

Entrepreneurship in Montenegro



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Abstract In this chapter, the entrepreneurial activities and actual policies for the development of entrepreneurship in Montenegro are described. The study begins with providing a historical overview of Montenegro since its establishment, starting from its early times, throughout the Ottoman Empire and up to these days, when Montenegro is also one of the candidates from ex-Yugoslavia's republics to join the EU and NATO (already a member). Then, the study further discusses the promotional activities of entrepreneurship and the role of the government in creating a favorable environment for domestic and foreign entrepreneurs. The chapter ends with providing useful future development of entrepreneurship in Montenegro. It includes, beside tables and figures, original pictures of the business environment in Montenegro.

1 Introduction

Like other ex-Yugoslavian republics, Montenegro is today an independent state. It is located in the west-central Balkan, and it is in the southern part of the former Yugoslavia. Montenegro borders with Bosnia and Herzegovina (north-west), Croatia (west-coastal line), Serbia (north-east), Kosovo (east), and Albania (south-east). The total area of Montenegro is 13,812 km². The estimated population of Montenegro in 2016 is 623,000 (Statistical Office of Montenegro—MONSTAT 2017). The capital city is Podgorica with its population of 173,000. Border length is 614 km, and coastal side length is 293 km (Exhibit 1).

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Exhibit 1 Map of Montenegro. Source: Montenegro, Map No. 4274, July 2006, UNITED NATIONS. Available on <http://www.un.org/Depts/Cartographic/map/profile/montenegro.pdf>. Accessed on December 19, 2017

The population of Montenegro is very diverse like in neighboring countries. Ethnic groups that exist in the Montenegro land are Montenegrins (43%), Serbians (32%), Bosniaks (12%), Albanians (5%), and other minorities (8%). Accordingly, the official languages used in Montenegro are Montenegrin, Serbian, Bosnian, Albanian, and Croatian.

The terrain of the country is hilly with small valleys in between. The country is famous for beautiful sea and beaches, which places Montenegro as one of the best tourist places in the Adriatic Sea region. The area is rich with old historical architecture like houses and churches as well as modern architecture styles (Exhibits 2 and 3).

Montenegro is a *small economic system*, which has potentials in some industrial sectors like tourism and agriculture. A fair neighbor play in the last years made the country more open to other economies from which it will gain in the long term.

The history, a state of entrepreneurship, and its future will be discussed in the following sections.



Exhibit 2 Old downtown of Podgorica, the capital city. Photo © Ramo Palalić



Exhibit 3 The palace of 'King Nikola'. Source: Government of Montenegro (2017)

2 Historical Overview

The name Montenegro (Black Mountain) comes from the black mountain, very famous in Montenegro, “Lovcen (Exhibit 4) (in local tongue Lovćen).” This mountain is one of the highest (1749 m) in the country and now represents a beautiful national park in Montenegro. It is also much known in Montenegrin poetry, from which anthem of Montenegro was derived. This mountain is known as a mausoleum of Petar II Petrović Njegoš (1813–1851), the king of Montenegro.

Montenegro has a broad history going even back in early second century BC. Some historians claim that Montenegro had been in the sixth century under the different name than now. Ancestors of Montenegrins are called Docleans (in the seventh century) and later on Zetans. The first state was established in the ninth century. The state had many controversies about king’s legacy and who will rule the Montenegro. These



Exhibit 4 Lovćen Mountain, Montenegro. Source: Fact Sheet Montenegro (2010)

disagreements were a great opportunity for the Serbian King Dušana (Stefan Dušan Nemanjić, 1308–1355) to occupy Montenegro. Prior the Ottoman Empire in fourteenth centuries, Montenegro had several rebellions under the Serbian ruling.

In 1496, Montenegro lost its formal independence and falls under the Ottoman Empire, but during the sixteenth century, it had established a form of a unique autonomy within the Ottoman Empire. Later, after securing independence from the Ottomans, the Assembly of the Montenegrins appointed Danilo Petrovic as Prince-Bishop (Vladika), Orthodox Metropolitan and ruler, founder of the Petrovic Dynasty (1697–1918) and theocracy in Montenegro (Montenegro Fact Sheet 2010).

In the period from 1784–1830, Vladika Petar I Petrovic had united the people in most of the today's Montenegro and had set the legal foundations of the modern Montenegrin state. Moreover, he had repelled Ottoman attacks and had become one of the most critical men in Montenegro's history. During 1830 and up to 1851, Vladika Petar II Petrovic (Njegos) had ruled the Montenegro, and he had created a stable state apparatus (Montenegro Fact Sheet 2010).

In 1851, Prince Danilo had become the first secular Petrovic ruler, and he had enforced the state centralization. In 1878, on the Congress in Berlin, Montenegro had received full international recognition of independence and sovereignty under the Prince Nikola Petrovic, and in 1910, the Kingdom of Montenegro had been proclaimed under King Nikola I, after adopting the Constitution in 1905 (Montenegro Fact Sheet 2010).

From 1914 to 1916, Montenegro had taken part in World War I on the side of the Allies and won a crucial victory against the much stronger Austria-Hungary. After the assembly in Podgorica in 1918, Montenegro had lost its independence and had joined the Kingdom of Serbs, Croats, and Slovenes (later the Kingdom of Yugoslavia). In the beginning of the World War II (1941), after the capitulation of Yugoslavia, Montenegrins has organized rebellions against German Nazi, and in 1945 Montenegro becomes an equal member of the six-Republic Federation of Yugoslavia (SFRY). After the dissolution of Yugoslavia in 1990, Montenegro formed the Federal Republic of Yugoslavia with Serbia (later the State Union of Serbia and Montenegro), while in 2006, after a referendum on independence on May 21, Montenegro has retrieved independence from the last form of Yugoslavia (Montenegro Fact Sheet 2010). On June 5th, 2017, Montenegro became a 29th NATO member.

3 Environment for Entrepreneurship¹

Beginning of the entrepreneurship development in Montenegro has started with a change of Regulation of new ventures registration by the Enterprise Law in 2002 across ex-federal Republic Yugoslavia (Serbia and Montenegro state). At the same

¹This section is based on Ramadani V., and Dana, L-P. (2013) in Ramadani and Schneider (Eds. 2013), *Entrepreneurship in the Balkans: Diversity, Support and Prospects*, Springer.

time, Montenegro commenced a “mass privatization scheme,” in which vouchers have been distributed across the country. In 2003, the Act of Modifications of and Supplements to the Act of Privatization of the Economy assured every Montenegrin above 18 years old to have two vouchers. This move has hastened the privatization process and entrepreneurship development. So, in 2003, half of state ownership of Montenegro was privatized, and more than 90% of companies were or to be privatized. In the same year, more than half of Montenegro’s population had privatization funds or shares.

The first public support for entrepreneurship development in Montenegro was the establishment of the Center for Entrepreneurship and Economic Development. It was the critical source of consulting and supporting small and medium enterprises (SMEs), new start-ups, or existing organizations.

Moreover, the establishment of the Montenegro Business Alliance (MBA), an association of domestic and foreign business and entrepreneurs, had an impact on business networking internationally and locally. It was primarily related to business to business (B2B) services. Additionally, one of the focuses of the alliance was to retrieve old business links across ex-Yugoslavia.

On the global scale, among 190 countries, doing business for Montenegro is among the last ex-Yugoslavian republics. For instance, Macedonia (10th position) is the best, then Slovenia (30th), Croatia (43rd) Serbia (47th), and then *Montenegro* (51st). Kosovo is on 60th place and Bosnia and Herzegovina on 81st (Doing Business 2017). This shows that Montenegro has to amend or accept many new Regulations for entrepreneurship development to easily restrict new ventures.

As Montenegro steps forward to the European Union (EU), it is evident that entrepreneurship development improves, like women entrepreneurship as well as social entrepreneurship. Family businesses are also taking place in the socio-economic development of the country. Being in the “EU castle is a premium (anonymous business owner)” so Montenegrins will be happy to live in and exploit all SMEs advantages that have now EU’s ones.

3.1 Economic and Business Environment in Last Two Years²

Montenegro, as a small and open economy, has been exposed to outbreaks in 2016 markets that had a reflection on developments in the domestic market. Compared to the previous year, the Montenegrin economy in 2016, according to estimates of the MONSTAT, has achieved positive economic growth rates of 2.5%. During this period, there was a decline in specific indicators such as the fall in total industrial production and total forest production, while in the tourism sector, modest growth rates were recorded about the previous one year, which is partly the result of a high

²This section is based on the Centralna Banka Crne Gore (2016) (Central Bank of Montenegro).

base from the previous year. A significant growth in the construction sector was recorded, while growth was also recorded in the trade and transport sector.

The annual inflation rate, measured by the consumer price index, in December 2016 amounted to is 1%, while the average annual inflation rate in 2016 was -0.3% . Montenegrin banking system is stable and liquid. However, it is still burdened with low-quality loans, although their level is significantly reduced.

In the year 2016, industrial production declined by 4.4% compared to 2015. Fall of production was recorded in the mining and quarrying sector of 18.1%, and the manufacturing sector from 7.8%, while in the electricity sector, gas and steam supplies were recorded growth of 3.5%.

In the tourism sector, the trend of growth of tourist arrivals and nights continued. Tourists are excited to visit many places in Montenegro like it is shown in Exhibits 5, 6, and 7.



Exhibit 5 One of the Islands in Boka Kotor Bay. Source: National Touristic Community (NTC) of Montenegro



Exhibit 6 Bridge on river Tara. Source: National Touristic Community (NTC) of Montenegro

In 2016, Montenegro visited 1.8 million tourists, which is 5.9% more than in the previous year. What the number of foreign tourist arrivals amounted to is 1.7 million. In total, 11.3 million overnight stays were registered, which is 1.8% more than in 2015. Construction in 2016 registered a significant increase in the value of completed construction works of 31.5% and an increase in the effective working hours of 16.7% compared to 2015.

In 2016, the banking sector was stable. A high level of liquid assets, the growth of deposits and new loans, as well as recapitalization of some banks additionally contributed to the stability of the banking system.

The budget deficit at the end of 2016 was estimated at 129.4 million euros or 3.4% of the GDP, which is the consequence of the application of fiscal adjustment measures, as well as less realization of the capital budget from planned and higher revenue collection. The budget deficit consequently increases the net public debt, which at the end of 2016 amounted to 2.5 billion euros, out of which 2 billion euros



Exhibit 7 Mamula Island. Source: National Touristic Community (NTC) of Montenegro

were on the external debt. Also, the number of guarantees issued (foreign and domestic) amounted to 344.9 million euros. Public debt tends to grow and, therefore, difficulty in locating the source for its repayment. The current account deficit in 2016 amounted to 715 million euros or 48.1% more compared to 2015.

Total exports of goods amounted to 345.3 million euros, an increase of 6.2%. The most significant impact on export growth had an increase in exports of minerals and electricity. The total imports of goods are amounted to 2 billion euros and were 12% higher than in 2015. This primarily resulted in an increase in imports machinery and transport devices and metal products. Coverage of foreign trade deficit, the surplus realized on other current account accounts, was 56.9%, which is 10.2% points less than in the same period of the previous year.

The number of employees in 2016 amounted to 177,908 on the average, and it was higher by 1.3% compared to the average number of employees in the previous year. The total number of employees in December 2016 was 177,473, which is 2.9% higher than the number of employees in December 2015. The unemployment rate according to the Employment Agency of Montenegro, in December 2016, was 21.33% and it was higher by 4.09% in comparison with the same period of 2015. According to the Central Bank of Montenegro, GDP growth will range from 3.25 to 3.8% with a central tendency of around 3.6% in 2017.

According to IPER (2017), there are some entrepreneurial activities alive. These are related to energy sector, agriculture, tourism, and women entrepreneurship,

sponsored by the European Bank for Reconstruction and Development (EBRD) and the European Union Funds (EU Funds).

4 Toward the Future

Montenegro as a small country in the region of ex-Yugoslavia has its own challenges, issues, and problems like many other Balkan economies in transitions (Ramadani and Schneider 2013). However, it has an advantage of its geo-strategic location on the Balkan Peninsula.

Being under one system (socialist communism) and transiting to another is a challenging task. Not only economic issues become barriers, but other political, cultural, and regional issues too. It was difficult to get the real independence from Serbia in the 2000s (Lukšić and Kantić 2016). It is because Serbia had a long time influence in every political and economic move of Montenegro. After its independence, Montenegro moved quickly toward EU integration process and on the scale of doing business was advancing.

Montenegro's population is not huge. It is favorable because natural resources the country has can cover up its internal economic activities and gain a surplus. Hence, entrepreneurship development should be at much better level.

The multicultural environment in Montenegro can bring important values to its social and economic development across the country. Although multi-ethnicity and Yugoslplurist model happened to be disadvantaged in some sense (Dana 2010), Montenegro can use it as an advantage by which the state can create a good business networking in ex-Yugoslavia region. Montenegro is like other ex-Yugoslavian republics, with "specific country factors" (Palalić 2017; Palalić et al. 2017) (multi-cultural and multi-religious environment), which sometimes prevent entrepreneurship development and do not allow its smooth flow that will bring new values for the socioeconomic development of the country.

Taking into consideration of all resources that Montenegro possesses, it has potentials for the local and foreign entrepreneurship development. All Montenegrins believe in a better future for their successor much better than they live it now.

5 Case Study: ŠAJO GROUP³

Mr. Žarko Rakčević is a cofounder of Šajo system in Montenegro. Mr. Rakčević is in his early 50s; he is married with three kids. Two of them already university degree holders in business and economics, and the youngest one is still a high school first grade. Mr. Rakčević has also Bachelor in Economics and Master in Tourism

³This case is written by Ramo Palalić based on interview with the company's owner.

Management. Very close to the dissolution of Yugoslavia, he has submitted his Ph.D. proposal at the University of Podgorica in the field of Tourism Management. However, due to all happenings in the 1990s, he was not able to complete it. Apart from this, he was very enthusiastic, very energetic, and active young man in his environment, and he was President of the Committee of Yugoslavian Youth for Science and Technology.

The milestone of this system was his father who was a civil engineer and still doing a great job in the group. As a shadow man, his great experience was the tremendous contribution to starting a big system like it is now.

As a young entrepreneur in his 28s, Mr. Žarko Rakčević followed steps of his father and started his first entrepreneurial activities. First transactions happened in his early age with products from his garden what his father has produced. Mr. Rakčević says:

I learned at that time what does mean demand and supply! I learned what marketing is...when you put the most beautiful peach on the top to attract consumers...I learned what does mean a good location, price!

His first experience has got in their local bazar in Podgorica. Very soon, Mr. Rakčević ran a bakery business in Podgorica. Everyone was surprised since he was a promising young man⁴ who should contribute to the science, education, and even politics, instead of opening a small startup like a bakery. However, he was fortitudinous enough to overcome these kinds of complexes that many people had. It is because, in the Yugoslavian time, entrepreneurs were considered as rebellions of the system. Conversely, persons who were close to the political system were very much appreciated and the promising ones in the society.

In the Šajo group, there are *construction*, *milling*, *tourism*, and *sales* business activities. The *construction* was the first entrepreneurial activity. They recognized an opportunity to start with building flats for local citizens on their inherited land. An advantage of the business was the experience that Mr. Rakčević's father had.

Milling was another opportunity that was recognized as a gap in the Montenegrin market. In 2003, milling at that time was in a critical state and had to be updated. They were three in Montenegro but not in full use. They observed that the technology is outdated and new machinery should be bought. They did it. Introducing a new technology in this business, it contributed to increase of agriculture business across Montenegro. Nowadays, it is still working and brings values to the *Šajo Group* and the society.

The third component of the system is *tourism*, which consists of several hotels. A small hotel in Podgorica has 22 rooms with 50 beds. Another hotel in Herceg Novi has 40 apartments with 120 beds. *Šajo Group* has bought a hotel in 2006 (*Hotel Vile Oliva*) in Petrovac in the joint consortium. The hotel counts 274 rooms and apartments with 700 beds (Exhibit 8, 9 and 10).

⁴A promising man is the one who has a lot of savvy to hold public, political economic or other positions and who was recognized as that in their society. That was very common in ex-Yugoslavia.



Exhibit 8 Hotel Vile Oliva in Petrovac. Photo © R.Palalić



Exhibit 9 Hotel Vile Oliva in Petrovac. Photo © R.Palalić



Exhibit 10 Olive trees inside the hotel Vile Oliva in Petrovac. Photo © R.Palalić

The fourth element of the whole business is sales. This *sales* service is mainly for the internal use of the Šajo Group. It acts as a supplier to the entire system and at the same time serves as a separate business entity.

Hotel Vile Oliva is interesting, successful story. It should be noted that when it was bought, like an old hotel, it has been planned; reconstructed and all ergonomics were done by its Šajo Group expertise. The hotel had sales of only 600,000 euros and was making the loss of 150,000 euros. Once it was under the Šajo Group, it had in 2016, 1.7 million euros of net profit. It has already sold all rooms for the year 2018. Interestingly, the customers are 99% from abroad, and 1% goes to locals from Montenegro. The hotel initially was two star hotel, and after the takeover, it is promoted into four + star hotel. It has grounded well in the international market having business networks with the world-class tour companies like Thomas Cook. Additionally, it has established a business network with Nordic countries clubs and families from the Europe and Russia mainly.

When it comes to the market, Šajo Group has the competitive advantage of possessing a well-designed system within the group, which fully support each other. Moreover, their experience in construction and tourism at the same time makes this business success more unbeatable in the market. As devoted to market needs and wants, the group paves the way for long-term, positive, and profitable relationship with the current and prospective customers in the international market.

The system of the Šajo Group led by Mr. Žarko Rakčević is in the growth stage and has potentials in the long term. The Šajo Group is open for new acquisitions and expansion to a new market. The entrepreneurial leadership of this system has always been devoted to its development and satisfying customer needs and wants. Due to his passion for the business, Mr. Rakčević sees his business as one of the leaders in the Montenegro in the field of tourism.

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