

Entrepreneurship in Bosnia and Herzegovina



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Abstract This chapter depicts a glance picture of Bosnian state of entrepreneurship. It begins with a historical overview and establishment of the state. It describes the challenges that Bosnia has faced as well as its current issues. The current state of entrepreneurship, business environment, and problems of entrepreneurs and small business owners are discussed. The chapter concludes suggestions for further development of entrepreneurship in Bosnia and Herzegovina.

1 Introduction

Bosnia and Herzegovina (B&H) is located on the Balkan Peninsula. It covers an area of 51,197 km², and it is bordering Croatia to the north and west, Serbia to the east, Montenegro to the southeast, and the Adriatic Sea to the south with its coastline that has very limited access at the Adriatic Sea of 20 km length. The landscape is mostly hilly and mountainous with almost 50% of landmass composed of thick forest intertwined with fertile river valleys. Flag of Bosnia and Herzegovina is showed in the (Exhibit 1).

Such geography has profoundly influenced country's economic activities during previous Former Yugoslav (FY) economic system, and nowadays during a period of transition to the modern market economy, where the production is mostly relying on and related to the usage of its resources. B&H is rich in terms of natural resources such as minerals and metals among which coal limestone, bauxite, copper, lead, and zinc are dominating. Hence, the economy itself relies heavily on exports of natural resources such as metals and energy. During FY Period, heavy industry was dominating B&H's labor market. B&H's economy was major supplier of raw materials and semi-finished products for processing industries in other Federal republics of Yugoslavia. What Bosnia and Herzegovina can be especially proud of are its water resources, that are abundant and of high quality.

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Exhibit 1 Flag of Bosnia and Herzegovina

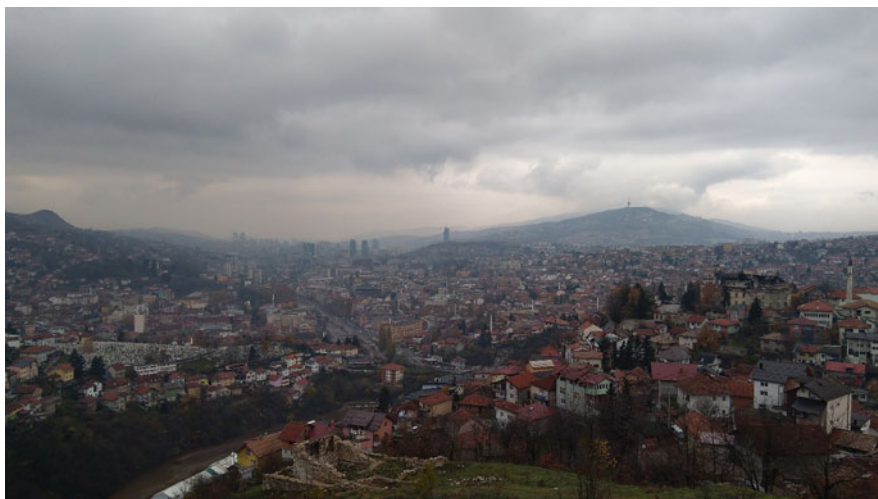


Exhibit 2 Sarajevo; photo © 2017 Azra Bičo

A former member of Yugoslavia, Bosnia and Herzegovina declared its independence on 1st of March 1992. Following events are deadly attacks by Serb aggressors on B&H's civil society, B&H was confronted with severe humanitarian and social problems in which thousands of people died, and a considerable part of the population seeks for refugees (Ilgün and Coşkun 2009).

The conflict lasted until the Dayton Peace Agreement was signed in Paris in December 1995 between the counterparts. As a result, B&H consists of two entities, The Federation of Bosnia and Herzegovina (FB&H) with 51% of the territory and Sarajevo (Exhibit 2) as its capital. Sarajevo is also the national capital city. Another entity is Republika Srpska (RS) with 49% of the territory, and its capital is Banja Luka. The Federation is further divided into ten autonomous cantons.

Unemployment rate by International Labor Organization is exceptionally high amounting to 32.2% in the year 2016. Reason for it is a process of transition because the private sector is unable to inject workers that are leaving from the public sector or from the major product lines that were shut down after the war. In favor of these

figures goes the fact that the majority of Bosnians and Herzegovinians are more likely to be listed as employed than as self-employed. Therefore, self-employment consciousness is still at shallow levels, and it is one of the necessary improvements that need to be made, through the promotion of both active and passive labor market policies; it can positively affect the situation in the economy and decrease these severe unemployment rates.

Under central planning, economic development in Bosnia and Herzegovina was based on state ownership, after independence and civil war; the rebuilding of the economy was left to a private businessman (Dana and Dana 2003). There is a sole initiative from local businessmen as well as from diaspora. However, the local initiative in Bosnia and Herzegovina is hindered by many obstacles like the persistence of lengthy, rigid bureaucratic procedures, corruption, and the inefficiency of the judicial system. All these are not favorable for local businessmen and even for potential foreign investors.

Due to poor general infrastructure, the country is still quite closed when it comes to trading, much improvement is needed, and the highways are not completed, and it is of foremost importance for connections to Europe to access European markets. On the contrary, its location is desirable, and B&H could be a possible bridge between east and west, upon completing needed infrastructural projects. Bosnia and Herzegovina is ideally located, and its proximity to the main European business hubs makes it an attractive business destination. Among its population of 3.8 million, significant number of it are skilled labor force (Bičo and Bajram 2012).

Bosnia and Herzegovina belongs to a group of upper-middle-income countries, and in the year of 2016, it had a population of 3.5 million, with a literacy rate of 98% (World Bank) and annual GDP growth rate of 2.0%. According to Ramadani and Schneider (2013) from the year 2001 to 2010 in Bosnia and Herzegovina, there has been substantial economic growth, and it is due to the growth of small and medium-sized enterprises (SMEs), where out of 14,321 companies registered, only 55 or 0.38% were large enterprises.

Politically, B&H is highly decentralized state with weak state institutions (Petričević and Danis 2007), and it currently has the status of potential candidate country for joining the European Union (EU).

B&H's history of entrepreneurship is written down in famous travel writings of Čelebi (1967) that are describing his visits to Sarajevo in the year of 1660. B&H's capital Sarajevo is described as a city that became famous for its trading and merchandising activities, and it was major trading center at times. Therefore, this is one of the first insights on entrepreneurial activities in this region, and old crafts (Exhibits 3 and 4) are one of the proofs of entrepreneurial activities that have been still nurtured and preserved. These entrepreneurial activities are usually preserved within craftsman's families and have been passed on from generation to generation.

Among transition economies, Bosnia and Herzegovina presents a somewhat unique case that has the potential to provide an excellent opportunity as well as perplexing challenges, to those who aspire to do business in this turbulent economy (Petričević and Danis 2007).



Exhibit 3 Kazandžiluk street in Sarajevo, Craft shops of braziers; photo © 2017 Azra Bičo



Exhibit 4 Kovači street, Sarajevo, Craft shop of tinsmith and locksmith; photo © 2017 Azra Bičo

2 Historical Overview

The Bosnian state was first mentioned in Byzantine sources in the tenth century. In the fourteenth century, Bosnia and Herzegovina was autonomous and in the year 1377 was proclaimed a Kingdom.



Exhibit 5 Bistrik railway station building, Sarajevo; photo © 2017 Azra Bičo

Following centuries were a period of occupations. From 1463 until 1878 was a period of Ottoman occupation whose influence is still highly present in modern B&H's society. Its influence was highly felt through various aspects of life; it was the interplay of the cultures, cuisine, and many others. Majority of the population converted to Islam, so the religious influence of Ottomans was also present. Still, in modern history, these two nations are considered brotherly. In the year 1878 by the decision of Congress of Berlin, the mandate to occupy Bosnia and Herzegovina was given to Austro-Hungarian Empire, and it lasted for 40 years. During the Austro-Hungarian period of occupation, infrastructure was established, and Bosnia and Herzegovina got a railway and road network. Exhibit 5 features Bistrik railway station building's southeast facade, that was built in 1906, and is a National monument. This period was also characterized by extensive factory and mines openings. Austro Hungarians invested a lot in the schooling; many elementary and few high schools were built.

The year 1914 marked world's history as the beginning of World War I, by the assassination of Archduke Franc Ferdinand in the year 1914 at Latin Bridge in Sarajevo (Exhibit 6). In the year 1918 B&H was incorporated into the newly created Kingdom of Serbs, Croats, and Slovenes.

Anti-Fascist Council for the National Liberation of Yugoslavia known under abbreviation AVNOJ, established in November 26, 1942, had three sessions, which in 29 November 1945 resulted in formation Socialist Federal Republic of Yugoslavia (SFRY). In that same year of 1945, Bosnia and Herzegovina became part of Socialist Federal Republic of Yugoslavia (SFRY). During the World War II, Bosnia and Herzegovina was within the independent State of Croatia (NDH).



Exhibit 6 Latin Bridge; photo © 2017 Azra Bičo

Modern Bosnian and Herzegovinian history is dating from its independence that triggered a war and ended by signing and Dayton Peace Agreement that formed country into its current existence.

Bosnia and Herzegovina under Ottoman Empire was no exception to rest of the Empire when it comes to the way economy and entrepreneurship were organized. Infrastructure was quite poorly built during the times, the land was abundant, but capital and labor were scarce. B&H under Ottoman Empire was the agrarian economy. Serb population preserved their traditional Byzantine and Slavic traditions, and the Muslim population adopted Turkish-Islamic culture along with the values of the Bazaar economy. Majority of people were living and supporting themselves from their small house holdings from which tax was gathered. In the FY system, B&H was a command economy. It was a part of a larger picture to which B&H presented one of leading suppliers of minerals and metals, with almost half of its productive labor force working in heavy industry. The majority of production was oriented and planned based on the need of FY market. This period was characterized by economic prosperity and economic growth and peace. Sarajevo economically blossomed in the year 1984 when it hosted Winter Olympic. It was a first Olympic game to be held at socialist state. Although in 1980 Yugoslavia was hit by the significant crisis, this project was well developed and organized. Numerous hotels (Exhibit 7) and sports facilities (Exhibit 8) were built especially for this purpose that boosted Sarajevo's entrepreneurial scene as well.

The war that lasted for 4 years was devastating for B&H's economy; houses, schools, hospitals, mosques, and factories were demolished. To start a new life and to rebuild it, financial support was needed. Hence in this period, B&H was relying heavily on foreign aid. The war scars are still present in many cities in B&H.

Exhibit 7 Former hotel Holiday Inn; photo © 2017 Azra Bičo



Ideas of employment that belong to previous systems where workers used to work in the single workplace in the status of an employee upon their retirement were no longer possible since the majority of production lines were shut down, and because new system does not support such ideas.

Ivy (1996) explained that most of the attention in postcommunist and transition economies are centered on the privatization of existing state-owned enterprises. Bosnia and Herzegovina is no exception to the case. Companies needed to go through the process of privatization for the public to private ownership as it is usually the case for the most transitional postwar economy. The process of privatization in Bosnia and Herzegovina is in its final phase. By the completion of this process, a new phase of private ownership is to be present at B&H's market. Ramadani et al. (2013) state the



Exhibit 8 Zetra Olympic hall; photo © 2017 Azra Bičo

more procedures there are, the more opportunities for corruption there are. This is exactly the case of B&H. In Bosnia and Herzegovina, however, most of the formerly state-owned industry has been damaged during the interethnic fighting. Dana (1999) states “A free-enterprise system is not so much the result of the transfer of ownership of existing firms. Instead, entrepreneurs are rebuilding the economy by identifying niches and the flexible structure of new ventures.” Dana (1999) also emphasizes on the advantages of the low wage structure in Bosnia and Herzegovina, and that it could be a competitive advantage in light manufacturing.

Ramadani and Dana (2013) identified approaches in transitioning economies. One approach is when reform takes place gradually, to avoid side effects. The second approach according to them is the big bang approach that prescribes closure of money-losing state-owned industries and proclaims immediate transition to capitalism. According to Bosma and Levie (2010), Bosnia and Herzegovina belongs to a group of efficiency-driven economies. Such economies are characterized by a tendency to be more linked to global markets, and to achieve growth and prosperity entrepreneurs who are growth and technology-oriented are needed in order to create more employment opportunities.

Palalic et al. (2017) explained that even though B&H in former Yugoslavia (FY) was one of the best former republics, and it was an industry-based republic, its economy is in transition and passes through a very difficult time. Major problems include infrastructure and capital assets, a lack of saving and investment, lost markets, unstable government and financial structure, and the absence of potential employers. There are far too few jobs for those who want one. Bosnia and Herzegovina’s unemployment is severe since it is long term and structural. It has been reported in country’s Labor Force Survey that half of all employees are unemployed for 5 years,

of which one quarter is unemployed for more than 10 years and can hardly be considered as economically active (Bičo 2016).

As noted by Julien (1993), the recovery of an economy can be linked to the growth of entrepreneurship. Ramadani et al. (2014) identified that what are the different approaches and efforts to define entrepreneurship, but they all pose these essential elements, innovation, risk-taking, a combination of production factory, creation of new enterprise, realization of profit, and ensuring a business growth.

Two terms entrepreneurship and being self-employed are mutually inclusive and of high importance for transitioning economies such as Bosnia and Herzegovina to recover and boost economy's growth.

Cantillon (1756) defined the entrepreneur the one who takes the risk of being self-employed and Fayolle (2007) identifies entrepreneurship as an engine of national Economy. Hence, the importance of the level of self-employment to be high in recovering economies is inevitable.

When it comes to entrepreneurship, small and medium businesses play an essential role. According to Labour Force survey, employment figures in the year 2016 in B&H according to Labor Force Survey showed out of a total number of people employed 75.6% were employees, 21.1% were self-employed, and unpaid family workers 2.3%. Self-employment figures perform so low due to problems of inertia and mind setting of people that are related to a safety and job security of work, due to habits to which people are accustomed to from previous economic system. This is related to comfortability and intensity of work and responsibility regarding individual results of work in the public sector, which cannot be easily compared to the ones in private sector. Insufficient level of competition in private sector that is felt especially in the period of post-economic crisis is one of the problems as well as the problem of monopolization of employment in public sector that is related to the privilege of employment opportunities that the leading political parties have.

Demirgüç-Kunt et al. (2009) identified financial constraints as the main obstacle for individuals to switch from being employed to self-employed, finding where that wealthier households with access to bank financing are more likely to become entrepreneurs and survive an early period in business and determinants for its performance.

Facing massive unemployment in the country, the promotion of self-employment and microenterprise should become country's major priority as a possibility for unemployment rates to decrease, since the self-employed can be considered as the smallest, but initially the most vital unit of entrepreneurial activity (Demirgüç-Kunt et al. 2009).

Small and medium enterprises are hoping for the development of the region, and they are the ones that boost economic growth on a smaller microscale. One of the positive examples in B&H is the town of Visoko, once famous for factory and production line KTK Visoko (factory of leather textile) (Exhibit 9), that went bankrupt. Now the town has many privately owned small craft shops designing and sewing various leather products as it can be seen in Exhibit 10. This area is also famous for meat processing industries that are most successful in Bosnia and



Exhibit 9 KTK Visoko; photo © 2017 Azra Bičo

Herzegovina, all of which privately owned. Exhibit 11 features factory and warehouse of meat processing industry Semić.

Dana and Fayolle have identified the importance of SME for countries that strive to achieve economic development since they are characterized by flexible, adaptable, relatively inexpensive to establish and close, adjustable to specific market demands, and these should be generators of economic development.

Although several towns in B&H have been a fruitful place for SME establishment, most of the business activities take place in Canton Sarajevo since this region is dominant in the indirect taxes collection. It is primarily because this is the central region of the country when it comes to public administration allocation.

Micro-areas in Bosnia and Herzegovina such as “Gračanica (Exhibit 12), Gradačac, and Tešanj” towns have been recognized as very fruitful areas for entrepreneurship, more specifically family businesses. These towns have low unemployment rates, due to a large number of registered small and medium enterprises. (Exhibit 12 shows Euro-Galant company, leather producing goods company, that is just one of the examples of successful SME in this region.)

Džafić (2010) identified that SME in the process found it important from which it is expected to be critical pillar of economic development of Bosnia and Herzegovina. Moreover, SMEs in countries of transition such as Macedonia and B&H are facing problems of access to external sources of financing (Balling et al. 2009; Burk and



Exhibit 10 Craft shop of leather products; photo © 2017 Azra Bičo



Exhibit 11 Semić meat industry, Factory; photo © 2017 Azra Bičo



Exhibit 12 Euro-Galant Gračanica; photo © 2017 Azra Bičo

Lehmann 2006; IFC 2010). In Bosnia and Herzegovina, companies usually use bank loans as their source of financing (Petković 2010).

Business creation was not boosted and supported by governments, due to inadequate procedures. These resulted in two negativities, sizeable informal economy and lowered foreign direct investment figures. To attract foreign and domestic investors, firstly it is necessary to create a favorable business environment, which is the case for Bosnia and Herzegovina and Macedonia (Hisrich et al. 2016) During postwar period, major Foreign Direct Investment came into banking sector, and in these years, Bosnia and Herzegovina experienced GDP growth (Bastic 2004); in 1990, B&H started its transition process via economic liberalization and the development and implementation of market-oriented reforms aimed at achieving long-term growth.

One of the ways to overcome current problems is the process of reindustrialization that should stop the process of depopulation and prevent depopulation of the B&H that has been of country's major concern over past 10 years, along with a current unfavorable trend of brain drain.

3 Environment for Entrepreneurship

After a destructive war from 1992 to 1995, no infrastructure was left, from which the state can start its development. However, a little freedom after the war animated the beginning of entrepreneurship in Bosnia and Herzegovina. Bosnians, mainly males, were looking to contribute to their families' welfare, and these goals started to create an entrepreneurial environment in Bosnia. Through the time, more and more people were engaged in entrepreneurial transactions, and Bosnian economy is being

developed by small entrepreneurs (Dana 1999). This hard time created strong entrepreneurs with a strong mindset whose businesses are now very well developed and employ hundreds of people. In the first decade after the war, taking into consideration of existing constraints, entrepreneurship was gradually developing. In late 2000s, many jobs were created. People, capital, and goods were moving more easily and, for instance, shifting from one job to another was relatively easy if the war consequences were taken into account.

The global crisis in 2008 affected Bosnian entrepreneurship development in which many firms were straggled to cover up firms' daily operations. Lots of them were looking for a mode how to overcome these transactions problems. These issues were very serious, and they went to the extent that the existence of their families will be affected if they do not find a way to respond to firm's payables. It is because their business was mainly financed by themselves from their savings (Dana and Ramadani 2015; Palalic 2017).

Transition process in Bosnia and Herzegovina started in 1990 but prolonged until now. One of the steps that were done in the early stage is establishing an authority that will be in charge of it. In Federation BiH, it is "Agencija za privatizaciju u Federaciji BiH—FPA" (Agency for privatization for Federation of BiH). In Republika Srpska, in charge of it is "Investiciono razvojna banka Republike Srpske IRBRS" (Investment Development Bank of RS). The FPA was established in 1997 while IRBRS in 2006. Both agencies are under the authority of respective entity of Bosnia and Herzegovina. Federation BiH also has cantonal privatization agencies which manage privatization at the cantonal level.

Entrepreneurship in Bosnia still needs more freedom from the State. Doing business in Bosnia is still in the shadow and does not appear very easy compared to ex-Yugoslavia republics. Doing business, which depicts how easy or complicated it is to do business for entrepreneurs in a country, shows that Bosnia is the last one among ex-Yugoslavian republics, 86th. Still, procedures are time-consuming for local entrepreneurs. However, compared to 2012, in 2017 "Bosnia and Herzegovina made starting a business easier by reducing the paid-in minimum capital requirement for limited liability companies and increasing the efficiency of the notary system (Doing Business 2017, p. 21)." If a business is characterized by a significant investment, where for instance, requires a warehouse, then only for getting electricity an entrepreneur needs to spend 126 days to complete that procedure with a very high cost (Doing Business 2017, pp. 44–46).

Entrepreneurship development in Bosnia lacks institutional support across the country. The challenges and obstacles have been discussed in the early Bosnian transition by Dana (1999) and Dana and Dana (2003) and recently by Džafić et al. (2011), Palalic (2017), and Palalic et al. (2017). Governmental support is inevitable to create a *business lake* which will be the critical source of social and economic development of B&H.

4 Overview of SMEs' Structure in B&H

“KDBiH”¹ stands for the classification of all economic activities in B&H related to SMEs, micro, and large enterprises, which is made on the basis of “Statistical Nomenclature economic activities of the European Union (NACE Rev.1.14)”² and is comparable with the international standard Industrial Classification of all economic activities of the United Nations (ISIC Rev.3).³ NACE is a full statistical classification of economic activities of the European Union, NACE Rev. 1.1, which is only elaborated further to the level of the subclass (code defined by the five digits). These subclasses reflect the specifics of B&H, in particular with its two entities (the Federation of B&H and Republika Srpska) and a separate administrative unit of the Brčko District of B&H. So all private entities, enterprises, firms, and organizations have been given a code of activity, namely, “KD.” The “KDB&H” or NACE (in EU) category has the following hierarchical grouping of economic and other activities:

1. Section (indicated by single alphabetic code)
2. Subsection (indicated by two-letter alphabetic code)
3. Division (marked by two-digit numerical code)
4. Group (designated three-digit numerical code)
5. Class (indicated by four-digit numerical code)
6. Subclass (indicated by five-digit numerical code).

So, the Classification of Economic Activities (KDB&H), or NACE, consists of 17 sections, 31 sub-sections, the division of 62,224 groups, 514 classes, and 625 sub-classes (Table 1).

According to a report (First Release 2017, p. 2) from Agency for Statistics of B&H, “a classification of enterprises by employment size classes, using criteria “number of persons employed,” shows that microenterprises (0–9 persons employed) create the most significant share of the total number of classified enterprises, even 74.1%. Small enterprises (10–49 persons employed) create 18.4%, medium enterprises (50–249 persons employed) create 6.3%, while the share of large enterprises (250 and more persons employed) is only 1.0%. For 0.2% of active enterprises, data on employment are not available.”

Regarding the definition of SME in B&H, it is very similar to the EU definition of SME, which is according to some employees, turnover or balance sheet total. In Table 2, the definitions of SMEs in B&H are provided.

Microenterprises are those who employ less than ten employees with a turnover of less than 2 million euros (with the same balance sheet total). *Small* enterprises are defined between 10 and 49 with the turnover less than 10 million euros (with the same balance sheet total). *Medium-sized* companies are those who employ between

¹KDBiH is “klasifikacija djelatnosti u BiH”.

²Available at <http://ec.europa.eu>

³Available at <http://unstats.un.org>

Table 1 The basic structure and number of titles of “KDB&H” or NACE, by hierarchical levels

Names of the sections of “KDB&H”	Number of titles of “KDB&H” or “NACE”, by hierarchical levels						
	Sub sections	Divisions	Groups	Class	Sub-class		
					Total	Elaborated	Non-elaborated
Agriculture, hunting, and forestry	1	2	6	14	25	18	7
Fishing	1	1	1	2	3	2	1
Mining and quarrying	2	5	13	16	21	9	12
Manufacturing	14	23	103	242	254	24	230
Production and supply of electricity	1	2	4	7	10	4	6
Electricity, gas, and water supply							
Construction	1	1	5	17	21	7	14
Wholesales and retails; repair of motor vehicles, motorcycles, and items for personal and household goods	1	3	19	79	98	28	70
Catering	1	1	5	8	15	11	4
Transport, storage, and communication	1	5	14	21	24	6	18
Financial intermediation	1	3	5	12	14	4	10
Real estate, renting, and business	1	5	23	39	43	8	35
Public administration and defense; necessary social security	1	1	3	10	37	34	3
Education	1	1	4	6	10	6	4
Health and social work	1	1	3	7	14	11	3
Other community, social and personal	1	4	12	30	32	4	28
Service activities							
Households’ activities	1	3	3	3	3	0	3
Territorial organizations and bodies	1	1	1	1	1	0	1
TOTAL (17 sections)	31	62	224	514	625	176	449

Table 2 Definition of SMEs in B&H

Company category	Employees	Turnover (€)	Balance sheet total (€)
Micro	<10	<2 million	<2 million
Small	<50	<10 million	<10 million
Medium-sized	<250	<50 million	<43million

Source: EU Commission (2013)

50 and 249 employees with a turnover of less than 50 million euros (with balance sheet total of <43 million euros).

According to the state Agency for Statistics, an SME's definition is based on the following criteria: "Data on the number of persons employed are classified in classes by size, according to the relevant EU regulations in: micro (0–9 persons), small (10–49 persons), medium (50–249 persons) and large (250 and more persons employed); and "data on the amount of revenue are classified in classes by size in micro (0–3,999,999 km), small (4,000,000–19,999,999 km), medium (20,000,000–99,999,999 km) and large (100,000,000 and more km)".

Types of companies in BiH are regulated by The Company Law of the Federation of B&H (Official Gazette of FBiH No. 81/15), and the Company Law of Republic of Srpska (Official Gazette of RS No. 127/08, 58/09,100/11 and 67/13) regulates the establishment, operation, and termination of businesses in BiH (Table 3).

5 B&H's Economy at Glance

The macroeconomic picture of B&H is not so good. The two entities and one district make the aggregate gross domestic product (GDP) which in 2015 was 28.522 million km, while GDP per Capita was 8107 km. Export in 2016 was 9418.109 km, and import amounted to 16,161.014 km. The aggregate deficit of B&H's economy was 6742.905 km.

The following table (Table 4) depicts how much each entity of B&H and one district contribute to the aggregate GDP of the country. Federation of BiH has throughout 10 years contributed a double amount compared to RS. While Brcko District has the negligible amount compared to the two entities.

Salaries in Bosnia and Herzegovina (Table 5) are quite low, which shows a right place for foreign investors. Salaries in B&H compared to EU are much lower. However, salary range in other ex-Yugoslavia republics is more or less the same (except Slovenia and Croatia). The following table shows the gradual increase in salaries in B&H from 2000 to August 2017. Apparently, an increase in salaries within these 16.8 years was observed, like almost triple. Nonetheless, this amount is not even near to the EU's one, to which B&H streams for the last decade.

When it comes to the FDI Stock by countries, the most substantial share still refers to Austria (1275 million km), Croatia (1140 million km), and Serbia (1082 million km). With Slovenia, it is 486 million km, Russia 417 million km,

Table 3 Types of companies in BiH

Type company	Federation of BiH	RS of BiH
Unlimited joint liability company (d.n.o./o.d)	Founded by the establishment contract of two or more partners, domestic or foreign, natural persons only. Founders are liable to use all their assets, including personal property. There are no requirements for minimum or maximum contributions	Founded by the establishment act of two or more domestic/foreign natural and/or legal partners who commit to do certain activity under the same company name, with their own unlimited solidary liability for company commitments. There are no requirements for minimum or maximum contributions
Limited liability company (d.o.o.)	Founded by the establishment act or establishment contact by one or more domestic/foreign natural and/or legal entities with initial capital divided into parts. A member in a limited company is liable for the value of his investment in that company. Minimum initial capital is 1000 BAM (approx. 500 euros);	Founded by the establishment act of 1–100 domestic/foreign natural and/or legal entities. Shareholder in a limited company is not personally liable for any of the debts of the company, other than for the value of his investment in that company. Minimum initial capital is 1 BAM (approx. 0.5 euros)
Limited partnership (k.d.)	Company founded by the establishment contract of two or more domestic/foreign natural and/or legal entities. There must be at least 1 partner with full liability (including private property) and at least 1 partner with limited liability, the liability being limited by the value of his share in that company. There are no requirements for minimum or maximum initial capital	Founded of two or more domestic/foreign natural and/or legal entities by the establishment act; one person at least has unlimited liability for the company, and one person at least has liability to the amount of his/her investment in the company. There are no requirements for minimum or maximum initial capital
Joint-stock company (d.d./a.d.)	Legal entities founded by the establishment contract of one or more domestic/foreign natural or legal shareholders with initial capital divided into shares. (1) Open joint-stock company is a legal entity (banks and insurance companies or company with minimum initial capital of 4,000,000 BAM, i.e., 2,000,000 euros, and 40 shareholders at least) whose shares may be publicly listed. (2) Closed joint-stock company is a legal entity, whose shares are distributed among a limited number of shareholders. The minimum initial capital is 50,000 BAM (25,000 euros).	Legal entity founded by the establishment act of one or more domestic/foreign natural and/or legal entities with initial capital divided into a defined number of shares. (1) Open joint-stock company is a legal entity, whose shares may be publicly traded, i.e., offers its shares for sale upon the open market and they are listed on the stock exchanges and other public markets. The minimum initial capital is 50,000 BAM (25,000 euros). (2) Closed joint-stock company is a legal entity, whose shares are distributed among a limited number of shareholders. The minimum initial capital is 20,000 BAM (10,000 euros).

Source: FIPA BiH (2017)

Table 4 Share of entities in GDP of B&H, 2006–2015

BDP entity/year												%	
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015			
BDP za BiH/GDP for BiH	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
BDP za Federaciju BiH/GDP for FBiH	65.02	64.94	64.41	64.52	64.94	64.58	64.95	64.97	65.24	65.24	65.24	65.24	65.48
BDP za Republiku Srpsku/GDP for RS	32.63	32.61	33.29	33.24	32.82	33.13	32.78	32.76	32.40	32.40	32.40	32.40	32.09
BDP za Brčko Distrikt/GDP for Breko district	2.35	2.45	2.30	2.24	2.24	2.29	2.27	2.27	2.36	2.36	2.36	2.36	2.43

Source: Agency for Statistics of B&H (2017), (Thematic Bulletin 01, p. 22)

Table 5 Average salaries in B&H from 2000 to 2017

Average net salary in BiH by months and years													
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	KM average
2000	335	349	363	369	365	364	373	379	388	385	398	384	372
2001	401	401	398	398	403	403	403	410	415	422	421	425	409
2002	433	434	437	440	444	441	449	447	454	457	456	463	446
2003	476	475	473	479	481	484	486	487	488	488	499	486	484
2004	496	495	494	499	506	509	506	509	506	508	511	521	505
2005 ^a	522	529	530	526	533	536	538	543	543	546	549	561	538
2006	570	560	571	577	581	584	586	591	592	599	601	613	586
2007	614	617	625	635	643	641	642	651	652	661	672	681	645
2008	677	716	726	739	753	748	763	764	775	780	776	798	752
2009	784	790	790	794	786	793	792	785	785	789	791	802	790
2010	789	782	798	799	795	798	799	800	800	795	805	818	798
2011	807	799	818	811	821	820	813	822	814	813	824	828	816
2012	826	818	823	823	836	822	827	830	813	831	832	831	826
2013	829	815	819	824	832	822	830	828	826	833	828	838	827
2014	838	822	826	832	830	829	836	825	826	834	823	843	830
2015	828	820	832	833	830	834	838	826	828	826	826	842	830
2016	829	829	843	830	838	837	832	843	837	837	847	853	838
2017	846	838	854	839	860	851	849	858					

^aSince 2005 Brčko District BiH included
Source: Agency for Statistic B&H (2017)

Netherlands 371 million km, Germany 286 million km, Italy 284 million km, Switzerland 258 million km, UK 229 million km, and others 801 million km (Exhibit 13).

Foreign investments in Bosnia and Herzegovina fluctuated from year to year. The highest FDI flow happened in 2014, and the lowest was in 2013. 2016 was lower than 2015. When we observe the 1st quarter of each year from 2012 to 2017, it shows that 2013 was the highest flow. In 2017, this tendency shows fair level compared to 2012, 2015, and 2016 (Exhibit 14).

6 Toward the Future

Geo-strategic position of Bosnia and Herzegovina makes the country able to perform better than reports showed in recent years. Wealthy with natural sources, Bosnia could make decent progress regarding its economic development. The country still suffers from a deficit in its national accounts, which makes investments and spending within itself difficult. As reports show, overall, it is making a gradual progress, but it is not enough to keep pace with other republics in Ex-Yugoslavia region.

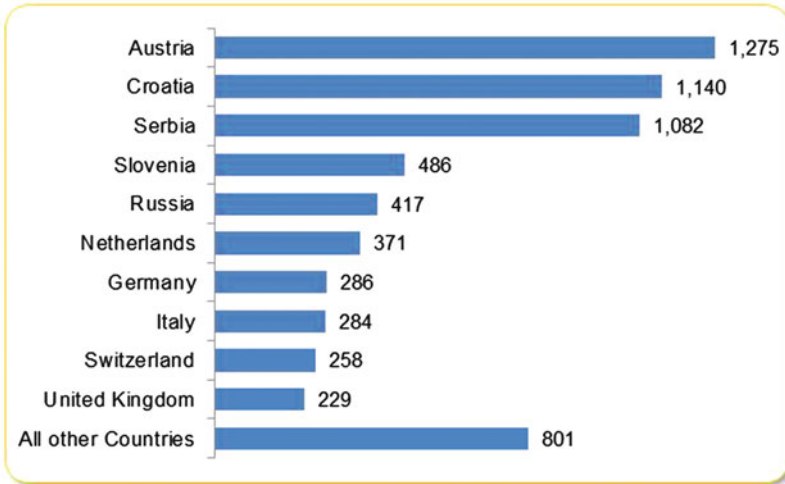


Exhibit 13 Top investor countries in B&H, May 1994–December 2016 (in km million). Source: FIPA (2017)

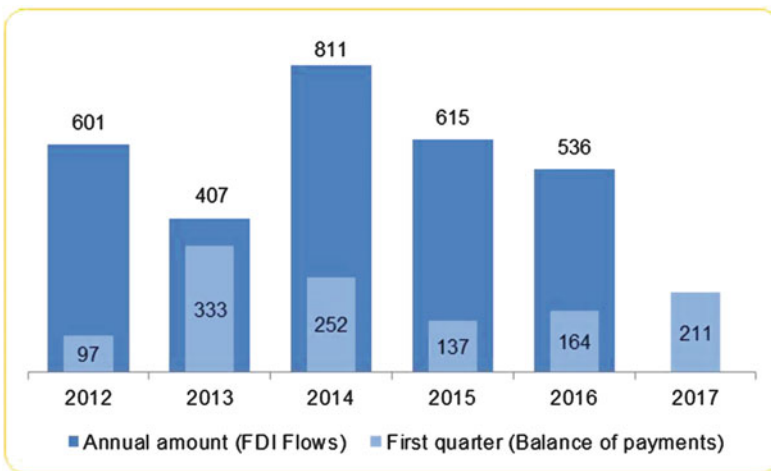


Exhibit 14 Foreign Direct Investment (FDI) flows in B&H, per first quarter and annually, 2012–2017. Source: FIPA (2017)

Entrepreneurship development in Bosnia and Herzegovina is in an initial phase. Entrepreneurs still face difficulties in many segments of starting a new business. Taxes posed by the Government are still huge (Palalic 2017). Liquidity of SMEs is very low. Some of the receivables are looked forward to being paid for even up to 200 days. The life cycle is made to be very distracted, and insolvency of SMEs is common. Not to wait for a long time to get receivables, many firms take a strategic tactic to improvise it with compensation of other goods or services available with the

business partner (supplier, client, and similar). This *improvization* makes challenging to develop and grow SME sector. Problems occur when they go internationally; they are not able to get settled transactions between them and international partners. On the other side, the State is not strong enough to give such support. Additionally, due to high taxes, many potential entrepreneurs reject to be self-employed and to employ other people. Moreover, the State still has no sensibility toward this issue.

Despite these limbo business circumstances, Bosnia and Herzegovina has progressed a lot regarding tourism. Compared to the late 1990s, the number of tourists is almost increased by four times. Every year this number increases and Bosnia and Herzegovina seemed to be an attractive place for the rest of the world. Along with this, many micro and small start-ups are established which offer services to tourists across the country. Rural and women entrepreneurship is increasing every year. The manufacturing business is also doing a good progress, and it is mainly exported to the EU countries, and according to Agency for Statistic of B&H, it contributes 34% of the total GDP of B&H. Moreover, this shows that the *real sector* (production) is at the highest level for now, but not in full capacities compared to the time of ex-Yugoslavia.

Challenges for entrepreneurship exist. However, prospective entrepreneurs should believe in future success because Bosnia and Herzegovina has all circumstances (raw materials and others) to keep it small and slowly develop through the time.

Bosnia and Herzegovina faces another serious challenge which is population. Young people, single and married, are trying to reside in other countries, to live it up for the rest of their life. It is a red alarm for the state to keep this rate low and to increase a population number. The market of 3.8 million is not big so that one can *observe and do nothing*. The youth of Bosnia and Herzegovina is its legacy, and politics in Bosnia should seriously acknowledge this.

7 Case Study: MIBRAL LLC⁴

Ms. MBS⁵ is a director of MIBRAL LLC (limited liability company) in Bosnia and Herzegovina. She has completed bachelor studies in Austria, and MA in Australia, with specialization in Human Resources (HR), where she was working in mining, and in construction (Exhibits 15 and 16) industries, with 10 years of relevant work experience. From the year 2011 onwards, she is director of firm MIBRAL LLC. The company has 40 years long history, and it is a *family company* started by Ms. MBS's father, Mr. MB.⁶ The company changed many forms of corporate structures, wherein

⁴This case is written by Azra Bičo based on conversation with the company's CEO.

⁵MBS are initials of a lady who wished to display only her initials and who leads the company now. For more information, you can visit <http://mibrall.ba/>

⁶MB are initials of MBS's father. He also wished to display his initials only.



Exhibit 15 Mibral LLC team at construction site; photo © MIBRAL LLC



Exhibit 16 MIBRAL LLC at construction site; photo © MIBRAL LLC

socialism was first registered as a crafts shop, then as a private company, followed by sole proprietorship, and finally, in the year of 2001, they changed their form of organization to the existing one—*MIBRAL LLC*. It is exclusively project-oriented firm, where the number of employees depends exclusively on some obtained projects.

Much time is devoted to internal organization starting as from administration, technical preparation for projects, finance, information technologies. Work of the company is combined with office and field work, performed by a team of around of 20 employees, who collaborate jointly in drafting, preparing, and implementing these projects that are complementing each other. In field work, MIBRAL LLC employs *construction technicians, leading masters, drivers, and assisting workers*. All these workers are very important, and if they present themselves through their performance as efficient and hardworking that is very crucial for the company, and they are to be kept in company's team, even during the winter season, when they do not perform a lot of work. In that part of operations, the company has 40–60 workers among of which some are loyal and been working with the company for 20 years so far. Human capital is highly important and valued in this company, and by all means, they try to keep them as part of their team, by investing in their education/training skills.

Most of the business activities done in MIBRAL LLC, precisely 95% of them, are construction work. Most important projects done by MIBRAL LLC are dating back to mid-1980s, at those times it was private company MB that had carried out works on three bridges on the Krivaja River Zavidovići, which were vital projects in that period. After the war in Bosnia and Herzegovina, the focus was on the balance and development, the arrival of foreign investors, and the expansion of the financial options of these domestic companies enabled MIBRAL LLC to participate in a variety of public projects. The company worked on the infrastructure in the heart of the city of Sarajevo, and that is company's contribution to all citizens, as well as for tourists, namely the streets in the old town of Baščaršija, Bravadžiluk, Sarači, and part of the Ferhadija street that MIBRAL LLC did. MIBRAL LLC is the leader in the Canton of Sarajevo in the area of construction works, but the problem with the nature of the work is that they are invisible (underground works), yet very important for everything. Now, with current water restrictions, we all understand this problem probably better. On the other hand, company's other works such as regulation of river flows, sanitation of landslips, and construction works of high-rise buildings are evident. Company's core business is low construction, water supply, sewerage, reconstruction of landslips, and regulation of water flows.

The company has a 1-year strategic plan, and currently, they are working on a 3-year strategic plan. The operational plan is designed at an annual level. The prices that company offers are very low since the projects would fail if they were not efficient regarding the organization, planning, and budgeting.

When it comes to plans of company's long-term strategy, like mergers and acquisition, Ms. MBS said that in the short run it is certainly not in their plan. However, for the market, as it is, the bigger projects are more and more present. So the firm, by its capacities, shows that the operational and technical standards must meet the criteria for the tenders. They believe that there are in the company, enough skilled people to get those capacities, by how much the company can finance itself. *Mergers* are not excluded, but it is not in their 3-year strategy. However, in the long term, as far as the projects are concerned, this is very current and ongoing thing, and they have already worked on several projects jointly with partners, and without the right key partners, they cannot achieve satisfactory technical and financial conditions.

Also to respond to market demands, company very often goes into the form of a joint venture tender, with certain partner companies. On such projects, jobs are complementary; every project as a project has parts that company cannot satisfy/fulfill so that coworkers/partnering companies step in. The company is depending on 90% public procurement, because it is dealing with infrastructure projects. Therefore, all works are reduced to public works, given the infrastructure issues; all projects are mostly financed by the European Development Bank, European Investment Bank, World Bank, but all procedures go through the institutes and municipalities.

Company possesses ISO standard certificates, since in MIBRAL LLC they respect each contract regarding the time achievement of works, timeframes, and have a flexible attitude regarding the requirements of the investor. Regardless that they lack support from relevant state bodies, MIBRAL LLC relies on productivity and flexibility of their operative and they are sure that they will succeed in doing business positively.

In a context of innovations, technologies of work, materialization, it cannot be expected to be achieved without the involvement of others. Thanks to continuous investments, the absence of a decisive plan, whereas in the last 2 years company has doubled their fixed assets, more modern machinery was bought. When selecting materials and tender regulations, there is a certain number of certificates, specifications, some guarantees that company always requires ensuring quality. It is because in the end company is the one that gives a guarantee, which means that each project is an investment, each project is different, no matter how many of them looks the same and requires different methodologies of work. One of the company's aims is to direct the capacities from internal existing structures, training of deficit craftsmen to keep company running, as well as to be able to expand company's activity and to expand overall in the business.

Company's success is measured in various ways besides profit. Beneficial are ISO standards that company has introduced and implemented; it is essential to certify and recertify, it is essential that company operate at the level of them in that compliance. By them, it means, specifically, the Balance Score Card is the right way to measure company's success. These parameters come from company's processes, type of machines, the success of bids, public procurements in the field of public procurements in percentages are monitored, how many offers how many jobs, finished jobs without any complaints, and everything is concerning the parameters.

Marketing to a company is essential (at least for a small segment of housing construction). However, overly, the conclusive answer is no, due to a nature of the job. Some of the tenders of bidding on public calls have a prevailing decision on the amount of business activities company will perform, which citizens do not know about, the company has 10–15 key buyers/investors with whom they are cooperating, so in these circles, marketing is not necessary.

The key goal of MIBRAL LLC is to maintain leading position at Sarajevo Canton, and special accent is given to the water supply, and sewage system works, to maintain a leading position in this area of business activity.

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