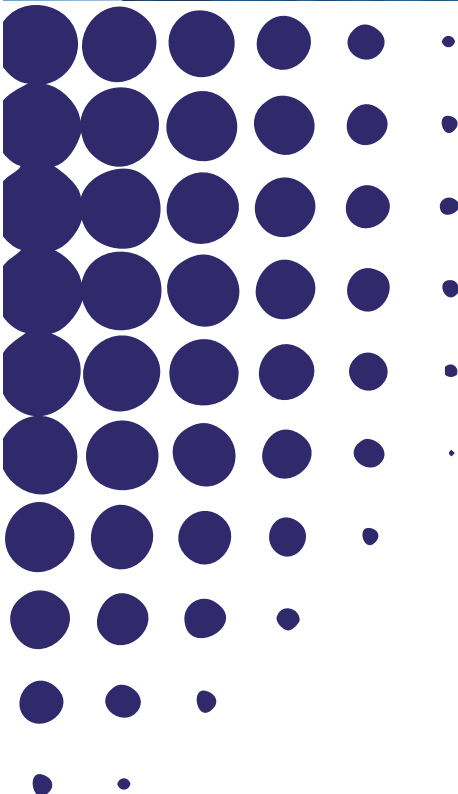


## D5.2. SEARCH DERIVERABLE

Final Report on Current Status of the Social, Cultural and Institutional Environment  
in Neighbouring Countries and Regions, and Prospects for Improved Economic  
Development, Social Cohesion and Stronger Intergration with the EU Area

September 2013



The research leading to these results has received funding from the European Community's Seventh Framework Programme (FP7/2010-2.2-1) under grant agreement n° 266834



**Sharing Knowledge Assets: InterRegionally  
Cohesive Neighbourhoods (SEARCH) Project**

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**Deliverable 5.2:**

**Final Report on Current Status of the Social, Cultural and  
Institutional Environment in Neighbouring Countries and Regions,  
and Prospects for Improved Economic Development, Social  
Cohesion and Stronger Intergration with the EU Area<sup>1</sup>.**

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September 2013

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The SEARCH project is aimed at analysing the impact of the European Neighbouring Policy (ENP) on the integration of the neighbouring countries with the EU with respect to several areas, such as trade flows, people mobility, human capital, technological activities, innovation diffusion and institutional environment.

This document is specifically aimed at reporting research activities developed with Work Package (WP) 5 of SEARCH, named “Social, Cultural and Institutional Environment”. This represents a very large research effort within SEARCH and its distinctive characteristic is that this is a crosscutting package, providing the contextual framework to most topics and issues discussed in other WPs. In fact, the core elements of WP5 are strongly interrelated to other aspects studied in the rest of SEARCH: that is, institutions, social factors and culture shape the setting where economic actors take decisions and operate. This report collects the discussion and results of 26 working paper organized in 7 research tasks.

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# 1. Index

1. Index .....	2
2. Introduction .....	4
2.1 General framework .....	4
2.2 Partners involved, period of time (starting and ending month) .....	6
2.3 Initial objectives of the Work Package .....	7
3. Scientific Issues .....	14
3.1 Analysis of the features of social capital in the ENP area (Task 5.1) .....	14
3.1.1 Objectives and methodology .....	14
3.1.2 Main results .....	16
3.2 Analysis of the impact of cultural diversity on innovation performances (Task 5.2) .....	18
3.2.1 Objectives and methodology .....	18
3.2.2 Main results .....	20
3.3 Analysis of the quality of national institutional environments (Task 5.3) .....	23
3.3.1 Objectives and methodology .....	23
3.3.2 Main results .....	24
3.4 Analysis of local business culture and SMEs development (Task 5.4) .....	28
3.4.1 Objectives and methodology .....	28
3.4.2 Main results .....	29
3.5 Analysis of institutional structure of vocational, educational and training (VET) systems (Task 5.5) ...	30
3.5.1 Objectives and methodology .....	30
3.5.2 Main results .....	31
3.6 Analysis of local governance and social participation (Task 5.6) .....	32
3.6.1 Objectives and methodology .....	32
3.6.2 Main results .....	33
3.7 Analysis of legal issues of outsourcing manufactures and transfer of knowledge (Task 5.7) .....	34
3.7.1 Objectives and methodology .....	34
3.7.2 Main results .....	36

4. Final remarks .....	37
5. Potential impacts.....	38
6. Future Research .....	39
7. Deviation from initial proposal.....	40
Annex 1 – List of working papers produced in WP5 by Task .....	40
Annex 2 – Titles and abstracts of working papers produced in WP5 .....	44

## **2. Introduction**

### **2.1 General framework**

Work Package (WP) 5, named “Social, Cultural and Institutional Environment”, represents a very large research effort within the SEARCH project. The distinctive characteristic of WP5 is that it is fundamentally a crosscutting package, providing the contextual framework to most topics and issues discussed in other WPs. In fact, the core elements of WP5 are strongly interrelated to other aspects studied in the rest of SEARCH: that is, institutions, social factors and culture shape the setting where economic actors take decisions and operate.

In this respect, WP5 is designed to explore the current status of the social, cultural and institutional environment in the European Neighbouring Policy (ENP) area, and to identify the impact of current changes and transformations on the prospects for improved economic development, social cohesion, and stronger integration with the European Union (EU) and, in particular, with European New Member States (NMS). Within WP5 researchers suggest that in order to achieve cohesion among cores and peripheries, sustained process of economic development and well-being, good-quality institutional arrangements are essentially required. These should ensure an efficient long-term upgrading of capabilities, functions, and networks at various levels.

Although WP5 generally deals with the institutional environment of the ENP region, its content is extremely heterogeneous, covering a wide range of aspects linked to the large notion of institutions. Aspects of formal and informal institutions in ENP countries are addressed by researchers as well as elements linked to culture business environment, social cohesion and inclusion. As such, this report offers a relevant outlook of strengths, weaknesses, challenges, obstacles and opportunities that ENP countries face with respect to their institutional setting.

The essential role of good quality institutions has been recognized by academics and policy makers. Since the pioneering contributions of North (1990), the role of institutions in shaping development trajectories and growth has received large attention. Furthermore, a large debate has focused on the differences and complementarities of separate aspects of the institutional environment, which, as mentioned above, refer to a formal and to an informal dimension of the institutional context of countries and regions.

In this respect, it has been argued that the concurrent existence of adequate formal (societal) and informal (communitarian) institutions that can spur national and regional collective action as well as encourage coordination among social and economic actors is fundamental to provide national and local economies with an environment that is favourable and prone to economic development (Rodríguez-Pose and Storper, 2006). Such an idea of the institutional context supporting the process of economic growth and development is close to the conceptualisation of institutional and social 'proximities' necessary for the diffusion of innovation and knowledge (Boschma, 2005): as a matter of fact, formal and informal institutions endow economic agents with context-specific arrangements of collective organisation, problem-solving, improved predictability about market behaviour and, especially, learning and absorptive competencies. Although the role of both formal and informal institutional elements has been acknowledged by most, a certain degree of polarisation in the debate about the role of institutions exists, with some observers highlighting the prominence of formal institutions (North, 1990; Durlauf and Fafchamps, 2004) while other underlining the relevance of the informal dimension (Granovetter, 1985; Coleman, 1990; Putnam et al., 1993).

For the interest of this report, however, the interaction and balance between *society* and *community* appear to be a key element to be analysed (Rodríguez-Pose and Storper, 2006). Therefore, this represents the motivation why it is extremely relevant to focus research on both aspects of the institutional setting of regions and countries. This is even more important in the case of the ENP area, which exhibit strong heterogeneity across nations and where the institutional background (both

formally and informally) of transition economies appears an essential element to take into consideration.

As such, formal and informal institutions complement each other, offsetting reciprocally the potential negative externalities of the other, which may occur for instance in terms of lack of confidence, more costly conflict resolution, inability to act collectively, low scope of networks, etc. (Storper, 2005; Rodríguez-Pose and Storper, 2006; Rodríguez-Pose, 2010).

A last consideration on the role and importance of the institutional environment recalls what has been mentioned above regarding the position of WP5 with respect to other WPs in the SEARCH project: the success and failure of economic exchanges and flows, development strategies and policy measures for growth will be probably highly dependent upon the quality of institutional interactions among economic and social actors within an economy and on the set of incentives that the institutional context will provide them.

## **2.2 Partners involved, period of time (starting and ending month)**

The following partners have been involved in WP5 research tasks:

- London School of Economics and Political Science (LSE)
- University of Tartu (UTARTU)
- Univesite Jean Monnet Saint Etienne (UJM-GATE)
- Leibniz University Hannover ((LUH)
- State University Higher School of Economics (HSE)
- International Centre for Black Sea Studies (ICBSS)
- The Hebrew University of Jerusalem (HUJI)
- Bournemouth University
- Turkiye Bilimsel ve Teknolojik Arastirma Kurumu (TUBITAK)
- Science and Technology Policy Research Center Middle East Technical University (METU-TEKPOL)

The WP started in Month 7 and ended in Month 28.

### **2.3 Initial objectives of the Work Package**

The main objective of WP5 is to analyse the current status of the social, cultural and institutional environment in ENP countries and regions, and to identify the impact of current changes and transformations on the prospects for improved economic development, social cohesion, and stronger integration in the EU area. Hence, WP5 is aimed at investigating the following critical factors:

1. The specific features of social capital in the ENP region;
2. The role of cultural diversity and individual values on innovation;
3. The relationship between institutional environment and upgrading dynamics at the system, industry, firm and individual level.

### **2.4 Tasks**

WP5 is structured in 7 research tasks. Each task refers to particular features of the institutional environment and taken together they provide a relevant outlook to the contextual characteristics of the ENP area.

#### *Task 5.1 Social capital in ENP countries and regions*

This research task focuses on the specificities of social capital in Central and Eastern European countries, both those already members of EU (NMS) and those who are included in the ENP framework (including the countries who might apply for membership in possible future enlargement rounds). Social capital constitutes one fundamental driver of innovation, economic development and, more generally, of activities which may lead to higher prosperity in Neighbouring Countries, such as



inter-firm cooperation, and the formation of communities and networks of people. As a sum, the various working papers together give an empirical overview of the composition, levels, changes, determinants and outcomes of social capital comparatively in old EU members, new member states and neighbouring countries.

*Task 5.2 The role of cultural diversity on innovation*

The external borders of the European Union (EU) have shifted drastically after the last enlargement in 2004. The EU now covers 27 very countries with very different background and also, the range of neighbouring countries of the EU has widened. Although geographically close to each-other, the countries in European Union (EU) and its neighbouring countries differ significantly from each-other according to cultural background and environment. This can be expected to have its influence on many life domains, including national performance and economic success. One mediator of this influence lies in innovations and innovative activity. It is commonly recognized that innovation is an important force for development. In forming the innovative milieu, country's societal culture, i.e. shared values, beliefs, and behaviours play an important role. Thus, as countries of the EU and neighbouring countries differ significantly from each-other according to cultural background and environment, the innovation performance in countries may also depend on these factors and it can be assumed that part of the differences in the innovative activity and innovation outcomes can be explained by the cultural diversity.

The research conducted under the Task 5.2 was aimed to explore the role of cultural diversity on innovation as an important factor of economic performance. All researchers used their own point of view and that enabled a manifold treatment of this topic. When cultural diversity is under consideration, it can be understood as the differences between different countries, but also as the cultural diversity within countries. Hence, at least two important questions have to be answered. The first question is about the impact of cultural background on innovation and which cultural

characteristics are promoting innovation and economic performance and which are hindering. The second question is about the impact of cultural diversity, including ethnic fractionalisation, within a country (or region) on national performance and economic success of a country. Even in globalization era, cultural and ethnic diversity has been implicated as a factor of poor economic performance. Beside of that, there are many other questions that need answering. For example, it is reasonable to assume that beside the direct impact of cultural background and diversity, these factors may also influence innovation performance via some mediators, for example social capital. Last, it can be assumed that the culture as the set of values of beliefs has its influence on the attitudes towards innovations that in turn, undoubtedly are related to actual innovation performance in a particular country.

*Task 5.3 Background: Comparative view of the quality of the national institutional environments*

The quality of national institutional settings play a major role in the economic success of countries since institutions, in a general sense, shape the modalities according to which economic actors organise their economic life, produce, consume and invest. More precisely, “institutions are the rules of the game in a society or [...] the humanly devised constraints that shape human interaction” (North, 1990: 3). As such, understanding the link between institutions and the economy in the European Union as well as in European Neighbouring Countries (NCs) is of utmost importance for economic development and success.

The European Union has recently experienced three Eastern enlargement rounds that have enriched the whole area with a variety of institutional backgrounds. Although New Member States (NMS) succeeded in being in line with the so called *acquis communautaire*, which fundamentally represents a set of political and legal principles that all EU member countries should embrace, they are still characterised by some institutional features that influence their economic development potential, especially in more deprived regions. The existence of an institutional differential

appears even more pronounced considering NCs, that is those countries that are part of the European Neighbouring Policy (ENP), described in the conceptual part of the SEARCH project by Monastiriotis and Borrell (2012) and Wesselink and Boschma (2012). Institutional reform is fundamental in most of these countries for national economies to work and development process to be encouraged and sustained.

The objective of Task 5.3 is exactly that of analysing and comparing the institutional features of EU countries and NCs in order to create both a static map of different institutional contexts, which affect differently national economic performance, and also a dynamic map of institutional change and evolution that may guide institutional reform in NCs towards European values and norms.

In this Task each researcher has addressed a particular aspect of institutional quality exploring the topic from different perspectives. Thus, they individually provide interesting comparative studies of institutional quality and collectively offer a manifold view of institutional context that characterises EU countries and their bordering neighbours. Much variety in the treatment of the topic is also connected to the width of the notion of institutions. In this respect, the various contributions employ different concepts of institutions that reflect separate aspects of institutional quality, ranging from governance to the rule of law, from the level of corruption to regulatory quality etc. Therefore, while all studies develop a comparative analysis of institutional quality across countries, they focus on peculiar aspects of the notion of institutions. These different aspects, in turn, not only play specific roles in shaping national economic performance but they also interact among each other.

#### *Task 5.4 Local business culture and SMEs development*

In recent decades, economic growth and development have strongly benefitted from the presence of small and medium enterprises (SMEs). In both advanced and transition economies SMEs have covered a relevant role in job creation, innovative activities and practices and fostering competitiveness (Acs and Audretsch, 1994).

For these reasons, the creation of a dynamic SMEs sector in ENP countries is considered as a crucial step towards the process of sustained development, economic regeneration and unemployment reduction. Therefore, policy instruments oriented towards the improvement of local business culture and entrepreneurship are extremely relevant in the ENP context.

The objective of Task 5.4 is that of analysing the quality of formal and informal institutional settings that influence SMEs development and performance in ENP countries. The task consists of two contributions focussing on different aspects of the topic. Overall, task 5.4 provides an overview of the complex set of relationships that link the quality of local business culture in transition economies, the development of SMEs and their role in economic and innovative performance and the relevant role of foreign firms in facilitating SMEs formation.

#### *Task 5.5 Vocational, education and training (VET) systems*

The importance of an educated workforce has been highlighted in recent years by most scholars, policy makers and practitioners. Attaining higher levels of education in the population and employing skilled labour represent fundamental drivers of economic growth and unavoidable measures for any development strategy.

For these reasons, it is essential to investigate the state of educational systems in the ENP region, since transition and emerging countries may strongly benefit from a more educated workforce.

The objective of Task 5.5 is that of providing an outlook to the quality of education systems in the ENP area, with a focus on the relationship between available skills and labour market demand. In fact, there can be mismatches between supply and demand in the labour market that vanish investment in education. This risk is particularly high in the ENP region due to a number of frictions in the functioning of markets. Task 5.5 is entirely based on one substantial paper, which discusses most of the issues affecting educational systems in ENP countries.

### *Task 5.6 Quality of life and local governance*

The degree of social cohesion into local communities and the satisfaction with the institutions of national and subnational governance are key elements that influence people quality of life, economic performance, market transactions and, eventually, development trajectories. Overall, ENP countries are affected by low levels of trust of their citizens towards national and regional administrative structures of governance. This deteriorates social cohesion, yielding negative effects on local economies as a whole.

The objective of Task 5.6 is to explore and analyse the state of quality of life and local governance in the ENP area, with specific reference to essential aspects such as social cohesion and trust towards national and local governments. Three papers contribute to this study and they focus on different but complementary elements of the discussion. Overall, this Task aims at discussing the importance of aspects of institutions that regard the quality of local governance and people trust towards public authorities. In this respect, social inclusion and cohesion as well as improved quality of life are essential ingredients that enhance the levels of participation as well as increase the performance of actors involved in governance at both the national and the regional scale.

### *Task 5.7 Legal and regulatory framework*

A crucial issue in the implementation of the ENP is the need for institutional approximation and convergence in legislative and regulatory areas. In the context of WP5, a line of research has been identified in the analysis of the *institutional framework* for the mobility of tangible and – specially – intangible assets between the EU and the NCs. The experience of previous EU enlargements has provided evidence that harmonization in key areas of law such as intellectual property and competition

law deeply affects the investment climate in technology intensive sectors.<sup>2</sup> On the other hand, previous research<sup>3</sup> demonstrates that the lack of convergence in the protection of intellectual property rights (IPRs) is the most prevalent and visible problem due to offshore manufacturing, especially in ‘patent-intensive’ industries such as ICT and pharmaceutical, and in ‘brand-intensive’ industries such as fashion and leisure goods.

It has since long been noticed that institutions matter for growth and technological upgrading. They provide the incentive structure against which individuals and firms are making their decisions. However, it has also been recognized that the proprietary regime over intangibles deeply affects the access to and availability of critical assets such as ICT infrastructures, educational resources and state-of-the art know how. Worries arise from the fact that, in the last decade, regulatory systems (and IPRs regimes in particular) have been imposed on less-favoured countries as non-negotiable sets of pre-conditions, and have been rarely the subject of shared policy decisions.<sup>4</sup> From an institutional perspective, the transfer of regulatory frameworks (formal institutions) to other contexts is not an easy task since norms and other social practices (informal institutions) might be incompatible. Thus, the unilateral imposition of formal institutions is quite contrary to the principles that inspire the ENP.<sup>5</sup>

Although scholars agree on the negative impact of unilaterally imposed regulatory systems, there is still a lack of consensus as to the means of improving institutional approximation and convergence in international trade in intangibles. In

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<sup>2</sup> Commission Communication of 11 December 2002 on industrial policy in an enlarged Europe, Brussels, 11.12.2002, COM(2002) 714 final.

<sup>3</sup> M. Borghi & M.L. Montagnani, *Models for managing intellectual property rights on the Internet. On-line distribution of digital media content*, October 2009. Report for the EC’s 7th Framework project COUNTER – Counterfeiting & Piracy Research.

<sup>4</sup> See e.g. Amy Kapczynski, ‘Harmonization and Its Discontents: A Case Study of TRIPS Implementation in India’s Pharmaceutical Sector’, 97 *Cal. L. Rev.* 1571 (2009). Available at: <http://scholarship.law.berkeley.edu/californialawreview/vol97/iss6/2>; Jerome H. Reichman and Rochelle Cooper Dreyfuss, ‘Harmonization Without Consensus: Critical Reflections on Drafting a Substantive Patent Law Treaty’, *Duke Law Journal* 2007, 57.

<sup>5</sup> A New Response to a Changing Neighbourhood A review of European Neighbourhood Policy, Joint Communication by the High Representative of The Union For Foreign Affairs And Security Policy and the European Commission, Brussels, 25/05/2011, COM(2011) 303

view of offering new knowledge to tailor legal instruments to the actions of the ENP, this Report addresses the approximation of laws and convergence of trade and regulatory policies between the EU and the NCs with a view of offering a better model for future approximation of laws under the ENP.

### **3. Scientific Issues**

#### **3.1 Analysis of the features of social capital in the ENP area (Task 5.1)**

##### 3.1.1 Objectives and methodology

Task 5.1 is structured in five working papers that together offer an empirical exploration of the composition, levels, changes, determinants and outcomes of social capital comparatively in old EU members, New Member States and Neighbouring Countries.

Firstly, Parts (2013) composes four measures of social capital – general trust, institutional trust, formal networks and social norms – on the basis of European Values Study data. Secondly, the changes in the levels of social capital components are observed over the period 1990-2008. Thirdly, the determinants of social capital are studied separately in three country groups: old European countries, new member states with communist background and neighbouring countries. Finally, possible reasons for the lower level of social capital in Central and Eastern European countries are discussed on the basis of theoretical literature.

Hlepas (2013) aims to test empirically the hypothesis that there is a two-ways dynamic relation between social capital and democratic and institutional performance which mutually strengthen each other, and also economic performance and human development. Methodological framework is elaborated on the basis of reliable data from the World Economic Forum, the World Bank, the UNDP and Economist Intelligence Unit. Altogether three main components of social capital are distinguished: generalized trust, public trust to politicians and elite compliance to

legal and social norms, which are compared to each other as well as to the levels of democratization, institutional quality and global competitiveness in each group of countries (i.e. old EU-15, 12 new member states and Eastern European Neighbouring countries) and single countries.

The paper by Tatarko and Schimdt (2013) aims to assess the effect of social capital on an individual's economic behaviour. A structural equation model relating trust, tolerance, and civic identity as components of social capital with economic attitudes was specified and tested while controlling for age, gender, and education. More specifically, it was shown how attitudes towards money as a means of influence and of protection and the desire to accumulate it reflect a personal sense of dependency on money and can lead to constant concern about money – the tendency which could be possibly reduced by greater social capital, the latter providing social support that serves as an alternative source of security, influence, and protection.

Tatarko (2013) goes into more detail, while analysing the phenomenology of socio-psychological capital viewed as a resource for psychological relations which constitutes the basis for the formation of social capital. A cross-cultural analysis of the impact of value orientations on socio-psychological capital has been performed. Methodologically, Structural Equation Modelling was implemented in order to assess the influence of value orientations in three ethnic groups (Russian, Chechens, Ingush) on their social and psychological capital (relationships that are the basis for the formation of social capital).

Finally, the contribution by Akçomak and Müller-Zick (2013) explores the relationship between trust and innovation focusing on different kinds of trust (general, personal, etc.). Moreover, the paper analyses the non-linearity of the relationship as well as the spatial implications of it. Using an instrumental variable approach, the authors argue that there exists clear causal relationship between the level of trust and the performance of innovative activities.



### 3.1.2 Main results

The five working papers of Task 5.1 offer an empirical overview of the past and present state of social capital in Europe, distinguishing between old EU-members, new member states, and neighbouring countries. Additionally, these papers explore alternative determinants of social capital, such as socio-demographic factors, political and institutional factors, and ethnic value orientations. Also, the effect of social capital on individuals' monetary attitudes and nations' economic performance and competitiveness are analysed. Together these working papers draw a broad picture about the specific features of social capital in different country groups. In following, the most important conclusions of the working papers are summarised.

The work of Parts (2013) investigates the dynamics and the determinants of social capital in different country groups in Europe. The measures of social capital were composed on the basis of the EVS data with the help of confirmatory factor analysis. Altogether, four factors of social capital were extracted: general trust, institutional trust, formal networks and social norms. Comparison of the levels of social capital showed that in case of all social capital components, the levels were lower in NMS as compared to Western Europe (WE). In less developed NC-s institutional trust and social norms appeared to be stronger than in NMS, but lower than in WE. During 1990-2008, the average level of social capital has decreased in NMS and increased in WE. However, the experiences of individual countries were rather diverse concerning the changes in different components of social capital, so no strong generalisations can be made on the basis of country groups. Results of the regression analysis showed that most influential determinants of social capital are education and satisfaction with democracy. Therefore, the main policy implication would be the need to support investments in educational system and improving democratisation processes in order to increase the level of social capital.

Hlepas (2013) gives a sound comparative overview of the current state of social capital in different country groups, and draws lessons about institutions and

policies that encourage cooperative values and attitudes and will promote formation of social capital. Empirical findings show that there are important differences in social capital also among the “old” EU-15 members, but, even more, among candidate countries and Eastern neighbouring countries. When analysing relations of different components of social capital to each other, it appeared that level of generalized trust in most cases does not correspond to levels of elite compliance to norms and public trust to politicians. Instead, it seems that generalized trust reflects level of cooperative predisposition in everyday life and towards anyone, while it is mostly culturally embedded. On the other hand, level of elite compliance to norms and public trust to politicians seem to rather reflect historically embedded authority and acceptance of the state, of public institutions and of political power. Satisfaction with institutional performance could also enhance public trust to politicians. After all, evaluation of data has shown that there is obviously a positive relation in nearly all countries between public trust to politicians, on the one side, institutional quality and elite compliance to norms on the other.

Tatarko and Schimdt (2013) aim at assessing the effect of social capital on an individual’s economic behaviour among Russian adults. The results of Structural Equation Modelling show that higher levels of trust, tolerance, and civic identity are associated with adverse monetary attitudes. This can be interpreted as when social capital decreases, people try to compensate by accumulating financial capital. Greater social capital, on the other hand, by providing social support that serves as an alternative source of security, influence, and protection, may reduce this dependence on money. An important finding of this research is that the component of social capital that is associated most frequently and strongly with monetary attitudes is civic identity.

The paper by Tatarko (2013) constitutes a cross-cultural analysis of the impact of value orientations on socio-psychological capital, which in turn could lead to higher social capital. Based on a sample of 3 ethnic groups from Russia (Russians, Chechens and Ingush) it has been demonstrated that although the impact of individual values on socio-psychological capital obey logic, it may be culture-specific. Values of “Self-Transcendence” have a positive impact on the socio-

psychological capital of a multicultural society, whereas values of “Self-Enhancement” influence it negatively. “Openness to Change” values positively influence civic identity but have a negative effect on perceived social capital. Finally, “Conservation” values positively affect the civic (Russian) identity of the representatives of the Ingush ethnic group.

Finally, Akçomak and Müller-Zick (2013)’ paper is aimed at isolating the causal link between the level of trust into an economy and the innovation performance. The paper highlights that social networks are valuable for better economic and innovative outcomes. By improving social networks it is possible to strengthen collaborations and the circulation of knowledge. Similarly, investing in human capital is another recommendation emerging from the paper since education has a great socialising effect, thus reinforcing networks.

## **3.2 Analysis of the impact of cultural diversity on innovation performances (Task 5.2)**

### 3.2.1 Objectives and methodology

Task 5.2 is structured in seven working papers that give an overview of the role of cultural diversity on innovation, at the same time all covering different aspects of this complex research topic.

First, the working paper by Kaasa (2013) provides a general overview about the possible effect of different cultural dimensions on innovation performance covering as much EU-countries and neighbouring countries as possible. The analysis covers all 27 EU countries and 20 neighbouring countries: Norway, Iceland, Switzerland, Albania, Bosnia-Herzegovina, Croatia, Macedonia, Montenegro, Serbia, Moldova, Belarus, Russia, Ukraine, Armenia, Azerbaijan, Georgia, Turkey, Egypt, Jordan, and Morocco. To describe societal culture, Hofstede’s original concept of four cultural dimensions (power distance, uncertainty avoidance, masculinity-femininity, and individualism-collectivism) was used. Data from the latest waves of

the European Values Study and the World Values Survey was used to describe culture.

Second, the work of Hlepas (2013) focuses on impacts of cultural diversity and ethnic fractionalization on different aspects of national performance. As one task, the paper tests whether the assumption about negative impacts of diversity does apply in most of the EU and the neighbouring countries. For this reason, diversity is being defined, measured and compared across several countries and then put side by side with national performance in governance, global competitiveness and human development, as well with the level of generalized trust in each country. Data that have been used and analyzed had been collected and systematized by bodies that specialize on conducting surveys whose findings are widely used, tested and accepted, such as the World Bank concerning governance, the UNDP concerning human development, the World Economic Forum concerning global competitiveness, the World Values Survey and the Gallup World Poll concerning values and attitudes.

Third, the working paper by Periac (2013) examines the impact of cultural diversity on innovation, using the concept of social capital as a channel between cultural diversity and innovation. This study adds also a new dimension by viewing the problems at the region-industry level. The period 1997-2005, for 32 EU regions is analysed using data from four databases: The PATSTAT 2009 database edited by PATSTAT, the EPO REGPAT 2010 database edited by OECD, the EEE PAT 2011 database, co-edited by EPO, EUROSTAT and the ECOOM lab from Louvain Catholic University, and the EUROSTAT database.

Fourth, in the work of Ozman and Erdil (2013) the impact of cultural diversity on innovative performance is explored. This relationship depends upon both the technological opportunities prevalent in the industry and the diversity in competencies among actors. To investigate this, an agent base simulation study is carried out.

Last, a set of working papers consisting Lebedeva and Schmidt (2013), Lebedeva, Osipova, Cherkasova (2013) and Lebedeva and Grigoryan (2013) provide empirical evidence of the role of culture and individual values play in people's attitudes to innovation in different cultural and regional groups with particular focus

on Russian regions. The main goal of the researches was the analysis of how cultural diversity and individual values may drive creativity and innovation. The data used, include, respectively: 450 Russian, Canadian, Chinese college students; 1238 adult respondents from four Russia's federal districts; 801 university students and secondary school teachers from 3 Russia's ethno-cultural groups.

### 3.2.2 Main results

The working papers of the Task 5.2 all looked at the possible impact of cultural background and diversity on innovations, national performance and economic success. At that, every working paper covered a different aspect of that complex topic. ‘

First, Kaasa (2013) explores the possible effect of different cultural dimensions on innovation performance covering as much EU-countries and neighbouring countries as possible using Hofstede's original concept of four cultural dimensions (power distance, uncertainty avoidance, masculinity-femininity, and individualism-collectivism). The results indicated that all four cultural dimensions have significant influence on innovation. It was also found that countries group differently according to different cultural dimensions, but different cultural dimensions often seem to balance each-other: countries may have different combinations cultural dimensions, but still perform equally well in innovating. Hence, the final innovation performance is influenced by different cultural dimensions that may or may not balance each-other in a particular country. The indicator of the combined support of culture for innovation was calculated that appeared to explain quite well the differences in the innovation performance in different countries. Regarding policy, to change culture is a very complicated or possibly even impossible task. However, if this could be possible at least at some extent, for example, by promoting certain beliefs and attitudes, the possible policy should be focussed on those cultural dimensions that need to be changed in a particular country. As in different countries different cultural dimensions may hinder

innovation, the thorough investigation of what dimension(s) would be the first priority is of great importance.

Second, Hlepas (2013) focuses on impacts of cultural diversity and ethnic fractionalization on different aspects of national performance. The results showed that the widely accepted assumption that cultural diversity and ethnic fractionalization have negative impacts on economic performance, human development, etc. could not be confirmed in many neighbouring countries and new member states, while it certainly could not be confirmed in EU-15 states. Especially in countries following the Europeanization path for a longer period, in long-established democracies, in countries with good governance and strong institutional performance, cultural diversity does not seem to have any perceivable negative impacts on national performance.

Third, Periac (2013) studies the impact of cultural diversity on innovation, using the concept of social capital as a channel between cultural diversity and innovation. After analysing the possible impact of cultural diversity on innovations through two aspects of social capital: cohesiveness and heterogeneity of links; the results broadly confirm the positive impact of generalized cohesiveness. Region-industries that display networks of co-inventorship (between local inventors) that are denser than expected, given the number of local inventors, appear more innovative than the others, controlling for other influencing factors. This suggests that collaboration between local inventors (inventors of a specific industry that live in a same region) should be encouraged, regardless of their cultural attributes, in order to foster the innovation of the related region-industry. Regarding the other aspect of social capital, the results did not confirm the role of heterogeneity of links in the innovation processes.

Fourth, the working paper by Ozman and Erdil (2013) studies the interaction effects between cultural diversity, knowledge diversity and knowledge regime in an organizational context, where actors interact and exchange knowledge through networks. The results reveal that the extent to which cultural diversity yields more learning depends on the characteristics of the knowledge regime, as well as the extent

of knowledge diversity within the population. In particular, in intermediate degrees of technological opportunities, cultural diversity has a negative impact on innovation.

Last, a set of working papers by Lebedeva and Schmidt (2013), Lebedeva, Osipova, Cherkasova (2013) and Lebedeva and Grigoryan (2013) analyse empirical evidence of the role of culture and individual values play in people's attitudes to innovation in different cultural and regional groups with particular focus on Russian regions. The findings show that there are cultural differences in attitudes to innovations: the more modernized culture is, the more positive it's members attitudes to innovations are. Regarding different values, openness to change promotes and conservation impedes acceptance of innovations. The empirical evidence that there are culturally specific relations of values with attitudes about innovation confirms the fact that we must consider specific features of a culture when introducing innovative patterns to it.

Together, these working papers give a manifold picture about the relationship between the cultural background, cultural diversity and economic, including innovation performance. It can be concluded that culture really matters for innovation and thus, for economic performance. At that it has to be taken into account that culture is a very broad phenomenon and different dimensions and aspects have to be considered when creating policies based on the knowledge about the impact of culture on innovations. More than one working paper concluded that care should be taken because in different countries different cultural dimensions may hinder innovation and every case (country, region) should be analysed separately. While cultural differences between countries/regions turned out to be significant and worth considering, the differences and diversity within countries or regions appeared not to be a problem, contrarily to the widely accepted assumption of the negative impact of cultural diversity and ethnic fractionalization. This is in accordance with the result that while the cohesiveness seems to be important for innovation, heterogeneity of links appeared not to be important.

### **3.3 Analysis of the quality of national institutional environments (Task 5.3)**

#### 3.3.1 Objectives and methodology

The objective of five papers in Task 5.3 is that of analysing and comparing the institutional features of EU countries and NCs in order to create both a static map of different institutional contexts, which affect differently national economic performance, and also a dynamic map of institutional change and evolution that may guide institutional reform in NCs towards European values and norms.

The first paper is by Bartlett, Čučković, Jurlin, Nojković and Popovski (2013) and provides an investigation of the link that exists between economic growth and institutional reform. Furthermore, since institutional reform implies change, the authors also explore the extent to which institutional (formal and informal) in NCs converge with EU norms. Recalling (Acemoglu and Robinson, 2012) and based on the anecdotal evidence that NMS exhibit better economic performance and institutions than other transition countries that are less integrated with the EU, their central hypothesis is that institutions that guarantee political and civil freedoms and rule of law are necessary for economic development. Empirical test is therefore aimed at studying whether convergence towards transparent, stable institutions compatible with those in consolidated democracies and the developed market economies of the EU, has a positive impact on economic growth and development of NCs.

The second contribution by Hlepas (2013) offers an analysis of convergence/divergence dynamics in institutional quality across countries and time and their influence on global competitiveness. The operationalisation of the empirical comparative research is based on the construction of four pillars of institutional quality (“Government Effectiveness”, “Regulatory Quality”, “Rule of Law”, “Control of Corruption”) and a “composite” Index of Institutional Quality for each examined country. According to the different “waves” of Europeanization and geographical



criteria, several groups of countries are comparatively analyzed: EU 15 old member states, EU 12 new member states, EU 27, candidate countries, ENC countries (south and east) and Black Sea countries.

Third, in the paper by Kaasa (2013) an exploratory analysis on the level of governance quality is conducted for EU27 countries and 27 NCs. Six different measure of governance from the World Governance Indicators are employed in this comparative study and include (i) Voice and Accountability, (ii) Political Stability and Absence of Violence/Terrorism, (iii) Government Effectiveness, (iv) Regulatory Quality, (v) Rule of Law and (vi) Control of Corruption.

Fourthly, in the work of Revilla-Diez, Schiller and Zvirgzde (2013) a comparative study of institutional change is carried out analysing NCs and East Asian economies. The role of institutions, both formal and informal, for uneven economic growth is clearly proved to be prominent in East Asian countries as well-known catch-up states. By contrast, institutional transformation of most ENP countries shows how the low quality of institutions affects negatively economic transformation. The role of the government in high performing Asian economies is compared to the role of centralized post-communist governments within the perspective of institutional path-dependency and informal institutions being unready to accept formal institutional transformations.

Finally, the contribution of Erdil and Pamukcu (2013) explores the links between economic performance and innovative activities in Turkey, while also considering the fundamental mediating effect of the institutional setting. In particular, the emphasis of this work is on the policy instruments that support innovation, their effectiveness and the definition of targets in the Turkish national strategy.

### 3.3.2 Main results

Task 5.3 generally addresses the relationship between national institutional quality and economic development. In this respect, a particular focus is devoted to the comparison between European countries (both old and new) and other group of

countries including ENP countries and candidate countries. The aim of the Task is essentially that of exploring the current status of national institutional environment in interest countries and assessing the importance of institutional change in bridging the development gap. Main results found by individual contributions are as follows.

In Bartlett, Čučković, Jurlin, Nojković and Popovski (2013), several key conclusions emerge from the analysis. Overall, ENP countries show a weaker institutional convergence to the EU than candidate countries. Some institutional aspects, such as political stability, governmental accountability, freedom of media and control of corruption are important for the success of economic policies. However, nominal adoption or transposition of EU norms and rules does not guarantee successful institutional performance as the continuing problems in Bulgaria and Romania demonstrate. Moreover, although Eastern ENP countries have shown considerable progress in the last years, they lag behind others in creating a stable rule of law, political and economic freedom, respect for minorities and free media and are still considered as only partly free societies with respect to political and civil liberties. The convergence target is not yet reached and the final outcome is far from certain. Fourthly, the EU has not yet played an important role as a “transformative power”, shaping faster institutional convergence and there is a danger that the reform processes will either stagnate or “run out of steam” if the EU does not take a more decisive role in the process. In sum, the process of institutional reform is incomplete due to an absence of a clear European perspective. Reforms should focus as much on informal institutions as on formal institutions. For example, the development of institutions based around improvements in social capital that would counteract the deeply rooted tolerance for corruption would contribute greatly to the elimination of the “governance gap” between these countries and the EU. Finally, the research suggests that capacities for change are improving based on the considerable improvements in the quality of education and in the capacity for innovation.

In Hlepas (2013), the analysis suggests that, in line with some previous studies, institutional reform is a positive force for economic development. While this does not show that a country’s global competitiveness is only shaped by institutions,

it suggests that institutional change may have beneficial effects. The study argues that, at the macro level, Europeanization process shows incremental progress in the quality of national institutional environments and in the global competitiveness of the countries. The adoption of “European *acquis*”, either through legal compliance of the regulative and legislative framework, or through “voluntary” domestic policies in the framework of new Governance arrangements has certainly improved the institutional quality and its positive impact on economic development in EU and neighbouring countries. Notwithstanding, important differences have been also detected, concerning the trends of convergence and divergence among countries and groups of countries. These trends change also across time. Thus in the period of “Enlargement euphoria”, until 2006, candidate countries being under strong Europeanization pressure improve their institutional quality converging to the EU 15 average, while after 2006 stagnation is evident. Even among the core EU 15 countries a divergent pattern is detected. Southern European countries, such as Greece, Italy, Portugal and Spain diverge after 2006 from the EU 15 average, indicating a deterioration of their institutional quality, while northern countries are above the EU 15 average.

In the third contribution of Task 5.3, Kaasa (2013), the exploratory analysis conducted on governance indicators reveals that most post-communist countries tend to have lower levels of governance quality than old western economies. Among the latter, North-European countries have the highest and South-European countries the lowest governance quality. It can be said that the communist background seems to have a strong influence, as those countries (except for Baltic countries that are already in EU) that belonged to the former Soviet Union have the lowest levels of governance quality. Among the countries of Middle East, the governance quality in North-African countries is, comparable to the countries that belonged to the former Soviet Union.

Fourthly, in the paper by Revilla-Diez, Schiller and Zvirgzde (2013) it is suggested that there is a number of reasons why the post-communist economies lag behind as compared to the high performing Asian countries that outstrip competitors in terms of economic growth. First and foremost, post-socialist states did not manage to effectively change the institutions of the old regime for the new efficient ones.

Secondly, even the minor institutional changes incorporated failed to work out as planned due to the lost faith in the state and absence of fit with the existing informal institutional environment. In this respect the path-dependency of institutions is addressed with an affirmation of the fact that institutional transformation is endogenous in its sense. Furthermore, institutions are place-dependent, meaning that institutional regimes are formed within specific regional contexts and the more institutions are embedded in those regional contexts, the less flexible they are to accept the changes. Thirdly, in contrast to East-Asian states, other transition economies failed to build up government-business supporting relationships, since while in East Asia the government has never intended to replace the market, in post-Soviet states the government has tried to rule despite the market, not in favor of it.

Finally, in the contribution of Erdil and Pamukcu (2013) the authors suggest that national support to innovative activities has a positive impact in economic performance in Turkey. Moreover, there is evidence that while support granted by local administrations is not effective, EU-funded projects are very likely to lead to innovation although they represent a very low share of total innovation supports.

Overall, these working papers offer a comparative view of national institutional environment in ENP countries. The comparison with EU countries, both old and new, suggests that the speed of the process of convergence of institutional quality towards European norms and values is still slow, although some progresses have been registered. Good institutional quality appears extremely important in the ENP area to encourage economic actors to get involved in economically productive activities and to trigger economic development. For this purpose, institutional change and reform is strongly needed.

### **3.4 Analysis of local business culture and SMEs development (Task 5.4)**

#### 3.4.1 Objectives and methodology

The objective of Task 5.4 is that of analysing the quality of formal and informal institutional settings that influence SMEs development and performance in ENP countries. The task consists of two contributions focussing on different aspects of the topic.

The first contribution is by Bartlett, Popa and Popovski (2013) and provides an analysis of the development of entrepreneurship in transition countries and in the Eastern ENP countries. Interestingly, the paper discusses different approaches to the topic, including the analysis of motivations of entrepreneurs, the role of the business environment in which SMEs operate, and the crucial effect of social networks in which SMEs are embedded. The paper also discusses the main obstacles to the formation of a dynamic SMEs sector in transition economies. Among these, the institutional imperfections that limit the formation of innovative SMEs due to the strong degree of government interference in markets, and the existence of powerful monopolies based on political connections between national ruling elites and large firm sector.

The second working paper is by Zvirgzde, Schiller and Revilla Diez (2013) and focusses on the interrelatedness of the institutional environment and the local business culture adopting a multi-scalar approach. In particular, the crucial attention is devoted to the role the multinational enterprises play in the formation and improvement of business culture through the connections that their foreign affiliates establish with domestic SMEs. These connections may happen through market forces or explicit cooperation and influence the level of embeddedness of firms within the local institutional system. The study is carried by employing survey data on Ukraine on both domestic and foreign firms.

Together these contributions provide an overview of the complex set of relationships that link the quality of local business culture in transition economies,

the development of SMEs and their role in economic and innovative performance and the relevant role of foreign firms in facilitating SMEs formation.

### 3.4.2 Main results

The working papers of the Task 5.4 looked at the complex interrelation between SMEs development and local business culture. This is a relevant area of research for policy since a functioning SME sector is believed to facilitate unemployment reduction, job creation, innovation and, eventually, economic development. The two contributions analysed different aspects of the topic and interestingly provide relevant policy implications.

In the first paper, Bartlett, Popa and Popovski (2013), authors discuss the development of entrepreneurship in Eastern ENP countries. What emerges from the analysis of obstacles to SMEs development and to the creation of an improved local business culture in transition countries is that policy makers should consider the removing of barriers to entry as a primary option to stimulate local entrepreneurs. The liberalisation of the business environment may strongly benefit the development of SMEs. Similarly, public policy should also focus on the generation of a more favourable institutional framework in which SMEs can flourish and invest. In this respect, economic stability and secure property rights represent two main building blocks. Furthermore, the creation of an effective institutional support structure to sustain SME sector, especially in terms of enforcing market competition, is needed.

The second paper, Zvirgzde, Schiller and Revilla Diez (2013), assesses the quality of different aspects of institutional environment proving that SMEs development is stronger when the local institutional framework is solid. Institutions turn out to matter both in formal and informal terms. The latter is relevant when networks and personal contacts in business facilitate activities. Especially interesting is that foreign multinational enterprises tend to assess the importance of personal contacts in business activities to a higher degree than domestic firms. It is plausible

that foreign firms need to be aware of local norms and rules in order to compete with domestic firms and thus their strategies and behaviour adapt to the local environment.

Overall, these working papers offer a discussion on the role of institutions, local business culture and SMEs development in ENP countries. ENP countries are very heterogeneous entities and these papers do not explore all of them. However, a valuable picture of interesting case studies emerges from the discussion. Local entrepreneurship often suffers from strong institutional frictions and from a business environment that does not provide incentive to SMEs to invest and upgrade their activities. This has negative implications on innovation and employment. Foreign firms might play a crucial role in improving local business culture by establishing connections with domestic firms based on market links or cooperation. Importantly, national policy makers should consider the potential benefits stemming from measures that reinforce institutions and the correct functioning of markets in order to stimulate the SME sector.

### **3.5 Analysis of institutional structure of vocational, educational and training (VET) systems (Task 5.5)**

#### 3.5.1 Objectives and methodology

The objective of Task 5.5 is that of providing an outlook to the quality of education systems in the ENP area, with a focus on the relationship between available skills and labour market demand. In fact, there can be mismatches between supply and demand in the labour market that vanish investment in education. This risk is particularly high in the ENP region due to a number of frictions in the functioning of markets. Task 5.5 is entirely based on one substantial paper, which discusses most of the issues affecting educational systems in ENP countries.

The paper by Bartlett (2013) and investigates the ability of education systems in the ENP area to provide a skilled workforce that is well matched to the changing needs of the labour market. Most transition countries experienced volatile labour markets for many years with long term unemployment being a major issue leading to a corresponding obsolescence of skills among a large fraction of the workforce. On the demand side, many old large firms declined and new jobs gradually emerged in the service sector, where new and different skills are requested. Skill mismatch also emerged as a result of industrial collapse in peripheral areas and mono-industrial towns.

### 3.5.2 Main results

The paper “Skill mismatch, education systems, and labour markets in EU Neighbourhood Policy countries” focuses on the capacity of educational systems in the ENP area to provide a skilled workforce that is matched with local labour demand. The paper identifies an inverted-U pattern of mismatch across education groups. Particularly severe mismatch emerges among secondary educated people in transition countries, especially those who graduate from vocational schools where curricula are inadequate to the labour market needs and funding for equipment is relatively constrained. With respect to emerging markets, mismatch is higher among highly educated university graduates. There is also clear evidence of a gender bias in mismatch patterns. In terms of policy recommendations, the paper suggests that public policy should be informed by labour market forecasts and analysis in order to restructure and reform educational and training systems in most ENP countries. Policy measures could include incentives to old and low skilled workers to retrain and to firms to provide better in-house training, measures to improve the inclusion of women in the labour market, special tools to encourage firms to hire young workers, and stimulating spillovers from foreign firms to domestic companies through labour mobility.



### **3.6 Analysis of local governance and social participation (Task 5.6)**

#### 3.6.1 Objectives and methodology

The objective of Task 5.6 is to explore and analyse the state of quality of life and local governance in the ENP area, with specific reference to essential aspects such as social cohesion and trust towards national and local governments. Three papers contribute to this study and they focus on different but complementary elements of the discussion.

The first paper is by Hlepas (2013) and it provides a thorough examination of social cohesion within local communities, local governance and quality of life. Moreover, particular attention is also devoted to the degree of satisfaction with respect to local institutions at the national and at the regional level. Therefore, this study provides a valuable comparative analysis of different indicators measuring the above-mentioned aspects of governance and also compares data based on individuals' and households' subjective interpretations of these dimensions with composite indexes elaborated by international experts. Although, the analysis is carried out for European countries, it provides valuable insights on the links between different elements of the notions of local governance and quality of life. These can be surely instructive for ENP countries.

The second paper is by Bartlett and Popovski (2013) and it offers a sound analysis of the relationship between the degree of participation of people in social and political life and the quality of governance. This study is twofold in that it analyses both a wide range of data collected by international institutions and survey data on Ukraine collected through fieldwork. As such, it represents a highly valuable contribution that delivers relevant insights into this topic based on a comparison of very different sources of information. The second section of the paper, thus, forms a proper and in-depth case-study from which most governance issues affecting other ENP countries emerge.

Finally, the paper by Turkeli and Erdil (2013) provides an interesting meta-analysis of the body of knowledge created and accumulated around the topics of ENP, quality of life and local governance. This study provides an outlook of the existing knowledge assets linking these topics.

Overall, Task 5.6 aims at discussing the importance of aspects of institutions that regard the quality of local governance and people trust towards public authorities. In this respect, social inclusion and cohesion as well as improved quality of life are essential ingredients that increase the performance of actors involved in governance at both the national and the regional scale.

### 3.6.2 Main results

The papers contained in Task 5.6 provide an analysis of the links between local governance, quality of life and social cohesion. These institutional aspects appear to be fundamental in providing a favourable environment for market transactions to occur. The quality of systems of local governance is a key element for putting in place bottom-up development strategies that are based on collective action and social inclusion. In this perspective, the papers provide a relevant picture regarding strengths and weaknesses of local governance in the ENP area.

The first paper, Hlepas (2013), yields a comparative analysis between different indicators measuring intangible notions such as the degree of trust of people in governments, trust in local authorities, and satisfaction with life and social cohesion. This data provides the basis for a discussion on local governance and quality of life. The study suggests the existence of a strong correlation between the levels of social cohesion and the satisfaction with local and national governance. Thus, high trust in government at all administrative scales corresponds to high scores in national institutional quality.

The paper by Bartlett and Popvski (2013) looks at how people participation and social cohesion are related to local governance. Although social cohesion and local governance are relevant political principles in Ukraine, there are many hindrances to their effective implementation. Both social cohesion and social capital entail participation based on a process of inclusion, cherishing trust and developing networks. However, trust and networks are processes of exclusion as much as inclusion since they set boundaries. It depends very much on its members how these boundaries are perceived and kept. Participation also means inclusion and the blurring of boundaries. Therefore, a space for negotiations depends on dialogue between its citizens, civil society organizations and state institutions.

The last paper by Turkeli and Erdil (2013) explains that there is a fluctuating trend in the field of ENP knowledge asset and that scholarly response in the field of ENP is highly synchronous with and sensitive to (not necessarily as immediate content) to the developments in the realm of ENP. Moreover, the study highlights the need for initiation or enhancing the conditions of cooperation/co-creation for widening and deepening the ENP knowledge asset in both EU and European Neighbourhood.

### **3.7 Analysis of legal issues of outsourcing manufactures and transfer of knowledge (Task 5.7)**

#### 3.7.1 Objectives and methodology

Task 5.7 identifies the strengths and pitfalls of the ENP with respect to intellectual property rights, and claims that harmonization alone cannot lower the barriers to trade if it is not paralleled by substantial improvement in the coordination of judicial procedures and enforcement mechanisms. The Task is structured on three papers, as follows.

The first contribution is by Harpaz (2013) and it offers a typology and an analysis of the various factors that adversely affect or render it more difficult to attain

this strategic objective of the ENP. The typology classifies these factors according to whether they pertain to the ENP itself (*e.g.*, lack of meaningful incentives, lack of definitiveness and weak mechanisms of conditionality), to the EU (*e.g.*, expectation-capacity gap, weakening trade prominence), to the NCs (*e.g.*, local perceptions, veto players, institutional weakness and high adaptation costs) or to the interface between the EU and its NCs (institutional and normative mismatch). The analysis focuses at times on the case study of the State of Israel, yet its findings are applicable, *mutatis mutandis*, unless otherwise stated, to the relations of the EU with all other NCs.

Secondly, Favale and Borghi (2013) examine the legal framework regarding intellectual property rights within the EU and its neighbouring countries (NCs), on the background of the international obligations that are binding on all these states. To this end, it analyses the current level of harmonization of intellectual property rights (namely: copyright, patents, trademarks, geographical indications and design rights) within the EU and it examines the international engagements of NCs to approximate their IP law to the *aquis communautaire*. In this respect, the bilateral agreements in which NCs commit to approximation to European IP law as discussed, as well as the evaluations made by EU authorities. The level of approximation of four NCs is assessed, namely: Egypt, Israel, Moldova and Ukraine. The review of the European Neighbouring Policy (ENP) relating to intellectual property rights in general, and of and of the focus countries in particular, suggests that the level of IP protection in European neighbouring countries varies greatly, with some similarities which can be detected within the policy sub-groups (Eastern European, Southern Mediterranean, and Black Sea countries).

Finally, Yalciner, Durukan and Ertan (2013) discuss the regulation of intangible assets (IAs) in Turkey, with a specific focus on intellectual property rights (IPRs) as the main component of IAs. IPRs are believed to play a major role in trade, knowledge diffusion, technological transfer and innovation collaborations. As such, the management of IAs should be integrated into business practices as well as regional development strategies and policies. The paper, thus, provides a precious case study of the legal and regulatory framework for IAs and IPRs in Turkey.

### 3.7.2 Main results

Harpaz (2013) argues that the ENP's ambitious agenda, coupled with its ten years of operation, when examined in the light of its potential benefits, raised expectations for comprehensive alignment of legislation by the NCs with resultant significant socio-economic reforms. Yet the results of the ENP on the eve of its tenth anniversary are much less impressive and the initial high hopes for a comprehensive and systematic legislative and regulatory alignment have not been realized. Extensive scholarship, including that conducted by the SEARCH Consortium, indicates that such alignment is limited, partial, selective and uneven. In that respect the ENP, which was modelled on the institutional and procedural experience of the successful enlargement policy and which adopted the enlargement's ethos, instruments, procedural and institutional aspects, bears in fact more resemblance to the unsuccessful European Mediterranean Policy.

Favale and Borghi (2013) reviews the ENP relating to IPR in general, and of the focus countries in particular, suggests that IPR status in European neighbouring countries varies greatly. Some similarities can be detected within the policy sub-groups (Eastern European, Southern Mediterranean, and Black Sea countries), but this is not a general rule. Since barriers to trade can be produced not only by lack of implementation of IP norms but also by a dysfunctional infrastructure enforcing such rights, IPR assessment needs to be put in context. This mixed scenario on the general progress of the European Neighbourhood Policy corresponds to the picture displayed by the analysis of the detailed country reports. While on the one hand a general progress can be detected in implementing IP legislation and in the signature (or at least advanced negotiation) of several international treaties and multilateral conventions, IPR infringement rates and piracy are not reported to be decreasing, if not marginally. In sum, while the adoption of the EU intellectual property framework appears as a leap forward in terms of IPR protection in neighbouring countries, this alone cannot lower the barriers to trade if it is not paralleled by substantial improvement in the social, legal and economic system of these countries.

Finally, Yalciner, Durukan and Ertan (2013) examine the national regulatory framework for Intangible Assets. In section 2, we have proposed that intangible assets have a decisive role in the innovation capabilities for companies. As an evolving concept, IA embodies different approaches and certainly needs future studies. However, most of these views are agree on the high knowledge dimension of these assets and IPR is an important part of it. Surely, intangible assets are not limited with intellectual property rights. But still, it provides a useful basis to integrate from intellectual capital to the real value of a company and benefit from innovative efforts. Our take on of IAs emphasize the legally protectable intellectual capital. This has brought the IPR legislation to the core of the examination. We have carried out an existing structure analysis of IPR system in Turkey with its main actors and provided the implementation frame of certain IP rights.

However, there are also criticisms and comments that we have not addressed throughout the study. First of all, we can say that general provisions are mostly arranged according to European provisions and international agreements in Turkey. However, these arrangements were done in terms of law-amending ordinances some parts of these arrangements were cancelled by Supreme Court. In addition, there have been modifications in these arrangements constantly and these changes cause to destroy the systematic in law.

Furthermore, there is no legal arrangement in protecting trade secrets. Another important problem with IPR in Turkey is to protect digital property rights. The deterrent level of copying and diffusing digital assets is quite low, although stealing one's digital property is a harsh penalty according to general provisions but the cases in courts take too long to end.

#### **4. Final remarks**

The quality of national and institutional contexts is of primary importance for economic activities, innovation, development policies and economic growth to succeed. The ENP area is characterised by strong heterogeneity in terms of

institutional background, but in most of these countries the institutional environment needs to be improved substantially.

WP5 analyses a very wide range of issues related to social capital, cultural diversity, individual values, national institutional settings, business culture, educational systems, local governance and legal and regulatory framework. These are all needed ingredients for economies to perform well.

The great majority of papers in WP5 suggest that ENP countries are still far from EU standards in terms of quality of the institutional environment, although there are large differences within the ENP area itself. Therefore, considering that one of the objectives of the ENP is reducing the institutional gap between EU and Neighbouring Countries, institutional cooperation and integration is one element that emerges from WP5 as a building block of future European initiatives towards the ENP area. Clearly, as all working papers argue, institutional cooperation should be tailored according to country specificities in terms of institutional weaknesses, hindrances and challenges.

## **5. Potential impacts**

The objectives of WP5 are related to investigation of the current status of social, cultural and institutional environment in the ENP region, and how ENP countries could respond to institutional changes and transformations while attaining economic development and stronger integration with the EU. These objectives are relevant for both academic research and policy making.

The impact of research papers in WP5 on future academic activity is, firstly, that of enriching and encouraging the development of a strand of literature that look at institutional issues in the perspective of the ENP. Exploring the role of social capital, cultural diversity and local governance in ENP countries is in its initial stage and more research effort is needed in this direction to deliver implications and policy lessons on these elements, even considering the above mentioned great heterogeneity of institutional arrangements and features within the ENP area.

On the policy making side, WP5 provides an extremely relevant outlook on the institutional dynamics at play in the ENP area, with valuable options for the implementation of policies and programmes. Nonetheless, institutions are strongly path-dependent in character and difficult to transform. Therefore, stakeholders should consider that the impact of measures aimed at short-term institutional change is hardly successful.

## **6. Future Research**

Research in WP5 has identified several elements that surely deserve further analysis. The relationships, complementarities and differences between formal and informal institutions in ENP countries, the role of cultural diversity in innovative activities, social inclusion and improved local governance represent key topics where further research is needed in the framework of EU-ENP institutional integration. While aspects such as social capital are widely discussed, other issues addressed in WP5 constitute a roadmap for future research effort. Among these, for instance, there is the need of deepening our knowledge about the functioning of VET systems in the ENP area as well as gaining more insights on the inter-dependencies between local business environments and global capital. These topics have received some attention in the framework of the ENP, but more empirical analysis is crucial to gain a better understanding about the interplay between institutional environments and relevant economic and social actors.

In terms of data, although there are some examples in WP5 of research carried on at the regional level, most studies are conducted at the national scale, mainly because local institutional information for ENP countries is scant. Hence, future research should attempt to focus more on the local level of investigation by conducting surveys and collecting primary data.



## **7. Deviation from initial proposal**

No significant deviations from initial proposal have been occurred during the project execution.

### **Annex 1 – List of working papers produced in WP5 by Task**

#### *Task 5.1*

WP05.01. “The dynamics and determinants of social capital in the European Union and Neighbouring Countries”, by Eve Parts.

WP05.02. “Social capital, democratization and economic performance: EU, candidate and neighbouring countries in comparative perspective”, by Nikolaos Hlepas.

WP05.03. “Social capital and attitudes towards money”, by Alexander Tatarko and Peter Schmidt.

WP05.04. “Are individual value orientations related to socio-psychological capital) A comparative analysis data from three ethnic groups in Russia”, by Alexander Tatarko.

WP05.15. “Trust and innovation in Europe: Causal, spatial and non-linear forces”, by Semih Akcomak and Hanna Muller-Zick.

*Task 5.2*

WP05.05. “Culture as possible factor of innovation: Evidence from the European Union and neighbouring countries”, by Anneli Kaasa.

WP05.06. “Cultural diversity and national performance”, by Nikolaos Hlepas.

WP05.07. “Cultural diversity, social capital and innovative capacity of region-industries”, by Fabrice Periac.

WP05.16. “Cultural diversity, knowledge diversity and innovation”, by Muge Ozman and Erkan Erdil.

WP05.8. “Values and attitudes towards innovation among Canadian, Chinese and Russian students” by Nadezhda Lebedeva and Peter Schmidt.

WP05.9. “Values and social capital as predictors of attitudes towards innovation”, by Nadezhda Lebedeva, Ekaterina Osipova and Lubov Cherkasova.

WP05.10. “Implicit theories of innovativeness: Cross-cultural analysis”, by Nadezhda Lebedeva and Lusine Grigoryan.

*Task 5.3*

WP05.11. “Institutional quality and growth in EU neighbouring countries”, by Will Bartlett, Nevenka Cuckovic, Kresimir Jurlin, Aleksandra Nojkovic and Vesna Popovski.

WP05.12. “The quality of national institutional environment of EU and neighbouring countries in comparative perspective”, by Nikolaos Hlepas.

WP05.13. “Governance in the European Union and neighbouring countries”, by Anneli Kaasa.

WP05.14. “Similarities and differences of institutional change in ENP and other catch-up countries”, by Daria Zvirgzde, Daniel Schiller and Javier Revilla Diez.

WP05.17. “Institutional environment, economic performance and innovation in Turkey”, by Erkan Erdil and Teoman Pamukcu.

*Task 5.4*

WP05.18. “Business culture, social networks and SME development in the EU neighbourhood”, by Will Bartlett, Ana Popa and Vesna Popovski.

WP05.19. “The role of local institutional environment for the development of multinationals and SMEs in Ukraine: Transition economies perspective”, by Daria Zvirgzde, Daniel Schiller and Javier Revilla Diez.

*Task 5.5*

WP05.20. “Skill mismatch, education systems and labour markets in EU Neighbourhood Policy countries”, by Will Bartlett.

*Task 5.6*

WP05.21. “Quality of life and local governance”, by Nikolaos Hlepas.

WP05.22. “Local governance and social cohesion in Ukraine”, by Will Bartlett and Vesna Popovski.

WP05.23. “A Foursquare Quality of Life Agenda: Governing European Neighbourhood Policy, Open Method of “Neighbourhoods” Coordination, Smart “Cross-Continental Regions” Specialisation, and an “Adaptive Synchronous” European Strategic Energy Technology Plan”, by Serdar Turkeli and Erkan Erdil.

*Task 5.7*

WP05.24. “Approximation of laws under the European Neighbourhood Policy: A typology of the challenges and obstacles that lie ahead”, by Guy Harpaz.

WP05.25. “Harmonization of intellectual property rights within and beyond the European Union: The *acquis communautaire* in the framework of the European Neighbourhood Policy”, by Marcella Favale and Maurizio Borghi.

WP05.26. “Legal framework for intangible assets in Turkey”, by Uğur Gürşad Yalciner, Cansu Durukan and Aslı Ertan.

## **Annex 2 – Titles and abstracts of working papers produced in WP5**

# WP05.01. The dynamics and determinants of social capital in the European Union and Neighbouring Countries

Eve Parts

### **Abstract**

This study investigates the dynamics and the determinants of social capital in Europe. The measures of social capital were composed on the basis of the EVS data with the help of confirmatory factor analysis. Altogether, four factors of social capital were extracted: general trust, institutional trust, formal networks and social norms. Changes in the levels of social capital components over the period 1990-2008 were calculated for 14 Western-European (WE) countries and for 10 new member states (NMS) from Central and Eastern Europe. The analysis of the determinants of social capital in year 2008 covered 20 Western-European countries, 10 new member states and additionally 15 neighbouring countries (NC). Comparison of the levels of social capital showed that in case of all social capital components, the levels were lower in NMS as compared to WE. In less developed NC-s institutional trust and social norms appeared to be stronger than in NMS, but lower than in WE. During 1990-2008, the average level of social capital decreased in NMS and increased in WE. However, the experiences of individual countries were rather diverse concerning the changes in different components of social capital, so no strong generalisations can be made on the basis of country groups. Among the determinants of individual-level social capital, socio-demographic and cultural-psychological factors were distinguished. Results of the regression analysis showed that most influential factors of social capital appeared to be education and satisfaction with democracy. Social capital also associates positively with age, income, and children, while there was negative relationship between social capital, town size and individualism. Finally, dummies for NMS and WE were significant predictors of lower levels of norms and networks, confirming that there are differences between country groups.

# WP05.02. Social Capital, Democratization and economic performance: EU, Candidate and Neighboring Countries in Comparative perspective

Nikolaos Hlepas

## **Abstract**

The paper focuses on a comparative analysis of the social capital in combination with the level of democracy, institutional quality and global competitiveness of the European Union countries and its neighbors: According to position and experience in the Europeanization path, “Old” EU-15 countries, the 12 ‘new EU members, candidate countries and Eastern European Neighboring countries are compared both across and within these four groups. Three main components of social capital, that means generalized trust, public trust to politicians and elite compliance to legal and social norms are highlighted and compared to each other as well as to the levels of democratization, institutional quality and global competitiveness in each group of countries and single countries. Based on reliable data from the World Economic Forum (WEF), the World Bank, the UNDP and Economist Intelligence Unit, a methodological framework is elaborated, in order to test empirically, our main hypothesis: Social capital favors democratic and institutional performance, while it is, vice versa, also favored by democratic and institutional quality. In other words, there is a two-ways dynamic relation between social capital and democracy who mutually strengthen each other. Furthermore, that social capital and democratization strengthen economic performance and human development.

## WP05.03. Social Capital And Attitudes Towards Money

Alexander Tatarko

Peter Schmidt

### **Abstract**

The aim of the present research was to assess the effect of social capital on an individual's economic behavior. Specifically, we examined three individual level components of social capital: trust, tolerance and civic identity. A total of 634 Russian adults (aged 20-59 years) completed measures assessing the three dimensions of social capital (perceived social capital, civic identity, generalized trust) and monetary attitudes (Russian version of the Money Beliefs and Behavior Scale, MBBS) A structural equation model relating trust, tolerance, and civic identity with economic attitudes was specified and tested while controlling for age, gender, and education. We found that higher levels of trust, tolerance, and civic identity were associated with adverse monetary attitudes. Attitudes towards money as a means of influence and of protection and the desire to accumulate it reflect a personal sense of dependency on money and lead to constant concern about money. Greater social capital, by providing social support that serves as an alternative source of security, influence, and protection, may reduce this dependence on money. An important finding of our research is that the component of social capital that was associated most frequently and strongly with monetary attitudes was civic identity. Generalizing from our findings, we postulate that the negative association between monetary attitudes and trust, tolerance, and civic identity suggests that when social capital decreases, people try to compensate by accumulating financial capital.

# WP05.04. ARE INDIVIDUAL VALUE ORIENTATIONS RELATED TO SOCIO-PSYCHOLOGICAL CAPITAL? A COMPARATIVE ANALYSIS DATA FROM THREE ETHNIC GROUPS IN RUSSIA

Alexander Tatarko

## **Abstract**

This study analyzes the phenomenology of socio-psychological capital viewed as a resource for psychological relations which constitutes the basis for the formation of social capital. A cross-cultural analysis of the impact of value orientations on socio-psychological capital has been performed. Based on a sample of 3 ethnic groups (Russians, n = 103; Chechens, n = 100; Ingush, n = 109), it has been demonstrated that although the impact of individual values on socio-psychological capital obeys logic, it may be culture-specific. Values of **Self-Transcendence** (Benevolence and Universalism) have a positive impact on the socio-psychological capital of a multicultural society, whereas values **of Self-Enhancement** influence it negatively. **Openness** to Change values positively influence civic identity but have a negative effect on perceived social capital. **Conservation** values positively affect the civic (Russian) identity of the representatives of the Ingush ethnic group.



# WP05.15. Trust and Innovation in Europe: Causal, spatial and non-linear forces

İ. Semih Akçomak  
Hanna Müller-Zick

## **Abstract**

This paper investigates the effect of trust on innovation. In addition to generalised trust we use a range of other indicators that could measure trust and investigate which trust related variables could explain innovation in 20 European countries divided into 135 regions. We specifically look at causal, non-linear and spatial forces. Our findings indicate that only generalised trust and non-egoistic fairness have robust effects on innovation in Europe. Using historical data on the extent and existence of universities and an instrumental variable strategy we set up a causal relationship between trust and innovation. Even after controlling for causal, spatial and non-linear forces there is a significant direct impact of trust on innovation.

# WP05.05. Culture as a Possible Factor of Innovation: Evidence from the European Union and Neighbouring Countries

Anneli Kaasa

## **Abstract**

This exploratory study investigates the effect of different cultural dimensions on different innovation indicators covering as much EU-countries and neighbouring countries as possible. The measures of cultural dimensions were composed on the basis of the EVS/WVS data with the help of confirmatory factor analysis. Correlation, regression, graphical and cluster analyses were used. It was confirmed that innovation processes are strongly determined by culture: power distance, uncertainty avoidance and masculinity turned out to be negatively and individualism positively related to innovation performance. The final innovation performance may develop on the basis of the combined effect of four cultural dimensions that may or may not balance each-other in a particular country. Hence, the indicator of the support of culture for innovation was calculated on the basis of four cultural dimensions and it appeared to explain quite well the differences in the innovation performance between different countries.

# WP05.06. Cultural Diversity and National Performance

Nikolaos Hlepas

## **Abstract**

This paper focuses on impacts of cultural diversity and ethnic fractionalization on different aspects of national performance. Under the circumstances of Europeanization and Globalization, cultural and ethnic diversity is expected to further increase both in the EU and in the ENPI countries. Based on empirical surveys that were mostly conducted outside the European contexts, a big part of theory argues that diversity has negative impacts on social cohesion and quality of governance, on economic performance and human development, in other words that diversity is bad for national performance. A first aim of this paper is to test whether the assumption about negative impacts of diversity does apply in most of the EU and the ENPI countries. For this reason, diversity is being defined, measured and compared across several countries and then put side by side with national performance in governance, global competitiveness and human development, as well with the level of generalized trust in each country. Subsequently, it is investigated, among EU and ENPI countries, whether acceptance of diversity is significantly stronger in some of them. Furthermore, institutional and cultural features of EU countries that were found to be more open to diversity while also reaching good scores of national performance are selected and systematized, following actor-centered institutionalism. The final aim of this paper is to draw lessons about institutions and policies that promote incorporation of diversity as a dynamic element of Europeanization and an addressee of ENPI policies.

# WP05.07. Cultural Diversity, Social Capital and Innovative capacity of Region-Industries

Fabrice Periac

## **Abstract**

Many studies from innovation management and strategic management have put to light the positive role of social capital (SC) on innovative performance at firm level, firm's unit level, work team level, or even firm's individual members level. However, a review of these studies reveals that 2 different – and potentially antagonistic – aspects of SC are generally mentioned as playing a role in that process: the cohesive aspect (e.g. closure of the network, norms of reciprocity, density of network that eases knowledge diffusion, etc.) and the external range aspect (e.g. bridging positions, diversity of information exchanged, heterogeneity of links between the network's actors, etc.). While many authors have chosen to focus on one or the other aspect of SC in their studies, some have tried to put forth their complementarity (Reagans & Zuckerman, 2001; Tortoriello & Khrackhardt, 2010) and have shown that the effect of “Cultural diversity” on innovative performance is better accounted for through the combination of these two social capital variables. Adopting this bi-dimensional view of SC, we propose to study the impact of SC – and thus of cultural diversity – on innovative performance at a more aggregated level: the region-industry level.

In this paper, we develop a framework to test empirically the relation between SC and innovative performance at this level, in the context of the electric device industry, during the period 1997-2005, for 32 EU regions. We use the OECD REGPAT 2010 database of EPO patents to build each region-industry's network of co-invention relationships between relevant inventors, and to account for region-industry's innovative performance.

# WP05.16. Cultural Diversity, Knowledge Diversity and Innovation

Muge Ozman and Erkan Erdil

## **Abstract**

The aim of this paper is to explore the impact of cultural diversity on innovation. In doing so, the paper investigates the interaction effects between cultural diversity, knowledge diversity and knowledge regime in an organizational context, where actors interact and exchange knowledge through networks. The underlying premise of the paper is that, the impact of cultural diversity on innovation depends on both the technological opportunities prevalent in the industry, and also the diversity in the competencies among actors. An agent based simulation study is carried out. In the model, networks form and evolve through the interactions between agents, through which they learn. The model investigates both the structural characteristics of networks that evolve, and the knowledge growth in the population, corresponding to varying degrees of cultural diversity and knowledge diversity. The results reveal that the extent to which cultural diversity yields more learning depends on the characteristics of the knowledge regime, as well as the extent of knowledge diversity within the population. In particular, in intermediate degrees of technological opportunities, cultural diversity has a negative impact on innovation.

## WP05.8. Values and attitudes towards innovation among Canadian, Chinese and Russian students

Nadezhda Lebedeva, Peter Schmidt

### **Abstract**

This study investigated relations of basic personal values to attitudes towards innovation among students in Russia, Canada, and China. Participants completed a questionnaire that included the SVS measure of values (Schwartz, 1992) and a new measure of attitudes towards innovation (Lebedeva, Tatarko, 2009). There were significant cultural and gender-related differences in value priorities and attitudes to innovation among the Canadian, Russian, and Chinese college students. As hypothesized, across the full set of participants, higher priority given to Openness to change values (self-direction, stimulation) was related to positive attitudes toward innovation whereas higher priority given to Conservation values (conformity, security) was related negatively to attitudes toward innovation. This result is compatible with the findings reported by other researchers (Shane, 1992; Dollinger et al., 2007). There were, however, culture-specific variations in some of these associations, which may be explained by cultural differences in value priorities and implicit theories of creativity. Applying the Multiple-Group Multiple Indicators Multiple Causes Model (Muthen 1989) we have found that the type of mediation between sociodemographic factors and attitudes to innovation is different in the three samples. Whereas in Russia and Canada the effects of gender and age are fully mediated by the values, this is not true for China, where a direct effect of gender on innovation was found. The cultural differences in values, implicit theories of innovation, and attitudes to innovation are discussed.

# WP05.9 Values and social capital as predictors of attitudes towards innovation

Nadezhda Lebedeva, Ekaterina Osipova, Lubov Cherkasova

## **Abstract**

This study examines the relationship of values and social capital with attitudes towards innovations. The respondents (N = 1238) were asked to fill in a questionnaire, which included the Schwartz value survey SVS-57, a self-assessment scale of innovative personality traits [Lebedeva, Tatarko, 2009], and a method of assessing social capital [Tatarko, 2011]. The results of the correlation analysis revealed a positive correlation between values of Openness to Change and a positive attitude to innovation. It was also found that the components of social capital (trust, tolerance, perceived social capital) positively correlated with attitudes to innovation. The empirical model obtained by means of a structural equation modeling generally confirmed the hypothesis of the study and demonstrated the positive impact of the values of Openness to Change and social capital on attitudes towards innovations in Russia.

## WP05.10. Implicit theories of innovativeness: cross-cultural analysis

Nadezhda Lebedeva, Lusine Grigoryan

### **Abstract**

This study revealed and examined cultural differences in values, implicit theories of innovativeness and attitudes to innovation across three ethnocultural groups: Russians, representatives of the peoples of North Caucasus (Ingush and Chechens), and Tuvins (N = 804). Individual theories of innovativeness appeared to be more pronounced in Russians; whereas social theories of innovativeness are more discernible in the respondents from North Caucasus and Tuva. Using structural equation modeling was identified a culturally universal model of values' effects – direct and mediated by implicit theories of innovativeness – on attitudes to innovation. The study demonstrates how the direct negative impact of Conservation values on positive attitudes to innovation is transformed into positive impact, promoting the acceptance of innovations, through the mediating role of implicit theories of innovativeness. The current research study sheds light on the important mediating role of implicit theories of innovativeness in the impact of individual values on attitudes to innovation in different cultures.



# WP05.11. Institutional Quality and Growth in EU Neighbourhood Countries

Will Bartlett, Nevenka Čučković, Krešimir Jurlin, Aleksandra Nojković and Vesna Popovski

## Abstract

The research has investigated the relationship between institutional reform and economic growth in the European neighbourhood policy (ENP) countries, and the extent to which formal and informal institutions have converged towards EU norms. Several key conclusions emerge from the analysis. First, the ENP countries show a weaker institutional convergence to the EU than candidate countries. Secondly, political stability, governmental accountability, freedom of media and control of corruption are important for the success of economic policies. However, nominal adoption or transposition of EU norms and rules does not guarantee successful institutional performance as the continuing problems in Bulgaria and Romania demonstrate. Thirdly, although Ukraine and Moldova have shown considerable progress over the last eight years, they lag behind others in creating a stable rule of law, political and economic freedom, respect for minorities and free media and are still considered as only partly free societies with respect to political and civil liberties. The convergence target is not yet reached and the final outcome is far from certain. Fourthly, the EU has not yet played an important role as a “transformative power”, shaping faster institutional convergence and there is a danger that the reform processes will either stagnate or “run out of steam” if the EU does not take a more decisive role in the process. In sum, the process of institutional reform is incomplete due to an absence of a clear European perspective. Fifthly, in the ENP countries changes in the complementarity of institutional reform are positively related to growth, and changes in reform level and reform complementarity have a greater effect on growth than in other regions. A corollary is that reforms that reduce institutional complementarity are likely to have a significant negative impact on economic growth. In Ukraine and Moldova the consequence is an increase in corruption and in political instability. The change in formal institutions brought about by reforms should therefore not be allowed to outpace the (slower) change in informal institutions. Reforms should therefore focus as much on informal institutions as on formal institutions. For example, the development of institutions based around improvements in social capital that would counteract the deeply rooted tolerance for corruption would contribute greatly to the elimination of the “governance gap” between these countries and the EU. Finally, the research suggests that capacities for change are improving based on the considerable improvements in the quality of education in Ukraine, and in the capacity for innovation in Moldova.

# WP05.12. The Quality of national institutional environment of EU and Neighboring Countries in Comparative perspective

Nikolaos Hlepas

## **Abstract**

The paper focuses on a comparative analysis of the institutional quality of the European Union countries and its neighbors: candidate countries, European Neighboring countries (South and East) and Black Sea countries. The main aim is to highlight trends of convergence or divergence of institutional quality across time for single countries or groups of countries and their influence on global competitiveness. Based on reliable data from the World Economic Forum (WEF), reflecting the assessment of qualified experts of the business sector, a methodological framework is elaborated, in order to test empirically, our main hypothesis: The contradictory process of Europeanization towards integration promotes the improvement of institutional quality of national environments in different ways, which are expressed in trends of convergence and/or divergence, changing over time depending on different domestic responses to adopt the “European acquis” and other driving forces (globalization, financial crisis etc.). Furthermore, the improvement of institutional quality (government effectiveness, regulatory quality, rule of law, control of corruption) influences positively the path of economic development and global competitiveness of a country / group of countries.

# WP05.13. Governance in the European Union and Neighbouring Countries

Anneli Kaasa

## **Abstract**

This exploratory study examines the level of governance quality the EU-countries and neighbouring countries. The analysis is based on the concept of governance quality distinguishing six different aspects and data from the Worldwide Governance Indicators were used. For generalisation, mean values of six indicators were calculated and a factor of overall governance quality was created with the help of factor analysis. In general, the governance quality in neighbouring countries seems to have an influence on country's state of governance and the level of governance quality does not change very quickly.

# WP05.14. Similarities and differences of institutional change in ENP and other catch-up countries

Daria Zvirgzde, Daniel Schiller, Javier Revilla Diez

## **Abstract**

Empirical studies on institutional change have proven the importance of institutions, both formal and informal, for the explanation of uneven economic growth. Conducive institutional settings have been in place in many successful East Asian catch-up countries. By contrast, the institutional transformation of countries that are part of the European Neighborhood Policy (ENP), i.e. mainly post-communist transition states and Middle Eastern and Northern African economies (MENA) shows how the low quality of institutions affects economic transformation negatively. It is the aim of this paper to identify facets of the East Asian success story and to discuss their relevance for the ENP countries. Firstly, characteristics of institutional frameworks that potentially support catch-up processes are discussed and those elements of the East Asian case are combined in a conceptual framework that could be potentially replicated and adjusted within institutional transition in other regions. However, it is highly demanding and often impossible to single out some properties of one context specific institutional framework and to implement them in another institutional setting which is also path-dependent and relies on distinct informal institutions. Thus, the limitations to the transferability are also discussed. In the empirical part, the quality of institutions and the path of institutional change in post-communist and MENA countries is compared to the situation in East Asia.

# WP05.17. Institutional Environment, Economic Performance and Innovation in Turkey

Erkan Erdil and Teoman Pamukçu

## **Abstract**

This paper investigates the relationship between economic performance and innovation in Turkey, while also taking into account the crucial mediating effect of the institutional environment. We carry out an in-depth analysis of the recent shifts in STI policy making in Turkey. The emphasis is on the innovation support policy instruments, and their effectiveness, as well as on the formulation of national STI targets, sector priorities and targets in the field of human resources. A number of concerns are expressed for the effectiveness of policy instruments and for the attainability of national STI targets. In the second part using firm-level data from an innovation survey pertaining to 2008-2010, an econometric exercise is conducted in order to test for the effectiveness of innovation support in Turkey. Innovation support is treated alternatively as an exogenous and endogenous variable. Findings indicate a positive impact innovation support in general. Innovation support granted by local authorities is not effective while EU-funded projects lead to innovation although they constitute an extremely low share of total innovation supports.

# WP05.18. Business Culture, Social Networks and SME Development in the EU Neighbourhood

Will Bartlett

Ana Popa

Vesna Popovski

## **Abstract**

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.

# WP05.19. The role of local institutional environment for the development of multinationals and SMEs in Ukraine: transition economies perspective

Daria Zvirgzde, Daniel Schiller, Javier Revilla Diez

## **Abstract**

The paper aims at the analysis of the interrelatedness between formal and informal institutions as a prerequisite of the quality of local institutional environment, which impacts the development of multinational enterprises (MNEs), as well as small and medium size enterprises (SMEs) within a certain economic system. The role of MNEs, their subsidiaries in the host markets and cooperation of the latter with the domestic SMEs, are investigated with regard to the embeddedness of firms within the local institutional system based on the paradigm of a multiscalar approach in a transition economy. The paper empirically analyzes the primary data of the enterprise survey, carried out in Ukraine as one of European Neighborhood Policy (ENP) states. The focus of empirical analysis is centered on the assessment of institutional quality and its region-specific characteristics by firms, the determination of the differences in local institutional quality perceptions by MNEs and domestic SMEs and identification of the prerequisites of such disparities.

# WP05.20. Skill Mismatch, Education Systems, and Labour Markets in EU Neighbourhood Policy Countries

Will Bartlett

## **Abstract**

According to models of endogenous growth, the skill levels of the workforce are an important driver of economic development. This paper investigates the ability of educational systems in the European Neighbourhood Policy (ENP) region to provide a skilled workforce that is well matched to the changing needs of the labour market. Different patterns of skill mismatch can be expected in transition countries and emerging market countries. We identify an inverted-U pattern of mismatch across education groups with especially severe mismatch among secondary educated, especially those who graduate from vocational schools where curricula are inappropriate to the labour market needs and funding for new equipment is relatively constrained. In the emerging market economies we find some evidence that a quite different pattern of mismatch is present, with the highest rate of mismatch among highly educated university graduates, especially male graduates. This is partly due to different patterns of structural change and partly associated with demographic factors. Countries with high population growth rates may experience over-supply of educated school leavers; countries with falling populations may experience under-supply of both skilled and unskilled workers. There is also evidence of gender-biased mismatch in the emerging market economies of the ENP region. Among the main challenges to the development of effective skill matching systems and corresponding policy design in transition countries and emerging economies in the ENP countries are weak capacities of government institutions including the employment services, underfunding of state provided training services, slow reforms of the education systems and low level of in-house training by employers. There are also significant information gaps in many of the ENP countries, while there is also a greater need for information due to market uncertainty; yet at the same time there is a lack of administrative capacity for skills analysis, forecasting and anticipation.



## WP05.21. Quality of life and local governance

Nikolaos Hlepas

### **Abstract**

The Task 5.6 of this Work Package is to examine the quality of life and local governance and especially the degree of social cohesion within the local community and the satisfaction with the institutions of national and regional governance by collecting and comparing indicators. The analysis of indicators, based both on subjective data (personal perceptions of interviewees) and objective statistical data, proved three main outcomes. Countries with high scores in national institutional quality present high trust in central and local government and their citizens are high satisfied with life. The second main outcome was that countries with highly satisfied citizens in life have also high scores of social cohesion. Thirdly, high scores of social cohesion coincide with national institutional quality and trust to government institutions.

# WP05.22. LOCAL GOVERNANCE AND SOCIAL COHESION IN UKRAINE

Will Bartlett and Vesna Popovski

## **Abstract**

Local governance and social cohesion are important political principles which feature prominently in Ukrainian politics but there are many obstacles to their effective implementation. Despite many discussions about the need for the reform of local government, both in political institutions as well as in civil society, there is no political will to draft a plan and an action plan with a view to implement it. A divided political opposition and diminished civil society mean that there is little impetus to reform the system. The local political elite is still not able to take over the running of local government. The majority of them are still tuned into the centralised model and they do not have the political education to run their local councils independently. Both the psychology of local politicians as well as the administrative structure still favour the centralised model. Centralisation has been taking place since 2010 and political and economic power is concentrated in the office of the President and the ruling elite. The 2008 crisis, on top of the 20 years of economic problems, impoverished the majority of the Ukrainian population which exacerbated their retreat from the political sphere. On the one hand, they felt and still feel that the ruling elite does not want them in the corridors of power. They are invited and wooed to vote but no more than that. They also perceive the ruling elite as corrupt and guided by their economic interests. On the other hand they decided to withdraw because they needed to concentrate on developing survival strategies. Networks play an important role in developing and supporting the strategies of survival. Through these networks Ukrainians are able to obtain a wide variety of support, from food to help with education, health care and the search for employment. These networks are a backbone of Ukrainian state and society and as such they are a part of all different groups of Ukrainian society. Networks are vital political, social and economic structures. As much as they are helping some Ukrainians to survive they are also helping a smaller minority to enrich themselves. Networks which base their existence only on the exchange of favours, blat, as in Soviet times, are based on a smaller number of trusted members. Since Ukrainian society embraced market forces, financial transactions have become more important in these networks. Corruption has become endemic to Ukrainian society and has permeated not only the economic sphere but also public services such as education, health care and social services. As a result of political centralisation, only lip service is paid to the reform of local government and to the process of decentralization. The process of centralization together with the economic recession and high levels of corruption is creating a fragmented society in which there are increasingly less connections between different groups in society.

## WP05.23. A Foursquare Quality of Life Agenda: Governing European Neighbourhood Policy, Open Method of “Neighbourhoods” Coordination, Smart “Cross-Continental Regions” Specialisation, and an “Adaptive Synchronous” European Strategic Energy Technology Plan

Serdar Turkeli and Erkan Erdil

### **Abstract**

In this paper, we re-construct the sphere of European Neighbourhood Policy (ENP) with respect to the empirical evidence collected from Web of Science and systematically meta-analysed. This analysis provides us the dynamics of the ENP knowledge asset in terms of stock and flow in temporal, spatial (geographical), organisational and contextual dimensions. The same meta-analysis is applied to Quality of Local Governance (QoLG) and dynamics of the re-constructed sphere of Quality of Local Governance is analysed, with cross-comparison to the ENP sphere. The main result indicates the sphere of Environment, Energy and Ecology (EEE) form the main sectoral gateway between the ENP and QoLG in a multi-level (international, national, regional) setting. We constructed our conceptual framework based on these evidence bases that gathered from spheres of the ENP and QoLG with comparison to analysis of temporal evolution of governance studies, and checked for theoretical debates of Bureaucratic Planning, Public Choice Theory and Structuralist Critiques, which are shown as incomplete to grasp this emerging EEE sphere. Although promising, New Regionalism concept is discussed with the condition of those current or potential future developmentalist tendencies in the European Neighbourhood with respect to triangulated tensions between economic, social and environmental development. We listed and concluded that technological and social innovation are the vital enablers to activate this EEE Bridge in the governance of a foursquare quality of life agenda, with “enhanced” information and finance-based intelligent and interactive instruments between i) European Neighbourhood Policy, ii) Open Method of “Neighbourhoods” Coordination, iii) Smart “Cross-Continental Regions” Specialisation, and iv) “Adaptive Synchronous” European Strategic Energy Technology Plan (ASSET-Plan).

# WP05.24. Approximation of Laws under the European Neighbourhood Policy: A Typology of the Challenges and Obstacles that Lie Ahead

Guy Harpaz

## **Abstract**

The completion of the two waves of enlargement of 2004 and of 2007 obliged the EU to redefine its relations with those neighbours who will not join it as Member States, at least in the short and medium term. This vision underlies the basic objective of the European Neighbourhood Policy (ENP). In return for enhanced trade and investment relations, with resultant improved access to the Internal Market, the ENP requires, inter alia, the EU's neighbouring countries (NCs) to align their legislation and regulatory regimes, to an extent to be negotiated, with the EU's *acquis communautaire*. The purpose of this Working Paper is to offer a typology and an analysis of the various factors that adversely affect or render it more difficult to attain this strategic objective of the ENP. The typology classifies these factors according to whether they pertain to the ENP itself (e.g., lack of meaningful incentives, lack of definitiveness and weak mechanisms of conditionality), to the EU (e.g., expectation-capacity gap, weakening trade prominence), to the NCs (e.g., local perceptions, veto players, institutional weakness and high adaptation costs) or to the interface between the EU and its NCs (institutional and normative mismatch). The analysis focuses at times on the case study of the State of Israel, yet its findings are applicable, *mutatis mutandis*, unless otherwise stated, to the relations of the EU with all other NCs. The typology and analysis offered would add to the work of Work Package 5, which is focused on the socio-cultural and institutional environment in the NCs and the manner in which such environment affects the transformative role of the ENP.

# WP05.25 Harmonization of Intellectual Property Rights within and beyond the European Union: The Acquis Communautaire in the Framework of the European Neighbourhood Policy

Marcella Favale and Maurizio Borghi

## **Abstract**

This Working Paper examines the legal framework regarding intellectual property rights within the EU and its neighbouring countries (NCs), on the background of the international obligations that are binding on all these states. To this end, it analyses the current level of harmonization of intellectual property rights (namely: copyright, patents, trade marks, geographical indications and design rights) within the EU and it examines the international engagements of NCs to approximate their IP law to the *acquis communautaire*. In this respect, the paper discusses the bilateral agreements in which NCs commit to approximation to European IP law, and the evaluations made by EU authorities. The level of approximation of four NCs is assessed, namely: Egypt, Israel, Moldova and Ukraine. The review of the European Neighbouring Policy (ENP) relating to intellectual property rights in general, and of and of the focus countries in particular, suggests that the level of IP protection in European neighbouring countries varies greatly, with some similarities which can be detected within the policy sub-groups (Eastern European, Southern Mediterranean, and Black Sea countries). The Paper identifies the strengths and pitfalls of the ENP with respect to intellectual property rights, and concludes that harmonization alone cannot lower the barriers to trade if it is not paralleled by substantial improvement in the coordination of judicial procedures and enforcement mechanisms.

# WP05.26. LEGAL FRAMEWORK FOR INTANGIBLE ASSETS IN TURKEY

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Cansu DURUKAN

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## **Abstract**

Intangible assets (IA) are one of the emerging concepts which have recently entered in the innovation studies. There are different associations of IA concept with accounting, business management and organisational management. However, our approach on the IAs, considers the legally protected intellectual assets of organizations in addition to their physical, financial and technical ownerships. In other words, we consider IPR as the main component of the intangible assets and propose that it plays a major role in trade, knowledge diffusion, technology transfer and innovation collaborations. We also argue that Intangible Asset based management should be incorporated into business management and regional development policies. Within this framework, the paper presents the current regulatory structure of Turkey in terms of protection and economizing these assets. Since it is an evaluation of current IPR system analysis, the paper surveys the literature and legal national documents to give insights about the recent changes and trends of Turkey in the integration process with EU and other neighbourhood countries.



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