

PROCEEDINGS OF ICEIRD 2009

2nd INTERNATIONAL CONFERENCE ON

Entrepreneurship, Innovation and Regional Development

ENTREPRENEURSHIP AND
INNOVATION CROSSROADS

TRIGGERS, CATALYSTS AND
ACCELERATORS FOR SUSTAINABLE
REGIONAL DEVELOPMENT

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2nd International Conference for Entrepreneurship, Innovation and Regional Development

**Theme: Entrepreneurship and Innovation
Crossroads: Triggers, Catalysts and Accelerators for
Sustainable Regional Development**

**P.Ketikidis, A.Sotiriadou,
T.Hatziapostolou and F.Misopoulos
(Editors)**

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Preface

It is a great pleasure for us, the CITY College of Thessaloniki, together with the South East European Research Centre to host the 2nd International Conference for Entrepreneurship, Innovation, and Regional Development (ICEIRD-2009).

This volume contains the papers as presented at the 2nd International Conference for Entrepreneurship, Innovation, and Regional Development entitled "Entrepreneurship and Innovation Crossroads: Triggers, Catalysts and Accelerators for Sustainable Regional Development" that was held in Thessaloniki, Greece on 24-25 April 2009. Around 100 papers were submitted and these include contributions from Greece, United Kingdom, Finland, Russia, Germany, Czech Republic, Bulgaria, Portugal, Bosnia and Herzegovina, Estonia, Romania, FYR Macedonia, Turkey, Poland, Serbia, Montenegro, Slovenia, Ukraine, and United States. Of these, 52 were accepted for presentation. In addition, eminent speakers contributed their thoughts and ideas, namely David White, Visiting Fellow at the European University Institute in Florence, former Director of Enterprise policy, Innovation policy and Education policy, Simon Bensasson, Advisor to Cedefop - the European Centre for the Development of Vocational Education and Training, Iordanis Arzimanoglou, Chief Executive Officer of Alexander Innovation Zone, Thessaloniki, Greece and Elias G. Carayannis, Professor of Science, Technology, Innovation and Entrepreneurship, George Washington University, USA. Because of the high number of submissions, the conference sessions were structured to run with three parallel streams.

ICEIRD 2009 is jointly organised with fourteen universities/institutions, namely CITY College and SEERC (Greece), The University of Sheffield (UK), Ss. Cyril and Methodius Business Start-up Centre in Skopje, (FYR Macedonia), George Washington University (USA), Georgia Southern University (USA), S.C. ICTCM S.A. – Mechanical Engineering and Research Institute (Romania), Urenio - Urban and Regional Innovation Research Unit (Greece), The University of Novi Sad (Serbia), Tilburg University (Netherlands), Cardiff's Metropolitan University (UK), University of Tampere (Finland), Sophia University (Bulgaria), University of Liverpool (UK) and GEA College (Slovenia).

The Conference directly fulfils the mission of ICEIRD which is to support the development of South East Europe by providing a multi-disciplinary forum for researchers, practitioners and policy makers in the field of innovation/entrepreneurship and regional development.

ICEIRD09 aims to:

- raise the level of awareness about innovation, entrepreneurship and competitive advantage
- strengthen the regional and international network among representatives from SEE countries and those from EU member states consolidate intra-SEE networks of SMEs, Start-up Centers and Incubators
- understand barriers that prohibit the blooming of entrepreneurship in the global economy
- promote best practices in innovation research and business development
- facilitate regional partnerships and innovation networks

ICEIRD was the result of a collective effort and I would like to take the opportunity to express my appreciation to the people involved. First of all, we would like to thank the Organising and scientific Programme Committee as well as all the authors, keynote speakers, reviewers and participants whose contribution to the conference made it a success. I would like to thank my colleagues from CITY College together with the South East European Research Centre and

especially the Conference Co-Chairs Mr Thanos Hatzia Apostolou, Director for the MSc in Technology, Innovation and Entrepreneurship at CITY College, as well as, Mr Fotis Misopoulos from the Business and Economics Department and especially Mrs. Sotiriadou, Head of Computer Science at CITY College for their time and effort in preparing the ICEIRD 2009. Finally, I would like to thank Mrs. Christina Miariti, South East European Research Centre and Ms. Christina Theophilidou, ICEIRD 2009 Secretariat, as well as, Mrs. Olga Flora, Publicity & Media Relations Officer of CITY College, for devoting a considerable amount of time to the organisation of this event.

We are most grateful to the CITY College Management Group and especially to Mr. Yiannis Ververidis, Principal of CITY College, for supporting the development of academic research expertise and for investing in research efforts that will contribute to the further development of the South East European region.

Panayiotis H. KETIKIDIS, Ph.D.
Vice Principal – CITY College
Chairman – SEERC Management Committee

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Improving the Business Climate for SME from the Food Industry

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Small and Medium Enterprises are the most crucial instigator for the domestic economies in the Balkan countries. They influence on the employment, economic and technical progress, entrepreneurship and financial trends in the country and mostly on the regional cooperation and development. On the success of the SME big role has the State and Public Policy and the Government support. Their influence is especially noticeable in the food and confectionery industry, where most of the companies are either small or medium. That is why some essential steps obviously should be taken in the future.

Keywords

Business Ambience, Government policy, Entrepreneurship, Regional Cooperation

1. Introduction

The role of SME in the nation's economy is very significant and crucial, especially for the countries which have small and emerging market economies. These companies contribute to the job creation and exports of goods and services. High performance in terms of human resource, supply chain management, exports, entrepreneurship, creativity and many other areas is important not only for the companies, but also for the domestic economy. In addition to making new services and products available and creating employment, several equally important economic effects of SMEs move through indirect channels. Successful development of this sector creates the political and social environmental conditions necessary to allow desirable changes to occur elsewhere in the system. It must absorb resources and workers from the large enterprise sector, helping to create a labour market situation in which the reorientation and reorganization of the large enterprise sector can be carried through without threatening social peace. In addition to slowing restructuring, failure to develop the SME sector may increase budgetary costs of unemployment, early retirement and other transfer programmes, reducing funds for investment and other employment-creating expenditures. (1) For all these reasons, the role of the State and Public policy in alleviation in the exports, but in the same time assistance for better presence in the domestic market, which will rise the overall competitiveness of SME's, increase the capacity of public institutions to improve and provide better services for the companies and others are among the most important for improvement of the economic climate. The continuation of the positive, minimization of the negative and initiation of new better steps taken from the Government should lead the country toward better European future and help this small economy easily to come out from the World economic crisis that is already entered in the country.

2. The Ambience in the Country

Although there were unsuitable conditions in the begging, the difficult situation that created the transition process, in addition with difficult outside shocks (UN embargo for Yugoslavia that lasted from the summer 1992 to the autumn 1995, the Greek unilateral embargo from

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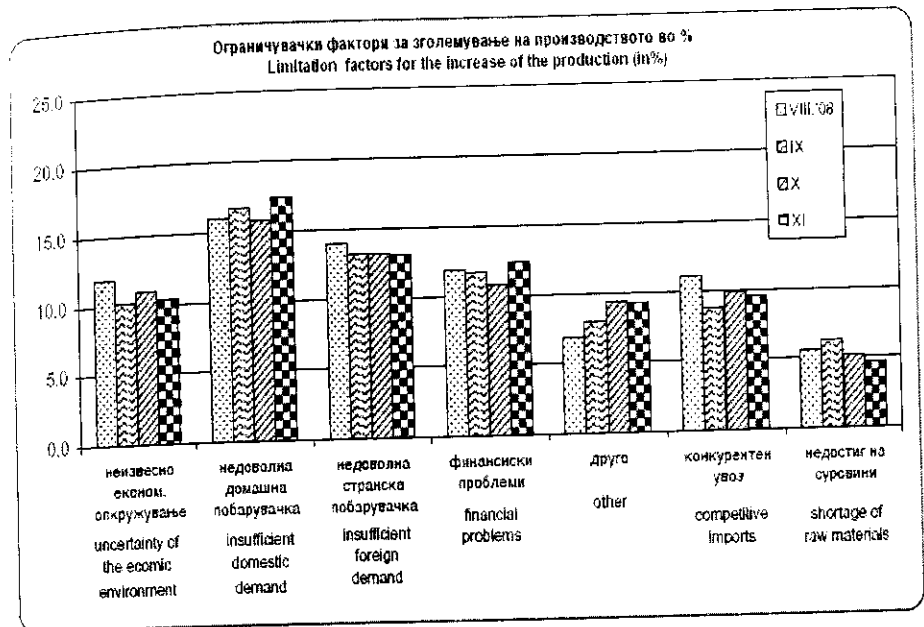
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February 1994 to September 1995, the refugee crisis from Kosovo in 1999 and inside conflict that lasted for six months in 2001), the country implemented important reforms in very significant segments in the economic system. Reforms connected with the price stability, price liberalization, trade liberalization with other countries, and privatization of the small companies were successfully finished. There are some smaller grades for the privatization of the bigger companies and reforms in the banking system. Except this, the implementation of the reforms from the second generation, which are important for reaching the dynamic and constant up growth, is slow and insufficient.

The deficiencies in the results of the real sector in FYROM's economy are closely connected with three structural weaknesses which should be overpasses. First, the country is not integrated in the World's economy. This means that the positive effects from the trade with other countries and foreign direct investments cannot be used until the necessary level. Second, the microeconomic forces and institutions are not existing or are not functioning well and are not supporting dynamic private sector which can be in accordance to growing domestic and international markets, the technological improvement and which can create new work places and high profits. The domestic and international organizations have a picture, which mainly is true, that the country has high corruption percentage, bad corporate leading and ethnic tensions and that there is no climate for entering this market and making business in FYROM. The third weakness is connected with the government intervention in the economic regulation and in implementation of the laws. The tax system is not transparent, efficient and easy for implementation and giving stimulations which are needed for the economic development. The main government forces are concentrated, or should be concentrated, in finalization of the decentralization process and creating the atmosphere which will assure the people and companies that the political interests will not interrupt the function of the public administration and laws in the country.

The current business situation of the enterprises in the period from October to December 2008 according to the managers of the enterprises is much more unsatisfactory than in the previous months. The situation with the present production orders supplying is also unsatisfactory compared to the previous months. In the past three-four months the volume of production of the enterprises decreases very much for the current month. The assessment for the expected production volume is noted to be the most unsatisfactory. The expectation of the number of the employees is less satisfactory. The stocks of the raw materials and intermediate goods, present supplies of the production with raw materials and intermediate goods, during these months, are not with big changes and are around normal level. In the next period the average purchasing prices of the inputs will increase, as well as the average selling prices of the finished goods. The most important influence, limiting the production development during these months refers to the following factors: insufficient domestic demand, insufficient foreign demand, financial problems and uncertainty of the economic environment.

Table 1: Limitation Factors



Source: ¹State Statistical Office

All of these mentioned conditions are leading us to the need of change in the public policy and government action toward this situation. But, the cornerstone of any public policy is the theory of value conflict. Generally, interest groups and politicians strategically portray issues in a dualistic manner. However, competing interests can often find compromises, shared values and shared interests that can be used to create a win-win policy for the government but also for the enterprises.(2)

Policies in support of SMEs may generally be categorised according to their objectives. Broad macroeconomic objectives, such as the creation of jobs or the reduction of unemployment, economic development and export growth are among the most important. Social or equity objective such as the redistribution of income are also important objectives that should provoke the government for promotion of policies that support the SME. Market failure or efficiency arguments, which relate essentially to presence of externalities, market access barriers, asymmetric information, small number of competitors, information imperfection and levelling the playing field ; and dynamic efficiency arguments, in particular the promotion of innovative activities are additional ones. It is apparent that there are broad areas where these policies overlap with those in other areas of concern, in particular with competition policy.(3)

3. Cooperation between FYROM with the countries from the region

The biggest cooperation is realizing with the countries from the region which is given in the following table.

Table 2: Countries with the highest scope of the commodity exchange

Земља	Обем во 000 САД \$ Scope in 000 US \$	Струк- тура Structure	Извоз во 000 САД \$ Export in 000 US \$	Струк- тура Structure	Увоз во 000 САД \$ Import in 000 US \$	Струк- тура Structure	Покривеност на увозот во извоз Coverage of the import	Country
ВКУПНО	18 158 876	100.0	7 748 123	100.0	6 410 753	100.0	58.9	TOTAL
Србија	1 372 382	13.5	884 981	23.6	487 421	7.6	81.6	Serbia
Германија	1 120 897	11.0	524 255	14.0	596 642	9.3	87.9	Germany
Грција	995 482	8.7	513 225	13.7	472 247	7.4	108.7	Greece
Русија	957 155	9.4	28 959	0.8	924 096	14.4	3.1	Russia
Бугарија	883 378	6.5	281 032	9.6	302 239	4.7	119.4	Bulgaria
Италија	841 159	6.3	295 284	7.9	245 775	5.4	85.4	Italy
Холандија	378 429	3.3	213 123	5.7	126 305	2.0	168.7	Croatia
Швајцарска	292 016	2.8	15 039	0.4	276 977	4.3	5.4	Switzerland
Кина	296 887	2.8	1 584	0.0	285 287	4.5	0.6	China
Турција	278 195	2.7	39 548	0.8	247 647	3.9	12.7	Turkey
Полска	275 127	2.7	18 042	0.4	239 085	4.0	6.2	Poland
Словенија	251 813	2.5	81 459	1.6	190 154	3.0	32.7	Slovenia
Украина	198 361	2.0	2 927	0.1	196 034	3.1	1.5	Ukraine
Холандија	158 418	1.5	65 922	1.8	84 388	1.3	78.6	Netherlands
Романија	147 921	1.5	32 591	0.9	115 240	1.8	28.7	Romania
Босна и Херцеговина	147 339	1.4	38 089	2.6	109 250	0.8	200.4	Bosnia and Herzegovina
Белгија	138 801	1.4	100 877	2.7	37 924	0.5	268.0	Belgium
Албанија	134 079	1.3	99 752	2.7	34 327	0.5	290.6	Albania
Франција	131 813	1.3	21 428	0.6	110 375	1.7	19.4	France
Австрија	130 404	1.3	29 352	0.5	110 052	1.7	18.3	Austria

Source: State Statistical Office

As we can see from the table, the biggest cooperation the companies are having with the countries from the region. These countries are: Serbia, Greece, Bulgaria, Croatia, Turkey, Slovenia, Romania, Bosnia and Herzegovina and Albania. With these countries the total percentage of cooperation is 42, 4% from the total trade scope.

4. Confectionery industry

The confectionery industry (production of chocolates, sweets, wafers, chocolate cream...) is very important part from the food industry, which with the scope of production employs important part from the work force in FYROM. This industry is spending home produced package, use transportation organized by domestic companies and has important role in the trade with food products. There is big positive impact on the country's trade balance because the value of the export of finished confectionery products is approximately 10% from the value of the total export of food products.

Going back into recent history, the available capacity of ex-Yugoslavia was 33 000 tons, which were projected and built for twenty four million people market. With the production of

over 22 000 tons per year in 1991, the available capacities were used almost 70% in the year, and in some periods in the year up to 90% (New Year and other holidays).

In the period after the fall of Yugoslavia, taking into consideration the socio-political situation, economic blockade from north and south and small domestic market, lead the decrease of the production from year to year. So, in the period from 1992 to 1998 the production decreased to 11000-12000 tons or 45% smaller than in 1991. The used capacities were just 30-35% from the available ones.

From 1996 there is the beginning of the liberalization process with the free trade agreements, first with the countries from ex-Yugoslavia, which means mainly the countries from the region. The liberalization process continued during the next period, which on one hand was positive because there were new markets opened for the domestic companies, but negative on the other hand because the adjustment to the new market conditions was not so easy. Better production units in other countries brought us not just the problem that our companies were not so famous any more, but they also started to lose the domestic market because new products from the import were entering in our market. There were new small and medium companies from the confectionary industry opened in the period till 2002, but the overall production per year was lower from year to year.

In the strategy for Euro-integration process, in the last five to eight years, the trade exchange with other countries were going towards expanding the countries from the region and EU with which we will have free trade, so the problem with the small market that the country had after the fall of Yugoslavia will be over passed. This creates conditions for production increase in the confectionary industry in the last five years.

In this context, we should mention that from 1998 when FYROM has the first agreement for free trade with European Union, the overall production in confectionary industry is lower, which is mainly to our lower competitiveness in comparison to the European products.

The negative tendency continued after 2002, which means after entering FYROM in World Trade Organization. After this, constant tax (30%) was settled for the sugar, which is the main ingredient in the confectionary production. On the other side, there were permanent releases for the total customs for importing confectionary products, according to the agreement with the World Trade Organization and The Stabilization and Association Agreement with the European Union. This fact provoke many companies which main activity was trade with confectionery products to start importing these products from other countries. Better price for imported products was immediately achieved with the facts mentioned above.

The negative effects from the mentioned non-logical systematic solution were acknowledged with the results from the trade exchange with the countries, which directly has big effects on the production.

5. Business Climate for Small and Medium companies on the domestic market

The conditions for Small and Medium Companies on the domestic market are additionally difficult in the time when the implications from the World economic crises are appearing in FYROM. On the successful work of the SME big impact have the steps taken from the domestic government. Some new trends are making easier the work of the SME, but many problems are still unsolved, and there are not significant steps that are showing the way of solving these problems.

5.1. The role of the banks in the support of the SME

With the World economic and financial crises, the banks strength the rules for crediting the SME. This especially can be seen with the additional conditions for short-term credits that are taken for production support. The time for deciding taken from the banks is longer, so SME are coming into situations when they cannot deliver the products according to the assigned dates to the domestic and international companies. In case when the credit is given, the companies are paying high interest rates, so they are not competitive in comparison to the companies from other countries. The interest rates are between 8 and 15%, which in comparison to the other countries are much higher. In FYROM banks are more interested in buying bank notes from the National Bank, even for smaller interest rates because the risk is lower in comparison to the credits given to the SME which are with significantly higher risk.

Another fact is that in the bank's council board most often the people that are sitting are presenting big corporation, so these corporations interest is not emission the credits in Small and Medium Enterprises. The SME sector needs the large enterprise sector as a source of inputs, but also market for its output. This points to the need to create a synergistic relationship between the SME and the large enterprise sectors, rather than thinking of a zero-sum environment where success of the large companies can only be secured by destroying or disassembling the small.(5)

5.2. Custom politics in FYROM

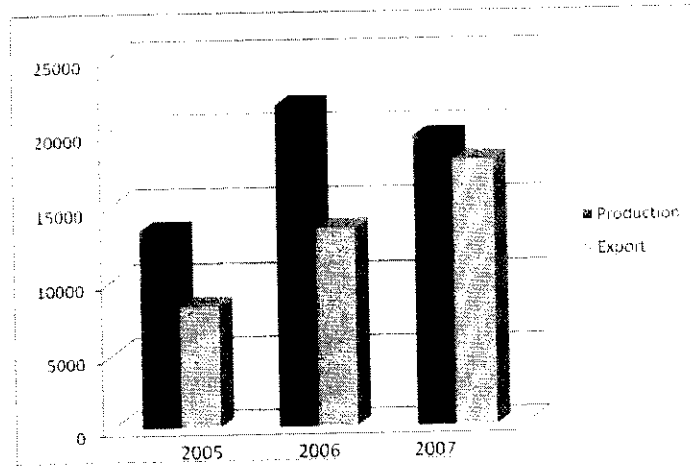
The import in the country is two times bigger than the export and more than 40% bigger than the total production of confectionery products in the country. The more dynamic upward trends for the import in comparison to the exports are resulting with the lower domestic production in the confectionery industry.

These mentioned trends are showing high competition with which our confectionery industry is meeting on the domestic and international, which in fact all together is global market. What is more important is that this competition is not a normal competition that every company is meeting entering in any market, but this is unfair, non loyal competition.

In the period from the liberalization process till now, faced with the non loyal competition with the outside international producers, our domestic producers are losing not only international markets that were previously covered, but also our domestic market. What is the basis of the non loyal competition? First of all, the lower ingredient prices which is the result from the high subvention production in agriculture in their domestic countries. Second is the supply with sugar (as the main ingredient) for stock prices. In Turkey for example, the stock price is significantly lower than the market price for the sugar, which is making Turkey's confectionery products more competitive than ours on the domestic and international markets. Exporting refundations are also important for the competitive price on the international level. Better price of the capital, which in fact means lower interest rate is also one of the reasons why the competition is non loyal. On the other hand, in the transition period when the unemployment rate was rising, significant number of family businesses started the production for fresh sweets, which directly influenced lower consumption of the confectionary products produced in the domestic companies.

It is obvious that in order to intensify the exports and lowering the imports, and moving forward with the local and regional development and cooperation, there is a need for systematic steps. If there is lowering of the import customs for the specific ingredients, the production in the domestic companies will go up to approximately 30%, which partly will be sold on the domestic market, but mainly used for export.

Graph 1: Production and export per year



From the graph we can see that during the last years the export is rising, so in 2007 export was 91, 69% from the total confectionery production. With this high export percentage, and very small percentage for domestic market, confectionery companies are asking for custom changes.

The financial implications are also important here. The proposed lowering or revoking of the import customs will not have negative financial implications because the fully liberalized market with Serbia and Monte Negro is opening the possibility for trade with sugar without customs. But, we should have in mind that the stock price on World or European level is significantly lower than the Novi Sad stock exchange. But, the Turkish confectionery companies are buying the sugar according to this price, so there will be equal competition with the biggest competitor for the regional companies.

Because of this situation, The Association for Agriculture and Food Industry, part of Chamber of Commerce, initiated Autonomous proposals for change of the import customs for specific ingredients for companies from the confectionery industry.

Table 3: Proposed custom changes

Tariff sign	Name	Custom	Proposal Custom
1701 99 10 00	Sugar	30%	2%
0402 10 19 00	Milk powder	15%	0%
0404 10 02 00	Skimmed Milk Powder	5%	0%
0802 22 00 00	Kemel Friut	15%	0%
1517 90 91 00	Vegetable Oil	15%	0%
1702 90 50 00	Melrodextrine	20%	0%
1704 90 51 00	Paste	15%	0%

All these proposals from The Association for Agriculture and Food Industry, part of Chamber of Commerce, were not accepted from the Government.

Public policy is defined by Thomas Dye as 'what government choose to do or not to do'. For example, if government decides to cut taxes , it is public policy. If not, as it is our case, that too is public policy. Government action or inaction is still a value choice. These choices, which can also be termed as public policy, are determined by political means. Politics is the driving force of what government does. It is the grease of the political system.(6)

6. Conclusions

According to the described conditions in this paper, there is a need for some juridical regulations that will be adopted from the countries' governments, with which the business ambience for better regional cooperation for SME will be allowed. Lowering the import customs for some important ingredients, such as sugar, milk powder, pastes and oils, which are taking very big percentage from the total ingredients that enter in the production is the most crucial and important step taken from the Government. It is more than obvious that the Government could not intervene in the banks policies and rules, but it is more than needed for SME emission of short-term credits from the government through the banks with better conditions than the ones originally emissioned from the banks. Increasing the cooperation with the countries that are allready FYROM's biggest partners is also some of the steps that should be taken from the government. The biggest idea is that government should understand that the domestic economy may overpass the crisis mainly with successful small and medium enterprise, and because of this not only action plans and projections, but real steps must be taken as soon as possible in order to save these companies.

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