

# **The Role of SMEs in the European Entrepreneurship Policy**

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*Abstract: According to EU's ENTREPRENEURSHIP 2020 ACTION PLAN „Reigniting the entrepreneurial spirit in Europe” since 2008 Europe has been suffering the effects of the most severe economic crisis it has seen in 50 years. For the first time in Europe there are over 25 million unemployed and in the majority of Member States small and medium-sized enterprises (SMEs) have not yet been able to bounce back to their pre-crisis levels. Based on Small Business Act for Europe the EU had to rethink and partly revise its entrepreneurship and industrial policy. The new policy is based on three pillars : developing entrepreneurial education and training; creating the right business environment; role models and reaching out to specific groups. Entrepreneurship is considered to be a powerful driver of economic growth and job creation, while there is need for opening up new markets inside and outside of the EU. While new companies, especially SMEs, should represent the most important source of new employment, in the last decade the share of people preferring self-employment to being an employee has dropped significantly in the majority of the Member States. In our paper we try to give an analysis of the current challenges SMEs in the EU have to face from day to day while trying to follow the changes in the SME policy of the European Union.*

*Keywords: European Union, Entrepreneurship 2020, SMEs, Small Business Act for Europe, industrial policy, competitiveness*

## **1 Introduction**

In our previous articles we have analyzed the basic European document for SMEs: “Small Business Act” for Europe”. (Borbás 2009, Borbás-Kadocsa 2010). Other authors examined different aspects of SME's position all over Europe.(Horváthová 2009, Maková 2008, Mikusová 2008, Mustafa-Michelberger 2005) In this paper we consider all relevant documents issued by the European Union concerning SMEs.

Small and medium-sized enterprises (SMEs), defined as having fewer than 250 employees(2003/361/EC), make up a large part of Europe's economy: there are some 21 million of them in the European Union, providing around 75 million jobs and accounting for 99% of all enterprises. SMEs are a key part of European industry,they contribute up to appr. 80% of employment in some industrial sectors, such as textiles, construction or furniture. SME are a major source of entrepreneurial skills, innovation and contribute to economic and social cohesion.( COM(2005) 551 final pp.1)

Based on the new Partnership for Growth and Employment, in 2005 European Commission decided to place SMEs high on political agenda and initiated a new start for SME policy on community and Member States levels. In its Communication the Commission provided a comprehensive framework for policy instruments aiming to bring „Think Small First” principle into effect across all European policies, emphasizing that SMEs are indispensable for the delivery of stronger, lasting growth and more and better jobs and for revitalising the European economy. The Commission expressed Europe's needs for more people willing to become entrepreneurs, while promoting entrepreneurial culture.

EC required SME friendly policies both at Community level and in Member States and offered to to take action to keep SMEs high on the political agenda proposing a new start for SME policy. EC's Communication provided a coherent framework for the various enterprise policy instruments and aimed at making the “Think Small First” principle effective across all EU policies.

## **2 Objectives and Actions**

They set out a series of objectives and actions specifying how to make the measures of the Community Lisbon programme beneficial to SMEs. They said that the success of the new SMEpolicy depends primarily on action by Member States as they retain the main competence in enterprise policy, while the Community policy framework should provide support and complement their efforts ( COM(2005) 551 final).

European Commission created a policy framework for SME actions and integrated the objectives of the existing enterprise policy instruments, such as the European Charter for Small Enterprises and the Entrepreneurship Action Plan. EC wanted SME policy to be transversal across a wide range of Community policies.

The new approach was based on a comprehensive view of SMEs' role in society which handles SMEs as an important factor of economic and social cohesion at local and regional level. The document emphasized the very different nature of SMEs and the need that this fact should be reflected in policy-making handling them from start-ups and highgrowth 'gazelles' to family businesses differently.

According to the EC SMEs suffer disproportionately from legislative and administrative burdens compared with big businesses, while they are under increased competitive pressure combined with market imperfections.

European Union offered support to SMEs through Community programmes like the Multiannual Programme for Enterprise and Entrepreneurship and the Competitiveness and Innovation framework Programme , combined with additional sources. Structural funds are used in promoting entrepreneurship and skills and improving SMEs growth potential.

For the aim of promoting entrepreneurship and skills the Commission promised efforts to increase the appreciation of entrepreneurs in society and promote greater awareness of a career as an entrepreneur putting stress on the increasingly important role of entrepreneurship education.

The Commission also promised support for activities to reduce the burden of risk linked to entrepreneurship to tackle the negative effects of business failure and examine the possibility of improving social security schemes and bankruptcy procedures.

The EC promised working closely with national authorities to address those areas where the needs of women entrepreneurs are still not being sufficiently met and in case of young people, older workers and members of ethnic minority communities to continue to encourage networking among policymakers to identify and promote good practices to assist them.

### **3 SMEs' access to markets**

Realising the fact that SMEs do not fully benefit from the opportunities provided by the Internal Market the Commission insisted on stepping up efforts to complete the Internal Market with the contribution of the Member States. In case of public procurement contracts EC wanted to further modernise and simplify award procedures, by fostering e-procurement and by allowing for “green” public procurement. The Commission promoted SME participation in standardisation and to raise SMEs’ awareness of standards. To decrease the high tax compliance costs often involved in setting up a branch or a subsidiary in another Member State, the Commission intended to propose a Communication on a pilot project on Home State Taxation to allow SMEs to compute the taxable profits of their foreign branches or subsidiaries on the basis of the rules in their home State.( ( COM(2005) 551 final pp.2)

The Commission expressed its will to propose new initiatives for the Euro Info Centre (EIC) network to encourage SME participation in business cooperation and matchmaking events, especially in border regions. On bilateral and multilateral

level, the Commission sought to reduce the obstacles facing European exporters and to promote greater access to international markets, and encourage SMEs to conclude joint venture agreements with enterprises in developing countries.

## **4 Cutting red tape**

At Community level, the Commission declared itself to be determined to integrate the ‘Think Small First’ principle in all Community policies and to push for regulatory and administrative simplification.

Better regulation is of particular importance to SMEs, as they have limited resources and insufficient expertise to comply with often complex rules and regulations.

SMEs’ participation in EU programmes should be carried out by reducing the complexity of procedures, improving information to SMEs on existing programmes and ensuring that evaluation procedures take into account the particularities of SMEs.

The Commission intended to revise and simplify the various State aid rules and to encourage risk-taking through a more flexible approach for aid directed at SMEs, among others a VAT One-Stop Shop system to simplify VAT obligations and to encourage SMEs to increase intra-EU trade.

## **5 Improving SMEs’ growth potential**

Finance was identified by the EC as a crucial input for the creation, expansion and development of SMEs. The Commission has proposed to increase the existing financial support to SMEs significantly under the Competitiveness and Innovation framework Programme (CIP). The Commission expressed its will to present a Communication on the European way to finance growth.

The EU declared its readiness for strengthening the innovation and research capacity of SMEs and increasing the volume of technology transfer to them seeking to increase participation by SMEs in the Europe INNOVA initiative and to deliver specific support to SMEs in the field of IPR, through the Community business support networks. Investment in the growth potential of SMEs was considered as one of key elements of the new cohesion policy.

Promoting the take-up of Information and Communication Technologies (ICT), e-learning and e-business was considered by the EC as key element in improving SMEs’ competitiveness. The Commission wanted to support networking between

policy-makers in this field through the eBusiness Support Network for SMEs. The EC aiming to improve knowledge about and the analysis of European SMEs' performance to be able to take action to reinforce their competitiveness.

Strengthening dialogue and consultation with SME stakeholders. Surveys prove that SMEs are poorly informed about the EU and its activities and sometimes critical of their effect on business. EC insisted the European institutions to step up their capacity to listen to SMEs' concerns and promote, together with Member States, a positive image of entrepreneurship.

For the favour of reducing the information gap between the European institutions and businesses, particularly SMEs, the Commission's SME Envoy, expressed its commitment to extensive consultation of relevant stakeholders to ensure that their concerns are taken into account in the policy-making process. Furthermore the Commission planned to create a quick and easy-to-use consultation mechanism so called "SME panel" via the Euro Info Centre network to get views from SMEs in specific areas of policy making.

Promoting entrepreneurship and the image of SMEs was handled as a key priority for the future. Among other measures, a new competition, "European Enterprise Awards", was launched in 2005 to identify measures that have proved successful in promoting entrepreneurship and SMEs at regional and local levels.

The Commission was ready to foster cooperation with Member States and other stakeholders for the favour of achieving common goals .

In its Communication EC expressed its willingness for a new start for a more pragmatic, comprehensive and inclusive EU policy in favour of SMEs which highlights the key role SMEs play in the Partnership for Growth and Jobs. The overall goal of it was to pave the way towards a strategic approach to make SMEs more competitive.

## **6 „Think Small First” A „Small Business Act” for Europe**

“Small Business Act” for Europe from 2008 is based on the EC's Communication ,the Mid-term review of the EU's Modern SME policy from 2005 to 2007(COM(2007) 592 final) and “Impact Assessment on the SBA”, SEC(2008) 2101 . SBA declared 10 principles for the European Union and for the Member States turning SME friendly policy as a mainstream. These principles are as follows:”

- I. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded
- II. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance
- III. Design rules according to the “Think Small First” principle
- IV. Make public administrations responsive to SMEs’ needs
- V. Adapt public policy tools to SME needs: facilitate SMEs’ participation in public procurement and better use State Aid possibilities for SMEs
- VI. Facilitate SMEs’ access to finance and develop a legal and business environment supportive to timely payments in commercial transactions
- VII. Help SMEs to benefit more from the opportunities offered by the Single Market
- VIII. Promote the upgrading of skills in SMEs and all forms of innovation
- IX. Enable SMEs to turn environmental challenges into opportunities
- X. Encourage and support SMEs to benefit from the growth of markets.”  
(COM(2008) 394 final pp.4)

In this paper we do not take all of them into consideration, we focus on the ones which are the most important from the viewpoint of Central European SMEs.

“In a globally changing landscape characterised by continuous structural changes and enhanced competitive pressures, the role of SMEs in our society has become even more important as providers of employment opportunities and key players for the wellbeing of local and regional communities. Vibrant SMEs will make Europe more robust to stand against the uncertainty thrown up in the globalised world of today.” (COM(2008) 394 final pp.2)

It seems an overexaggeration to expect SMEs to stand against the uncertainty in the globalised world of today. The strength of SMEs over Europe is uneven, for historical reasons the majority of Central Eastern European SMEs do not belong to this group. They can be seen as more victims of globalization than possible balance makers. To be able to become providers of wellbeing on local and regional levels, SMEs have to be protected from the pressure of multinational firms. SMEs are providers of employment opportunities, but it is jeopardized by globalization. Unfortunately in statistics it is very seldom pointed out that in most of the cases free market access destroys more jobs than it creates. In case of emerging markets the net balance can be even worse.

“The national and local environments in which SMEs operate are very different and so is the nature of SMEs themselves (including crafts, micro-enterprises, family owned or social economy enterprises). Policies addressing the needs of SMEs therefore need to fully recognise this diversity and fully respect the

principle of subsidiarity.” (COM(2008) 394 final pp.2) This statements is outstandingly important in the creation of national SME policies. Although document does not give further guide for the application of them, each country should work out a sophisticated approach concerning the differences between self-employing firms and succesful medium sized companies.

According to the document, at the heart of the European SBA is the conviction that achieving the best possible framework conditions for SMEs depends first and foremost on society’s recognition of entrepreneurs. Being SME-friendly should become mainstream policy, based on the conviction that rules must respect the majority of those who will use them: the ”Think Small First” principle.

The symbolic name of an “Act” given to this initiative underlines the political will to recognise the central role of SMEs in the EU economy and to put in place for the first time a comprehensive policy framework for the EU and its Member States through a set of 10 principles to guide the conception and implementation of policies both at EU and Member State level. (COM(2008) 394 final pp.4)

A set of new legislative proposals are given by the document which are guided by the “Think Small First” principle. Out of them the Directive on reduced VAT rates is the most important one for Central European SMEs which offer Member States the option of applying reduced VAT rates principally for locally supplied services, which are mainly provided by SMEs.

In Hungary there is continuous debate on the level of VAT rates. (Nagy,I.Z.2011a,2011b) The general rate is 27% which is the highest in Europe irrespective of the size of the companies. In the ebate the possibility of differentiating between companies by size has not even been mentioned. Average SME owners do not simply know about this initiative. Municipalities and local authorities together with the SME organizations could support this idea. From regional development point of view we could have lots of advantages by implementing this opportunity. The case is very similar in the surrounding countries. The situation is even more controversial if we take into account the required austherity measures offered by IMF, among which the raising of VAT rates can be found.

In the document a set of new policy measures are also given which implement the 10 principles according to the needs of SMEs both at Community and at Member State level.

In the fourth part of the document we can find the ways how EU Commission wants to turn the above mentioned principles into policy action.

“The EU and Member States should create an environment within which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded. They need to care for future entrepreneurs better, in particular by fostering

entrepreneurial interest and talent, particularly among young people and women, and by simplifying the conditions for business transfers.” (COM(2008) 394 final pp.5)

Referring to the 2007 Flash Eurobarometer on entrepreneurial mindsets which shows that 45% of Europeans would prefer to be self-employed, compared to 61% in the US, the document like People in Europe to be made more aware that self-employment is a potentially attractive career option and be provided with the necessary skills to turn their ambitions into successful ventures.

As far as our experience in Hungary and most probably in all other Central European countries are concerned, there is no need to convince people on the importance of entrepreneurship. There is an entrepreneurial spirit in many people, although the circumstances are not favourable for running a business, especially for start-ups. After the so called socialist era considerable amount of Central European citizens had to start a kind of entrepreneurship after the collapse of industries in this territory. Most of them became a sole entrepreneur. At the moment e.g. in Hungary we have 1,6 million registered enterprises, out of which approximately 75% is operating. They do not have to ideologically be convinced about the necessity of being an entrepreneur, but government has to let them work. This approach is supported by the outcomes of my empirical survey done in the middle of last decade. Basically nothing has been changed. Entrepreneurs regret very much that in the communication of the authorities enterprises are supported, but in reality they do not want to see so much enterprises, because it is complicated to control them and most of them is considered to be a potential cheater. On the other hand in our country and in all countries around us neoliberal economic policy was forced by different international organizations such as IMF, World Bank, OECD etc. in the so called transition period. This way of thinking is based on the “Free Market” dogma. Free market automatically grants equilibrium, enterprises and individuals have to take care of themselves, state is not allowed to interfere into market transactions etc. Based on the so called Washington consensus liberalization, privatization and deregulation are the key elements of this theory. This framework is absolutely against the interests of small entrepreneurs, the majority of which started their business by necessity. Our example clearly proves that it is not enough to agitate people for becoming entrepreneurs, but it is at least as much important to help them being able to keep their enterprise on the market.(Borbás 2009)

In the next chapter the Commission states that” transfer of business should be given the same support as setting up a new business. Recognition of the special role of SMEs and in particular family-based enterprises, their typically local base, socially responsible attitudes and capacity to combine tradition with innovation, underpins the importance of simplifying the transfer of businesses and the skills associated with them. “(COM(2008) 394 final pp.5)



This is the first time when the importance and role of SMEs is so clearly defined and accepted as a value in an EU document. It is also true that there is a certain contradiction between the competitiveness and innovation aspect and the family-based character of SMEs. Very few of the small firms are really innovative because they have their traditional and accepted role locally. In governments' communication innovation aspects are dominant, without making differences between firms by size and nature. A sophisticated approach is needed, traditional activities are at least as important as innovative solutions.

The document also calls the attention of entrepreneurs to the opportunity to contribute to a better business environment by stepping up their cooperation and networking, by exploiting more fully the potential of SMEs, and especially family enterprises, as important training grounds for entrepreneurship and by acting in a socially responsible way. In the former socialist countries it is difficult to argue for networking and cooperation. Because of historical reasons, in communist type cooperatives cooperation was forced by authorities and people could not keep their properties, that is why even young people are quite reluctant of cooperating and networking.

“The Member States should ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance” (COM(2008) 394 final pp.7)

According to a previous EU document bankruptcies account for some 15% of all company closures. Around 700 000 SMEs are affected annually and some 2.8 million jobs are involved throughout Europe on an annual basis. In the EU, the stigma of failure is still present and society underestimates the business potential of re-starters. 47% of Europeans would be reluctant to order from a previously failed business, while the average time to complete a bankruptcy in the EU varies between 4 months and 9 years. That is why, among others, Commission wants to ensure that re-starters are treated on an equal footing with new start-ups, including in support schemes. In the Central European states academics and policy makers very rarely take into consideration the possible support for re-starters. A kind of inherited approach still keeps itself, failed entrepreneurs are suspicious, some fraud should be in behind. This way of thinking is widely shared in societies, government officials and even academics are not exceptions.

“The EU and Member States should design rules according to the “Think Small First” principle by taking into account SMEs' characteristics when designing legislation, and simplify the existing regulatory environment.” (COM(2008) 394 final pp.7)

According to the Report from the Expert Group on “Models to Reduce the Disproportionate Regulatory burden on SMEs”, the most burdensome constraint reported by SMEs is in compliance with administrative regulations. It has been estimated that where a big company spends one euro per employee because of a regulatory duty, a small business might have to spend on average up to 10 euros.

36% of EU SMEs report that red tape has constrained their business activities over the past two years. To improve the regulatory environment in view of the “Think Small First” principle, the Commission decided to come forward with all the proposals to reduce the administrative burden on business which are necessary to achieve the EU reduction target of 25% by 2012. (COM(2008) 394 final pp.8). Beyond the fact that administrative burden is not easily measurable, after thoroughly searching outcomes of this principle, I could not find any publication or official assessment document which would tell us if Member States could successfully fulfil the above mentioned requirement.

“The EU and Member States should make public administrations responsive to SME needs, making life as simple as possible for SMEs, notably by promoting e-government and one-stop-shop solutions.” (COM(2008) 394 final pp.9)

Modern and responsive public administrations can make a major contribution to the success and growth of SMEs by saving them time and money and hence freeing resources for innovation and job creation.

In the Commission’s opinion e-government and one-stop shops, in particular, have the potential to help improve service and reduce costs. They invited Member States to reduce the level of fees requested by the Member States’ administrations for registering a business, taking inspiration from EU best performers and to continue to reduce the time required to set up a business to less than one week, where this has not yet been achieved. The Central European picture is colourful, there are considerable differences between countries. As far as Hungary is concerned, in this field Hungarian authorities did much to achieve the EU goals. Registering new businesses became much quicker, it is possible electronically within a day, and registration and publication fees were also reduced. In case of e-government there is much to do for smooth services.

“The EU and Member States should facilitate SMEs’ access to finance, in particular to risk capital, micro-credit and mezzanine finance and develop a legal and business environment supportive to timely payment in commercial transactions.” (COM(2008) 394 final pp.11)

Small Business Act for Europe states that raising the right kind of finance can be a major difficulty for entrepreneurs and SMEs, and comes second after the administrative burden on the list of their concerns.

The material emphasizes that risk aversion often makes investors and banks shy away from financing firms in their start-up and early expansion stages. Possible market failures in SME finance provision must be identified and corrected to further develop the European risk capital markets, to improve SMEs’ access to micro-credit and mezzanine finance and to develop new products and services.

This is the field where EU Commission’s approach differs greatly from the outcomes of my survey and my private opinion. Almost none of the entrepreneurs

I asked would welcome risk capitalists. They know exactly that this solution is not for the favour of the entrepreneurs, but rather for the investors. Entrepreneurs would like to get simple loans at reasonable interest rates. It is also important that micro funds should not be created by international banks, but national or local banks.

“The EU and Member States should support and encourage SMEs to benefit from the growth of markets outside the EU, in particular through market-specific support and business training activities.” (COM(2008) 394 final pp.17)

Small Business Act considers the fact that only 8% of European SMEs report turnover from exports while 7% of micro-enterprises reported exports, which is significantly lower than the figure for large enterprises (28%) as a problem. Only 12% of the inputs of an average SME are purchased abroad.

As in many other cases this approach handles very different enterprises homogenously, and expects the same role and same way of thinking from micro and multinational companies. As it is well known from the business literature, to be able to export requires a certain size and power. Experiments of many authors say that companies have to have around one hundred employees for stable and competitive export ability. It's no use forcing the international turnover. The only reason, sorry to say, why it is worth pushing small enterprises to sell abroad is that within a short time even the good ones may become bankrupt while it is possible for the large companies to skim the profit.

“Fast-growing markets present untapped potential for many European SMEs. In particular, recent EU enlargements have created important new business opportunities for companies from both “old” and “new” Member States. This demonstrates the importance of fully exploiting the potential of market opportunities in the EU candidate and neighbourhood countries.” (COM(2008) 394 final pp.16)

From the “new” Member States side this picture is not so clear. The “old” member countries have a well established, long and uninterrupted tradition of market economy and most of them have much higher GDP/capita than the new ones. Their companies have the experience how to penetrate into foreign markets. In this situation the opportunities and the possible strategy of the firms coming from the old and new Member States are quite different. For example in the equity of the Hungarian SMEs the proportion of foreign capital is gradually growing from the date of our accession to the EU. It is also very easy to follow the basic tendencies as far as the division of labour between the companies of old and new Member States are concerned. Research and Development are done in the old Member States, capital and know-how are exported to the new members and assembling activities are done in these countries by making use of the low wages. This recipe is general and fits well into the direction of global movement of capital. It is important to state that not only large enterprises bring capital to the territory of new members, but SMEs are present on these markets with capital and

with goods, too. From the Central European SMEs point of view, it seems to be crucial to show for the EU officials the above mentioned facts and be able to express their interests in coalition with the SME organizations and authorities of the new Member States. As it turned out from our analysis EU's policy for SMEs became more sophisticated in the last few years, but there are certain points where even more differential way of thinking and action is needed.

## **7 Commission's Review of "Small Business Act" for Europe**

The EU Commission's Review of "Small Business Act" for Europe (COM(2011) 78 final) was published in February 2011 which is the official viewpoint of the EU concerning the progress made in the implementation of SBA on European and national levels.

### **7.1 Commission's position**

Commission stated that the "Small Business Act" for Europe (SBA), provides a comprehensive SME policy framework, promotes entrepreneurship and anchors the "Think Small First" principle in law and policy making to strengthen SMEs' competitiveness (COM(2011) 78 final pp.2).

In its review EU Commission presents an overview of progress made in the first two years of the SBA, and sets out new actions to respond to challenges resulting from the economic crisis.

In the Commission's view the implementation of Small Business Act is progressing steadily , but more needs to be done. EU's main focus was, and remains, structured around three areas: ensuring access to finance, taking full advantage of the Single Market and smart regulation. Based on the first report on the Commission's and Member States' measures to implement the SBA which was published in December 2009, in which EU Commission assessed the results and determined how and to what extent the EU and Member States have implemented the SBA.

In its assessment in which Progress made by the European Commission was focused the Commission declared that businesses with a turnover of less than €2 million may benefit from an optional cash accounting scheme which makes it possible for them to delay accounting for VAT until they receive payment from their customers. Although Hungarian government was against this particular solution for mere budgetary reasons, they changed their policy and introduced

cash accounting from 2013 easing the financial position of many of the SMEs in Hungary, mostly the most sensitive micro enterprises.

“The Directive to combat late payment adopted by the Council in January 2011 requires public authorities to pay within 30 days and sets an upper limit of 60 days for business to business payments, unless businesses expressly agree otherwise and if it is not grossly unfair to the creditor. Member States are invited to implement the Directive without delay. In addition, the Commission has begun to use an SME test” (COM(2011) 78 final pp.3). The implementation of these rules would solve at least partly the problem of so called “chain owing”. The vicious circle originated basically from the non-payment of government bodies. If they paid within 30 days, the situation could turn to much better. As far as non payment for business to business is concerned, government should make serious efforts and effective measures to force big multinational companies to refrain from forcing smaller ones to accept 90 or sometimes 180 days period for payments. Basically the situation has not been changed in Hungary similarly to other Central European countries.

As far as the SMEs access to finance is concerned the EU Commission states that “To improve SMEs’ access to finance, financial instruments within the Competitiveness and Innovation Framework Programme (CIP) continue to facilitate venture capital investments and provide guarantees for lending to SMEs. Microenterprises represent 90% of the over 100 000 SMEs that have benefited so far from the CIP financial instruments. A further 200 000 SMEs are expected to benefit by 2013. On average, each SME that is granted a guaranteed loan in the EU creates 1.2 jobs” (COM(2011) 78 final pp.3) Based on our survey , asking SMEs about the obstacles because of which they are not able to grow in an acceptable speed, we have to state that the kind of financial instruments Commission proposes, most of the Hungarian enterprises said definite “no”. Mostly micro entrepreneurs does not consider venture capital as a solution for their growth problems. Among others, that is why differential approach is needed from both EU and national sides to be able to find appropriate solutions. It is a positive sign that in this document EU Commission emphasizes several times the need for differential assessment of the companies by sizes.

According to the review entrepreneurship takes its place in the new innovation policy. In this area much has to be done, it is also true that Hungary made considerable efforts. E.g. the "European SME Week" which was continued and provided a pan-European platform with more than 1,500 events and 3 million participants was a success story in Hungary, too. We do not have enough experience concerning 'Erasmus for Young Entrepreneurs' programme, launched in 2009. but some progress can be recognized in fostering cross-border networking and business cooperation with experienced entrepreneurs in Central European countries. It is also a kind of success that out of the 250 successful female entrepreneurs who form the European Network of Female Entrepreneurship Ambassadors, Hungarian group is very active.

‘The Commission has put entrepreneurs and SMEs at the heart of its innovation and research policy. Its aim is to remove the remaining barriers to "bringing ideas to market" and promoting entrepreneurial mindsets among students and researchers.’ In this area very few progress can be recognized among Hungarian stakeholders. The diverse interests should be taken in fewer hands. In lack of cooperation any efforts from the Commission side which intends to support internationally competitive clusters, bringing together large companies and SMEs, universities, research centres and communities of scientists and practitioners to exchange knowledge and ideas would remain mere dreams. (COM(2011) 78 final pp.5)

As it is well known, but refused by some of influential decision makers and researchers, Hungary’s key competitive advantage is the outstanding quality of its soil and traditions of agriculture. Cohesion Policy programmes and the European Agricultural Fund for Rural Development(EAFRD) are both key means of turning the priorities of the SBA into practical action on the ground while ensuring complementarity between EU, national and regional support.

Further investment should encourage regions, to find specific niches in the innovation landscape, based on ‘smart specialisation strategies’. The new, recently launched for public discussion, Hungarian Plan for the Improvement of the Countryside fits into these programmes and entirely adopts EU requirements.

EU Commission separately assess the developments in the Member States in the area of SBA implementation.

Progress in improving the business environment is considered to be slow, although all Member States have acknowledged the importance of a rapid implementation of the SBA, but the approach taken and the results achieved vary considerably between Member States.

While, among others, Hungary adopted national targets for reducing administrative burdens, we could not effectively reduce them. In case of SME Test we also failed, it did not become integral part of our national decision making approach.

In EU Commission’s view, access to finance has improved but the challenge remains in the hands of the Member States. Hungary is listed among the ones who have created a "credit ombudsman". and new support programmes for SMEs and have started to promote the European Code of Best Practices in order to facilitate SMEs’ access to public procurement. Although not listed by names, we are also among the Member States who made good progress in making it cheaper and faster to start up a company.

## **7.2 Need for further action**

EU Commission stated that “Much has been achieved since the adoption of the SBA. The Commission has been faithful to commitments and implemented most of the measures promised. Member States, on the other hand, present a patchier record. For the SBA to achieve its objective of an SME friendly economic policy, it is important to ensure that the actions to which the EU and Member States committed themselves at the time of its adoption are fully implemented. On this basis, the SBA Review proposes a set of new actions aiming to respond to the challenges resulting from the economic crisis, and further developing existing actions in line

with the Europe 2020 strategy, in the following areas:

- making smart regulation a reality for European SMEs,
- paying specific attention to SMEs’ financing needs,
- taking a broad-based approach to enhancing market access for SMEs,
- helping SMEs to contribute to a resource-efficient economy, and
- promoting entrepreneurship, job creation and inclusive growth.”  
(COM(2011) 78 final pp.6)

## **8 Steps needed forward in Central Europe**

From the point of view of the Central European Small- and Medium Sized Enterprises which are the most important actions ? What government actions should be made and should be avoided ?

- Only a few of the Central European SMEs are able to compete on the EU markets and abroad. Differences, in accordance with EU proposal, between micro-, small and medium-sized enterprises need to be recognised and be taken into account. Enforcing competition is not our interest without any further consideration.
- Meeting the plans of the EU, specific measures such as reduced fees or simplified reporting obligations should be envisaged, because the option to implement these types of measures is left to the Member States.
- Avoidance of ‘gold plating’, i.e. exceeding the requirements of EU legislation when transposing Directives into national law is also essential, we have lots of best practices in this field.

- Simplification is considered to be a major objective. We should join to this effort. by simplifying the transparency reporting and audit requirements for smaller companies.
- Use of e-government solutions should also be supported.
- We should join to new regulatory provisions for financial institutions introduced either at EU level or by the Member States .
- Central European states should join the Progress Microfinance Facility launched by the Commission
- Governments have to combat against unfair commercial practices and contractual clauses
- Anti-competitive practices, cartels and abuse of dominant position are against not only of the interests of SMEs, but all of us. Strict measures should be implemented
- Best practices of other Member States should be thoroughly examined and adopted where they are appropriate.
- Promoting entrepreneurship and job creation are the most important initiatives to which Hungary should join.

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