

**BUSINESS ENVIRONMENT - THE CASE OF WESTERN BALKAN COUNTRIES**

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**ABSTRACT**

*This paper investigates and compares development of the Entrepreneurship and Small and Medium-sized Enterprises (SMEs) sector and different obstacles for development of this sector in the Western Balkan countries (WBCs). Many evidence from the countries of central Europe show that the development of SMEs and entrepreneurship is a key factor for a successful transformation from command to market based economy in WBCs. SMEs create new jobs, products and services, help in restructuring former state enterprises, which is very important for transition countries, and generate government revenues. Also, SMEs stimulate private ownership and entrepreneurial skills and innovations. A special accent in this paper is put on many international reports and datasets relevant to the assessment of business environment in this region. In this paper, the author uses only some such as: The Global Competitiveness Report of World Economic Forum, World Bank's Doing Business Index, Heritage Foundation's Index of Economic Freedom, European Charter for Small Enterprises and Small Business Act of OECD and European Commission (EC) and Indicators of Business, Corruption and Crime in WBCs of the United Nations Office on Drugs and Crime (UNODC). The author has come to the conclusion that, in respect of SMEs, WBCs lag behind the countries in the European Union. This article aims to analyze the system of regulation and administrative facilitation aspects of doing business in the above-mentioned countries and, whether or not this*

*system stimulates, the development of private SMEs and entrepreneurship.*

**Keywords:** Small and Medium Enterprises, business environment, obstacles, Western Balkans Countries.

**JEL:** B10, P31, L 26

**1. INTRODUCTION**

In this paper we will compare development of the entrepreneurship and Small and Medium-sized Enterprises (SMEs) sector in the Western Balkan Countries (WBCs), which include Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Montenegro, and Serbia. WBCs are countries in South-Eastern Europe (SEE), which develop in very different directions, both economically and socially. While the west economy can be classified as a traditional market economy based on private property, market allocation and a large share of SME, WBCs are in the process of transition from a plan to a market based economy. Also, we will analyze the stage of development of entrepreneurship and SME in these countries. In the entire world, public and government policy focusing on the promotion of SME and entrepreneurship is a relatively new field compared with wider fiscal, monetary or industrial policies, especially in transition countries. Enterprises are at the heart of the strategy launched by the European Council in Lisbon in March 2000.

SMEs have played a crucial role in economic transition in all the countries of Central and Eastern Europe (CEE). Apart from transitional

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countries, they are very important for the functioning of developed countries as well, since they employ a big number of workers, for example 60-70% of all employed people in the countries that are OECD members. The SMEs sector accounts for 99% of firms in the OECD area, and 50-75% of value added across these countries (OECD 2010, p. 7). Entrepreneurial activity behind SME has been increasingly recognized as a major driving force for innovation and economic growth in all economies (Audretsch 2001). Also, in the European Union (EU), there are more than 20 million SMEs, which make up more than 99.8% of all the companies, and 67% of all the employed in private sector, or 86.8 million of job posts (EC 2013, p. 7). They are a major source of entrepreneurial skills, innovation and employment. That means that SME have a share of more than three-fourths of all the employment market. The SME sector offers the opportunity for the fastest implementation of modern solutions and practices of developed countries, which have built their industrial power thanks to SME.

As a result, the success SME and entrepreneurship has become increasingly important to governments and public administrators in WBCs. In spite of the evidence, and the fact that there are, also, many international institutions that provide support to the entrepreneurship sector in WBCs (including: EIB, EBRD, WB, EC, USAID, UNDP, SIDA, IMF, ILO, etc), SMEs continue to face a number of business environmental obstacles in these countries. Also, in this research, *critical questions are: what policies can governments adopt to foster such activity, as well as, what can policymakers learn from the experiences of other countries.*

As in most countries in transition, at the beginning of the 21<sup>st</sup> century, an obvious lack of big markets led to greater fragmentations of market where SME had successfully entered thanks to their innovative and entrepreneurial skills. Large corporations

faced stagnation, while SME were undergoing an extensive economic growth. There is evidence that SME create employment opportunities and contribute to economic growth in WBCs. The fact is that SME, having specific characteristics, find profitable businesses the quickest possible way.

In conclusion, this paper examines the influence of government policy on rates of entrepreneurship and SME across WBCs, a topic that has been receiving increasing attention in the last several decades. Recent research has explored the influence of several state-level policies on entrepreneurship and SME, but we extend this literature by considering other policies, such as many government's obstacles for doing business, i.e. tax rates, procedures, registration costs, access to capital, lack of legislation, corruption, bribery, etc.

## 2. RESEARCH CONCEPT

### 2.1. Methodological approach and defining hypothesis

The goals of this research will be realized on the basis of secondary data. Secondary data will be taken from relevant literature, different studies on this topic, and from many sources available on the internet and libraries. In this paper, the primary focus will be on identifying the most important barriers to development of SME in WBCs. Many research and literature show that SME are one of the main levers for the restructuring of industrially developed countries of the USA, Japan and Europe, and that SME became one of the most important factors for development in underdeveloped countries and countries in transition. If we look at SME and their development in this regard, in light of making the whole region of the WBC closer to the EU, it is clear that SME in this part of Europe must develop faster and become a dominant form of business in the region. Therefore, this

research project is based on the following hypothesis:

*H1: For a successful transformation from command to market based economy in WBCs, the development of SME and entrepreneurship is a key factor, but the business environment is not stimulating for the development.*

## 2.2. Research subject and goals

In order to understand and explain the aforementioned problem, it is essential to objectively and empirically explore its origins and identify the appropriate instruments for solving it. Therefore, the subject of this research is the establishment of the position of the SME sector in the WBCs and pinpointing the main obstacles in the development of the SME sector in these countries. The main goals of the research are:

- *To identify the key obstacles to faster development of SME in WBCs.*
- *To identify government support development of SME in WBCs.*
- *To identify the competitiveness of the economies of WBCs.*
- *To identify different theories and schools of entrepreneurship in the economy.*

## 3. THEORETICAL FRAMEWORK OF RESEARCH - LITERATURE REVIEW - THE ENTREPRENEUR IN ECONOMIC THEORY

The economy of the 21<sup>st</sup> century has a different set of rules - than Smith's economy of the 19<sup>th</sup> century. The new ideology of neoliberalism emphasizes the role of SME as promoters of "healthy" business climate, economic efficiency and power for economic growth, especially in small, developed countries, and even more so for countries in transition (Džafić 2007, p. 19). These statements and theories contribute to increasing the awareness of governments and businessmen that SME are crucial for economic development in the region. For

almost three centuries, economists have been making contributions to the academic literature on entrepreneurship (Cantillon, Mill, Say, Knight, Schumpeter, Krizner, Casson, Shackle etc.) that advanced our understanding of the entrepreneur's role in the economy.

Classical economics proper is really a product of the late seventeenth and eighteenth centuries, the industrial revolution and the insights of Enlightenment thinkers. Classical economics introduced concerns still familiar to modern economists: markets, supply and demand, productivity, prices and profits. Economics in its modern form is, however, more recent and can be traced to the mid-to late nineteenth century and what is referred to as the marginalist revolution. The Neo-classical economics does not challenge the assumptions made by classical economics. Indeed, it might be argued that it attempts to develop more sophisticated insights from them. (Wickham 2006, p. 124)

However, Neo-classical economics cannot explain the existence of entrepreneurs as a distinct class of economic actor. The reason is transparent: entrepreneurs are human beings and this theory collects together all human beings under one set of assumptions. The term "entrepreneur" is French in origin and a literal meaning might be translated as "one who takes between". The most important French writers who contributed on the role of the entrepreneur are Richard Cantillon and John Batist Say. Cantillon was the first to recognize the crucial role of entrepreneur in economic development. Say also made the entrepreneur the pivot of the economy and the catalyst for economic change and development. Some of these views were developed within the *Austrian School of Thought*. It is generally agreed that the 1871 publication of *Principles of Economics*, by Carl Menger (1840-1921), gave birth to the Austrian School of Thought (De Soto 2009, p. 43).

What is different from another school is that the entrepreneur is seen as being crucial to economic development and catalyst for dynamic change. After the neo-classical school's inception, a group of economists seceded from it. This new school got its name from the fact that many of its leading thinkers, such as Carl Menger (1840-1921), Friederich von Wieser (1851-1926), and Eugen Bohm Bawerk (1851-1914), Ludwig von Mises (1881-1973), Friedrich Hajek (1889-1992), and Kirzner (1979) were based in Vienna. Ludwig von Mises was the leading member of the third generation of Austrian economists and without a doubt the most important member of all of them. Mises was responsible for the School's most vital practical contributions: theory of the impossibility of socialism, theory of economic cycles, theory of entrepreneurship, criticism of interventionism, and systematization of the Austrian methodology. Friedrich A. Hayek was the winner of the 1974 Nobel Prize in Economics. Hayek further developed all Mises' contributions, demolished Keynesian economic theory, and was the key theorist of the spontaneous market order in the 20<sup>th</sup> century.

Josef Shumpeter (1883-1950) and Israel Kirzner (1930) emphasized the role of the entrepreneur identifying unexploited opportunities. For Kirzner, the entrepreneur is someone who is alert to profitable opportunities for exchange. Kirzner describes *alertness* as the fundamental quality of the entrepreneur (Kirzner 2009, p. 66). By contrast, Shumpeterian entrepreneur is an innovator. Shumpeter was the first scholar to develop theories of entrepreneurship. He argued that innovation and technological change of a nation come from entrepreneurs, or wild spirits and Shumpeter popularized the term "creative destruction" in economics.

The key idea in Austrian economics is that competition is an ongoing process rather than a force that sustains an economy at a static

equilibrium. Economies, it suggests, are inevitably out of equilibrium. Conception of human nature was also different. One of the main contributions of the Austrian school has been the demonstration that it is impossible to organize society based on coercive commands and regulations, as socialists and interventionists constantly attempt to do. The reason this cannot be done is because a planning agency cannot possibly obtain the first-hand market information necessary to achieve co-ordination with its commands (De Soto, 2009, p. 126).

By the early 1970s, however, new thinking and evidence was emerging regarding the contribution and significance of small firms to economies which provided a catalyst for public policy (Stevenson 2001, Lundstrom 2001, Bolton 1971 in the UK). They noted a decline in the economic contribution of small firms after the Second World War and recommended the need for a dedicated small firm advisory service, due to market failures in advice and support provision. Similarly, the report by Birch, which identified the employment contribution of small firms in the USA, provided a further boost to those designing the policies and institutions to promote SME worldwide.

In recent research in Austria, Fink et al., have analyzed the unique performance contribution of self-commitment in the context of cooperative internationalization of SMEs in several ways (Fink et al., 2008, p. 429). Kessler analyzed success factors for new businesses in Austria and the Czech Republic. This paper presents a comparative analysis of success factors for start-ups in early development stages in the traditional market economy of Austria versus the emerging market economy of the Czech Republic (Kessler 2007, p. 382). Korunka et al., have analyzed personal characteristics, resources, and environment as predictors of business survival (Korunka et al., 2010, p. 27). Leitner and Göldenberger in their paper research the

impact of generic strategies on firm performance using a longitudinal study of SMEs in Austria. In two surveys, data on the strategic behavior and performance of the same group of firms were gathered for the period from 1992 to 2002. (Leitner et al., 2010, p. 169). Anokhin has analyzed longitudinal data from 64 nations lends support to our propositions, thus helping unpack the puzzling relationship between entrepreneurship, innovation, and corruption (Anokhin 2009, p. 465).

Van Praag and Versloot (2009) have identified four economic benefits of entrepreneurship: job generation, innovation, productivity and growth. SME are now recognized by researchers, analysts and policymakers as central to economies across the world, through their contributions to wealth creation, income generation, output and employment (OECD 2011). In particular, the underlying entrepreneurial activity behind SME has been increasingly recognized as a major driving force for innovation and economic growth in all economies (Audretsch et al., 2001, p. 56).

The relationship between entrepreneurship and economic growth has seen increased interest at local, state, and national levels, and recent studies have shown that the contribution of the entrepreneurial sector to employment and GDP is increasing (Minniti 2008; Audretsch & Thurik 2001; Birch 1987; Kumar & Liu 2005), as well as, important social implications (Chell 2007).

#### **4. INTERNATIONAL REPORTS RELEVANT TO THE ASSESSMENT OF THE BUSINESS ENVIRONMENT IN WBCs**

Creation of favorable business environment is one of the key preconditions for economic recovery and growth of WBCs. There are many international reports and datasets relevant to the assessment of business environment in this region. In this study, only

some were used, such as: World Economic Forum (WEF), World Bank's Doing Business Index (WBI), The Index of SMEs Development, Heritage Foundation's Index (HFI), European Charter for Small Enterprises (ECSE), Small Business Act (SBA), and United Nations Office on Drugs and Crime (UNODC).

#### **4.1. The key indicators of economies of WBCs**

This region has the population of less than 24 million and a relatively low level of development. Its total GDP is 68.9 billion EUR, which accounts for 0.5% of the EU-27's GDP, or the WBC-s average GDP per capita in purchasing power parity (PPP) terms was 7,859 EUR or 31% of the EU. A GDP that is 72% lower than the EU average puts Bosnia and Herzegovina (BiH) last on the list, behind all other WBCs. Albania is not far behind BiH, with a GDP that is 30% of the EU average, while Serbia and FYR Macedonia are both at 35% and Montenegro is at 42%. With the population of approximately 7.2 million, Serbia is the largest country in the region. Unemployment measured by registration is present almost everywhere and it is one of the most important problems in these countries. In 2012, the unemployment rate (as percentage of the labor force) was only under 20% in Albania (14%), and Croatia (16%), while it was 20% in Montenegro, 24% in Serbia. The highest unemployment rate was in FYR Macedonia, 35% and BiH, 31% (UNDCO 2013, p. 15). These discrepancies in unemployment rates may be explained by the fact that a large number of registered unemployed is de facto self-employed in agriculture or works in the informal economy. Promotion of youth entrepreneurship is one of the purposes of the Strategy for SME development (UNECE). The Figure 4.1, shows the latest available data for WBCs, as well as data for the average euro zone, EU average where available for comparison purposes, on youth unemployment (dark color).

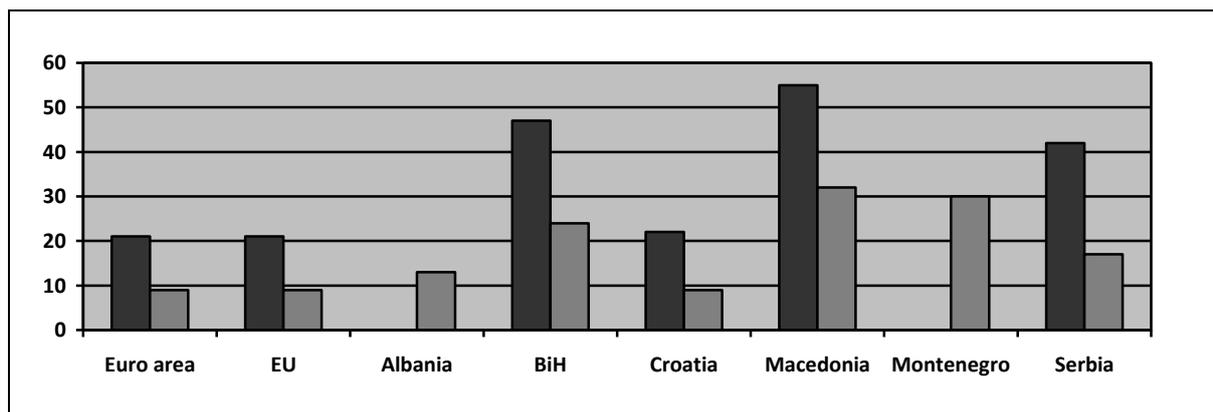


Figure 4.1. World Development Indicators for youth unemployment in WBCs (ages 15-24)

Source: WBIH, 2012

Unemployment of the youth in the EU is 21% but it is much higher in WBCs, especially in FYR of Macedonia and BiH. Extremely high youth unemployment is recorded in FYR of Macedonia (55%), BiH (47%) and Serbia (40%). In BiH, there is over half a million people without jobs, and 90,000 young people have already left BiH because of lack of perspective.

#### 4.2. The Global Competitiveness Index

In order to estimate the effect of economic regulation on WBC's secondary data are used. The number of countries taken in these reports varies from year to year, from 2007 to 2014. Although in theory there are different views and definitions of competitiveness and its meanings, most economists agree that the 21<sup>st</sup> century will be a period of global economic competition.

coming from this region and dominated by domestic capital have significant financial problems, especially when it comes to investing in new equipment and new technology. The economic crisis has only further negatively affected the process of investing in businesses in transition. The following table provides a review of the Global Competitiveness Index of WBCs for the period from 2008<sup>th</sup> to 2013<sup>th</sup>.

The countries in the region must, overcome some weaknesses, including the lack of adequate manpower, and, to a greater extent, focus on services with added value and innovation. Since the escalation of the economic crisis and intensified crisis of WBCs, the largest positive shift in the field of competitiveness was achieved by Montenegro, while a shift in the positive direction was registered by Albania, BiH and Macedonia.

Table 4.1. A Review of the Global Competitiveness Index of WBCs from 2008 to 2013

Year	Albania	BiH	Montenegro	Croatia	Macedonia	Serbia
2008	3.55	3.56	4.11	4.22	3.87	3.90
2009	3.72	3.53	4.16	4.03	3.95	3.77
2010	3.94	3.70	4.36	4.04	4.02	3.84
2011	4.06	3.83	4.27	4.08	4.05	3.88
2012	3.91	3.93	4.14	4.04	4.04	3.87
2013	4.24	4.33	4.49	4.68	4.52	4.15

Source: Author's calculation according to The Global Competitiveness Reports 2007 - 2013

The WBCs have not achieved significant results, particularly in the area of competitiveness. Most business organizations

Table 4.2 provides the ranking of WBCs according to the total number of countries.

Table 4.2. Ranking of BiH and WBCs according to the total number of countries

	2005- 2006 (117)	2006- 2007 (125)	2007- 2008 (131)	2008- 2009 (134)	2009- 2010 (133)	2010- 2011 (139)	2011- 2012 (142)	2012- 2013 (144)	2013- 2014 (148)
Albania	100	98	109	108	96	88	78	87	95
BiH	95	89	106	107	109	102	100	88	87
Montenegro	80	87	-	65	62	49	60	74	67
Croatia	62	51	57	61	72	77	76	60	75
Macedonia	85	80	94	89	84	79	79	71	73
Serbia	80	87	-	85	93	96	95	95	101

Source: Author's calculation according to *The Global Competitiveness Report (WEF, 2005-2014)*.  
[http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2013-14.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf)

In the latest Global Competitiveness 2013-2014 Report, BiH is ranked 87<sup>th</sup> out of 148 economies, while Montenegro has the best position, it is the 67<sup>th</sup> out of 148 economies (WEF 2013-2014).

### 4.3. The Ease of Doing Business Index

The quality of business environment in BiH remains highly problematic and the country continues to lag behind other economies in WBCs. In the latest World Bank's Doing Business 2014 Report, BiH is ranked number 131<sup>st</sup> out of 189 economies, reflecting the deep-rooted problems in the country. Its performance is particularly weak for the indicators such as starting a business, dealing with construction permits and getting electricity (WB 2014). Table 4.3 shows the Summary of Doing Business indicators in WBCs.

Serbia (45), needing the highest number of days for establishing a business (37), with the largest number of procedures (11) in 2013 and 2014. The number of steps in the process remained the same, but registration costs increased. In some other countries the business environment was significantly improved.

*Doing Business* recognizes that the state plays a fundamental role in private sector development. Governments support economic activity by establishing and enforcing rules that clarify property rights and reduce the cost of resolving disputes, increase the predictability of economic interactions and provide contractual partners with core protections against abuse. Therefore, it is no surprise to find that there is no evidence suggesting that the economies that do well on *Doing Business* indicators tend to have

Table 4.3. Summary of some Doing Business indicators in WBCs

Indicator	BiH	Albania	Croatia	Serbia	Macedonia	Montenegro
Starting a Business (rank)	174	76	80	45	2	69
Procedures (number)	11	5	6	6	2	6
Time (days)	37	4.5	8	11.5	1.9	10
Cost (% of income p/c)	14.9	21.1	9.3	7.2	63	1.5
Dealing with Constructions Permit	175	189	152	184	84	106
Registering Property (rank)	96	119	106	44	84	98

Source: Author's calculation according to the World Bank, 2014., <http://www.doingbusiness.org/>

From this table we can conclude that BiH had the worst results in terms of business establishment (174) compared to other countries, for example Macedonia (2), or

governments driven by a "smaller government" philosophy (WB, DB 2014 – Full Report, p. 12). We can conclude that the Bosnian's governments from 2007 until now

have had no state vision for the development of entrepreneurship and SME, and that there are obstacles in development of SME and entrepreneurship set by the government.

In terms of macroeconomic figures, economic growth and GDP in particular has been one of the most positive and stable characteristics of WBCs. Considered a normal economic development, with an average increase by about 6-7%, in the period 2005-2007, the GDP growth in the economies of the Western Balkans was higher than in the EU. In 2007, the real GDP growth in Montenegro was 10.7%, in BiH 6.8%; in Macedonia 6.1%, Albania 5.9%; in Serbia 5.4%; and the lowest 5.1% in Croatia (Pere et al., 2013, p. 6).

These complicated procedures for doing business are the main source of corruption and payment bribery. It was also showed by a survey conducted by the UN, based on interviews with more than 12,700 companies in WBCs (UNDCO, 2013, p. 28). Although speeding up administrative procedures is the most important purpose of bribery for businesses in all WBCs, accounting for 30-50% of all responses, the relative importance of this and other purposes of bribery varies considerably. For example, enabling the finalization of a procedure is the second most important motive in Albania (16.8%), BiH (17.4%) and Montenegro (14%), which suggests that bribes in these countries are often used to influence outcomes of administrative procedures, such as by overcoming negative administrative decisions. On the other hand, receiving better treatment is the second most important purpose in Croatia (14.1 %), after speeding up procedures, while Serbia (23.4%) and the FYR of Macedonia (22.2%) have large shares of bribes paid that serve no specific purpose.

According to Heritage Foundation's Index of Economic Freedom 2014, BiH is "mostly unfree". Bosnia and Herzegovina's economic freedom score is 58.4, making its economy the

101<sup>st</sup> freest in the 2014 Index. BiH is ranked 7<sup>th</sup> out of 7 countries in the WBCs region. Based on the index of economic freedom for WBCs, it is evident that economic freedom is the highest in FYR Macedonia, followed by Albania, and Montenegro, Croatia, Serbia, and BiH (Index of Economic Freedom 2014, p. 129).

The Small Business Act for Europe (SBA) replaced the European Charter for Small Enterprises. The Western Balkan economies have converged closer to the EU SME policy practices and standards since the 2009 assessment. The last, SME Policy Index report from 2012 shows us that economies have converged closer to EU SME policy practices and standards over the last three years. WBC have registered moderate progress in several areas, including the institutional framework for SME policy, regulatory reform and administrative simplification, company registration, entrepreneurial learning and business start-up processes as well as the legal and regulatory framework for access to finance. SMEs account for the largest share of the total value added in these economies, while their contribution to the total employment in the private sector ranges from 61% to 81% (SME Policy Index, WBCs and Turkey, 2012).

## **5. NATIONAL SMEs LANDSCAPE AND STRUCTURE**

### **5.1. SME structure and sector involvement in WBCs**

Over the last three years WBCs have registered moderate progress in several areas, including the institutional framework for SME policy, regulatory reform and administrative simplification, company registration, entrepreneurial learning and business start-up processes, etc. They have made significant progress in skills development and export promotion. On the other hand, on average, their performance on the provision of SME

support services slightly deteriorated (SME Policy Index, 2012, p. 15). There are no comprehensive and comparable SME data for the whole WBCs, based on the EU definition of an SME. In BiH, there is no common definition of SME at the state level. The only country without the official data in next table is Bosnia and Herzegovina.

Serbia had the highest number of SMEs 282,259 while Montenegro had the lowest number of SMEs 23,332. Albania had 68,984; Croatia 143,434 and FYR Macedonia 70,506.

Table 5.1. Statistics of the SME sector in WBCs

	ALB		CRO		MKD		MNE		SRB	
	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share
Micro	66,166	95.8%	130,066	90.4%	65,641	92.8%	20,820	88.9%	274,021	95.9%
Small	2,386	3.5%	1,132	7.9%	3,706	5.2%	2,083	8.9%	6,065	2.1%
Medium	432	0.6%	2,048	1.4%	1,159	1.6%	428	1.8%	2,173	0.8%
<b>SMEs</b>	<b>68,984</b>	<b>99.9%</b>	<b>143,434</b>	<b>99.7%</b>	<b>70,506</b>	<b>99.7%</b>	<b>23,332</b>	<b>99.6%</b>	<b>282,259</b>	<b>99.8%</b>
Large	54	0.1%	484	0.3%	204	0.3%	95	0.4%	484	0.2%
<b>Total</b>	<b>69,038</b>	<b>100%</b>	<b>143,918</b>	<b>100%</b>	<b>70,710</b>	<b>100%</b>	<b>23,427</b>	<b>100%</b>	<b>285,641</b>	<b>100%</b>

Source: OECD, et al. (2012), *SME Policy Index: Eastern Partner Countries 2012: Progress in the Implementation of the Small Business Act for Europe*, OECD Publishing. p. 47. <http://dx.doi.org/10.1787/9789264178847-en>

Micro-enterprises (less than 10 employees) account for an extremely large share of the registered enterprises ranking from 88.9% in Montenegro to 95.8% in Albania, 90.4% in Croatia and 95.9% in Serbia but their contribution in terms of employment is significantly lower, reflecting much lower productivity than in SME.

by Croatia 737,160 of all employment 1,097,543 with makes 81.8%. At least employment in SME sector is in Montenegro 123,738 of all employment 200,734 with means 61.6% and Albania with 169,010 of all employment 239,55 with makes 81.8%.

## 5.2. SME structure and sector involvement in BiH

According to the Agency for Statistics of BiH - Statistical Business Register in BiH, classification of enterprises by employment size classes, using criteria "number of persons

employed", shows that micro enterprises (0-9 persons employed) create the largest share of the total number of classified enterprises, as much as (73.8%). Small enterprises (10-49 persons employed) create (18.8%), medium enterprises (50-249 persons employed) create 6.1%, while the share of large enterprises (250 and more persons employed) is only (0.9%).

Table 5.2. Statistics of the employment in the SME sector in WBCs

	ALB		CRO		MNE		SRB	
	Number	Share	Number	Share	Number	Share	Number	Share
Micro	109,089	45.9%	305,022	45.9%	40,076	20.0%	337,060	31.6%
Small	45,720	19.1%	221,016	19.1%	40,348	20.1%	181,019	15.2%
Medium	40,393	16.9%	210,079	16.9%	43,314	21.6%	228,007	19.1%
<b>SMEs</b>	<b>196,001</b>	<b>81.8%</b>	<b>737,016</b>	<b>81.8%</b>	<b>123,738</b>	<b>61.6%</b>	<b>787,058</b>	<b>65.9%</b>
Large	43,538	18.2%	360,039	18.2%	76,996	38.4%	406,085	34.1%
<b>Total</b>	<b>239,055</b>	<b>100%</b>	<b>1,097,549</b>	<b>100%</b>	<b>200,734</b>	<b>100%</b>	<b>1,194,429</b>	<b>100%</b>

Source: OECD, et al. (2012), *SME Policy Index: Eastern Partner Countries 2012: Progress in the Implementation of the Small Business Act for Europe*, OECD Publishing. p. 47. <http://dx.doi.org/10.1787/9789264178847-en>

The highest employment in the SME sector is in Serbia 787,580 of all employment jobs 1,194,429 which makes 65.9%. It is followed

(Agency for Statistics of BiH, Sarajevo, September, 2013). The number of persons employed in SMEs in BiH is given in Table 5.3.

Table 5.3. Number of enterprises in BiH

Total	Micro	Small	Medium	Large
33,266	23,183	5,891	1,907	300
100%	73.8%	18.8%	6.1%	0.9%

Source: <http://www.bhas.ba> (accessed April, 2014)

As in other WBCs, BiH SMEs account for 99.1% of all the enterprises in BiH. Micro-enterprises account for an extremely large share of the registered enterprises (73.8%) in BiH with is less than in 88.9% in Montenegro 88.9% or 95.8% in Albania. Enterprises by employment size classes is given in Chart 5.1.

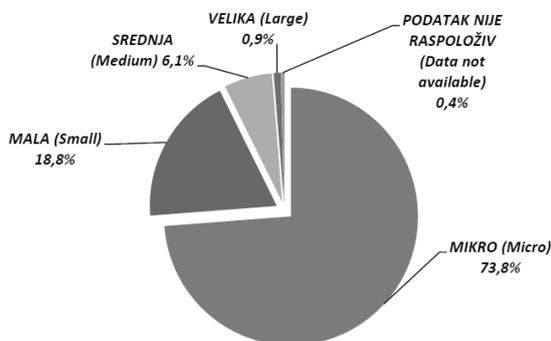


Chart 5.1. Enterprises by employment size classes (%)

Source: <http://www.bhas.ba> (accessed April, 2014)

In 2012, observed by economic activities the majority of the persons employed, (19.9%) were employed in manufacturing, followed by the wholesale and retail trade; repair of motor

security (10.5%). (Agency for Statistics of BiH, Sarajevo, September, 2013). The sector distribution of SME and Large Enterprises in BiH is given in the following Figure 5.1.

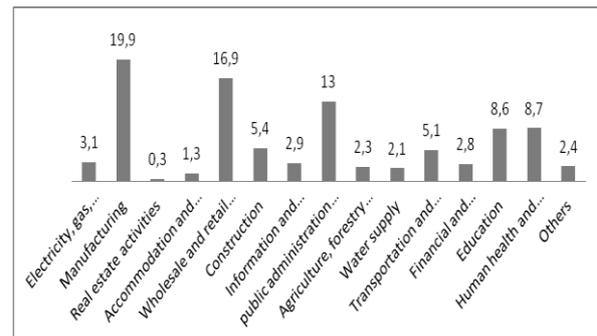


Figure 5.1. The sector distribution of SMEs and Large Enterprises in BiH

Source: <http://www.bhas.ba> (accessed April, 2014)

Observation of enterprises based on the criterion “number of persons employed” showed that 38.5% were employed in large enterprises, 29.5% in medium, 20.8% in small enterprises and 11.2% in micro enterprises. The basic data on enterprises in BiH in terms of the number of persons employed are given in Table 5.4 and Chart 5.2.

Table 5.4. Basic data on enterprises in BiH – number of persons employed

Total	Total SMEs	Micro	Small	Medium	Large
617,279	380,204	69,382	128,205	181,941	237,751
In %	61.5%	11.2%	20.8%	29.5%	38.5%

Source: <http://www.bhas.ba> (accessed June, 2014)

vehicles and motorcycles with (16.9%) and public administration and defense; compulsory social security (13%).

Observed by the economic activities, the highest revenues in 2012 were realized in wholesale and retail trade; repair of motor vehicles and motorcycles (39.7%), followed by manufacturing (19.6%) and public administration and defense; compulsory social

In comparison to other WBCs, it can be concluded that employment in the SME sector in BiH is lower (380,204 or 61.5%) than in Serbia (787,058, or 65.9%), and in Croatia (737,016 or 81.8%), but higher than in Montenegro (123,738 or 61.6%) and Albania (196,001 or 81.8%). Observed by the size of enterprises and their revenues, the total share of micro enterprises in the total revenue is (20.9%), small enterprises (22.9%), medium

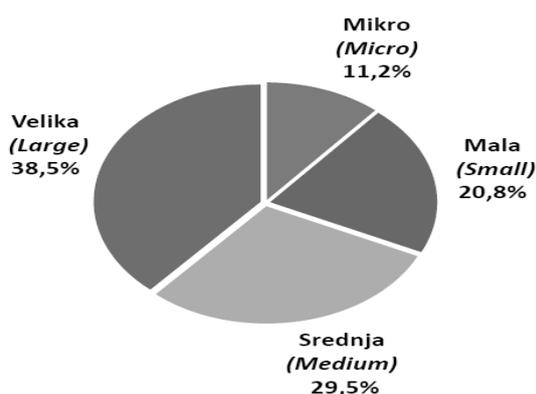


Chart 5.2. Structure of persons employed in enterprises by size classes in BiH

Source: <http://www.bhas.ba> (accessed April, 2014)

enterprises (23.6%), while the share of large enterprises is (32.6%), (Agency for Statistics of BiH 2013, p. 10).

The institutions that are involved are typically viewed as the formal institutions related to the legal system, the judicial system and the courts (especially in relation to the enforcement of contracts) and the administrative and bureaucratic hurdles that hinder the activities of entrepreneurs (Manolova et al., 2008, p. 39).

Several researchers have pointed out that entrepreneurs may also influence and act upon those institutions (Henrekson & Sanandaji 2011; Welter & Smallbone 2003, 2011). According to the Global Competitiveness Report 2013-2014, the most problematic factors for doing business in WBCs and Austria (as benchmark) are shown in Table 6.1.

Table 6.1. The most problematic factors for doing business in Austria and WBCs, 2013-2014

The most problematic factors for doing business	AUSTRIA	ALB	BiH	CRO	FYR MAC	MONT	SER
Access to financing	6.8	20.3	17.2	9.0	17.4	19.2	11.1
Policy instability	5.8	3.1	11.9	13.4	3.3	2.1	4.7
Tax rates	15.3	11.7	11.7	10.0	3.6	10.5	5.5
Government instability/coups	0.0	0.8	11.5	3.0	1.4	1.1	10.9
Inflation	1.4	3.5	11.1	1.2	0.6	4.0	5.6
Tax regulations	14.5	2.8	7.2	6.8	4.0	4.7	4.2
Inefficient government bureaucracy	13.2	12.7	6.4	19.9	10.6	10.9	13.1
Foreign currency regulations	0.1	0.5	4.9	1.2	0.4	0.8	5.9
Corruption	2.5	25.5	3.8	10.9	8.7	10.9	13.8
Restrictive labor regulations	18.8	0.4	3.2	9.5	1.8	5.1	1.7
Insufficient capacity to innovate, etc.	5.9	1.0	2.8	3.2	5.7	4.7	2.7
Inadequate supply of infrastructure	1.4	2.2	2.3	1.9	15.2	9.2	7.3
Poor work ethic in national labor force	4.1	4.7	2.7	4.2	11.6	6.1	3.3
Crime and theft	0.0	9.8	1.7	3.6	1.7	3.8	5.6
Inadequately educated workforce	19.4	0.6	0.9	2.1	11.9	5.3	3.1

Source: Author's calculation according to the World Economic Forum, 2013-2014

## 6. ANALYSIS OF OBSTACLES TO THE DEVELOPMENT OF SMEs IN WBCs

Many analysts have explained the difficulties facing entrepreneurs in transition countries in terms of the unfavorable business environment that they face. The explanation is sought in terms of the inadequately developed institutional framework within which entrepreneurs operate (Bartlet et al., 2013, p. 3).

It is very interesting that every country has different obstacles in the first place. For example, for Austria, the most problematic factors for doing business are restrictive labor regulations (18.1%), for Albania and Serbia, it is corruption (25.5% and 13.8%), for BiH, FYR Macedonia and Montenegro, it is access to financing (17.2%, 17.4% and 19.2%), and for Croatia, it is inefficient government bureaucracy (19.9%). Therefore, restrictive

labor regulations are not the most important obstacles in WBCs.

The most problematic factors for doing business in Austria are given as follows: Restrictive labor regulations (18.1%), Tax rates (15.3%), Tax regulations (14.5%), Inefficient government bureaucracy (13.2%), and Inadequately educated workforce (10.4%). The most problematic factors for doing business in these countries and Austria (as benchmark) are given in the following Figure 6.1.

infrastructure (15.2%), Inadequately educated workforce (11.9%), Poor work ethic in national labor force (11.6%), Inefficient government bureaucracy (10.6%);

- Montenegro: Access to financing (19.2%), Corruption (10.9%), Inefficient government bureaucracy (10.9%), Tax rates (10.5%), Inadequate supply of infrastructure (9.2%);

- Serbia: Corruption (13.8%), Inefficient government bureaucracy (13.1%), Access

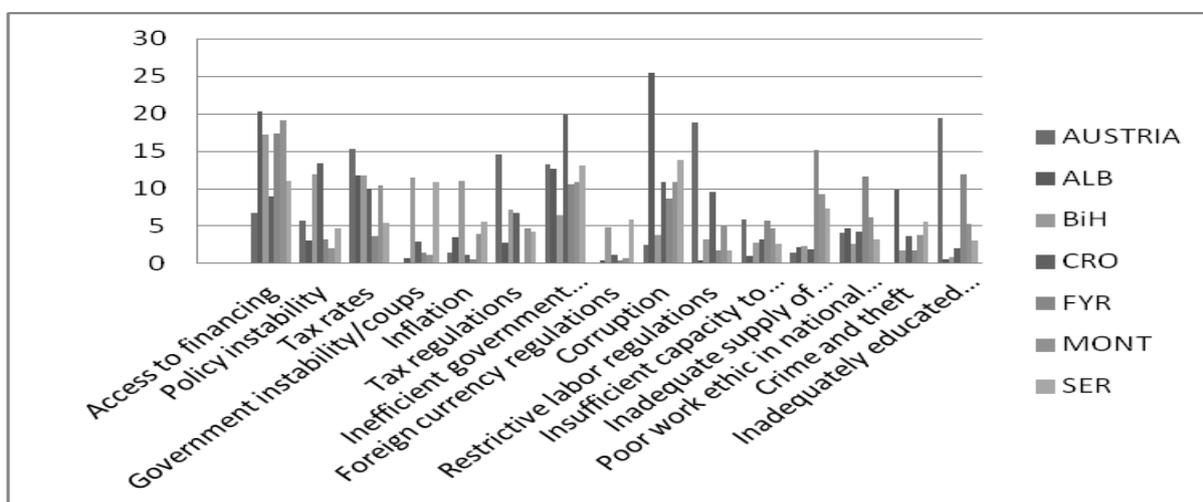


Figure 6.1. The most problematic factors for doing business in WBCs

Source: Author's calculation according to the World Economic Forum, 2013-2014

Five most problematic factors for doing business in WBCs are:

- Albania: Corruption (25.5%), Access to financing (20.3%), Inefficient government bureaucracy (12.7%), Tax regulations (11.6%), Crime and theft (9.8%);
- BiH: Access to financing (17.2%), Policy instability (11.9%), Tax rates (11.7%), Government instability/coups (11.5%), Inflation (11.1%);
- Croatia: Inefficient government bureaucracy (19.9%), Policy instability (13.4%), Corruption (10.9%), Tax rates (10.0%), Restrictive labor regulations (9.5%);
- FYR Macedonia: Access to financing (17.4%), Inadequate supply of

to financing (11.1%), Government instability/coups (10.9%), Inadequate supply of infrastructure (7.3%).

One of the most important obstacles to doing business in WBCs is corruption. According to the UNODC the average prevalence of business bribery in WBCs is 10.2%, which means that roughly one in ten businesses in the region's five economic sectors surveyed that, who had contact with a public official in 12 months prior to the survey, paid a bribe to a public official. UNODC's study offers a comprehensive assessment of corruption as experienced by businesses in WBCs, based on interviews with more than 12,700 companies. Significant variations in the prevalence of business bribery do exist between

countries/areas across WBCs. For example, at one extreme the figure reaches (17%) in Serbia and (15.7%) in Albania, and Montenegro at the other extreme, while it is (10.4%) in BiH, (10.7%) in Croatia and (6%) in FYR of Macedonia (UNODC, 2013, p. 15).

The perception of favorable business environment, for example, creates the expectation of a positive return on an investment, making businesses more inclined to invest than when they perceive a negative business environment. Business owners and representatives from WBCs in this survey rank corruption as the third most important obstacle after high taxes and complicated tax laws. In fact, corruption is considered a major obstacle by two fifths (40.1%) of business representatives, not far behind high taxes (49.3%) and complicated tax laws (43.5%). Another (27.2%) of respondents consider corruption a moderate obstacle to doing business, while (30.1%) consider it no obstacle.

## 7. CONCLUDING REMARKS AND RECOMMENDATIONS

The conducted research has shown that entrepreneurship and SMEs are now recognized by researchers and policymakers as central to economies across the world. Twenty million European (EU-27) SME (99.8%) 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. In 2012, 43,454 million European large enterprises (0.2%) employed 43,787,013 million people (33.5%) (EC 2013, p. 10).

However, their contribution to wealth creation, income generation, output and employment in WBCs is less than in developed countries. As the above discussion has

demonstrated, the transition from plan to market based economy in WBCs is extremely hard, with many external and internal barriers to development of SMEs and entrepreneurship and with a sharp fall in GDP combined with extremely high and increasing unemployment levels. In comparison to development of SME in developed countries such as Austria, development of SME and entrepreneurship in WBCs is in some kind of "schizophrenic position" in the economy, especially in BiH. No doubt, they inevitably need, government assistance. SME cannot develop without government assistance at all levels, and SME cannot give up to the invisible hand of the market.

The survey found that in WBCs, Serbia had the highest number of SME 282,259, while the lowest number is in Montenegro 23,332. Also, Albania had 68,984 SME, Croatia had 143,434 SME, FYR Macedonia had 70,506 SME, and BiH had 32,944 SME (without craft). In WBCs, microenterprises (less than 10 employees) account for an extremely large share of the registered enterprises ranging from (73.8%) in BiH, and (88.9%) in Montenegro to (92%) in Albania. However, their contribution in terms of employment is notably lower, reflecting a much lower productivity than in SME.

According to the research results it is possible to conclude that the hypothesis set before this research is confirmed. The conducted research can lead us to the conclusion that there are many barriers in development of SME and entrepreneurship in WBCs. The most problematic factors for doing business in WBCs (according to the WEF, 2013) are: Corruption, Access to financing, Inefficient government bureaucracy, Tax regulations, Crime and theft, Policy instability, Inadequate supply of infrastructure, Inadequately educated workforce, etc.

According to the UNODC survey, business owners and representatives from WBCs rank

corruption as the third most important issue after high taxes and complicated tax laws as an obstacle to doing business in their country. In fact, corruption is considered a major obstacle by (40.1%) of business representatives, not far behind high taxes (49.3 %) and complicated tax laws (43.5 %). In order to increase the rate of entrepreneurship and SME, which will play a key role in the economic development of WBCs, not only political actors and creators of economic policies but citizens also have to work on healing the historical wounds and pave the ways for future coexistence of all citizens. On the other hand, WBCs did not provide one of the most favorable business environments for SME, with particular strengths in the SBA areas of “think small first”, “state aid & public procurement”, “skills & innovation” and “environment”. One emerging issue which needs to be tackled is a shortage of skilled personnel in some industries. Also, despite the relatively good performance on “access to finance”, further measures are needed to improve SME access to capital, particularly venture capital.

These obstacles should be considered by business decision-makers in WBCs, with a view to improving the competitiveness of SMEs. Using representative organizations, such as chambers of commerce or business associations, they should try to influence the public institutions which are the main source of obstacles and persuade the governments in WBCs to eliminate these barriers. Policy makers frequently concentrate on “objective” barriers as reported in the literature for other countries, or as perceived by them, rather than by managers in the WBCs business environment. Specific economic measures are required for the removal of these barriers. The research has revealed that there is a number of barriers to faster development of SME in WBCs. Action is needed, at state level, first for removing these barriers, and second, for helping government to become aware of

the importance of business environment for new jobs.

Further research is probably required to examine barriers in more detail, for example access to financing, tax rates, restrictive labor regulations, insufficient capacity to innovate, inadequate supply of infrastructure, inadequately educated workforce, poor work ethic in national labor force, etc. Also, further research is required to examine barriers in the socioeconomic context, for example, the problem of financing new product development, and weaknesses in the supply of technical services for SME.

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