



ABSTRACT WORKING PAPER 5.18

Business Culture, Social Networks and SME development in the EU Neighbourhood

September 2013

In recent decades, economic growth in countries around the world has become increasingly dependent on the dynamism of small and medium sized enterprises (SMEs). This is especially important in the transition economies of the European Neighbourhood Policy (ENP) area in the context of economic crisis and rising unemployment. However, a number of problematic issues have acted to hold back the entry and growth of SMEs in the transition countries of the ENP region. Firstly, innovative high-growth SMEs, sometimes called ‘gazelles’, thrive where institutional structures emphasise the importance of freedom from government interference. This represents a challenge for policy makers in ENP where government has only recently become more supportive of entrepreneurship. The paper sets out an approach to analysing the development of SMEs in transition countries in the Eastern Neighbourhood Policy (ENP) countries. It distinguishes between approaches focussed on (i) the motivations of entrepreneurs, (ii) the business environment in which firms operate, and (iii) the cultural and social networks within which they are embedded. The paper reviews the literature on these three approaches and available evidence on relevance to understanding the performance of small and medium sized enterprises (SMEs) as main agents of entrepreneurship in the ENP countries with a focus on the Eastern Partnership region and in particular on Moldova and Ukraine.