

Participation of Lithuanian Innovative SME's in the European Union Single Market: Political and Legal Aspects

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"A fully robust and fully operational single market is the main vehicle for economic union." –

Mario Monti, Internal Market Commissioner, 1999 - 2004.

Abstract

The aim: is to study political and legal aspects of Lithuanian SMEs performance in the EU single market. To achieve this aim three tasks were solved: to highlight the linkage between internationalisation and innovation as well as SMEs' performance in the EU single market; to analyse political and legal aspects of SMEs performance in the EU single market; to highlight Lithuanian innovative SMEs performance in the EU single market.

The research methods: comparative analysis of Lithuanian and international scientific works; comparative analysis and interpretation of the EU legal documents, strategies, reports and practical papers; comparative and explanatory analysis of statistic data.

The results of the article: the analysis of Lithuanian and foreign scientific works has revealed the linkage between internationalisation and innovation as well as SMEs' performance in the EU single market; the comparative analysis and interpretation of the EU legal documents, strategies, reports and practical papers have highlighted the main political initiatives and legal aspects towards bigger involvement of SMEs into the EU single market; comparative and explanatory analysis of statistic data as well as the EU and Lithuanian strategic documents and reports have highlighted Lithuanian innovative SMEs performance in the EU single market.

Keywords: *European Union, Single market, SMEs, Innovation, Innovative, Internationalisation, political and legal aspects.*

JEL classification: O25, J24, O32

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1. Introduction

The comparative analysis of scientific works revealed that the EU single market as an important project of the EU is a research object for many scientists from various perspectives as it encompasses a wide range of economic, political and legal aspects as well as involves a number of interests groups. Whereas this article aims to analyse the performance of Lithuanian innovative SMEs in the EU single market, the scope of the article covers a mosaic of the above mentioned aspects.

In a paper it was chosen to use comparative and explanatory analysis of secondary statistic data to analyse and the overall EU's and Lithuanian's SMEs and their performance in the EU single market taking into account their involvement into internationalisation and innovation activities.

While legal aspects and political initiatives focused towards better performance of SMEs in the EU single market are highlighted in the EU legal documents, strategies, reports and practical papers. Due to this fact to reveal the above mentioned aspects and initiatives the comparative analysis and interpretation of the EU legal documents, strategies, reports and practical papers is used in this paper as one of the research methods.

Beside legal documents, strategies, reports and practical papers EC puts a lot of efforts towards various kind of initiatives to boost a bigger participation of SMEs and especially innovative enterprises in the EU single market.

Considering the above mentioned, the article solves the scientific problem: what is the SMEs performance in the EU single market? How internationalisation and innovation is linked to SMEs performance in the EU single market? What are political and legal aspects of SMEs participation in the EU single market? What is the performance of Lithuanian innovative SMEs in the EU single market?

Novelty of the paper:

- there are a lot of scientific works analysing the EU single market and preconditions for its development, however preconditions for SMEs and especially innovative enterprises to participate in the EU single market is not deeply analysed;
- the analysis of the performance of Lithuanian innovative SMEs in the EU single market presents a closer view to achievements of internationalisation process of Lithuanian SMEs and their involvement into innovative activities.

The aim of this paper is to study political and legal aspects of Lithuanian SMEs performance in the EU single market.

The main tasks were: to highlight the linkage between internationalisation and innovation as well as SMEs' performance in the EU single market; to analyse political and legal aspects of SMEs performance in the EU single market; to highlight Lithuanian innovative SMEs performance in the EU single market.

The paper presents a combination of several research methods:

- comparative analysis of Lithuanian and international scientific works;
- comparative analysis and interpretation of the EU legal documents, strategies, reports and practical papers;
- comparative and explanatory analysis of secondary statistic data.

2. The Involvement of SME's in the EU Single Market

The European Union in its economic integration process experienced several critical moments solved by political consensus, signed treaties and strategic documents. For example in 1957 the Treaty of Rome was signed in order to extend the European integration and include a general economic cooperation. In 1961 on 14th June, three years later after the Treaty of Rome was signed, Paul-Henri M. Spaak in the Belgian Assembly said “(...) all those who, in trying to meet the economic challenges set out by the treaty of Rome, neglected the political dimension have failed. As long as [those] challenges will be addresses exclusively in an economic perspective, disregarding their political angle, we will run – I am afraid – into repeated failures.” Few years later in 1985 European Commission presented a White Paper for the European Council “Completing the internal market”. Document stated that Europe needs to make concrete decisions towards further European economic integration “Europe stands at the crossroads. We either do ahead – with resolutions and determination – or we drop back into mediocrity. We can now either resolve to complete the integration of the economies of Europe; or, though a lack of political will to face the immense problems involved, we can simply allow Europe to develop in more than a free trade area.” In 1986 The Single European Act modifying the Treaty of Rome was signed in Luxembourg and The Hague and it was a moment of start up to implement a single market in the EU.

The EU's single market was officially established already in 1992, when the Maastricht Treaty was signed, and has an experience of its development for more than 20 years. However the EU has to admit that it is far not working as efficiently as it supposed to work. In 2010 the previous ex-commissioner prof. Mario Monti (2010) responsible for internal market in the EU presented a new strategy for the EU single market. Strategy which should serve Europe's economy and society by bringing down barriers and simplifying existing rules, which is important to individuals, consumers and business altogether. Accordingly it can be stated that the EU single market needs to go through constant development reflecting to ongoing local, regional and global changes. As it was stated in a CIVITAS factsheets (James, 2012) the single market can be described as an area where people are free to trade goods, invest their money and move to look for work without facing legal, technical or physical barriers. The EU single market is designed to create economies of scale, allow the establishment of Europe-wide commerce and enable faster growth by setting the same rules across the EU.

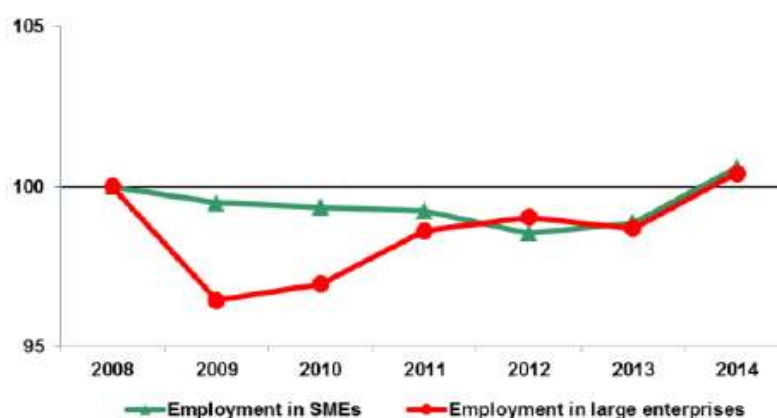
According to European Commission's Annual report on European SMEs 2012/2013 there are 20 million European SMEs in the EU and they play an important role in the European economy. These are mostly micro-enterprises and in 2012 employed approximately 86.8 million people. This represents 66.5% of all European jobs for that year. Micro-enterprises provide just under a third of that total employment figure. The SME sector as a whole delivered 57.6% of the gross value added generated by the private, non-financial economy in Europe during 2012 (see table 1).

Table 1. Enterprises, Employment and Gross Value Added of SMEs in the EU-27, 2012

	Micro	Small	Medium	SMEs	Large	Total
Number of Enterprises						
Number	18,783,480	1,349,730	222,628	20,355,839	43,454	20,399,291
%	92.1	6.6	1.1	99.8	0.2	100
Employment						
Number	37,494,458	26,704,352	22,615,906	86,814,717	43,787,013	130,601,730
%	28.7	20.5	17.3	66.5	33.5	100
Value Added at Factor Costs						
Million €	1,242,724	1,076,388	1,076,270	3,395,383	2,495,926	5,891,309
%	21.1	18.3	18.3	57.6	42.4	100

Source: Eurostat, National Statistical Offices, DIW, DIW econ, London Economics

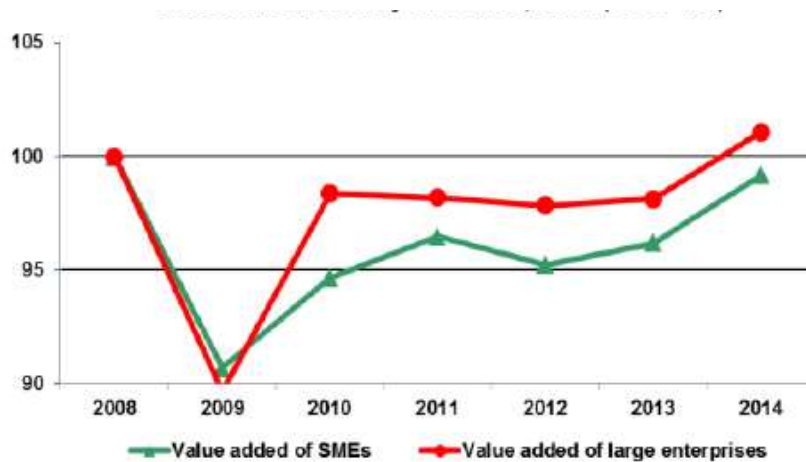
It quite often gets lost that more than 99% of all European businesses are, in fact, SMEs. They provide two out of three of the private sector jobs (see graphic 1) and contribute to more than half of the total value-added (see graphic 2) created by businesses in the EU.



Graphic 1. Employment trends by size-class, EU=27, (2008=100)

Source: European Commission's Annual report on European SMEs 2012/2013 (p. 8)

Accordingly it can be stated that SMEs are the true key-stone of the European economy, being primarily responsible for wealth and economic growth, next to their key role in innovation and R&D. Yet European SMEs still depend largely on their domestic markets despite the opportunities brought by the enlarged single market and by globalization at large.



Graphic 2 Value added trends by size-class, EU=27, (2008=100)

Source: European Commission's Annual report on European SMEs 2012/2013 (pp. 8)

In a globalised world, SMEs need to be able to confront an increasing competition from developed and emerging economies and to plug into the new market opportunities these countries will provide. International activities reinforce growth, enhance competitiveness and support the long term sustainability of companies. While according to Mettler & Williams (2011) entrepreneurship and innovation could be considered as key forces for economic growth and new employment. In this increasingly networked world, rising complexity and the rapid rate of change will continuously shift the competitive advantage from big, established companies to innovative, agile newcomers. With reference to the above mentioned it can be stated that there is a direct link between internationalisation and strengthened innovation as well as increased SMEs performance.

Stamer (2012) in his article stated, that Europe will face intensifying global competition. Consequently Europe's policies for innovation and entrepreneurship will have a profound impact on Europe's future competitiveness. Europe is well-positioned to capitalise on this rapid innovation cycle. The European Union has created the largest integrated market and the highest standards of living globally; it stands for diversity, peace, stability, fairness and justice, culture and tolerance, with many countries hoping to join the EU at some point in the future. Mettler (2012) highlights in her article, that innovative SMEs can be immensely successful and can present the new paradigm in which 21st century success may lie. According to Wiltshagen (2012) innovative SMEs must be united for their future success in the EU single market.

However small and young innovative companies face a variety of challenges and especially financial in their start-up period moving to international markets (Pelly, Kraemer-Eis, 2012). Consequently Europe should aim to become a beacon of entrepreneurship and innovation in the world by helping entrepreneurs, who in vice versa will help the EU single market.

According to Hoffmann (2006), the real policy challenge for the EU in the field of entrepreneurship is not a lack of start-ups, but a lack of fast growth in start-ups – an area where a single European market could make a real difference.

In summarizing the above analysis it can be stated, that European policymakers must deal with specific political, administrative and legal barriers if they want European SMEs to grow fast and move towards internationalisation and innovative activities.

3. Participation of SME's in the EU Single Market: Political and Legal Aspects

SMEs in the EU need to be confident that they can compete on a level playing field and that appropriate political initiatives and legal structures exist to allow all businesses, whatever their size, to operate effectively across the EU. The European Commission is committed to improving the regulatory environment within which businesses operate and in so doing help them compete successfully in global markets.

With reference to the analysis of the EU documents the EC's initiatives can be divided in two directions:

- Internationalisation of SMEs;
- SMEs involvement into innovative activities.

Furthermore the EC is committed to identify specific (i) political and (ii) legal barriers for SMEs performance in the EU single market as well as to foresee possible ways to tackle them.

3.1 Internationalisation of SMEs

The European Commission constantly observing the performance of SMEs in international markets. Consequently there were prepared analytical reports: Internationalisation of SMEs, Observatory of European SMEs (2003) and Observatory of European SMEs, Analytical report (2007). Reports present general characteristics of firms active in the countries surveyed, perceptions on business constraints, competition and human resources problems and data on internationalisation and innovation.

All Member States of the EU have a range of measures and support measures in place to help smaller companies expand their international operations. Yet in 2006 the EC launched a project "Supporting the internationalisation of SMEs". The project lasted 2 years. With the help of an expert group, the project examined national and regional policies to support the internationalisation of SMEs both inside the Single Market and outside the EU with a goal to provide recommendations on how public policies could support SMEs' efforts to achieve international growth and have a more international orientation. The project produced two final documents:

- Final Report of the Expert Group on Supporting the internationalisation of SMEs (2007). This document proposes policy recommendations based on the situation, barriers and drivers for internationalisation;
- Supporting the internationalisation of SMEs. Good practice selection (2008).

In 2009 the Commission launched a study to map the level of internationalisation of European SMEs, identify which are the main barriers and advantages of internationalisation and propose policy recommendations. The study analysed all activities that put SMEs into a meaningful business relationship with a foreign partner: exports, imports, foreign direct investment, international subcontracting and international technical co-operation (Internationalisation of European SMEs, 2010). In addition to the numbers presenting the state of internationalisation, the study presents fact based evidence of the need to support greater internationalisation which has political consequences: International SMEs create more jobs; International SMEs are more innovative; Public support goes largely un-noticed: (Only 16% of SMEs are aware of public support programmes for internationalisation and only a small number of SMEs use public support); European SMEs are more internationally active than US and Japanese SMEs; Most often SMEs start international activities by importing.

In 2011 the EC presented a new strategy “Small Business, Big World — a new partnership to help SMEs seize global opportunities“, aimed at helping small and medium-sized enterprises to expand their business outside the European Union. The new strategy sets out 6 fields of action: Strengthening and mapping the existing supply of support services; Creating a single virtual gateway to information for SMEs; Making support schemes at EU level more consistent; Promoting clusters and networks for SME internationalisation; Rationalising new activities in priority markets; Leveraging existing EU external policies.

On the basis of a strategy the EC initiated a study “Study on Support Services for SMEs in International Business 2013”. This study serves two purposes:

- Collecting data for a portal for EU SMEs seeking support services for internationalisation;
- Assisting with identifying gaps and overlaps in existing support services.

The outcome of the study is an inventory of the support measures and an analysis of gaps and overlaps in existing services being offered in order to identify the needs for any future additional action.

In 2014 the EC presented a Study on Business Networks. The main objective of the study was to investigate and highlight emerging new forms of inter-firm collaboration and to propose possible measures to support and coordinate them at European level where and if appropriate. The final report revealed that business networks have strategic and operational objectives. Strategic objectives are focused on longer term activities that help business network members:

- Strengthen innovation;

- Internationalise;
- Foreign matchmaking.

Operational objectives are more diverse and include:

- Provision of legal and financial services;
- Collaboration in regional, national, transnational and European projects;
- Increased buying power through joint purchasing;
- Optimising HR-marketing for recruitment of (highly specialised) talent;
- Provision of Intellectual property protection.

In a globalised world, EU-based SMEs need to be able to plug into the market opportunities developed and emerging economies countries provide. Due to this the European Commission provided a database. It is by free of charge and open to the public. Under <https://webgate.ec.europa.eu/smeip/> SMEs across the European Union can easily access the contact and service details of a large number of (semi) public support service providers at their doorstep and in international growth markets. These service providers all help EU-based SMEs extend their business to growth markets beyond the EU.

In summarising can be stated that at present, relatively few SMEs in the EU are doing business beyond Europe. However with a support of the EC by presenting strategies, initiating studies, preparing recommendation reports as well as providing databases for SMEs internationalisation process will go faster and more efficiently.

3.2 SMEs Involvement into Innovative Activities

The EC puts a lot of efforts to initiate financial instruments (see table 2) to support SMEs as well. It helps SMEs to be involved into innovative activities in international markets and to contribute to the EU single market.

Most recent on-coming initiative is HORIZON 2020 for the programming period 2014-2020. It actively supports SMEs by providing both direct financial support and indirect support to increase their innovation capacity. “Innovation in SMEs” aims at creating a bridge between the core of the framework programme – support to research, development and innovation projects – and the creation of a favourable ecosystem for SME innovation and growth:

- SME support will be targeted with a dedicated SME instrument, which is a novel approach to support SMEs' innovation activities.
- Horizon 2020 provides direct support to the Enterprise Europe Network, a key player in improving SMEs' access to funding opportunities. 'Innovation in SMEs' funds additional activities intended to support entrepreneurship, internationalisation, and improving access to markets - through the COSME programme.
- Furthermore, this challenge supports the second EUREKA/Eurostars Joint Programme Initiative (2014-2020), that provides funding for market-oriented transnational collaborative R&D projects.

Table 2. The EC's initiatives to support innovative SMEs

Period of activity	Instrument	Main focus
2007-2013	FP7	The 7th Framework Programme for Research and Technological Development. have two main strategic objectives: 1) to strengthen the scientific and technological base of European industry; 2) to encourage its international competitiveness, while promoting research that supports EU policies.
2007-2013	JEREMIE	Joint European Resources for Micro to Medium Enterprises, is an initiative of the EC developed together with the European Investment Fund. It promotes the use of financial engineering instruments to improve access to finance for SMEs via Structural Funds interventions for innovative activities in international markets.
2007-2013	CIP	With SMEs as its main target, the Competitiveness and Innovation Framework Programme supports innovation activities (including eco-innovation), provides better access to finance and delivers business support services in the regions.
2007-2013	EU's INTERREG IVB (BSR) Programme, the JOSEFIN project	Joint SME Finance for Innovation in its context, congruently reflects one of the four cornerstones of the EU Strategy for the Baltic Sea Region – creating a more prosperous region by promoting innovation in small and SMEs.
2014-2020	HORIZON 2020 instruments: <ul style="list-style-type: none"> • SME instrument • Enterprise Europe Network • COSME programme • EUREKA/Eurostars Joint Programme Initiative (2014-2020), 	The goal of the actions bundled under the specific objective "Innovation in SMEs" is to build innovation management capacity for SME. Innovation management capacity is the internal ability of companies to manage innovation processes from the generation of the idea to its profitability on the market.

From the previous programming period 2013-2017 (see table 2) it is worth mentioning the FP7 - the 7th Framework Programme for Research and Technological Development. It was focused to strengthen the scientific and technological base of European industry and to encourage its international competitiveness.

JEREMIE - Joint European Resources for Micro to Medium Enterprises, initiated the EC and was developed together with the European Investment Fund. It was promoting the use of financial engineering instruments to improve access to finance for SMEs via Structural Funds interventions for innovative activities in international markets.

CIP and EU's INTERREG IVB (BSR) Programme, the JOSEFIN project with SMEs as its main target support innovation activities, provides better access to finance and delivers business support services in the regions.

With reference to the above made analysis can be stated that the EC's initiated programmes and other financial instruments is to be meant to boost SMEs performance in the EU single market moving to international markets and being active in innovative projects.

3.3. Political and Legal Barriers of SMEs Performance in the EU Single Market

According to the Progress on the implementation of SBA in Europe, (2013) the market perception is that the Single Market principle is not considered a priority by the SMEs in most of the EU-28 countries. In many cases, the issues faced by SMEs trying to enter a market within the Single Market were considered similar to the issues they face when they try to enter a new market outside the Single Market. SMEs need additional support in the form of information, advice and financing notably from the State trade or investment bodies in order to be able to benefit from the internal market. The financial instruments and programmes to encourage SMEs to participate in the EU single market and be involved in innovative activities were discussed in previous subsection. Therefore the EC initiates concrete political initiatives to develop the implementation of the EU single market by strategical documents: Single Market Act (2011) and Single Market Act II (2012) where SMEs are taken into account regarding its better access to finances.

However, according to the interviewed SMEs stakeholders in the Progress report on the implementation of SBA in Europe (2013), the EU does not constitute a homogeneous market as there are differences in the implementation of the EU Regulations and Directives and there are still many different rules and practices across various countries. SMEs find the trade related legislation including the labour regulations, tax rules and technical standards still different across the EU and entrepreneurs still have to look for information about the specific formalities they have to comply within each MS. Some countries have not yet transposed fully the EU Single Market Directives, which creates difficulties for businesses, particularly regarding the free movement of workers. Better implementation of Single Market acquis is required across all countries, in order to promote a level playing field.

According to Keading (2007) the EU legislation is often transported too late. Member States grant themselves too often an extra more 6-9 months after the

deadline has expired to adopt the implementing legislation. Next to delayed transposition, single market directives are too often applied incorrectly (Vesluis, 2007) and it leaves to a highly fragmented single market, deterring citizens and businesses from exercising their rights (Kaeding, Voskamp, 2011).

In 2011 the EC initiated a monitoring consultation regarding SMEs needs. Consequently there was delivered a document presenting TOP10 most burdensome political areas and legislative acts for SMEs. Responding to highlighted political and legal boundaries the EC in 2013 presented a Smart regulation - Responding to the needs of small and medium - sized enterprises. In the document there were presented further steps of the EC regarding smart regulation implementation towards SME. There were stated that Commission will continue to pay close attention to SMEs in its policy development and review. The Regulatory Fitness and Performance Programme (REFIT) will be implemented progressively with results, including the SME scoreboard published annually and open for stakeholder comment. REFIT will ensure the coordination and prioritisation of the screening of the EU legislative acquis started in 2011 to reinforce the application of the "Think Small First" principle and to identify possible further exemptions or burden reductions for SMEs, in particular micro-enterprises.

According to the Smart regulation consultations and dialogue between SMEs and the Commission will be further improved through the SME Envoys, increased use of the Enterprise Europe Network and SME conferences, as well as in the context of social partner consultations. The governance and consultation mechanisms under the Small Business Act for Europe will play a key role in the work to minimise regulatory burden for SMEs and to ensure a broadbased consultation and involvement of SME stakeholders, including the Member States (Smart regulation - Responding to the needs of small and medium - sized enterprises, SME priority files in the Commission Work Programme, 2013).

4. Participation of Lithuanian Innovative SME's in the Eu Single Market

According to SBA Factsheet for Lithuania (2013) SMEs are major players in the Lithuanian economy, owing to their significant contribution to the total added value (63.5%) and employment (75%) in the business economy (see table 3).

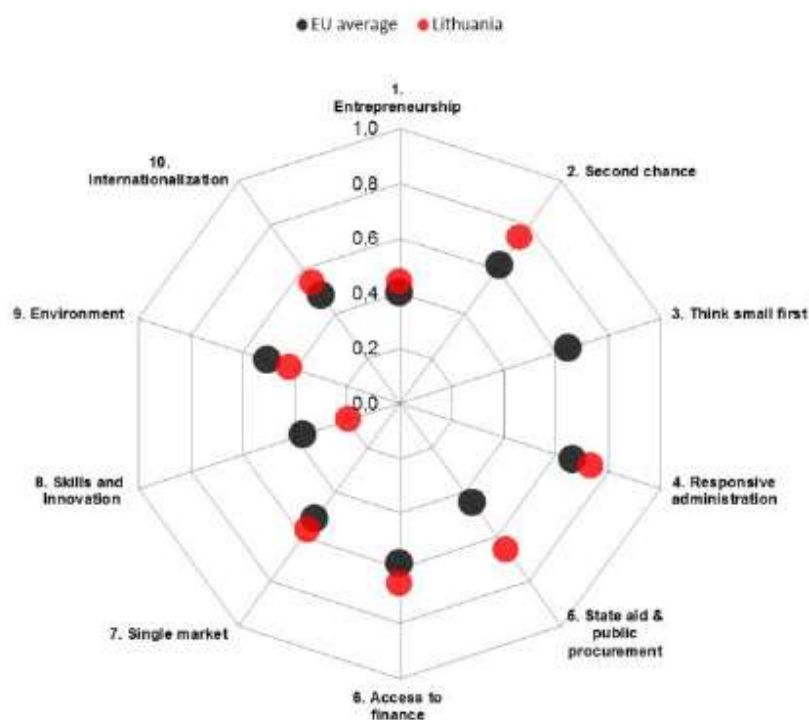
Table 3 SMEs in Lithuanian –basic figures

	Number of enterprises			Number of employees			Value added		
	Lithuania		EU27	Lithuania		EU27	Lithuania		EU27
	Number	Share %	Share %	Number	Share %	Share %	Billion €	Share %	Share %
Micro	95,037	87,9	92,2	185,648	23,0	29,7	1	12,1	21,5
Small	10,655	9,9	6,5	214,024	26,5	20,6	2	21,7	18,6
Medium - sized	2,151	2,0	1,1	205,876	25,5	17,2	3	29,7	18,3

	Number of enterprises			Number of employees			Value added		
	Lithuania		EU27	Lithuania		EU27	Lithuania		EU27
	Number	Share %	Share %	Number	Share %	Share %	Billion €	Share %	Share %
SMEs	107,843	99,7	99,8	605,548	75,1	67,5	6	63,5	58,4
Large	290	0,3	0,2	201,123	24,9	32,5	4	36,5	41,6
Total	108,133	100	100	806,671	100	100	10	100	100

Source: Estimates for 2012, based on 2008-2010 figures from the Structural Business Statistics Database (Eurostat). The estimated have been produced by London Economics.

SBA Factsheet for Lithuania (2013) revealed that Lithuania has a positive SBA profile (see graphic 3). The country does well on a number of areas, led by state aid & public procurement, responsive administration, second chance, and even access to finance. In general, it offers a business-friendly environment.



Graphic 3 Lithuanian SBA profile

Source: SBA Factsheet for Lithuania, 2013 (pp. 4)

According to the Graphic 3 can be stated that Lithuania's performance in the SBA area Single market is very close to the EU standard. According to SBA Factsheet for Lithuania (2013) this performance applies to both sets of indicators: the ones gauging the level of Lithuanian SMES engaged in intra-EU trade, and the ones measuring the country's ability to transpose EU legislation. However

according to the report on Sustainable production through innovation in SMEs (2010) SMEs in Lithuania are often ignorant about the legislation that governs their activities or do not understand what is required. Multiple amendments to improve legal requirements often create confusion and make it difficult for SMEs to understand what compliance involves. Another limiting factor influencing enforcement degree in SMEs is their limited competence level and capacity.

With reference to SBA Factsheet (2013) Lithuania scores on par with the EU average in internationalisation. However, when looking at the size of the companies, it is clear that mostly larger companies are able to go international. This is partly due to the lack of economies of scale necessary to achieve cost competitiveness, but can also be a result of the lack of sufficient support schemes, especially for micro-enterprises. Unfortunately in 2012, no significant policy measures were announced or implemented in this area.

According to JOSEFIN made regional market study (2007) Lithuania is a small country, with only 3.3 million people. Therefore not only large firms but also many SME's have to focus on markets outside the country in order to find customers for their growth strategy. Also in finding partners, suppliers and knowledge the country is often too small to find the suitable partner, and therefore historically the degree of internationalisation in Lithuania has always been relatively high. Especially innovative SMEs have to look for markets abroad to generate enough turnover to compensate for the high investment in innovations, while at the same time have a need for additional resources (financial, knowledge, human skills, natural resources, advanced technology) that are not available in Lithuania, due to the small size of the country.

With reference to the Country report for Lithuania - Sustainable production through innovation in SMEs - (2010) in Lithuania, approximately 40 % of SMEs are involved in innovation activities. SBA Factsheet for Lithuania (2013) stated that further enhancement of Lithuania's profile will require significant improvements in research and innovation, as well as skills, where it still faces some challenges. According to Balezentis & Belkiene (2011) Lithuania understands the importance of stimulation of innovation activity and its progress and contributes to the European initiatives. On the one hand Lithuania has many strategic initiatives regarding to innovation-oriented goals in public policy documents, but on the other hand the results of innovation activity in Lithuania fall short of government expectations till now. Despite growing popularity of themes related to innovation in public policy as well as in scientific sources, there is a lack of researches oriented towards evaluation of the linkages between Lithuanian strategic initiative and their implementation's realities including national and EU levels of innovation policy.

5. Conclusions

The European Union single market has a big potentiality for innovative SMEs. SMEs acting in international markets and being involved in innovative

activities are more flexible to deal with various kinds of economic crisis and challenges. SMEs play an important role in the EU economy by delivering employment and generating gross added value. Made analysis revealed, that future success of the EU single market depends on innovative SMEs acting in international markets. However their performance depends on the EU political and legal initiatives to create favourable business environment.

The European Commission is committed to improving the regulatory environment within which businesses operate and in so doing help them compete successfully in international markets. The European Commission's initiatives are focused towards Internationalisation (by presenting strategies, initiating studies, preparing recommendation reports as well as providing databases for SMEs) of SMEs and their involvement into innovative activities (by initiating various financial programmes and instruments). Furthermore European Commission identifies specific political/administrative and legal barriers for SMEs performance in the EU single market as well as to foresee possible ways to tackle them.

According to the SBA factsheets (2013) Lithuanian SBA profile is rather good in a number of areas and in general it offers a business-friendly environment. Lithuania's performance in the SBA area Single market is very close to the EU standard by the level of Lithuanian SMES engaged in intra-EU trade, and by measurements the country's ability to transpose EU legislation. However Country report on the sustainable production through innovation in SMEs (2010) states that SMEs in Lithuania are often ignorant about the legislation that governs their activities or do not understand what is required. With reference to SBA Factsheet for Lithuania (2013) Lithuania scores on par with the EU average in internationalisation. However, when looking at the size of the companies, it is clear that mostly larger companies are able to go international markets. Unfortunately there were not taken significant political measures to improve the situation in the country. Furthermore the enhancement of Lithuania's SBA profile will require significant improvements in research and innovation, as well as skills.

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