European lawmaker's initiative is not a source of juridical complications and, moreover, whether it is likely to create competition between two different sets of juridical norms – national and European – both of which regulate the same matter (the purchase and sale contract).

²² The initiative by the Commission was met with extreme reservations in France, where it was deemed that, through the baby steps policy, a prospect of global unification of contractual law was being prepared. For a study on this, see CHONÉ-GRIMALDI, http://www.bauerreis.com/wp-content/uploads/2014/05/3.1.1.2.1.3.-La_proposition_de_re%CC%80glement_relatif_a%CC%80_un_droit-commun-europe%CC%81en-de-la-vente.pages_.pdf

It cannot go unnoticed that a trader's option between national law and Common European Sales Law may be difficult, as this choice implies the knowledge and understanding of both juridical systems. Only in this way can the interested party appreciate which of the two systems is more advantageous. At the same time, it is undeniable that for a trader, it is difficult to use two different juridical systems in the transactions it concludes: on the one hand, the internal one, for transactions that do not imply a cross-border component, and on the other hand, the one stipulated by the Regulation, for operations bearing an element of EU extraneity.

Under these circumstances, paradoxically, given the absence of tradition and the elective character of European norms in matters of sale, it is possible that the very recipients of the proposal receive it with reluctance or even ignore it²³.

3. Area of application

With respect to the area of application *ratione materiae*, according to Art. 1 of the proposal, the Common European Sales Law is to be used in the case of cross-border transactions applicable to sales of goods (most intra-community trade, s.n.), provision of digital contents (such as music, film, computer programmes or smartphone applications), or of complementary distance services²⁴, chiefly online, in the event that the contracting parties convene on this.

From a territorial standpoint, the proposal deals with cross-border situations, in which there arise problems regarding additional costs of transaction and juridical

²³ In effect, there have been other proposals, aiming to establish a compulsory regulation. See TWIGG-FLESNER, http://ec.europa.eu/justice/news/consulting_public/0052/contributions/309_en.pdf.

²⁴ By complementary service one refers to any service connected to the goods or digital content, such as installation, maintenance, repairs, storage or any other form of processing, conducted by the seller of the goods or supplier of digital content, or a contract separate from complementary services, concluded at the same time as the purchase and sale contract or the contract on the provision of the digital content, or stipulated, even optionally, in the sale contract or the contract on the provision of digital content (Art. 2 letter m. of the proposal).

complexity. Therefore, the Common European Sales Law can be used solely in the case of cross-border distance contracts. According to the Regulation, a contract concluded between traders is a cross-border one if the parties have their habitual residence in different states²⁵, of which at least one is a member state (Art. 4.2 of the proposal). In the case of contracts concluded between a trader and a consumer, the cross-border element is present if two conditions are met simultaneously: the address indicated by the consumer, the delivery address of the goods or the invoicing address are situated in another state than the one in which the trader has its habitual residence, and at least one of these states is a member state (Art. 4.3 of the proposal).

Member states are given, nevertheless, the possibility to “breach” the area of application with regard to the cross-border component. Art. 13 of the proposal stipulates univocally that a member state can decide that the Common European Sales Law be applicable to contracts where the habitual residence of the traders or, in the case of a contract between a trader and a consumer, the habitual residence of the trader, address indicated by the consumer, delivery address or the goods and invoicing address are in that member state, and/or to contracts where all parties are traders, but none is an SME. In other words, it is up to the national lawmaker to stipulate in internal law, along with the Common European Sales Law, the European law for contracts that do not present an element of extraneity or even for parties that are not SMEs.

Finally, the area of application of the proposal is limited to the transactions in which there appear problems regarding the internal market, namely the relations between companies, when at least one of the parties is an SME²⁶, and the relations between

²⁵ The habitual residence of companies and other entities, constituted or not as juridical persons, is the headquarters where they have placed their central administrative board. The habitual residence of a trader - natural person is the place where that person conducts his main activity.

²⁶ In the sense of the Regulation proposal, an SME is a trader that has fewer than 250 employees and annual revenues below 50 million EUR, or, for an SME having its habitual residence in a member state whose currency is not the euro, or a third country, the equivalent amount in the currency of that member state or third country (Art. 7.2 of the proposal).

companies and consumers. The contracts concluded between private individuals and between traders that are not SMEs are not included, as it is not necessary to take any action in the case of such types of cross-border contracts. In this situation too, the proposal of the Commission leaves member states with the possibility to adopt legal acts which extend the area of application of the Common European Sales Law, so as to include contracts between traders, none of which is an SME.

In the relations between a trader and a consumer, the choice for the Common European Sales Law produces effects only if the consumer has expressed his agreement, through an explicit statement, independently of the statement indicating his agreement on concluding a contract, and if the demands stipulated at Art. 9 are not met, i.e. if the trader has notified the consumer, prior to concluding the contract, on its intention to apply the Common European Sales Law, by placing at his disposal, in a univocal manner, the information form provided in Annex II of the Regulation proposal. If the agreement on the application of the Common European Sales Law is concluded by telephone or by any other means that do not allow the provision of the information form to the consumer, or in the event that the trader has not provided the information form, the consumer does not have any obligations on the grounds of the agreement, until he has received the confirmation stipulated at Art. 2 par. (2), along with the information form, and if he does not later express his consent to the application of the Common European Sales Law. The trader shall provide the consumer with a confirmation of this agreement, through a durable means. If the abovementioned information form is provided in an electronic format, it shall contain a hyperlink or, in all other cases, an indication of an internet page through which the text of the Common European Sales Law can be obtained free of charge (Art. 8 par. 2, corroborated with Art. 9 of the proposal).

4. Legal regime

By analysing the text of the proposal, one can notice that it contains three main parts: the Regulation itself, Annex I to the Regulation, including the contract law norms (the Common European Sales Law) and Annex II, including a standard information form.

In its 186 articles, the Common European Sales Law approaches, through its norms, the following matters: pre-contracting information obligations; conclusion of the contract, including formal requirements; the right to withdraw and its consequences; annulment of the contract following error, dolus, violence or incorrect application, and consequences of such annulment; interpretation; contents and effects of the contract; evaluation and consequences of abusive contract provisions; rights and obligations of the parties; reparatory measures in the case of failure to carry out an obligation; restitution in case of annulment, resolution or, in a contract with a non-binding nature, limitation and termination of rights; sanctions applicable in the case of infringement of obligations and duties resulting from its application.

The following aspects do not fall within the scope of the Common European Sales Law: juridical personality, nullity of a contract for lack of capacity, illegal or immoral nature, with the exception of the case in which the reasons determining the illegal or immoral nature are approached by the Common European Sales Law; setting the language of the contract; matters germane to non-discrimination; representation; plurality of debtors and creditors, and subrogation in the rights of the parties, including cession compensation and confusion; the creation, acquirement or transfer of an immobile asset or of rights over an immobile asset; the right to intellectual property; the matter of felonious civil responsibility, including the analysis of the possibility to investigate simultaneously the actions regarding contractual and extra-contractual responsibility. Such aspects are to be regulated by the norms applicable on the grounds of national legislation, according to (CE) Regulation no. 593/2008 and (CE) Regulation no. 864/2007, or any other conflict rule applicable.

By analysing the contents of the proposal, we cannot help but notice that it includes a comprehensive, not complete, set of contract law provisions. Thus, the act of resorting to internal legislation, on the one hand, still requires that traders study this legal framework and incur high costs of juridical consultancy, and on the other hand, it represents a source of legal uncertainty. In this context, it is not excluded that the optional instrument be neglected in practice, not only because the contracting parties are unaware of its existence,

but also because they prefer to opt for internal, traditional and well-known legal regulations.

It is also relevant that there are no mechanisms for ensuring a uniform interpretation of the Regulation across the EU. A potential database of court rulings (as mentioned at point 34 of the proposal) will not set a valid legal precedent for national courts, which are competent in the interpretation and application of the Regulation, where various interpretations remain possible and will engender juridical uncertainty.

The Commission's initiative also raises a series of questions in perspective (<http://notariue.blogspot.ro/2011/11/avampremiera-notari-in-ue-octombrie.html>). If the current proposal deals with business-to-business and business-to-consumer sale contracts which refer exclusively to mobile assets, what guarantee is there that the *interference* in the internal legal order will not extend to other types of transactions (for instance, real estate)? Can we speak of competition between national civil law and the parallel European law, and if so, is it beneficial?

Beyond these questions, whose answer will take a few years to take shape, the advantages of the Regulation proposal are undeniable (http://ec.europa.eu/romania/news/111011_vanzari_ro.htm). Firstly, the Common European Sales Law, available in all the official languages of the European Union, provides a clear set of norms which society could integrate into all distance cross-border contracts (of mobile assets sale, provision of digital content or complementary services), including the place, time and means of delivery, the obligations of the seller in charge of the transportation of goods, the rights and obligations of the parties in quick delivery cases or delivery of a wrong amount. Then, the reduction of cross-border transaction costs will be beneficial to all companies, especially small and medium-sized ones, which could afford and would even be encouraged to expand onto new markets (in fact, if companies were no longer required to adapt their internet sites to the legislation of each EU country in which they sell their goods, we would witness a decrease in the costs prompted by the development of cross-border trade activities), which is in the best interest of consumers, who would gain access to more numerous, better and cheaper offers (e.g. online shoppers

would no longer receive messages like “This product is not available in your country”, due to the differences between national legislations in contractual matters).

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ORGANISATIONAL BLUEPRINTS FOR GROWTH IN SERVICE FIRMS

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Abstract: *Start-ups and Smaller and Medium sized Enterprises are vital for national economies. The vast majority of these enterprises can be found in services industries. One of the parameters to measure performance of a company is growth. Only a very small percentage of these enterprises find ways to sustainable growth. Little is known on models for making a service firm grow. Based on our extensive literature study and in-depth analyses of 7 cases in the Dutch service industry we came to 5 distinct models or blueprints for growth and a framework on how to decide which model is best suited for the specific situation of a specific firm. Yet many research has to be done to give the final answer to the main question of our study “What kind of organisational blueprint is best suited for growing your company successfully?”*

Keywords: service firms, growth, organisational model, structure, culture.

1. Introduction

The impact of entrepreneurship on national economic growth is a widely recognised (King & Levine, 1993; Carree & Thurik, 2003). Economic growth and job creation activity is no longer characterized by reliance on large firms but has shifted to small firms (Wennekers, Thurik, 1999). Entrepreneurial activity is one of the major drivers of economic growth. Small- and medium enterprises (Henderson & Weiler, 2010) and in particular growth oriented SMEs are an important source for job creation (Valliere, 2006). In western economies SMEs represent more than 90% of all firms (Fink, Kraus, 2008).

With the growing importance of the service sector in our industrialized economy, there is much room for growth in this sector and the innovation in services is versatile. The vast majority of entrepreneurial start-ups are in the service industries (CBS, 2013). It is no surprise that the service industry has become of increasing research interest of researchers in the field of entrepreneurship. However entrepreneurship in the service industry is not yet a common topic for research, the Body of Knowledge reflected in the scarce literature on the topic is rather small (Dobon & Soriano, 2008).

Entrepreneurs in the service industry are struggling. Growth prospect of newly founded firms in the service sector in for instant the Netherlands are extremely low. In 2012, 94% of the firms in the service sector have a maximum of five employees and only 1% of the companies exceed the number of twenty employees. Many start-ups do not survive the first years of existence and the highest rate of bankruptcy is in the service sector (CBS, 2011). The high percentage of SMEs in the service industry and their probable effect on the economy make the growth of these firms crucial. If firms in the service sector have more problems concerning firm survival and growth, the growth of service firms might differ from that of the product oriented industries

Most service companies struggle with growth. However there are service companies, if only a small 1%, who do succeed in growing their company (CBSa, 2011). One of the factors that can successfully influence company growth is the organizational structure (Lewis, Churchill, 1983). An organizational structure is the pattern of

relationships among members and positions in the organisation, defining tasks, responsibilities, work roles and channels of communication. The organizational structure of a company can determine its success upon entering the market. The entrepreneur has to decide on the management style and employee roles within the company to determine the organizational structure. In this article we refer to such a structure as an “organisational blueprint” a term coined by Baron & Hannan in 2002. When an organizational blueprint successfully reflects the entrepreneur’s business goals it will support company growth (Baron & Hannan, 2002). The aim of this research is to define organizational blueprints that are successful for business growth in the service industry. The research will define a set of blueprints that are suitable for the service industry and helps entrepreneurs to select the most suitable organizational blueprint for their firm. Our contribution is thus to shed light on the role and selection of organizational blueprints within service firms when it comes to firm growth.

2. Theoretical background

In our study we found three particular arguments to explain why only one per cent of the Dutch service companies is able to grow successfully. The first argument is the desire for growth, why is this desire critical and what effect does it have on the selection of an organizational structure. The second and third are interconnected and are culture of the company and organisational structure (van der Meer, 2007). The organizational structure is the pattern of relationships among members and positions in the organisation. This structure can only support the company strategy if it connects with the company culture. In the rest of this article we will use the term organisational blueprint when we refer to organizational structure.

2.1. Desire for growth

Entrepreneurs starting their service firm with a high desire for growth have a focus on company strategy from the first moment onwards (Rockey, 1986; Bhavé 1994; Brush 2008). In the first start-up phase of the company these entrepreneurs are not yet influenced

by employees and have the opportunity to operate a structure of their own preference. The entrepreneur is in this case the major source of power and authority, they decide almost singlehanded upon courses of strategic action, including structural forms and performance standards (Child, 1972). According to Schein's (2010) leaders first articulate their values and then reinforce them through subsequent culture embedding mechanism. After the primary embedding mechanisms in which leaders have articulated their values, the secondary embedding mechanisms are started. In this second phase, organisational structures, systems and procedures as well as rituals are build. We use the term organisational blueprint for the whole of organisational structures, systems and procedures. The organizational blueprint and cultural embedding help the organization in coping with the external environment and help the behaviours and values to turn into success (Schneider, Ehrhart & Macey, 2012).

2.2. Culture

The influence of founders on an organization's culture has been a topic of discussion in literature, empirical studies of this relationship are difficult to find (Schneider, Ehrhart & Macey, 2012). Organizational culture is the specific collection of values and norms that are shared by people in an organization and controls the way they interact with each other and the outside world (van der Meer, 2007). An organizational culture informs people on how to behave and what is right and wrong. It also provides order and structure because it determines who has power and who does not. A company's corporate culture and strategy are interdependent. The effect of a company's culture on the organizational effectiveness is shown in many studies (Kono, 1994).

2.3. Organizational blueprints

Organizational blueprints determine how roles, power and responsibilities are assigned and coordinated (Van der Meer, 2007). This blueprint determines relationships among the members of the organization and how information flows within a company. The organization's objectives and strategy are related to the organizational blueprint (Baron & Hannan 2002, van der Meer 2007). Start-ups and SME's often use a flat organizational

blueprint (see for instant Shane 2004). Employees have an informal, direct and frequent contact with each other and with their managers. Furthermore, employees in small companies can have multiple responsibilities and functions. This flat structure enables quick decision making and flexibility.

During the transition from start-up to small or medium sized enterprise, communication and roll difficulties arise (Scott, Bruce, 1987). Roles need to become more defined and communication structures need to be installed to successfully grow the company. Multiple organizational blueprints are available and selecting the best organizational blueprint can be very challenging. Each business is unique, the type of business and needs of the owner will influence the selection. Deciding on the right management style and employee roles, the organizational blueprint that reflects the entrepreneur's goal, will directly influence the success of the firm (Baron& Hannan, 2002).

Once an entrepreneur has made the decision his company should grow, the quest begins. In literature we found hardly any information on the selection of organizational blueprints, let alone information about successful blueprints for entrepreneurs in the service industry. During our research we identify organizational blueprints that are successfully being used in the service industry. Factors on what make these organizational blueprints successful will be discussed in our section **Results**.

3. Method

In hindsight the methodology we used shows a large overlap with Engaged Scholarship as developed by Van de Ven (Van de Ven, 2007). We started our research with a "design" question of one company. This service firm employed 10 professionals and failed to grow further. Yet there was a specific desire by management to grow and the main question was "How can we realize and manage further growth of our company?"

During our research, we sought to understand which organizational blueprints implemented by entrepreneurs in their service organization resulted into successful growth. Before entering the empirical field to make observations in the real word we started our study with an extensive study on the phenomenon of organisational blueprints for the

service industry. or the current research we conducted a literature search within the field service industries with a focus on business models for growth. We used the academic database of Scopus for our literature research. This database captured most of the relevant journals on service industries based on their impact number. To adjust for missing articles we also entered the search terms in Google Scholar. Because Google Scholar filters on titles build up from the entered search terms, we used this search engine to saturate our literature sample. Our search terms were: “manag* growth”, “growth entrepreneurship”, “growth services industr*”, “growth model*” ‘business growth typolog*’,. The stars are so-called wildcards, they are automatically replaced by all possible conjugations of the search terms. For more information regarding wildcards see Wolfswinkel et al. (2013). Our search resulted in 54 relevant articles. Using cross references, correcting for doubles and extensively reading the abstracts and full text of the articles we narrowed down our literature base to 27 highly relevant articles. To be able to perform a comprehensive analyses of the body of literature, we used coding procedures like those described in Wolfswinkel et al. (2013). The coding procedures were applied as follows. We read the articles from the selected sample one by one in a random order. Everything that seemed relevant for our research was highlighted, Wolfswinkel et al. (2013) call these highlighted parts ‘excerpts’. We then performed so-called ‘open coding’ to transform these excerpts into concepts and were applicable these concepts into categories. Through ‘axial coding’ relations between the concepts were identified.

With the insights and organisational blueprints we found in literature we started our field study. We first interviewed experts on growth of companies (consultants, bankmen and academics with relevant experience on growing service companies; $n = 9$). With the use of the blueprints found in literature as sensitising concepts we used a open interview protocol on the main question “How to grow a service company and what models do you know off?”.

After the interviews with experts we started our main field research. As argued before only a small percentage of organisations in the professional service industry manage to install growth. We selected the Dutch professional service industry as the empirical setting for our research. For this study both classic service firms, like law and

organisational consultancies, as well as younger disciplines, like the creative service sector, were consulted.

Data were collected through one-on-one interviews with the founders of seven different professional service firms, the websites of the companies and thirdly all publicly available written information of the company. The participants in the interviews were questioned on their culture, organizational model and experience on how to grow their firm. We used a semi-structured interview protocol (Yin, 2009). Each interview lasted at least 60 minutes.

The companies for our studies were selected in the following subset of service firms:

1. highly educated employees (university degree);
2. between 20 and 150 employees;
3. founded in the past 20 years.

Table 1 provides summarized information regarding the participating companies.

4. Findings

One of the initial findings from our research was that the entrepreneurs embraced different organizational blueprints. In our literature study we found five organisational blueprints. These blueprints were confirmed by the experts we interviewed. No new blueprint was added. In our field study with the 7 cases we found all five organisational blueprints successfully implemented in the professional service organisations and enabled growth. This finding indicates that service firms are able to grow successfully with different organizational blueprints.

Firm	N. Employees	Founded in	Industry
A	20-30	2000	Organisational advise
B	40-50	1993	Creative
C	120-130	1995	Law

D	20-30	2008	Creative
E	60-70	2008	Organisational advise
F	30-40	2000	Creative Research
G	130-140	1992	Law

Table 1: Description of case data

The reason why the companies are able to successfully grow with each of this blueprint is explained by the second finding, the fit between the organizational blueprint and the company culture. Each of the participants in our study stressed the importance of installing an organizational blueprint that has a tight fit with the companies culture. The organizational blueprint that is adopted by a firm influences multiple aspects of a company, but in itself does not influence the ability to install growth or not. Companies are able to grow a firm by using any of these organisational blueprints, as long as the organisational blueprint has a tight fit with the strategic offering and business culture of the firm.

A third finding was that the participants all worked with the organizational blueprint that they had adopted during the start-up stage of their company. Founders had a clear vision about what their company would feel like and what they wanted to achieve, and chose their blueprints accordingly right from the start of their company. None of the participating companies adopted a different organizational blueprint during their growth. Only slight adjustments were made out of necessity to compete in the changing environment. Nevertheless most companies continuously searched for improvements in their organizational blueprint due to shifts in the company environment. This search so far has led to only incremental improvements not to radical changes in the blueprint. Selecting a good organisational blueprint at the start of the company and keeping this alive seems vital for the companies in our research.

A fourth finding is that organizational blueprints are not often found in their pure form. This is in coherence with the findings of Baron and Hannan (2002). In organisations a mixture of aspects of multiple organisational blueprints are often used to create the desired organisational structure.

5. Organisational blueprints in the service industry

For the purpose of this article the organizational blueprints present in the research are analysed in their pure form. The organisational blueprints are described in their pure form to give good lines of reasoning for selecting the best suitable blueprint as a starting point for entrepreneurs in the service industry. Each of the five organizational blueprints found during this research will now be described in more detail. A case of a commonly known company that has successfully applied this organizational blueprint in a form that is almost pure is added underneath each description to give the reader some flavour of the essence of the blueprint. A summary of each organizational blueprint is provided in table 2 below. The table describes the structure, assumptions, beliefs, values and service type belonging to each of the organizational blueprint.

5.1. Blueprint 1: Pyramid

A pyramid-based organisation has a hierarchical structure and organises employees into departments based on the function they perform in the company. Top-down decision-making is the standard in this type of organisations. The pyramid organizational structure typically has three major levels with the executive level at the top, a middle layer of managers and the lower level of staff. Each level in the organization is supported by a lower level of the pyramid. The key elements of the firm: strategy, operation and vision are managed by the top level. A benefit of the pyramid structure is the clear definition of responsibilities. Downsides of this blueprint are decision-making on department level, resulting in communication difficulties across departments.

McKinsey - Founded in 1926 by James O. McKinsey a former attorney, the global management consulting firm known as McKinsey & Company. Serves over two-thirds of the Fortune 1000. McKinsey has over 100 offices in 60 countries and is one of the most prestigious management consulting firms in the world. It became successful with a pyramid-based organization and is a role model for other consulting firms. (Source: Bhidé, 1994; McDonald, 2013).

5.2. Blueprint 2: Circle

The circle organisation is a self-organizing organisation. It is based on “Trust in employees”. In this blueprint a company builds on the trust it puts in employees and their possibilities to make its future. Put trust in employees they will make decisions in the best interest of the company and let them decide what is best for them and what is best for the company. The circle organization consists of concentric circles. The inner circle has responsibility from making a strategy and take care of the financing. Out of this inner circle come Counselors. The Counselors then are teamed up with partners who form the middle circle; partners are the leaders from each division of the company. In the outer ring the rest of the employees are present. Depending on its size the company relies on independent divisions, with every unit containing up to 150 employees. Every unit has his own responsibility from manufacturing, sales, to financial results. Each division is responsible for its own decision-making and success. Benefits of a circle organization are the highly motivated and performing employees. The employees are highly involved with their work, resulting in a self-sustaining level of delivered quality. A downside of this organizational model is that disciplined workers are required to be able to handle the freedom.

Semco - One of the most well-known business examples of a circle organisation is Semco SA. When Ricardo Semler was beginning at the age of 20, he took over the 220 man factory from his father. The company was based upon old fashioned values; employees feared to lose their job if they did not come in on time and did not work hard enough. Moreover the firm was losing profit. Ricardo Semler changed the organizational model drastically and first introduced the circle organization. Semco's revenue increased from 4 million dollar to 212 million dollar in 2013 over a wide variety of industries including service industries like hotels. (Source: Semler, 2001; Wieners, 2004)

5.3. Blueprint 3: Cell

Cell organisations are the firms with the most organic growth. In big traditional organizations change is difficult to realize because of the organizational structure in place. If an employee wants to implement change he or she needs to file its requests at multiple

departments. In the cell organization all staff departments are removed from the organization. The organization is split up in small cells of about 30 people. Each cell is located at a different office and responsible for its own business. Complete confidence that the business is handled locally is an absolute must for the success of this organizational model. If a cell becomes too big it splits into two parts, the new cells are responsible for their own success. The mother cell can set the strategy, brand guidelines and targets but other than that has no influence on the cells. A benefit of this blueprint is that every time a cell splits up, it creates new career opportunities. New cells also enables the company to have differentiated offerings under one brand. The cell maintains the company culture, but with the new employees can also easily adapt to local culture. A downside of this organizational blueprint is that the separation of employees during cell division can be very painful and the career opportunities outside the rather flat cell or creating a new cell are very limited.

BSO – In 1973 the Dutch subsidiary of the American GTE, an information technology company, was founded. After a Management Buy Out in 1976 the company was renamed as BSO. Eckart Wintzen introduced the cell philosophy to BSO. The strong culture made it possible to attract employees with the same mind-set to the company, common goals and shared value created synergy in the company. The merger with Philips Pass proved to be difficult because the cultures of BSO and Philips did not merge well. But after a reorganisation and culture clash BSO revived. When Wintzen resigned in 1996 BSO had successfully grown to 75 offices in more than 20 countries, with a total of 10.000 employees. A second merger with Philips C&P was too much of a culture shock for the company and BSO did not survive. (Source: Wintzen & Pabon, 2007)

5.4. Blueprint 4: Franchise

A franchise organisation has one main cell that develops strategy, brand guidelines and processes, which are shared with other cells in return for a share of their profit. The franchisor is a supplier who allows a franchisee to use its firm's successful business model. The franchisor determines the rules for the franchisees. Some allow a lot of freedom other franchisers have a very detailed prescriptions. A standard offering combined with local market knowledge. The benefits for the franchisor are that he can avoid the investment and liability that comes with opening multiple locations. The downside is that the brand quality

is affected by franchisees, so the franchisor depends on the success of its franchisees. However the franchisees have a direct stake in the business and are therefore more keen for success than regular employees. A struggle for franchisors is the search for the right business partner. When the business model is successful, many people will be interested in starting a franchise location. It is key to find a business partner with experience in the field and knowledge of the local business culture.

Marriott – with more than 3,500 properties to date, Marriott is the leading franchise company in the lodging industry. Quality service, innovation and performance are the key pillars of this company. With over 50 years of experience in the industry it is a good option to start a lodging or hotel business under the Marriott label. The initial franchise fee is around \$50,000, following by the start-up costs of a hotel or resort of five to seven million dollar. This franchise system has a strong management system, direct lines with each location allows the Franchiser to stay up to date with the changes, alterations and developments. Teamwork and strong relationship make Marriot a successful franchise with a strong reputation. (Source: Marriott & Brown, 1997)



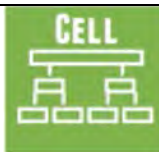

5.5. Blueprint 5 Network

A network organisation operates in fundamentally different ways from traditional organizations. A network organization has relatively few resources. It has a core of people who manage projects and connections between external people with different specialisations. For each project the right team is formed of multi-skilled people from the network. Network organizations are able to quickly adapt to changes in the marketplace and are able to grow fast. The employees in the network are not bound to the company with a permanent working contract. Interesting and challenging assignments need to tie them to the company. Employees are empowered to say no to opportunities that are unrealistic or do not fit with their vision. This keeps the company sharp but a disadvantage is that the availability of the network can be unreliable. Another downside of the network organization is the difficulty in managing the quality level.

Avaaz - The network organisation is a new organizational model that is currently finding its way in the business market. Many network organisations are still small to medium sized enterprises. The most well-known network organisations are non-profit organisations like Avaaz. Avaaz—meaning "voice" in several European, Middle Eastern and Asian languages—launched in

2007 with a simple democratic mission: organize citizens of all nations to close the gap between the world we have and the world most people everywhere want. Avaaz is a non-profit organisation with fewer than 20 employees in its core. In its network the company has over a million members that have a good understanding of politics, online technologies and community organizing. Avaaz has a strong focus on winnable projects and chooses priorities in collaboration with their members. The priority poll must indicate which projects interests its members. Setting a campaign target allows the employees and members in the Avaaz network to successfully win campaigns. (Source: Avaaz, 2013)

In table 2 we summarize the main characteristics of the five distinctive blueprints according to Structure, Assumptions, Beliefs, Values and Service type. This table is inspired by the general model introduced by Schneider, Ehrhart and Macey (2012).

Organizational Blueprint	Structure	Assumptions	Beliefs	Values	Service Type
	Functional	Stability	Employees have clear roles and procedures are formally defined by rules and regulations	Routinization, formalization	Routine
	Divisional	Stability	Trust and loyalty to membership in the organisation and high performance are important.	Competence, Growth, communication	Routine
	Divisional	Personal development	Culture is the most important driver for successful and efficient service delivery	Stimulation, creativity, growth	Innovation
	Matrix	Achievement and personal development	Motivated employees need to understand the	Communication, Achievement, competition	Routine and Innovation


			importance and impact of the task		
	Matrix and Divisional	Efficiency and Change	Employees have clear defined project objectives and are rewarded based on their achievement	Adaptability, participation and communication	Innovation

Table 2: Main characteristics of our 5 growth models (inspired by Schneider, Ehrhart & Macey, 2012)

6. How to select an appropriate blueprint and grow?

As shown in our study both the decision to grow as well as the organisational blueprint to realise this growth is made by the entrepreneur right at the starting point of his firm. Once the decision to grow the company is made, an organizational blueprint is selected. But what kind of organizational blueprint will help a specific individual firm to successfully grow?

Our research indicates that an organizational blueprint needs to be selected at the start-up phase of the service firm in order to create a high growth company. This organizational blueprint must have a tight fit with the desired company culture and goal. Organizational blueprints are seldom used in their pure form, a mixture of two or more blueprints are more common (Baron, Hannan, 2002). To be able to create an organizational model that fits with the company, an organizational blueprint needs to be selected from the pure form that has the closest fit with the entrepreneur's desires. This blueprint can be the starting point in the development of the organizational growth. The organizational model will be installed in phases. The bigger a company becomes the more important the organizational model will be. Our study showed the organizational model is never finished, the search for a good design is continual. Changes in the environment of the company give a constant need for organizational change.

The organizational structure can have a large influence on the culture within the

business. The fit of between the business culture and organizational blueprint is the most important decision making factor for the selection of an organisational blueprint. The entrepreneur needs to decide what business culture he wishes to project to its employees. Each culture has its benefits and disadvantages. Selecting a pure organisational blueprint should be based on the wanted company culture.

For selecting the right organisational blueprint we suggest the culture model introduced by Schneider (Schneider, 1994) as shown in figure 1. The model has two axes, the first is people oriented versus company oriented, describing the level of personal involvement in decision making. The second axis is reality oriented versus possibility oriented, describing what organizations pay attention to. These two axes give us the following four quadrants:

1. **Collaboration:** The collaboration quadrant is about working together and using the diversity of skills. The culture is based on interaction and trust. People are the priority in this culture and the trustworthiness of employees is highly valued.
2. **Control:** The control quadrant is all about stability. A hierarchical structure is often seen in these types of cultures and standardisation of processes to exercise control. Business planning is daily business and these type of companies recruits for loyalty.
3. **Cultivation:** The cultivation quadrant is about growing people by stimulating authenticity, creativity and creating dedication of employees. These cultures feel very unorganized, brilliant people with creative ideas are the most important driver of these firms.
4. **Competence:** In the competence quadrant expertise, professionalism and efficiency are the cultural norms. The company looks for top performers and achievement is highly cherished. The work is organized as projects leaded by experts in the field of that specific project.

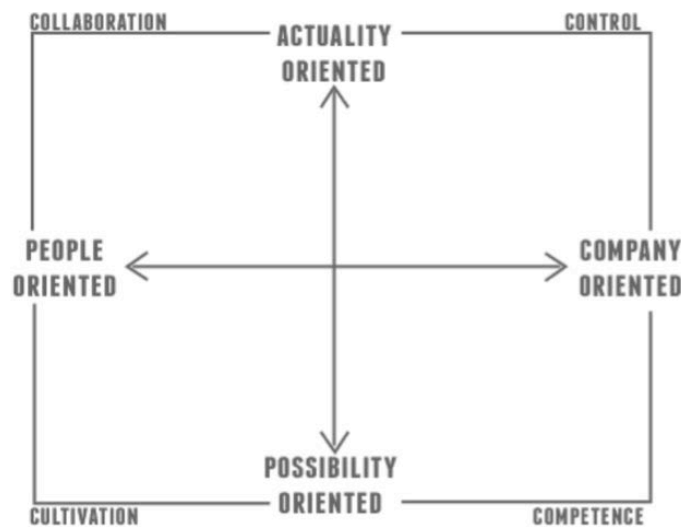


Figure 1: A culture model (Schneider, 1994)

Summarizing the culture model, the core of the *control culture* is power, the *collaboration culture* is about teamwork, a *competence culture* focuses on achievement and the *cultivation culture* is concerned with growth and potential. To be able to select an organizational blueprint the entrepreneur should understand the organization's central nature. The core culture of an organization is an important element to the focus of the organization. To be successful the service organization should adopt an organizational blueprint that is inherently congruent with the nature of that organization's culture. By identifying what the natural definition of success, approach to your customers and leadership focus is, the core culture of your organization can be identified.

Based on the findings of our research we placed the five organizational blueprints in the culture model, as is shown in figure 2. This placement is based on the best fit between organizational structure and culture. Of course an organizational blueprint can be adapted in such a way that it has a strong fit with another culture. As a starting point the entrepreneur should identify its core culture and then select the organizational structure that successfully matches this culture. Then the organizational blueprint can be taken out of its pure form and adapted to the specific needs of the company.

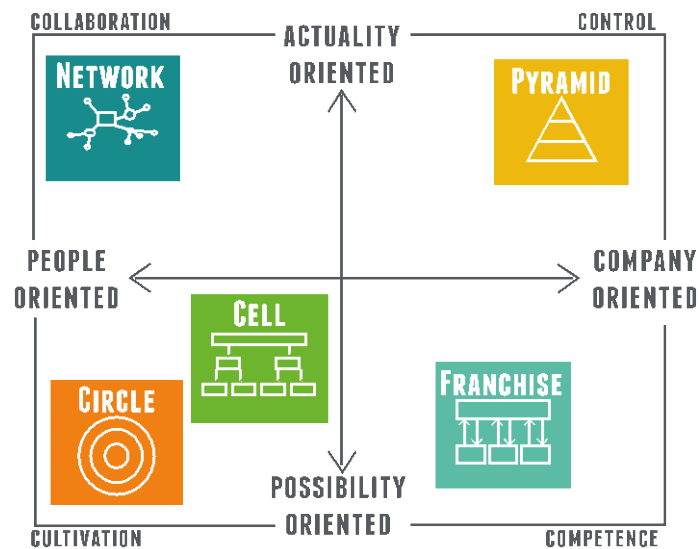


Figure 2: Placements of the 5 organisational blueprints

7. Discussion

With this research we set out to investigate what organisational blueprints are best suited for business growth in the service industry. During our literature search and our field study we found five organisational blueprints to be suitable for business growth in the service industry. Service firms thus can grow successfully with different types of organizational blueprints. This finding was confirmed by our expert interviews. This is a very important finding and so far does not explain why so many companies in the service industry struggle with growth.

Few studies on organisational models and business growth exist (Dobon&Soriano, 2008), and none of these offer an explanation on how to select an organisational blueprint for service firms. Some research has been done on factors that influence company growth, of which one important factor is the organizational structure (Lewis, Churchill, 1983).

Other research focuses on the importance of the organizational blueprints and the reflection of the entrepreneur's business goals (Baron&Hannan, 2002). While all of these research topics offer important insights on the role and significance of selecting the right

organisational structure, the studies do not provide us with insights that would be usable to select an organisational blueprint.

Given the nature of service firms, entrepreneurs need to make the decision whether to they want to grow their company or not (Tominc, & Rebernik, 2007). Our research indicated that once this decision is made it is essential to find an organizational blueprint that fits with the company culture. Service organizations are able to grow successfully with any of the five identified organisational blueprints, as long as the organisational model has a tight fit with the strategic offering and business culture of the firm. To increase the speed of successful growth it was found to be important to adopt an organisational blueprint at an early stage of the company, during the start-up phase. During this stage the clear vision of the founder can be intertwined with the organisational blueprint. Small improvements to the initial organisational blueprint need to be made to react on the shifts in the company environment.

8. Limitations

The first and most important limitation of this study is the scale of this research. A second limitation lies in the nature of the sample. Data was collected in the Netherlands only. Since culture is an important influencing factor on the selection of an organisational blueprint, it is desirable to make a comparison between service firms in Western Europe. The results of a study among multiple countries will help to understand the effect of each individual national culture on the growth success of the different organisational blueprints in service firms. The third limitation is that the research relies on self-reported measures of company growth by the owner of the interviewed company and publicly available written sources. A sense-check was performed to see how many employees were currently working at the company as a measure for company growth. However, it would be desirable to have access to financial information from companies to effectively compare the growth successes.

9. Directions for further research

The relationship between organisational blueprints and business growth in the service industry is significant. Both literature and our field study support this finding. The field study also provided an important selection factor for organisational blueprints, namely 'business culture'. While there is a strong relationship between the organisational blueprints, business culture and its effect on business growth for service firms, the selection criteria are not significantly proven. The findings of our empirical field study clearly point towards the need of more in-depth studies to fully understand how organisational structures need to be selected. A first attempt is made in this research with the Schneider culture model (1994) and Schneider, Ehrhart&Macey, (2012). Future research can provide more knowledge about the selection criteria of organisational blueprints and its effect on growth for service firms.

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