

# Introduction to “Entrepreneurship in Post-Communist Countries: New Drivers Towards a Market Economy”



Jovo Ateljević and Jelena Budak

The volume is a collection of 14 interconnected chapters that address and analyse the most current issues in the field of entrepreneurship in post-communist countries. There are certainly an increasing number of scholarly monographs, textbooks and edited volumes written by researchers or practitioners on the subject. There is also a significant amount of material on small business/entrepreneurial development in the transition economies held by the European Commission, who have been the major providers and sponsors of programmes to develop the enterprise sector since the early 1990s. In addition, there is published material from organisations like EBRD, GTZ and the banks active in the region—especially ProCredit Bank; added to that is data from a number of NGOs—e.g. CARE—as well as Western European development agencies which were active in SME development—e.g. Shannon Development in Ireland. Some of these titles and available material give researchers, practitioners and students a reasonable understanding of entrepreneurship in those countries, but serious scholars, policymakers and students would require additional empirically proven material to gain a complete understanding of the phenomenon in specific countries.

The book title suggests that the transition period by definition has come to an end, even though the process has never been completed in a number of countries for various reasons. Some of the factors that affect the transitional process are outlined below. Entrepreneurship, the focus of the book, was seen to be clearly located in “free market” ideology, and this has tended to provide negative reactions concerning the potential for cooperative actions with other entrepreneurs, the idea of planning

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J. Ateljević (✉)

University of Banja Luka, Banja Luka, Bosnia and Herzegovina

e-mail: [jovo.ateljevic@efbl.org](mailto:jovo.ateljevic@efbl.org)

J. Budak

The Institute of Economics, Zagreb, Zagreb, Croatia

e-mail: [jbudak@eizg.hr](mailto:jbudak@eizg.hr)

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and strategic formulation and the level of willingness to liaise with state organisations. The cult of individualism has thus been seen as the antidote to the decades of socialism but at the risk of undermining any concept of cooperation between entrepreneurs. Previous structures of socialist economy tended to marginalise entrepreneurial activity, and thus, models of enterprise activity post-1990 were drawn from the USA or UK, which were not necessarily coherent or sympathetic with local environment and culture. Ownership of the enterprise has also taken a rather consuming role; individuals are often unwilling to consider involving financial partners who may seek a share of the equity and thus a degree of involvement in the management of the enterprise. Therefore, state structures in transition economies have tended to take a bureaucratic approach to the problems associated with the SME sector. Generally, they have taken a more favourable view of the medium-sized enterprises (due to their employment generating profile) rather than to the micro and small enterprise sector. Public intervention and support of entrepreneurial growth has been patchy and not always clearly focused. The managers of state SME development organisations are frequently bureaucrats with no solid understanding of the problems of the entrepreneur. Equally, entrepreneurs are frequently secretive and unwilling to disclose important strategic information. Their closeness to the invisible line between the formal and informal economies tends to underline this secretive element. The ultimate aim of the volume is to unravel the most critical barriers, from both external and internal environment to the process of entrepreneurship and enterprise development in different socioeconomic contexts.

## 1 The Book Background

The manuscript is a part of a book series in entrepreneurship in transition countries, largely based on the REDETE conference. This particular one is the outcome of the fifth REDETE conference titled “Is free trade working for transitional and developing economies” and tends to address an increasing number of issues facing transition economies. From the 1960s towards 1980s, a number of countries pursued a neo-liberal economic development strategy. Some of the examples are South Korea, Taiwan, New Zealand and even China to some extent. The reality, however, was very different indeed. For instance, what Korea actually did during those periods was to foster certain new industries, selected by the government in consultation with the private sector, through tariff protection, subsidies and other forms of government support until they “grew up” enough to withstand international competition. It’s very important to mention that the government owned all the banks, able to support businesses through credit. Outward-oriented policies brought dynamism and greater prosperity to most of the East Asia region, one of the poorest areas of the world 40–50 years ago (IMF 2000).

By contrast, in the 1970s and 1980s many countries in Latin America and Africa pursued inward-oriented policies, facing stagnation and decline of their economies. In many cases, especially in Africa, adverse external developments made the problems worse. Today is a bit different: the world economy has become increasingly

open, interdependently underpinned by “globalisation” the concept that has acquired considerable controversial force. Some view it as a process that is beneficial—a key to future world economic development—and also inevitable and irreversible. Others see it as hostility, even fear, believing that it increases inequality within and between nations, affecting domestic firms, labour market affecting overall social progress. Indeed, globalisation offers many opportunities for development but it is not progressing evenly. Economic “globalisation” is a historical process, the result of human innovation and technological progress. Due to this, some countries are becoming integrated into the global economy more quickly than others. Countries that have been able to integrate are experiencing faster growth and reduced poverty (IMF 2008).

When it comes to Europe the past two to three decades have seen a dramatic transformation in former communist countries, resulting in their reintegration into the global economy, for better in most cases. But the task of building full market economies has been difficult and prolonged. Liberalisation of trade and prices came fast, but institutional reforms—in areas such as governance, competition policy, labour markets, privatisation and enterprise restructuring—often faced opposition from various sides. The results of the first years of transition were uneven. Initial conditions and external factors played a role, but policies were critical too. Countries that undertook radical reforms were rewarded with faster recovery and income convergence. Others were less resistant to the crises. In contrast to the turbulence of the first decade of transition, the early and mid-2000s saw uniformly strong growth. With macroeconomic stability established, the region experienced large capital inflows, supported by a friendly global environment and increasing confidence in rapid convergence with Western Europe—especially for those countries that joined the EU during this period. Many factors can help or hinder global/transitional processes. The experience of the countries that have increased output most rapidly shows the importance of creating conditions that are conducive to long-run per capita income growth. Economic stability, institution building and structural reform are at least as important for long-term development as financial transfers. What matters is the whole package of policies, financial and technical assistance and debt relief if necessary, this might include:

- Macroeconomic stability to create the right conditions for investment and saving
- Outward-oriented policies to promote efficiency through increased trade and investment
- Structural reform to encourage domestic competition
- Strong institutions and an effective government to foster good governance
- Education, training and R&D to promote productivity
- External debt management to ensure adequate resources for sustainable development

It is clear that macro environment plays a big role in creating conditions for entrepreneurial activities, developed in general. Therefore, questioning the existing economic model is not really being addressed by policymakers, yet if we are to retain

and improve entrepreneurial activity and make an economy working, we need to analyse a number of questions. The central one is how to formulate fine-tuning strategies for economic development and rejuvenation. In this book are presented some of these topics that required further scholarly investigation.

## 2 Structure of the Book

The book material is divided into two interrelated parts: the Part I, consisting of eight chapters, provides analyses of entrepreneurship in post-transition context, and the second part, encompassing the remaining five chapters, deals with various issues related to entrepreneurship, SMEs and economic development in the selected countries of the Western Balkans region. The following provides a short outline of each chapter.

**Chapter 2** Economic growth is one of the most extensively studied macroeconomic phenomena in the economic literature. How to stir economic growth and what are the drivers of growth are the issues that a number of economists are trying to answer. In this chapter the authors analyse economic growth by looking at the gross domestic product rate (GDPR), but also through the unemployment rate (UR), which we believe can have a significant impact on the achievement of the objectives of economic growth and development in developing countries.

**Chapter 3** The role of this chapter is to research the contribution of the EU funds to boosting the entrepreneurship in the new EU member states of the CEE and SEE region. Even though there are some less developed areas, i.e. below the 75% of EU average GDP per citizen in the old member states (Portugal, Malta, southern Italy and east Great Britain), this research focuses on the continental EU member countries.

**Chapter 4** One of the topics that is increasingly relevant in the context of transition economies is FDI. Indeed, multinational enterprises (MNEs) are important players on many goods and factor markets worldwide, while their foreign affiliates and FDI flows play an increasing role in spurring economic development. However, FDI flows do not necessarily increase the welfare of regions or push regional economic development if there is no match between the profile (and therefore the needs) of the region and the activities of MNEs. In the advance of their research project, the authors add to the literature a fundamentally microeconomic view of an optimal location choice of a firm amongst heterogeneous regions. They take into account macroeconomic and regional characteristics and combine firm-specific characteristics with regional data to model the match between firms and locations.

**Chapter 5** The need to restructure the company during a turbulent business environment is critical as a large number of companies faced a crisis of business, a decline in financial performance and a weakening of the financial result of operations. Measures from the domain of restructuring can help businesses to financially

stabilise and in certain conditions contribute to the growth. Proper implementation of the enterprise restructuring strategy needs an adequate definition of right problems. Interpretation of the obtained results should serve as the basis for professional and scholarly discussion on the role of restructuring in the function of improving business operations. In this chapter, the authors attempt to give a comprehensive answer to the following question "What is the significance of certain sources of financing for the enterprise restructuring...?" by using a number of countries from the EU and the Western Balkans.

**Chapter 6** From the analysis of the results, the authors in this chapter have identified measured indicators of the motives of entrepreneurial behaviour which are apparently a direct consequence of achieved level of economic development. It is expected that the indicators of opportunity motives and necessity motives do not deviate from the logical to the now established tendency. Transition of society generates specific conditions and has some typical features, but there is no direct link with motive of entrepreneurial behaviour.

**Chapter 7** The main purpose of this chapter is to compare female entrepreneurial activities in transition economies. A comparison of female entrepreneurship in Central Europe and the Baltic States is interesting because, although they are transition countries and the members of the European Union, their development paths in the late twentieth century were quite different. This has affected the economic, technological and social development of these countries. This chapter aims to draw conclusion from the way in which macro-level factors explain the differences of female entrepreneurship in Central Europe and the Baltic States. The basic hypotheses used as the starting point of this research are as follows: female entrepreneurial activity in transition countries depends on macro-level factors, and cultural factors have a dominant influence on the female entrepreneurial activity.

**Chapter 8** It is widely known that universities or other similar entities have an impact on the national and regional economies. A growing demand generates more precise studies regarding the quantification of the economic impact of these entities. The topic of the examination of economic impact is especially interesting and exciting when we can compare regions with different levels of development, yet both with the presence of an internationally successful university (e.g. here the University of Lorraine in France and the University of Szeged in Hungary). The main goal of this chapter is to compare the local economic impact of universities in two university towns, one in a relatively rich and the other in a relatively poor region of Europe. To avoid bias, the same methodology based on the available data was applied.

**Chapter 9** The globalisation of the economy and the growth of competition brought forward tremendous challenges for small and medium enterprises. SMEs play a key role in transition countries by generating employment, innovation and competition and creating economic wealth. The size of the firm is a focal factor for the business performance. This chapter is focused on the intangible factors such as

distinctive competencies, the abilities to evaluate and use culture, skills, work experience and capabilities to create qualitative products and services, to manage human resources, to use technologies, to generate business plans and to make clear how ideas can be turned into reality, as well as on the tangible assets like land, buildings, machinery, inventory, etc. The author attempts to articulate the complications faced by SMEs, by focusing on the Albanian case. In this country, a large number of firms are family-owned businesses. This study assesses small and medium enterprises and particularly intangible and tangible assets and their involvement in the success of a business.

**Chapter 10** In strategic documents, like the Strategy for Development of Entrepreneurship in the Republic of Croatia 2013–2020, Croatian government has recognised their importance and outlined it as one of the top priorities. This strategic document is focused on strengthening entrepreneurial potential and improving entrepreneurial culture, and its programmes and projects are implemented through a wide infrastructure network of business support institutions. However, despite these initiatives and multiple efforts, recent evidence suggests that these firms in Croatia struggle to sustain their business activities thus losing competitive advantage with those from the EU. This research has identified a number of barriers that small and medium-sized companies face in Croatia. This chapter is particularly concerned with business networks, an important part of the small business management.

**Chapter 11** The size of public procurement markets worldwide is impressive. For developed economies, the ratio of government procurement markets to GDP is about 15–20% of GDP (OECD 2012). The government procurement markets in post-transition countries make a significant share of national economy, and seemingly, its importance rises in the times of economic crisis. Most of the previous research is focused on the government procurers, i.e. the demand side of public procurement markets and its (in)efficiencies. The shift to the supply side makes the new stream of research in developed countries, yet comprehensive assessment of this process in transition economies is missing. Thus, this chapter aims to fulfil the gap in the literature by investigating the accession policy impact on the role of SMEs in post-transition countries. Based on the experience of companies in two post-transition countries, Croatia and Bosnia and Herzegovina (B&H), it analyses the role of the EU in public procurement generally and specifically the effect of EU membership on public procurement for SMEs.

**Chapter 12** Market liquidity, as an important factor of making investment decisions at the capital market, provides security for the investors and reduces the risk of not being able to close their positions without significant loss of financial assets. Considering the complexity of the liquidity term, there is more than one definition of liquidity. Generally, liquid market can be described as one where participants can quickly accomplish large transactions with no significant impact on the price. How can the liquidity on the capital market be measured is the ultimate question of this research. The chapter focuses on the hypothesis that market liquidity has a positive impact on the performance and operating profitability of the companies and thereby

on the value of the companies. In order to confirm this hypothesis, the measures of market liquidity have been analysed, and the overview of previous research and studies of this subject has been given. The authors used data from the Banja Luka Stock Exchange and Institute of Statistics of Republic of Srpska, as well as data from New York Stock Exchange, International Monetary Fund, World Bank and studies of other relevant institutions and authors.

**Chapter 13** In order to construct effective context for entrepreneurial learning, this chapter aims to identify students' potentials for the entrepreneurial and innovative activities. This will be achieved by summarising answers given to a custom-made survey by student sample from the Western Balkans region. In the next step, this chapter will try to propose a model that describes teaching-and-working space within a university that could help students improve their knowledge and skills relative to business thinking and enterprise.

**Chapter 14** There is no doubt that managers are facing a number of ethical challenges in their everyday activities, trying to respond better to all demands of all stakeholders they are directly and indirectly linked to. Today, in emerging economies in particular, the ethical behaviour of managers is a strategic important term when it comes to decision-making and successful business. This chapter contributes to the knowledge of this important area of management focusing on both negative and positive effects of the ethical behaviour of managers, but also all relevant frameworks are presented when it comes to ethics in decision-making that affects employee satisfaction. Croatia is used as the empirical context, in which country many businesses still straggle to get full recognition by the EU business community.

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