

Veland Ramadani
Robert C. Schneider *Editors*

Entrepreneurship in the Balkans

Diversity, Support and Prospects

*Forewords by
Léo-Paul Dana and Alain Fayolle*

 Springer

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Veland Ramadani • Robert C. Schneider
Editors

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*This book is dedicated to our parents,
families, students and entrepreneurs all
over the world*

Forewords

On my eldest uncle's documents, his country of birth was boldly indicated as *EmpireOttoman* – French for Ottoman Empire. When I was a child, my mother would tell me about the Ottoman Empire and its policies and how it was home to various ethnic groups who thrived with entrepreneurship. Also since a very young age I was exposed to entrepreneurs who had migrated from the Hellenic monarchy or the military junta to become entrepreneurs abroad; in Canada, the Census found immigrants from Greece more involved in self-employment than people from any other country.¹ I thought their work ethic was exemplary.

I first visited the Balkans and developed a warm affinity with their peoples during the 1970s; at the time, Marshal Josip Broz Tito was president of Yugoslavia, a federation with a rich history, and he ruled it while encouraging fraternity over ethno-cultural and linguistic differences; I called this the Yugopluralist Model² and admired it greatly. People across the Balkans cultivated an admirable social capital, and I recognized entrepreneurial acts even where central planning was the norm.

In former times, the Ottoman Empire was a vast superpower. In 1832, Greece became a kingdom independent from the Ottomans, and as I was growing up I remember Greece became a republic. In 1989, the Berlin Wall came down changing the face of Eastern Europe, including Bulgaria and Romania. The Yugoslav federation broke up into constituent republics. In 1995, I returned to Romania to be Professor at the Academy of Economic Sciences and I delivered a lecture to the Economic Committee of the Senate; so much was different than it had been during my first visit to this country. I returned to Greece as a Professor for the University of Pittsburgh Semester-at-Sea Program, and I watched as Greece entered the euro-zone; in October 2012, Anders Borg (the Swedish Finance Minister) suggested that Greece could leave the euro-zone. Indeed, much had changed in the Balkans.

What struck me, however, is what had not changed. I observed that people across the Balkans have continued to cultivate the social capital, an important facilitator to

¹ Bring in more entrepreneurs. Policy Opt 12(9):18–19, November 1991.

² See: When economies change paths. World Scientific, Singapore, London and Hong Kong, 2002.

entrepreneurship. I returned to the Balkans to research the state of entrepreneurship, in the parallel economy as well as in the firm-type economy and in the bazaar.

Those who follow my research have seen the passion that I have for entrepreneurship across the Balkans: in Albania,³ Bosnia and Herzegovina,⁴ Bulgaria,⁵ Croatia,⁶ Greece,⁷ Kosovo,⁸ Macedonia,⁹ Moldova,¹⁰ Romania,¹¹ Serbia,¹² Slovenia,¹³ and Turkey.¹⁴ I have also written business case studies about entrepreneurship in the Balkans.¹⁵

Entrepreneurship in the Balkans is special and distinctive. I am grateful to Veland Ramadani and Robert C. Schneider for putting together this fine book *Entrepreneurship in the Balkans: Diversity, Support and Prospects*. Thank you!

Montpellier, France

Léo-Paul Dana
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Recipient of Emerald Literati Network 2012 Award for Excellence: Leading Editor

³ Albania in the twilight zone: the *Perseritje* model and its impact on small business. *J Small Bus Manag* 34(1):64–70, January 1996.

⁴ Business and entrepreneurship in Bosnia-Herzegovina. *J Bus Entrep* 11(2):105–118, October, 1999.

⁵ Bulgaria at the crossroads of entrepreneurship. *J Euromarketing* 8 (4):27–50, December, 1999.

⁶ Recent research about entrepreneurship and small business in Croatia. *Int J Entrep Small Bus* 2 (3):209–210, 2005.

⁷ See, for example: Preserving culture through small business: government support for artisans and craftsmen in Greece. *J Small Bus Manag* 37(1):90–92, January 1999; The social cost of tourism: a case study of Ios. *Cornell Quart* 40(4):60–63, August 1999; and *Entrepreneurship & SMEs in the eurozone: toward a theory of symbiotic enterprises*, Imperial College Press, London, 2006.

⁸ See: *When economies change hands: a survey of entrepreneurship in the emerging markets of Europe from the Balkans to the Baltic States*. Routledge, New York and Oxford, 2010.

⁹ Waiting for direction in the former Yugoslav Republic of Macedonia. *J Small Bus Manag* 36 (2):62–67, April 1998.

¹⁰ Stalemate in Moldova. *Entrep Innov Change* 6(3):269–277, September 1997.

¹¹ See: *When economies change hands: a survey of entrepreneurship in the emerging markets of Europe from the Balkans to the Baltic States*. Routledge, New York and Oxford, 2010.

¹² See: *When economies change hands: a survey of entrepreneurship in the emerging markets of Europe from the Balkans to the Baltic States*. Routledge, New York and Oxford, 2010.

¹³ See: *When economies change hands: a survey of entrepreneurship in the emerging markets of Europe from the Balkans to the Baltic States*. Routledge, New York and Oxford, 2010.

¹⁴ *Economies of the eastern mediterranean region*. World Scientific, Singapore, London and Hong Kong, 2000.

¹⁵ See, for example: Afri-Cola GmbH Macedonia – distribution infrastructure. *Manag Decis* 34 (8):41–47, 1996; and Atlas, Ltd., in the Balkans. *Brit Food J* 102(5–6):420–428, May 2000.

I am delighted to have been invited to write the foreword of *Entrepreneurship in the Balkans: Diversity, Support and Prospects*. As underlined by its title, this book emphasizes a key dimension of the field of entrepreneurship: entrepreneurship is a context-based phenomenon, and this is precisely what *Entrepreneurship in the Balkans: Diversity, Support and Prospects* is about. Coeditors Veland Ramadani and Robert C. Schneider must be commended for the work they have done in assembling the 16 chapters that make up this work, which cover a broad range of issues from the Balkan region. Before discussing the contents of the book, I would like to address current trends and perspectives in entrepreneurship research.

Since the publication of Shane and Venkataraman's (2000) article "The promise of entrepreneurship as a field of research" in the *Academy of Management Review*, entrepreneurship scholars have moved toward a process-based definition of entrepreneurship. This evolution has been key in establishing entrepreneurship as a distinct field of research with its own questions and theories (Shane 2010). The individual/opportunity nexus has become central to the development of entrepreneurship research, the vast proportion of which relies on Shane and Venkataraman's definition of the field: "How, by whom and with what effects the opportunities to create new products and services are identified, evaluated and exploited."

However, while this view of entrepreneurship contributes to narrowing the field, recent research has opened new perspectives by highlighting the importance of other factors. There is, for example, an ongoing theoretical conversation about the discovery versus the creation of entrepreneurial opportunities. A more nuanced view of entrepreneurship is developing, highlighting the roles played by cognition, intuition, emotion, learning, and expertise in entrepreneurial processes, while some research works are more specifically focused on identifying and understanding specific mechanisms of entrepreneurial action such as bricolage, improvisation, or effectuation. Finally, entrepreneurship is a complex and multidimensional research object, and in this regard context should be considered as a key variable, as underlined by Jack and Anderson (2002) – "Entrepreneurship is a contextual event and the outcome of many influences" – and by Anderson (2000) – "The process of entrepreneurship draws from both the individual and the context."

Welter (2011) also highlights the importance of context for understanding when, how, and why entrepreneurship happens and who becomes involved. As a result of these advances in the field, there is a growing awareness of the necessity to deal with the multiplicity of contexts and their impact on entrepreneurship.

The notion of context encompasses spatial (geographical location, country, community, etc.) and temporal dimensions, business dimensions (industry, market), and social (networks, family and friends, etc.) and institutional dimensions (culture, society, economic system, etc.). It is therefore essential that these should be studied with regard to the role they can play in entrepreneurial processes and outcomes. This is one of the many reasons why *Entrepreneurship in the Balkans: Diversity, Support and Prospects* represents a valuable contribution to the field.

The book offers a consistent view of the specificity of entrepreneurship research in the Balkans and the challenges it faces. Research issues in relation to risk management, innovation, growth, family business, gender, corporate entrepreneurship, immigration, technology, financial resources, and entrepreneurship support are examined in specific contexts. The various contributions thus address several contextual dimensions, among which is the spatial dimension, as highlighted in the book title (at least 11 countries are concerned). Other dimensions examined are business related, social (through the role of family or networks), and institutional, the latter being strongly associated with the weight of culture and religion.

We hope that this book will contribute to the creation of a research community across the Balkan countries interested in developing research in small business and entrepreneurship. This is essential for the field, because we need to share views and ideas at an international level about the distinctiveness of small business and entrepreneurship as fields of research (as opposed to the fields of management or strategy, for instance). Researchers also need to address the heterogeneity of the field (small business and entrepreneurship), which stems from the variety of entrepreneurial profiles, situations and forms, as well as the multidimensionality of the context.

In this regard, the Balkans' entrepreneurship and small business research community, with its specific insights, could lead to a worthy and distinctive contribution to the international research community.

Lyon, France

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Shane S, Venkataraman V (2000) The promise of entrepreneurship as a field of research. *Acad Manag Rev* 25(1): 217–226

Welter F (2011) Contextualizing entrepreneurship – conceptual challenges and ways forward. *Entrep Theor Pract* 35(1): 165–184

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First and foremost, we would like to thank the contributors who, with their works, highlighted the importance and the necessity of bringing this book in the hands of academic researchers, students, and entrepreneurs as well as generously offered their knowledge, experience, research, and time in a restless manner.

Second, we owe a debt of gratitude to the reviewers of this book, exemplary names of academics in the field of entrepreneurship. This book would not have the same value without the appreciated reviewers who have emphasized the crucial aspects of the theoretic and practical analyses provided by the contributors.

A special acknowledgment goes to the authors of the foreword of this book, extraordinary and globally known researchers of entrepreneurship, Léo-Paul Dana and Alain Fayolle. Their willingness to put the first words on this book and address the readers with their thoughts and views is a legitimate proof of the relevance of this pioneering book of entrepreneurship in the Balkan region.

We greatly appreciate the thoughtful suggestion, support, and encouragement that we received from Prashanth Mahagaonkar, the editor from Springer, and his wonderful team.

Last, but not least, we must express our affectionate thanks to our families and colleagues who kept standing by us since the very first beginnings when the idea of this book was launched. Their support and motivation are always irreplaceable and necessary for each of us, and therefore we dedicate our gratitude, appreciation, and love for them.

Respectfully,
The Editors

Abbreviations

AIRMIC	The Association of Insurance and Risk Managers
ALARM	The National Forum for Risk Management in the Public Sector
ARDC	American Research Development Corporation
BAM	The Official Currency of Bosnia and Herzegovina
BH	Bosnia and Herzegovina
CAEN	Classification of National Economic Activities
CATI	Computer Assisted Telephone Interviewing
CE	Corporate Entrepreneurship
CEO	Chief Executive Officer
CNIPMMR	National Council of Small and Medium Sized Private Enterprises in Romania
CSGS	Cost Sharing Grant Scheme
DB	Doing Business
DEC	Digital Equipment Corporation
DEG	German Investment Company
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECGF	Export Credit Guarantee Fund
EFSE	The European Fund for South-East Europe
EIB	European Investment Bank
EU	European Union
FERMA	Federation of European Risk Management Associations
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
HRK	The Official Currency of Croatia
HUP	Croatian Employers' Association
ICT	Information and Communication Technology
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation

INSTAT	Institute of Statistics of Albania
IOC	International Olympic Committee
IRM	The Institute of Risk Management
ISO	International Organization for Standardization
KOSGEB	Republic of Turkey Small and Medium Enterprises Development Organization
NCAA	National Collegiate Athletic Association
NCSEE	National Content Standards for Entrepreneurship Education
NLC	National Licensing Center
NRC	National Register Center
NSI	National Statistical Institute
OECD	Organisation for Economic Co-operation and Development
ONRC	National Trade Register Office
OPDC	Operational Programme Development of the Competitiveness
R&D	Research and Development
RKS	Republic of Kosova
RS	Republic of Srpska
RMS	Risk Management Standard
ROE	Return on Equity
SBA	Small Business Act
SEAF	Small Enterprise Assistance Funds
SIF	Small Investment Fund
SME	Small and Medium Enterprises
SOPHRD	Sectorial Operational Programme of Human Resources Development
USAID	United States Agency for International Development
VAT	Value Added Tax
VC	Venture Capital
VIF	Variance Inflation Factors

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Reviewers

Björn Bjerke, Linnaeus University, Sweden

The subject of entrepreneurship is developing every day, in depth as well as breadth. There are gradually more aspects, more theories, more fields of society discussed in entrepreneurial terms and incorporated in our knowledge of entrepreneurs. But not only the way we look at the subject, how we approach it, and what theories and concepts we use are moving the subject of entrepreneurship every day. More and more geographical areas on our globe are also entering our theoretical and practical knowledge of entrepreneurship. One interesting and welcome addition to this is Ramadani's and Schneider's book on entrepreneurship in Balkan, which will add to our knowledge in this field, among other reasons, due to the fact both of the richness and great variety of people living in Balkan and of their long and interesting history and exciting future, with or without entrepreneurship per se.

Douglas J. Cumming, York University, Canada

The book 'Entrepreneurship in the Balkans: Diversity, Support and Prospects' addresses the very important and growing but understudied region of the Balkans. Entrepreneurial activity and entrepreneurial finance are crucial areas for developing regions. The editors, Veland Ramadani and Robert C. Schneider and their contributors do a fine job assessing the important aspects relevant for academicians, practitioners and policymakers alike. I encourage those with an interest in the Balkans and others more generally interested in international differences in entrepreneurship and entrepreneurial finance to consider this book.

Donald S. Siegel, University at Albany, USA

This timely and insightful book presents the first systematic analysis of the role of entrepreneurship in the Balkans. The editors have amassed an impressive body of evidence on entrepreneurial activity in each country. More importantly, they synthesize this evidence and provide a unified theoretical framework to study this phenomenon. The end result is a manuscript that provides invaluable guidance to

scholars and policymakers in these nations and other developing regions across the globe. This important book underscores the crucial role of entrepreneurship in economic development.

Abdylmenaf Bexheti, Academy of Sciences and Arts, Macedonia

This book treats a topic which is both important and present at this time in the region. In the Balkans, entrepreneurship as a concept and business philosophy is more represented in individual efforts rather than as an institutionalized and organized model within functional markets. The diversity of entrepreneurship is as significant as the diversity of the societies and cultures of this part of the world, and this is why these efforts are unique and diversified. The topics treated in this book will represent an opportunity not only for students and enthusiasts of formal education, but at the same time for businessmen who practice entrepreneurship as their skill and way of expression – in this regard, they will have guidelines to develop entrepreneurship further more on a permanent basis. The editors and authors without any doubt deserve praise for this untypical work. In a well-structured compilation, the issues related to entrepreneurship are treated with a fine language and technique, understandable also for those who lack knowledge on this field.

Iraj Hashi, Staffordshire University, United Kingdom

In ‘Entrepreneurship in the Balkans: Diversity, Support and Prospects’ the authors explore the relevance, importance and impact of entrepreneurship in South Eastern Europe. This is a timely book reminding the readers of the vital role of entrepreneurship in economic development in the aftermath of transition to a market economy and the recent financial and economic crisis. Each chapter focuses on one aspect of entrepreneurship, combining the theoretical perspective with empirical research to draw conclusions and policy recommendations. Aspects of entrepreneurship covered in different chapters include innovation, risk taking, networking, the role of ICT, family owned businesses and the role of gender – all very important and interesting areas. The book highlights problems facing entrepreneurs (regulatory barriers, financial constraints, institutional weaknesses, etc.) in all countries of the countries studied, from Slovenia to Turkey, and offers recommendations to policy makers on how to improve the conditions facing entrepreneurs.

Sadudin Ibraimi, South-East European University, Macedonia

The editors, Ramadani and Schneider have done a great job with this volume by addressing critical aspects of entrepreneurship with special emphasis on the Balkans perspectives. This book is a pioneer work and will greatly contribute to expanding the research on ‘The Balkans’ Entrepreneurship’. This book also presents a great value for practitioners, academicians and researchers in the area.

Bobek Suklev, Academia Servorum Scientiae, Italy

Entrepreneurship and small businesses represent vehicle of growth, sustainability and prosperity of any country. This book elaborates important issues of emerging markets topics that are understudied. The book gave prospective of current state of entrepreneurship and small businesses in emerging markets and traces the future developments and trends in this area, like: ethnic entrepreneurship, women in small entrepreneurial businesses, corporate governance in family business, financing the business etc.

Stefan Qirici, Sevasti dhe Paraqeshevi Qiriaz University, Albania

This book, through empirical evidence and studies of a pleiades of authors, Balkans's researchers, gives us some broad picture with respect to the development of entrepreneurial skills, as well as the problems and challenges of entrepreneurs and SMEs in their respective countries. Seen in a holistic perspective, the book can be assessed in some ways that may be considered not exclusive but complementary to each other: Firstly, the book will serve as an important resource for the present theoretical researchers and also as a starting point and guidance for further scientific studies in the future; Secondly, the book being a collection of studies from Balkans' different authors, can also serve as a central point, where will be faced different viewpoints and treatises of the problems related to the birth, development and growth of SMEs in the respective countries of the Balkans; Thirdly, the book can also serve as a benchmark for key decision makers or policy-makers, who are representing institutional forces within central and local government and their decisions have a strong influence on the emergence, development and growth of SMEs.

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Introduction

Veland Ramadani and Robert C. Schneider

The editors and authors are pleased to present the book entitled “*Entrepreneurship in the Balkans: Diversity, Support and Prospects*”, which treats different topics in the field of entrepreneurship and small businesses, such as innovation, risk management, female entrepreneurship, migrant entrepreneurship, corporate entrepreneurship, institutional support of entrepreneurial initiatives and small businesses, venture capital, information technologies and small businesses, etc. in the perspective of different Balkans’ countries: Macedonia, Kosovo, Albania, Bulgaria, Croatia, Serbia, Bosnia and Herzegovina, Greece, Romania, Turkey and Slovenia.

Entrepreneurship and small business recently arouse particular interest among researchers in the field of business and economics and state policymakers. This interest is more than expected given that entrepreneurial creativity, the ability to bring innovations to the market and the willingness to face risk are changing the world (Fiti et al. 2007). Millions of people every day, everywhere around the world open their businesses, which provide existence for themselves and their families, open new jobs and actively participate in the overall economic development of their countries (OECD 2011).

It should be noted that despite many different researchers’ attempts to come to a widely accepted definition of entrepreneurship, this is so far not been achieved. To prove this, Peter Kilby (1971), figuratively says that it (entrepreneurship) is a great and very important animal, which is hunted by many individuals using various traps, but none so far has failed to catch; all who claim to have seen say that it was a huge animal, but disagree about its features. . . it simply is a heffalump. William Gartner (1990) made a thorough research to come to a general definition of entrepreneurship. He surveyed 45 academics, businesses leaders and politicians

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about it, what they understand by the term entrepreneurship. From the definitions that he received, he gene-rated 90 entrepreneurial attributes and in most cases, many definitions do not include the same features. Then, through factorial analysis were defined eight group factors, which are further evaluated and commented by the respondents. The eight group factors are as follows: entrepreneur, innovation, creation of organization, creating value, profit, growth, unique and owner-manager.

In the literature could be identified many definitions about entrepreneurship. It is assumed that entrepreneurship, as a term, derived from the french word “*entreprendre*”, which means ‘to undertake something’, and for the first time was mentioned by the seventeenth century irish origin economist, Richard Cantillon in his book *Essaie sur la nature de commerce en generale* (Essay about the nature of the trade in general), published in 1755, after his death. Richard Cantillon had described entrepreneurship as risk-taking during the sale of something. He had compared entrepreneur with the farmer, who pay the workers and the owners of the land, for whom these revenues were known and safe, while entrepreneur’s manufactured products will be sold with unknown price at the moment. Entrepreneur is a person who acts in hazardous circumstances, or in other words, a person who buys products with a known price, to sell them with unkown price in the future (Hisrich et al. 2008). After him many researchers have attempted to define entrepreneurship as a concept, activity, process or theory itself, and entrepreneur, as an individual who carries out this activity or process. Jean Baptiste Say described the entrepreneur as coordinator, supervisor and decision-maker, who deals with the factors of production. According to Say, the entrepreneur is the organizer of production, the individual who makes the division of labor and equipment in a small factory. Entrepreneur is an individual who made the allocation of resources from less productive areas in areas of high productivity (Shuklev and Ramadani 2012). Extraordinary contribution to the efforts to define entrepreneurship was given by the well-known economist, Joseph Alois Schumpeter (1934), who described the entrepreneur as an individual who offers something new in the economy, a method of production that has not been tested in practice in the manufacturing sector, a product with which consumers are not yet familiar, a new source of raw materials or a individual that opens new markets (Warner 1997). Frank Knight, in his book, *Risk, Uncertainty, and Profit*, firstly published in 1921, introduces the element of uncertainty during his attempt on entrepreneurship description. According to him, entrepreneurs are individuals acting in uncertain situations in search of higher profits. Knight was the first scholar who made clear distinction between “risk” – randomness with knowable probabilities and “uncertainty” – randomness with unknowable probabilities (Knight 2009). For Israel Kirzner, entrepreneur is neither a person who undertakes high risk, nor a coordinator or manager in the manufacturing process. For him, entrepreneurs are individuals who know how to judge (arbitrageur) and represent an “alert for profitable opportunities” (Kirzner 1973). Alfred Marshall, although he describes the role of entrepreneur-ship and entrepreneurs, he never so precisely described their function. He sees the entrepreneur as coordinator, innovators and arbitrageurs (Aidis 2003). Mark Casson (2010) sees the entrepreneur as an individual who possesses different

skills that enable the coordination of rare resources. Even that the entrepreneurship is much broader phenomenon, based on entrepreneurial behavior, entrepreneurship is often identified with the creation of new businesses or ensuring self-employment (Minniti 2007). Beside mentioned authors, many other have tried to define entrepreneurship and entrepreneurs, as Peter Drucker, David McClelland, Albert Shapero, Karl Vesper, Robert Hisrich, Giford Pinchot, etc. (Hisrich et al. 2008), but without offering something different from those mentioned earlier.

From the analysis of the different approaches and efforts to define entrepreneurship, it can be noted they revolve around these key elements: innovation (new opportunities), risk taking (moderate), combination of production factors, creation of a new enterprise, realization of profit, and ensuring business growth.

Taking into account these elements, it can be concluded that entrepreneurship is the process of seeking innovative opportunities in uncertain and risky circumstances, combining effectively and efficiently the factors of production in order to achieve profitability and business growth. As it was shown earlier, the concept of entrepreneurship is closely related to the term entrepreneur. Entrepreneur is a person who seeks innovative opportunities, takes risks, makes the best possible combinations of production factors and realizes profit and business growth.

The importance and power of entrepreneurship and small business could be presented through these data: in the US there are 25 million businesses, of which 24.75 million, or 99 % are treated as small; small businesses employ over 51 % of the workforce in private sector and create more than 51 % of GDP; In European Union operate approximately 25 million enterprises, from which 91 % are micro-enterprises, 7 % small and 1 % medium and create over 85 million jobs and two-third of GDP; or separately, in some European countries the situation is as follows: in Italy, 90 % of industrial firms are small business and absorb 84 % of the total number of employees; in Denmark, 92 % of existing firms belong to small businesses, which employ 43 % of the workforce; in Great Britain 99 % of the total number of enterprises are small and employ 67.1 % of the workforce; in Poland 99.08 % of the total number of enterprises are small; in Macedonia 98.07 % of the total number of enterprises are SMEs and employ over 165,000 people, while in Albania has around 60,000 small enterprises, which employ around 241,000 people (Bygrave and Zacharakis 2010; Stokes and Wilson 2010; Zimmerer and Scarborough 2008; Shuklev and Ramadani 2012; Schmiemann 2008; Cepani 2006).

In order to view the status of the development of entrepreneurship, many authors use the most popular indexes of Global Entrepreneurship Monitor (GEM), known as Total Entrepreneurship Activity (TEA), which shows the percentage of adults (18–64), who attempt to start a business or already are owners of small businesses set up earlier than 42 months (Bygrave and Zacharakis 2008). Data about the entrepreneurial activity in some of Balkans countries are presented in Table 1.

TEA as one of the most frequently used indicators for entrepreneurial activities has identified that part of the early-stage entrepreneurial activities are motivated by necessity and part by recognized opportunity. As it is shown in Table 1, the indicators of Republic of Macedonia are the highest compared to other countries in the region. The nascent entrepreneur entrepreneurship sums to 7.2 % and 7.7 % is

Table 1 Indicators of entrepreneurial activity

	Nascent entrepreneurial activity	New business owner-managers	Early-stage entrepreneurial activity (TEA)	Established business owner managers	Overall entrepreneurial activity	Business discontin. rate
Macedonia	7.2	7.7	14.5	11.0	24.8	5.3
Bosnia and Herzegovina	6.4	2.7	8.7	17.0	9.1	5.0
Croatia	4.9	2.8	7.6	4.8	12.3	2.9
Serbia	4.0	3.6	7.6	9.3	16.5	3.7
Slovenia	4.1	2.4	6.4	5.6	11.8	1.3
Romania	2.5	1.6	4.0	2.1	5.9	2.2
Greece	5.3	4.6	9.9	12.6	22.0	2.2
Turkey	3.2	3.0	6.0	4.8	10.7	3.9

Source: GEM Macedonia 2009, p. 27

for owners of new businesses which contribute toward the key index in GEM–TEA Index at 14.5 %. This Macedonia's TEA index figure is the highest compared to other countries in the region; for Greece the TEA index is 9.9 % followed by Bosnia and Herzegovina with 9 %, whereas Croatia and Serbia are almost the same with 7.6 % (GEM Macedonia 2009). Besides the GEM studies, in the past have been published studies from which it can be built a clearer view about the state and development of entrepreneurship and small business in the Balkans (Dana 1996, 1997, 1998, 1999, 2010).

1 Structure of the Book

The book *“Entrepreneurship in the Balkans: Diversity, Support and Prospects”* represents a comprehensive state-of-the-art picture of entrepreneurship and small business issues and beside theoretical background, provides a mosaic of empirical evidence that is very likely to offer a brighter view of these fields from the perspective of the Balkans' countries. The book is an outcome of long lasting endeavour and it includes contributions of motivated scholars and experts from the Balkans' countries and beyond specially written for the purposes of this book.

This book consists of 16 chapters organized into three sections: (i) Concept and Activities; (ii) Diversities and Perspectives; and (iii) Support and Development. Section one, *Concept and Activities*, features four chapters, such as: Entrepreneurs' Features and Challenges in Developing Countries: A Research Synthesis from Serbia; Innovative Activities of Entrepreneurial Enterprises: The Bulgarian Context; Risk Management in SMEs: The Croatian Experiences; and Growth Strategies of Entrepreneurial Businesses: Evidence from Macedonia. Section two, *Diversities and Perspectives*, features six chapters, such as: Family Businesses in Republic of Kosovo: Some General Issues; Gender Perspectives of SMEs Networking Activities: Evidence from Slovenia; The Role of Women in Family Businesses: The Case of Slovenia; Corporate Entrepreneurship in Family Firms: The Case of Turkey; Immigrants' Entrepreneurship in Greece at Times of Crisis: Ambivalent Paths and The Persistence of Institutional Barriers; Entrepreneurialism and Sport Leadership: Some Lessons for The Balkans. Section three, *Support and Development*, consists of six chapters: The State of Entrepreneurship in the Balkans: Evidence From Selected Countries; Support Programs for the Development of SMEs in Time of Crises: Some Analysis from Albania; The Pyramid of Entrepreneurship in Romania: Toward a New Approach; SMEs and Entrepreneurship Development and Institutional Support in Republic of Srpska (Bosnia and Herzegovina); Venture Capital Initiatives in Macedonia: Current Situation, Barriers and Perspectives; and The Use of ICT in the Decision Making Process: The Case of Macedonian Entrepreneurial Businesses.

Section one is opened by authors, *Ivan Stefanović, Sloboda Prokić and Ljubodrag Ranković*, who in chapter *“Entrepreneurs' Features and Challenges in Developing Countries: A Research Synthesis from Serbia”*, focus their study on

motivational and success factors of entrepreneurs in Serbia, as well as the problems they face. The main objectives of their research are to analyse the motives of entrepreneurs starting their own business, to determine the factors that affect the success of their small businesses, and to define the problems entrepreneurs face. The empirical research was conducted according to 11 motivational items of entrepreneurs to establish their own business, 17 items affecting entrepreneurs' success, and 15 items regarding problems entrepreneurs face. Four motivational factors are obtained in this research (greater business achievement, independence, intrinsic factor and job security), as well as seven factors affecting entrepreneurs' success (position in society, interpersonal skills, approval and support, competitive product/service, leadership skills, always to be informed and business reputation), and five problems facing entrepreneurs' operations (regulation problems, capital problems, infrastructure problems, lack of business training and location problems). Based on these results and their comparison with the empirical findings in other countries, authors have concluded that motivational factors of entrepreneurs are generic in developing countries. The results showed that there is a lack of motives in Serbia concerned with sustainable development of enterprise in a long run. On the other hand, there is a variety of different success factors affecting entrepreneurs, which primarily depend on the current situation in the local environment. As for the problems concerns, basic problems affecting entrepreneurs are generic worldwide, while there are some differences that primarily depend on the current situation in local environment. At the end of the chapter, authors provide some recommendations for official authorities and relevant institutions.

In chapter "[Innovative Activities of Entrepreneurial Enterprises: The Bulgarian Context](#)", *Snezhanka Ovcharova and Hristo Krachunov* argue that innovation policy is one of the key areas for improving the competitiveness of the Bulgarian economy and acceleration the growth potential in the post-global crisis. This chapter shows problems in the management of innovation and the factors influencing the increase in innovative activity enterprises. Research in this chapter was carried out on the base of balance sheets of SMEs. The authors analyze the relationship between the value of intangible assets and the innovation potential of micro, small and medium enterprises in Bulgaria. Discussed are the types of business innovation implemented in the last 4 years. In the end of the chapter are derived trends by sector and recommendations for improving the innovation climate in Bulgaria.

In chapter "[Risk Management in SMEs: The Croatian Experiences](#)", *Valerija Public', Tihomir Hunjak and Mirna Varlandy Supek* address the issue of risk and its management in small and medium sized enterprises. All business activities involve risk and uncertainty. For a variety of reasons, the costs, benefits and returns usually differ from those planned. A business owner chooses to take risk every day. Often business owners rely on experience and intuition to manage risk. However, the more complex the business, the more important it is to identify the risks that may prevent a business from fulfilling its potential, and to manage them in order to minimize adverse outcomes and maximize positive outcomes. Small enterprises have scarce resources; they often haven't got sufficient expertise and are much

more vulnerable than big ones. Research in this chapter was carried out on a sample of small enterprises in Croatia. Results of the survey are the following: identification of business risks that have the largest impact on the sustainability of small enterprises in Croatia nowadays and in the future; identification of existing risk treatment options and control mechanisms; and identification of the involvement of employees in the risk management process.

In chapter “[Growth Strategies of Entrepreneurial Businesses: Evidence from Macedonia](#)”, *Bobek Suklev and Gadaf Rexhepi* noted that selecting the right strategy in the right moment usually can become the best competitive advantage that an enterprise can gain. In this chapter, they point that, in order to achieve this competitive advantage, enterprises need to understand at what phase of life cycle their enterprise is at the moment. Authors present the best growth strategies that an enterprise can gain when it is in the growth stage by using theoretical and practical research. Empirical data which came as a result of 45 analyzed enterprises which operate in the growth phase showed that hybrid strategy tends to be the best strategy that enterprises can select when they operate in the growth phase.

Chapter “[Family Businesses in Republic of Kosovo: Some General Issues](#)”, contributed by *Gramos Gashi and Veland Ramadani* focuses on family businesses in Republic of Kosovo. Authors notice that family business is the most prevalent form of the business in Kosovo and throughout the world. Despite this fact there are very few studies of family businesses in Kosovo, on the organization and their functioning, especially in matters of succession, process that is one of the main challenges of these businesses, where they tried to explain matters pertaining to planning and implementation of succession process by the founders of family businesses in the Republic of Kosovo. Family businesses are the blood that keeps alive the worlds and Kosovo’s economy. They are important accelerator for economic development. Becoming part of the family business is a special sensation, after entering the family business world means giving the opportunity and sense of belonging and pride. But a family business has its dark side that is the competition between family members who can destroy their family and business. All these issues are treated in this chapter.

The basic purpose of chapter “[Gender Perspectives of SMEs Networking Activities: Evidence from Slovenia](#)”, contribution of *Karin Širec and Katja Crnogaj*, is to examine one of the most well-known organizational concepts from the end of the 1990s – the concept of networking. In so-called networking economy, each network actor (individual, team, or organization) is embedded in a larger economic web that affects each participant and, in return, is influenced by that participant. By analyzing networking activities between enterprises and organizations (business networking) as well as entrepreneurs’ personal networking (entrepreneurial networking), this study seeks to empirically address the following research question: How does activity in network relationships differ between male and female entrepreneurs and the companies they are directing? The gender perspective is important because of the limited understanding of the gendered influences of economic development that entrepreneurship activity undoubtedly has on a society. The analysis is based on a data set and questionnaires with 193

entrepreneurs of small and medium-sized companies in Slovenia. The results revealed interesting findings. It appears that male entrepreneurs have less intensive cooperation with supportive institutions as female entrepreneurs who are largely separating their private life from business. The initial findings represent a signal for the entrepreneurial supportive environment; it should be better adapted to meet the needs of the specific SME segment.

In chapter “[The Role of Women in Family Businesses: The Case of Slovenia](#)”, *Jaka Vadnjal and Blaž Zupan*, highlight the women’s role in family businesses. Although widely recognized as generally very important players, the role of women is often defined as invisible in business decision, supportive in traditionally men’s business domains and only seldom to be adequately recognized and rewarded. The chapter explores possible differences in the views of men and women managing small family firms. Their attitudes against traditional business roles of women, different views on managerial, ownership and transition issues and possible gender discrimination are inspected. The findings support the paradigm of different, more feminine style of management but, tracks of discrimination cannot be clearly revealed.

Chapter “[Corporate Entrepreneurship in Family Firms: The Case of Turkey](#)” investigates the relationship between institutionalization factors and corporate entrepreneurship in Turkish family firms. This chapter is contributed by *Mustafa Fedai Çavuş, Yeter Demir Uslu and Bilge Aksay*. The data was obtained from the responses of 244 managers in family firms. The results show that there were significant relationships between the dimension of institutionalization and the dimension of corporate entrepreneurship. Based on their study, the autonomy dimension of institutionalization positively affects all three dimensions of corporate entrepreneurship: risk taking, proactivity and innovativeness. Transparency affects risk taking and proactivity in a positive way while professionalism and consistency affect proactivity positively. But formalization affects the risk taking and proactivity dimensions of corporate entrepreneurship negatively. Formalization also has a meaningful and positive influence on innovativeness only.

Chapter “[Immigrants’ Entrepreneurship in Greece at Times of Crisis: Ambivalent Paths and the Persistence of Institutional Barriers](#)”, contributed by *Panos Hatziprokopiou and Yannis Fragopoulos* explores recent trends in respect to the entrepreneurial activity of immigrants in Greece. It particularly focuses on small businesses owned by immigrants in Athens, and examines their performance and problems amidst the current conjuncture of dept crisis, recession and austerity under the country’s combined EU-ECB-IMF supervision. The chapter builds on earlier studies and official statistics to account for the dynamics of immigrants’ entrepreneurship in the past decade, but draws from ongoing fieldwork research in Athens in order to analyse developments in the last couple of years. This has involved a combination of quantitative and qualitative methods and has been based upon a comparative framework involving not only immigrant-owned shops, but also their neighbouring small-businesses run by indigenous Greeks at a local level.

Robert C. Schneider, in chapter “[Entrepreneurialism and Sport Leadership: Some Lessons for the Balkans](#)” argues that entrepreneurialism strongly supports revenue generation in sport. Long standing approaches to revenue generation, when first established, were a result of entrepreneurial efforts, as are the creative attempts to extend those original ideas for the purpose of additional revenue generation. Increasing revenues through stadium naming rights, media contracts, marketing, trademark and licensing fees, advertising, corporate sponsoring, and gate receipts are some money making endeavors that have been and are being driven by entrepreneurial efforts of sport leaders. Many of the aforementioned entrepreneurial endeavors have become a part of sporting events in the United States. They span across sport organizations, leagues, athletic departments, and teams. Schneider states that during their inception, the money making endeavors associated with sports were created by entrepreneurial thinking minds of sport leaders and currently produce necessary revenues to maintain the financial solvency of the sport entity. Endeavors are also considered entrepreneurial if a new creative idea expands on the original idea in which the profit making endeavor is rooted. This chapter offer very useful lessons that can be learned by sport leaders from the Balkans.

In chapter “[The State of Entrepreneurship in the Balkans: Evidence From Selected Countries](#)”, *Veland Ramadani* and *Léo-Paul Dana* give a picture on the state of entrepreneurship in selected Balkans’ countries. They noted that entrepreneurial energy exists in the Balkans, but in some countries it is not properly channelled, it can result in activities that are undesirable for the state and its society. This chapter examines the bazaar, the firm-type economy, and a variety of forms of enterprise that exist in the parallel economy, including informal economic activity, internal economic activity with no transaction, and covert economic activity.

In chapter “[Support Programs for the Development of SMEs in Time of Crises: Some Analysis from Albania](#)”, *Arbër Demeti* and *Tefta Demeti* highlight some of the main characteristics of small and medium sized enterprises (SMEs) in Albania. They noted that these enterprises are an essential source for the creation of new jobs, entrepreneur and innovation spirit and have a crucial importance for growing of competitiveness. SMEs dominate Albanian economy by representing 99.9 % of all registered businesses and the assessment of SME’s policy is slightly below the Western Balkan regional average. In this chapter they analyze SMEs development during the years in Albania, the reforms for improving business environment and the programmes held to support them during the global economic crises. Furthermore they analyse the World Bank’s Doing Business Report for Albania on ten dimensions and the implementation of Small Business Act, which is a new framework policy document for SMEs.

The aim of chapter “[The Pyramid of Entrepreneurship in Romania: Toward a New Approach](#)”, written by *Liviu Ciucan-Rusu* and *Zsuzsanna Katalin Szabo*, is to emphasize the role of the entrepreneurship in the sustainable development of a country, to use a bottom-up approach in the research of the entrepreneurial phenomenon in Romania, starting with the current situation of the economic environment, passing through the small company management approach, and launching a debate about the general perspective regarding entrepreneurship. The authors are

deeply involved in the study of the entrepreneurship phenomenon as a factor of economic and social development, a lot of works and researches have been done for the past 5 years dedicated to the concept of entrepreneurship. Most of the studies rely on the psychological dimension of the entrepreneur, since there is a lack of information regarding the factors related to business friendly environment. Authors noticed that in Romania there is a strong need of “good practice” in the case of supportive factors for entrepreneurship, a change of patterns regarding the sources of sustainable development, and tools for the change management.

Authors, *Saša Petković and Jelena Tešić*, in chapter “[SMEs and Entrepreneurship Development and Institutional Support in Republic of Srpska \(Bosnia and Herzegovina\)](#)” offer analyses of the current situation in Republic of Srpska (RS), one of the entities in Bosnia and Herzegovina, related to the entrepreneurship and institutional support for SMEs development. This research was built upon an assumption that SMEs and entrepreneurship in general, in RS, like in many other transitional countries, lack an effective government support. This support is essential during the market volatility and an increasing pressure on fragile domestic economies. The research examines the range of influences in the institutional environment that affect the development of entrepreneurship and SMEs in RS as well as in Bosnia and Herzegovina as whole. These include the role of government agencies, policy infrastructure, and other factors critical for the SMEs support. More specifically in this study we analyzed the programs, policies and strategies for SME support in RS. In so doing a survey of 87 SMEs owner/managers, combined with individual in-depth interviews, was conducted in early 2010 in one of the most developed regions as well as the largest concentrations of new businesses in RS, Banja Luka, the administrative centre of RS. With 47.3 SMEs per 1,000 inhabitants, the city has exceeded the European average. The study offers a conceptual framework and an advanced Model for SMEs Entrepreneurship support in RS, which could be replicated elsewhere.

Venture capital represents a very interesting solution for the new and existing small and medium sized enterprises which have interesting and attractive ideas and projects, but are short of finances. This source of financing is treated in chapter “[Venture Capital Initiatives in Macedonia: Current Situation, Barriers and Perspectives](#)”, contributed by *Taki Fiti and Veland Ramadani*. Authors state that the specific importance that lies on venture capital and its impact on small and medium sized enterprises is the fact that they beside financial resources provide managerial advices also. This chapter offers analyses of the current situation in Republic of Macedonia related to the venture capital development – what is done and what should be done? It also gives data on the features of investments made by venture capital funds, established by Small Enterprise Assistance Funds (SEAF) from United States (SEAF Macedonia, Small Investment Fund and SEAF Fund for Southern Balkans) as the only funds which provide venture capital in Macedonia. The data are related to the number of investments made in Macedonia, preferred sectors for investments, amounts of invested capital, factors that affected these investments, received benefits of businesses from invested venture capital, level of success achieved from investments etc. In this chapter also are given some

measures that should be taken in consideration toward the development of venture capital in Macedonia.

The aim of chapter “[The Use of ICT in the Decision Making Process: The Case of Macedonian Entrepreneurial Businesses](#)”, contribution of *Shqipe Gerguri-Rashiti, Hyrie Abazi-Alili and Zamir Dika*, is to recognize importance of ICT within the business processes and within the strategic decision making, with a specific emphasis in production industry, services and trade. Also the authors have analyzed how much companies in Macedonia are incorporating ICT in their strategic decision-making process, very important to emphasize if companies are using ICT to become competitive in the market place and create competitive advantage out of it or do they use it only for automotive business processes. Depending on the research findings either recommend ways on how companies can become technologically innovative or compare it with organizations where ICT plays a immense role as part of their strategy and decision making process.

2 Conclusion

We hope these assembled chapters bring an interesting and significant contribution to the field of entrepreneurship and small and medium sized enterprises, primarily in terms of elucidating the importance of these fields in a specific region, such is The Balkans. The Balkans has not been a focal point of interest in the current literature on entrepreneurship and small business and this book aims to overcome this deficit in our knowledge. Taking into consideration that such a book is not available in the market and no author has treated strictly the above mentioned topics in the perspective of the Balkans’ countries, we hope this book would be very welcomed by regional and international researchers who are interested to know more about entrepreneurship and small business matters in the Balkans’ countries.

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Part I
Concept and Activities

Entrepreneurs' Features in Developing Countries: A Research Synthesis from Republic of Serbia

Ivan Stefanović, Sloboda Prokić, and Ljubodrag Ranković

1 Introduction

The emergence and development of entrepreneurship is an important phenomenon in contemporary economies. Entrepreneurship is strongly linked to small and medium sized enterprises (SMEs), which are the main developing force of the developed market economies. SMEs are usually representing the majority of all the enterprises and accordingly they are main driving force of entrepreneurship development and economy. In most of the developed countries, the percentage of SMEs in total number of enterprises is higher than 90 %, while around 60 % of available workforce is employed in those firms.

SMEs stimulate initiative, invention and overall entrepreneurial spirit. Their specificities enable them to be far more flexible than large enterprises, which is one of the basic conditions for adaptability to environmental shifts. These are only some of the reasons why the large number of SMEs existing in all developed economies, as well as developing ones, support the fact that they are extremely important (Stefanović et al. 2009).

Nevertheless, numerous investigations show that Europeans, in general, express tendencies rather to work in a firm (for someone else) than to start their own business (Jones and Nummela 2008). This tendency is typical for post-communist

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countries, in which the long lasting ease of working in a state-owned firm has become a dominant determinant in human behavior (Jiangyong and Tao 2008).

In Serbia, which is a developing country going through a process of economic transition, SMEs also represent a vast majority of enterprises. Thus, the importance of SMEs for the entire Serbian economy is very large with the expectation that the future will bring a further increase in its importance.

Because of the great importance of entrepreneurs and SMEs for developing economies, this research addresses motivational factors, success factors and problems of entrepreneurs in Serbia that can serve as a research guideline for scholars and practitioners in other developing countries. Understanding these factors can be helpful for entrepreneurs and their SMEs, because it could affect the increase in the percentage of successful ventures. It should be noted that this chapter presents the synthesis of results already published in various journals (Stefanović et al. 2010, 2011a, b, c) with accompanied recommendations for practice.

2 Entrepreneurs' Features: A Theoretical Background

Importance of entrepreneurship and SMEs development for long-term economic growth is obvious. For example, in the European Union (EU-27), SMEs account for 99.8 % of all enterprises, out of which the vast majority of enterprises are micro enterprises (they comprise 91.8 % of all enterprises). SMEs provide jobs to 67.1 % of all employees and participate with 57.6 % of total added value (Schmiemann 2008).

In order to continue analyzing entrepreneurship, we must first closely look at the very notion of the terms: “entrepreneurship” and “entrepreneur.” Thus, entrepreneurship can be viewed as the formation of a new firm that uses innovation to enter existing markets (or to create new ones) and grow by making new demand, while taking market share away from existing suppliers (Schumpeter 1934). On the other hand, an entrepreneur is someone who independently owns and actively manages a small business (Collins et al. 2004). An entrepreneur is someone who introduces new ideas and changes the rate at which the wheels of an enterprise go around (Evans 1942). Talented persons should be particularly encouraged to become entrepreneurs, for it is these persons who will contribute most to the creation of labour demand (van Praag and Cramer 2001) and economic growth.

Considering that these men and women are very significant for the growth and development of economies in countries in which they operate their businesses, understanding their motivational and success factors, as well as the problems they face, is a very important topic. These three groups of factors have considerable impact on the development of entrepreneurial activities and on birth rate and growth of SMEs. Unfortunately, studies on this topic were not readily conducted in developing countries, especially in Serbia, until recently (Živković et al. 2009; Živković and Živković 2009).

2.1 *Motivation of Entrepreneurs*

The impact of entrepreneurs' motivation on their success is a widely known topic. A number of studies was conducted to determine this relationship. Kuratko et al. (1997) and Robichaud et al. (2001) surveyed entrepreneurs from North America to determine what motivation categories lead to business success. Findings from their studies show that motivation of entrepreneurs falls into four distinct categories: (a) extrinsic rewards, (b) independence/autonomy, (c) intrinsic rewards and (d) family security. These four groups of factors determine the motivation level of entrepreneurs which in turn affects their business success.

Benzing et al. (2009) in their study of entrepreneurs in Turkey, among other things, presented comparative results of numerous research on entrepreneurs' motivating factors in different countries. For example, they stated that Swierczek and Ha (2003) in their study of Vietnamese small business owners found that challenge and achievement were more significant motivators than necessity and security. In Romania, income and job security needs were stronger motivators than self-satisfaction and personal needs (Benzing et al. 2005a). On the other hand, entrepreneurs in India were most strongly motivated by the desire for autonomy and then to increase their income (Benzing and Chu 2005). In Turkey, entrepreneurs are motivated to start their own business so they can provide security for themselves and their family and to increase their income (Ozsoy et al. 2001). Benzing et al. (2009) also presented research results from African countries. Ugandan entrepreneurs are motivated by "making" money (Bewayo 1995). A study of entrepreneurs in Kenya and Ghana (Chu et al. 2007) found that the strongest two motivators were to increase income and to provide employment to themselves. Roy and Wheeler (2006) found that microenterprise owners in West Africa were motivated by a desire to satisfy basic psychological needs – food and shelter.

One survey, which was focused on nascent entrepreneurs, was conducted in the United States (Edelman et al. 2010), and found that reasons nascent entrepreneurs want to launch a business are the same across the race, but there are differences in the motivation to grow a new venture between black and white nascent entrepreneurs. Blanchflower and Oswald (1998) conducted a survey that led to the finding that people who are self-employed reported higher levels of job and life satisfaction than employees who were not self-employed.

Numerous comparative studies of entrepreneurs and managers showed that entrepreneurs place a moderately higher emphasis on achievement motivation than do managers (Stewart and Roth 2007; Collins et al. 2004; Begley and Boyd 1987; Ahmed 1985; Lachman 1980). High levels of achievement motivation are consistent with the demands of the entrepreneurial role, which appears to attract individuals who are highly achievement-motivated because of the potential to derive more achievement satisfaction in an entrepreneurial setting, a context that provides the challenge, autonomy, and flexibility for achievement realization (Stewart and Roth 2007). Entrepreneurs are less constrained by organizational systems and structures (Daily et al. 2002) and the entrepreneurial role is less specialized, standardized and formalized. Stewart et al. (1999) discovered that

entrepreneurs, who are primarily growth-oriented, placed a higher emphasis on achievement motivation than did managers and “small business owners,” who were focused primarily on producing current family income instead of growth, but the “small business owners” did not significantly place a higher emphasis on achievement motivation than did managers. The achievement motivation difference between entrepreneurs and managers becomes much more pronounced when the entrepreneur has growth goals or when the entrepreneur is the founder of the venture. Motivation level for venture founders is likely attributable to the circumstances associated with founding. Venture creation appears to present the type of task challenge and lack of routine that attracts very highly motivated individuals (Stewart and Roth 2007).

2.2 Success Factors of SMEs

Analyzing literature on success factors first requires defining the notion of business success. There is no single agreed-upon definition of business success, but researchers generally use continued viability or longevity as a surrogate for business success (Rogoff et al. 2004).

Numerous studies showed different kinds of variables that influence the success of SMEs, but most of these studies concentrated on a few sets of variables: (a) the psychological and personality traits of entrepreneurs, (b) the managerial skills and training of entrepreneurs and (c) the external environment (Benzing et al. 2009). Psychological attributes such as a drive for independence, innovative orientation, attitude toward risk and a competitive nature have been found to relate to success (Frese et al. 2002), and they are especially important when an entrepreneur is working in a difficult business environment. Rauch and Frese (1998) agree that psychological traits contribute to success of SMEs, but they are often moderated by experience and training, specific managerial skills and the business environment, which are factors that are more easily developed and altered by policymakers. Managerial skills would include the ability to manage personnel and maintain accounting records, whereas environmental conditions would be related to satisfactory government support, access to capital and support of family and friends (Benzing et al. 2009). Impact of the owner/managerial knowledge and expertise on the success of their SMEs was studied in-depth by numerous authors (Daily et al. 2002).

Besides these three sets of variables, there are more factors that affect SMEs' success. The importance of social networks on SMEs, especially on start-ups is widely acknowledged today (Elfring and Hulsink 2007). Pirolo and Presutti (2010) empirically verified the existence of positive impact of both strong and weak interorganizational social capital on the growth of start-up's economic performance throughout its life cycle. On the other hand, the orientation of business owners has a significant impact on SMEs' performance over time. Runyan et al. (2008) empirically found that there is a significant difference in the impact of small business orientation (SBO) and entrepreneurial orientation (EO) on firm performance. For

younger firms, only EO was a significant predictor of performance, while for owners of business for 11 or more years, only SBO was significant. This finding suggests that with continuance, the more emotionally attached to the business and the more devoted to balance work and family life, the more successful the owner. The younger small businesses continue to rely on the strength of the owner's EO for positive performance.

It has been argued that one of the key factors in the success of a new venture is the dominant logic of the firm (Nadkarni and Narayanan 2007). Dominant logic would be conceptualized as a set of "dominant themes" or "configurations" developed by the entrepreneur (Miller 1996) that over time becomes an organizational characteristic in a similar way as a market or entrepreneurial orientation (Lyon et al. 2000).

Entrepreneurial talent, which is a function of observable characteristics, determines the size of the business (van Praag and Cramer 2001). Thus, talented individuals have more chances to grow and develop their business ventures. But talent is not the only prerequisite. Risk aversion is another one. Successful entrepreneurs are willing to bear risk. They, however, must not only have the motivation to bear risk, they must be able to actually bear risk (Say 1971). Marshall (1930) mentioned that young people who are risk-oriented are more inclined to start as an entrepreneur than others.

2.3 Problems Facing Entrepreneurs

Considering that entrepreneurship and SMEs play such an important economic role, it is also very important to analyze problems facing entrepreneurs, which impede the growth rate of SMEs. Problems or barriers are broadly defined as those internal or external factors or conditions that constrain growth potential in firms (Storey 1994). Identifying the concrete barriers help entrepreneurs to predict which firms are most likely to grow or not and under what circumstances. It would also help them understand the growth dynamic and threats they must avoid in order to grow their businesses.

Problems that are facing entrepreneurs and SMEs in developing countries are quite similar. Entrepreneurs are facing highly unstable and unpredictable environment. The laws governing private enterprise, especially business registration and taxation systems, are overly complex and difficult to understand (Benzing et al. 2009). High degree of regulation results in lengthy and costly delays in clearances and approvals (Macculloch 2001).

The resources of entrepreneurial firms are usually constrained, but the tangible resources such as financing, technology, and logistical systems of entrepreneurial firms are particularly restricted in transition economies (Bruton and Rubanik 2002). The result is that entrepreneurial firms in transition economies need to be more proactive, able to acquire and leverage their intangible resources, and become even more educated than entrepreneurs in developed economies (Knott et al. 2003).

There is large number of problems that can occur during development and functioning of SMEs. Considering their particularities, those enterprises are largely

focused on local active crises development compared to large scale ones. This is why it is important to point out the most common problems facing them. When familiar problems occur, and when their origin is well known, the decision making process toward the selection of a set of adequate actions for problem solving or sanitation is much easier.

By analyzing the 1992–2002 period, Headd and Kirchhoff (2009) followed the 10-year life cycle of new single-establishment small firms in the U.S. They followed growth firms and displayed the distribution of growth among the universe of single establishment small firms. Their explorative findings showed that only a few firms grow beyond 500 or even 100 employees, but growing firms are generally a constant share of the economy with a minor business cycle effect, growing firms are outnumbering decliners, new firms are not growing much and fast growers in a given year are tending to revert to the mean in the following year.

Large scale investigations revealed the fact that two primary reasons for SMEs collapsing are lack of adequate managerial skills and lack of financial resources (Watson 2003). Those are two basic problems facing SMEs in the market economies. This also sustains the fact that SMEs require external support in the form of outsourcing, especially in the form of knowledge and information related to different aspects necessary for the enterprise to function (management, financials, marketing, production, etc.). In other words, in modern business environment, SMEs are often left without the possibility for independent development or market-place acting. They had to have their own core of competence that have to be continuously developed, making them competitively superior in their field of operations. During this process, SMEs must be engaged in different forms of cooperative relations with other enterprises or organizations, in a way that supports the achievement of common preset goals.

Entrepreneurs face many obstacles, among which Young and Welch (1993) cited as lack of financial assistance, lack of business information, excessive taxation and a high inflation rate. Blanchflower and Oswald (1998) conducted a survey in which they found that potential entrepreneurs are afraid of problems regarding capital availability. The majority of people who were questioned in an interview survey said that raising capital is their principal problem. Chen and Williams (1999) researched U.S. corporate failure rates by region and found external factors such as sales tax rates, infrastructure expenditures, university research and expenditure amounts, and outstanding corporate debt to significantly influence business failure rates.

On the other hand, an investigation carried out during November and December 2006 in 27 EU countries, on the population of 16,339 SMEs revealed different results (The Gallup Organization 2007). This investigation concluded that limited purchasing power of the people (46 % of the sample), inadequate legal regulations (36 % of the sample), deficiency of working force (35 % of the sample) as well as high working force costs (33 % of the sample), are the most common problems facing SMEs. Inadequate infrastructure was at the fifth position (23 %), while lack of financial resources was at sixth place (21 % of the sample). This was considered highly untypical considering development problems of the SMEs. A list of the problems continued with the implementation of new technologies (17 %),

implementing new forms of organization (16 % of the sample) and the shortage of qualified managers (11 % of the sample).

Another survey which is worth mentioning was conducted by Kozan et al. (2006). They examined individual and environmental influences on small businesses in Turkey. They found that, among the difficulty factors, only lack of know-how and lack of financing showed significant relations to expansion plans. Financing difficulties hindered technological improvement and resource aggregation, while lack of know-how negatively affected market expansion.

On the other hand, investigations conducted in Serbia revealed that lack of financial resources is one of the basic problems in growth of SMEs. As an example we can discuss investigations realized by the Agency for Development of Small and Medium Sized Enterprises (Team of Experts from the Republic's Institute for Development and Republics Agency for SMEs 2007), which focused on determination of biggest problems in SMEs' operations in Serbia. This investigation included 1,404 examinees (entrepreneurs) in whose enterprises 14,485 people are employed, which is 13 employees per firm. Results of the investigations revealed that the most important problems, according to the examinees are: lack of financial resources (38.5 %), legal regulations (27.5 %), lack of marketplace information (9.4 %), lack of qualified workforce (9.4 %), incompatibility with the standards (7.1 %) and lack of adequate technology related information (4.1 %).

This structure of problems is probably rapidly changing due to the present economic situation, which was one of the motives for launching this research at the present time. The contemporary economic situation, which started out as a financial crisis and in late 2008 culminated in a sudden loss of business confidence and a rapid decline of world trade, made a tremendous impact on SMEs. For instance, employment growth of SMEs in EU-27 has been -1.9% and is estimated to be -1.7% for 2010 and -0.55% for 2011 (European Commission 2010). This situation caused a number of other problems for SMEs, such as profit issues, solvency issues, etc.

In Serbia, just before the economic crises, the number of SMEs has increased. In 2007, there were 296,100 of SMEs in Serbia, and in 2008, there were 303,400 of them. The number of employees working in SMEs has also increased. SMEs provided 906,700 jobs in 2007 and this number went to 940,200 in 2008. These numbers continued to grow in 2009 but at a slower pace due to the crisis development (Republic Development Bureau 2010).

3 Entrepreneurs' Motivations, Success Factors and Problems: Empirical Evidence from Serbia

3.1 Survey and Methodology

This survey was realized in Serbia, during September 2010. Serbia is a landlocked country located at the crossroads of Central and Southeastern Europe, covering the central part of the Balkans. With a GDP for 2010 estimated at \$80 billion or

\$10,897 per capita, Serbia is an upper-middle income economy by the World Bank. Serbia is also a developing country which is in the middle of the transition process.

The SME sector in Serbia is the most profitable segment of the economy. During 2006, SMEs consisted of 99.7 % of the total number of enterprises and accounted for 63 % of the total employment in Serbia. Also, SMEs facilitated over 40 % of total exporting activities and 60 % of importing activities. This is the reason why SMEs are largely important for successful implementation of a transition process, having in mind that economic results of transition are far from expected (Stefanović et al. 2009). When observed through this prism, it is obvious that SMEs are most vital and rentable part of the Serbian economy (Republic Development Bureau 2008), which is why it is interesting to observe and analyze motivation and success factors, as well as problems of Serbian entrepreneurs, and to discuss its implications on other developing countries.

Using simple random sampling, several thousands of SMEs were selected from all over Serbia and the owners of these enterprises were sent an e-mail containing a questionnaire and detailed explanation of the purpose of the survey and its benefits, in order to motivate them to participate. In a 3 week period, 82 entrepreneurs answered the survey questions, but 3 of them were excluded because they were answered in an inappropriate manner. Thus, the final sample contained 79 SMEs, which is more than five observations per inquiry items as recommended by Tabachnick and Fidell (2007).

The questionnaire used in this study was originally developed by Hung M. Chu (Chu and Katsioloudes 2001) and has been used in studies of entrepreneurs across numerous countries, such as: Turkey, Vietnam, Romania, India, Kenya and Ghana (Benzing et al. 2005a, b; 2009; Chu et al. 2007; Benzing and Chu 2005). The questionnaire was translated into Serbian and checked for intertranslator consistency. The SPSS statistical software was used to process the obtained data.

The reliability of the survey instrument was satisfactory since the Cronbach's Alpha was relatively high for all three groups of items, respectively: motivation, success and problems of entrepreneurs. The Alpha for the motivation variables was 0.7759, for the success variables 0.7500 and for the problems 0.8427.

A five-point Likert scale was used to measure perceived motivation and success variables: 5 was "extremely important," 4 was "very important," 3 was "mildly important," 2 was "not very important" and 1 was "unimportant." A higher mean score on a variable indicates greater importance. As for the problems variables concerns, a five-point Likert scale was also used to measure perceived strength of problems: 5 was "a very serious problem," 4 was "a serious problem," 3 was "a problem," 2 was "a minor problem," and 1 was "not a problem."

Factor analysis was used to determine whether motivations variables were grouped together on significant factors. The Kaiser-Meyer-Olkin measure of sampling adequacy (Kaiser 1970, 1974) and Bartlett's test of Sphericity (Bartlett 1954) were used to test and establish the justification of factor analysis implementation. Principal component analysis, scree plot and component matrix were used to establish factors. Then, a principal component analysis extraction method with a

varimax with Kaiser normalization rotation method was used to determine the factor loading and communalities.

3.2 Sample Characteristics

As already mentioned, 79 SMEs constitute the sample, out of which only two enterprises can be labeled as medium (65 and 70 employees), which is only 2.53 % of the sample, while 6 of them are in a group of small enterprises (7.59 % of the sample), and the rest of the sample (71 enterprise) is in a group of micro enterprises (1–9 employees), which is 89.87 % of the sample. Thus, the vast majority of enterprises are micro enterprises.

All organizations in the sample are profit oriented, but the industry structure of the sample is very heterogeneous. There are various types of businesses, such as: manufacturing, retail, wholesaling, healthcare, etc.

The age of the enterprises are also heterogeneous. The youngest are several months old, while the oldest one is 30 years old. There are 49 enterprises 10 years old or younger (62.03 % of the sample), 28 enterprises between 11 and 20 years of age (36.44 % of the sample) and only 2 enterprises which are older (21 and 30 years of age, which makes up 2.53 % of the sample). The average age of enterprises in the sample is 8.61 years.

3.3 Results for Motivation Variables

The questionnaire for motivation of entrepreneurs contained 11 reasons for deciding to own a business. It has already been mentioned that the respondents were using a five-point Likert scale to give their opinion on the importance of each reason for them. The mean and standard deviation for each reason are presented in Table 1.

It was found that the most important reason for deciding to own a business is “To increase my income.” This is the same result as in a survey of Turkish entrepreneurs (Benzing et al. 2009), where this reason was also the first one. Given the fact that incomes in Serbia are relatively low when compared with the incomes in countries within the region and that purchasing power has decreased, it was quite expected that the desire to increase their incomes would be ranked first of the motivation variables. The second and third ranked variables are “To be able to use my past experience and training” and “So I will always have a job security”, respectively. The Serbian economy is struggling with a high rate of unemployment and the basic implication is that a lot of people think that their expertise would be better put to use if they would have their own business. The other implication is the fear of a losing a job. People need stability and they perceive that owning a business means a more secure job. The next four reasons have the mean score higher than 4. Those are: “To

Table 1 Mean score and standard deviation for motivation of entrepreneurs in Serbia

Motivation	Mean	Std. deviation
1. To be my own boss	4.08	1.269
2. To be able to use my past experience and training	4.58	0.691
3. To prove I can do it	4.27	1.184
4. To increase my income	4.63	0.701
5. To provide jobs to family members	3.18	1.551
6. For my own satisfaction and growth	4.15	1.075
7. So I will always have job security	4.56	0.780
8. To build a business to pass on	3.72	1.405
9. To maintain my personal freedom	4.14	1.174
10. To be closer to my family	3.39	1.445
11. To have fun	2.23	1.476

Source: Own research

Table 2 Principal component factor analysis (varimax rotation), factor loadings and communalities for motivation variables

Motivation	Factor 1	Factor 2	Factor 3	Factor 4	Communality
4. To increase my income	0.800				0.655
2. To be able to use my past experience and training	0.745				0.607
1. To be my own boss	0.694		0.418		0.698
3. To prove I can do it	0.502			0.440	0.488
10. To be closer to my family		0.767	0.321		0.704
9. To maintain my personal freedom	0.434	0.752			0.803
5. To provide jobs to family members		0.603		0.452	0.639
11. To have fun			0.776		0.624
6. For my own satisfaction and growth			0.764		0.666
7. So I will always have job security				0.811	0.721
8. To build a business to pass on		0.534		0.610	0.778
Variance	2.218	1.921	1.700	1.543	
Percentage of variance	20.166	17.466	15.458	14.025	

Source: Own research

prove I can do it,” “For my own satisfaction and growth,” “To maintain my personal freedom” and “To be my own boss”, respectively. All these reasons are implying the need for independency and belief that starting a business may lead to a more quality lifestyle.

The Keiser-Meyer-Olkin measure of sampling adequacy was 0.675 and Bartlett’s test of Sphericity was significant at 0.000. As shown in Table 2, a factor analysis led to four factors, which accounts for 67.115 % of the cumulative variance. These factors can be interpreted as: greater business achievement factor, independence factor, intrinsic factor and job security factor. These four factors are very similar to those obtained by Benzing et al. (2009) in a survey of Turkish entrepreneurs. In that study, there were also four factors: security factor, income factor, independence factor and intrinsic factor. While other factors are the same,

the only difference is between the “income” factor and the “greater business achievement” factor. Given that, under business achievement, income is the first parameter, it can be concluded that these two factors can be viewed as synonyms.

The first factor, referred to as “Greater business achievement,” consists of motives: 1, 2, 3, 4 and 9. They imply that entrepreneurs believe that they can achieve more by doing alone than doing for someone else. They are motivated to increase their incomes on their own, in an independent manner. This factor explains 20.166 % of variance. Entrepreneurs appear to believe that independence is very important in a country which is unstable and unpredictable in terms of economic growth and employment. In order to avoid possible downsizing, they are turning to themselves to secure income.

The second factor is referred to as “Independence factor.” It contains motives: 5, 8, 9 and 10. This factor accounts for 17.466 % of variance. Contemporary entrepreneurs want to be masters of their time. They need to be able to organize their time in the way that suits them. They are also trying to make balance between their professional and private life.

The third factor, which is named “Intrinsic factor,” consists of variables: 1, 6, 10 and 11. It accounts for 15.458 % of cumulative variance. This factor explains internal motives of entrepreneurs to start their own business. Entrepreneurs need to prove themselves to their environment and to achieve a significant level of personal satisfaction.

Finally, “Job security factor” is the fourth factor, which contains these variables: 3, 5, 7 and 8. This factor accounts for 14.025 % of cumulative variance. It signifies the importance of workplace security and employment continuity for the family members. Economic instability forces entrepreneurs to take care of themselves and their families.

3.4 Results for Success Variables

The questionnaire for success variables of entrepreneurs contained 17 variables. The respondents used five-point Likert scale to express their opinion on importance of each variable for business success. The mean and standard deviation for each success variable are presented in Table 3.

It was found that the most important variable contributing to business success of entrepreneurs is “Good customer service” and the second ranked variable is “Good product at competitive price.” This finding was expected due to the low purchasing power of people living in Serbia and the lack of adequate regulatory mechanisms in the Serbian market that should protect the customers during their purchasing transactions. “Reputation for honesty” is ranked third. Ranked fourth, fifth and sixth are “Ability to manage personnel,” “Good management skills” and “Maintenance of accurate records,” respectively. It is obvious that, the first three variables present some form of linkage between organization and its’ customers, and the next

Table 3 Mean score and standard deviation for variables contributing to success of entrepreneurs

Success variables	Mean	Std. deviation
1. Good management skills	4.27	0.858
2. Charisma: friendliness	4.13	1.005
3. Satisfactory government support	3.04	1.605
4. Appropriate training	3.00	1.423
5. Access to capital	4.16	1.103
6. Previous business experience	4.22	0.983
7. Support of family and friends	4.13	0.925
8. Marketing/sales promotion	3.80	1.067
9. Good product at competitive price	4.68	0.567
10. Good customer service	4.85	0.426
11. Hard work	3.70	1.113
12. Position in society	3.57	1.184
13. Maintenance of accurate records	4.24	1.065
14. Ability to manage personnel	4.34	0.946
15. Social skills	3.97	1.000
16. Political involvement	1.94	1.090
17. Reputation for honesty	4.54	0.781

Source: Own research

three variables occupy internal issues. It is very interesting that the variable “Political involvement” is on the last place of variables affecting business success, due to the fact that Serbia, similarly to other countries in the economic transition process, is a country where political engagement and business are strongly connected.

The Keiser-Meyer-Olkin measure of sampling adequacy was 0.636 and Bartlett’s test of Sphericity was significant at 0.000. As shown in Table 4, a factor analysis led to seven factors, which explains the 70.131 % of the cumulative variance. These factors are interpreted as follows: position in society, interpersonal skills, approval and support, competitive product/service, leadership skills, always to be informed and business reputation.

The first factor is called “Position in society.” It contains success variables: 3, 4, 8 and 16. Position in society can contribute to business success via contacts with a vast number of decision-maker in profit and non-profit organizations, government agencies and institutions. This kind of social network can enable the involvement of key decision-makers who can provide help in a variety of business situations.

“Interpersonal skills” is the second factor. It includes variables: 5, 14, 15, 16 and 17. Interpersonal skills include a variety of social abilities, such as: ability to understand others, ability to motivate and direct people, ability to empower, empathy, etc. These abilities are equally important with people inside an organization, as with the people outside of it.

Factor three can be referred to as “Approval and support,” and includes variables: 7, 8, 11 and 14. In order to manage a successful business, entrepreneurs need be approved by the people for whom they care, but also by the environment in

Table 4 Principal component factor analysis (varimax rotation), factor loadings and communalities for success variables

Success variables	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7	Communality
4. Appropriate training	0.853							0.760
16. Political involvement	0.728	0.344						0.706
3. Satisfactory government support	0.664				0.360			0.717
15. Social skills		0.823						0.723
14. Ability to manage personnel		0.633	0.370					0.695
5. Access to capital		0.619						0.527
17. Reputation for honesty		0.471			0.369		0.468	0.671
7. Support of family and friends			0.792					0.752
8. Marketing/sales promotion	0.325		0.748					0.772
11. Hard work			0.491	-0.372			0.405	0.606
9. Good product at competitive price				0.856				0.797
10. Good customer service				0.802				0.673
1. Good management skills					0.836			0.784
2. Charisma: friendliness					0.668	0.300		0.611
13. Maintenance of accurate records						0.836		0.744
12. Position in society					0.357	0.561		0.682
6. Previous business experience							0.766	0.703
Variance	1.995	1.901	1.784	1.775	1.765	1.387	1.316	
Percentage of variance	11.733	11.180	10.495	10.440	10.379	8.159	7.744	

Source: Own research

which they operate. They also need to gain support for their actions, because entrepreneurship means that they are walking on unsecured terrain instead of working for a stable income as an employee.

The fourth factor can be called “Competitive product/service.” It consists of success variables: 9, 10 and 11. In the era of global dynamic competition, which continues to increase in all types of industries, the ratio quality – price is more significant than ever before. On the other side, development of information and communication technology affects the increase of market transparency, which represent additional pressure on providing more competitive products/services.

The fifth factor, “Leadership skills,” contains success variables: 1, 2, 3, 12 and 17. The leadership can be defined as a process of “using noncoercive influence to direct and coordinate activities of the members of an organized group toward the accomplishment of group objectives” (Jago 1982). This factor can significantly contribute to the overall success of an enterprise, because it implies that employees are willing to recognize the entrepreneur as their leader, who inspires and motivates them to follow him in achieving organizational objectives.

“Always to be informed” is the sixth factor. It includes variables: 2, 12 and 13. Information regarding people and events inside and outside organizations are crucial for success of the entrepreneur. Quality decision-making can be sustained only if it is based on exact and precise information obtained in the right moment.

Finally, factor seven is called “Business reputation,” and includes success variables: 6, 11 and 17. Business reputation takes a lot of time to build. Long-term experience in business and maintaining of professional relationships with all stakeholders can establish a solid business reputation. An entrepreneur with a reputation has already earned trust in the market which can be helpful in acquiring business arrangements.

3.5 Results for Problem Variables

The questionnaire contained 15 problems facing entrepreneurs. As already mentioned, entrepreneurs were asked to express their opinion on the impact of each problem variable using a five-point Likert scale. The mean and standard deviation for each problem variable are presented in Table 5.

It was found that the “Weak economy” is the major obstacle for entrepreneurs in Serbia. Global recession had a strong impact on the Serbian economy, which especially affected SMEs in terms of their liquidity and solvency, because of the decrease in purchasing power. The second is “Unreliable and undependable employees.” It seems that Serbian entrepreneurs believe that they cannot rely on the majority of their employees. The reasons for lack of faith in employees should be investigated in order to bridge an existing gap between abilities of employees and knowledge and faith of entrepreneurs in those abilities. Employees should be given the opportunity to express themselves by giving them the full accountability and

Table 5 Mean score and standard deviation for problems of entrepreneurs in Serbia

Problem variables	Mean	Std. deviation
1. Unreliable and undependable employees	4.10	1.105
2. Too much competition	3.61	1.170
3. Unable to obtain short-term financial capital	3.67	1.217
4. Unable to obtain long-term financial capital	3.73	1.195
5. Too much government regulation	3.76	1.323
6. Limited parking	3.01	1.668
7. Unsafe location	2.84	1.427
8. Weak economy	4.48	0.945
9. Lack of management training	2.91	1.232
10. Lack of marketing training	3.03	1.143
11. Inability to maintain accurate accounting records	3.52	1.357
12. Complex/confusing tax structure	3.84	1.265
13. Complicated business registration process	2.92	1.542
14. Poor roads/transportation	3.23	1.527
15. Electricity problems	2.62	1.513

Source: Own research

responsibility for jobs they are doing. Ranked third and fourth are “Complex/confusing tax structure” and “Too much government regulation,” respectively. These problems indicate the lack of government commitment to deal with overregulated and complicated rules and procedures. “Inability to obtain long-term and short-term capital” were ranked fifth and sixth.

The Keiser-Meyer-Olkin measure of sampling adequacy was 0.727 and Bartlett’s test of Sphericity was significant at 0.000. As shown in Table 6, a factor analysis led to five factors, which accounts for 70.106 % of the cumulative variance. These factors can be interpreted as: regulations problems, capital problems, infrastructure problems, lack of business training and location problems.

The first factor, “Regulations problems,” includes problems: 2, 5, 12, 13 and 14, and accounts for 15.837 % of variance. It is known that Serbia has a lot of regulations problems. They are one of the main constraints for the increase in foreign direct investments and development of entrepreneurship through the increase of new business start-ups and growth of existing SMEs.

“Capital problems” is the second factor. It includes variables: 3, 4, 5 and 8, and explains 15.425 % of variance. Shortage of short-term and long-term capital is due to the instability of the Serbian economy, which makes this country high-risk in terms of investments, which in turn affects the increase of interest rates.

The third factor can be named “Infrastructure problems.” It contains problem variables: 2, 6, 7, 8, 14 and 15, and accounts for 14.266 % of variance. Infrastructure in Serbia got better in terms of quality, but there is still a lot of work to be done, especially in the domain of vehicle transportation infrastructure (i.e. roads and highways).

The fourth factor is referred to as “Lack of business training.” This factor includes problems: 9, 10 and 15. It explains 13.073 % of variance. Among a vast

Table 6 Principal component factor analysis (varimax rotation), factor loadings and communalities for problem variables

Problems	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Communality
13. Complicated business registration process	0.808					0.769
12. Complex/confusing tax structure	0.723					0.650
14. Poor roads/transportation	0.584		0.304		0.418	0.699
4. Unable to obtain long-term financial capital		0.889				0.874
3. Unable to obtain short-term financial capital		0.858				0.799
5. Too much government regulation	0.535	0.574				0.637
7. Unsafe location			0.830			0.772
6. Limited parking			0.698			0.631
8. Weak economy		0.529	0.635			0.725
2. Too much competition	0.464		0.479			0.575
10. Lack of marketing training				0.896		0.848
9. Lack of management training				0.835		0.819
1. Unreliable and undependable employees					0.746	0.615
15. Electricity problems			0.315	0.383	0.652	0.675
11. Inability to maintain accurate accounting records					0.551	0.430
Variance	2.375	2.314	2.140	1.961	1.726	
Percentage of variance	15.837	15.425	14.266	13.073	11.506	

Source: Own research

majority of Serbiens, the lack of adequate knowledge and skills has been recognized as a problem that concerns the need for technology transfer in many enterprises in order to increase their competitiveness. The inadequate qualification structure of employees and inadequate technology in Serbian enterprises was already discussed by Jaško et al. (2006).

Finally, the “Location problems” is considered to be the fifth factor. It contains problems: 1, 11, 14 and 15, and accounts for 11.506 % of variance. Location problems are the result of two previous factors “Infrastructure problems” and “Lack of business training.” Combined, these two factors are contributing to the fact that the location is also becoming an issue.

4 Discussion and Recommendations

Based on the obtained results and their comparison with empirical findings in other countries, which are presented in the theoretical part of this chapter, some valuable conclusions may be drawn. First of all, four motivational factors resulted from this research: greater business achievement, independence, intrinsic factor and job security. These factors are obviously generic worldwide. Second, seven success factors resulted from the research: position in society, interpersonal skills, approval and support, competitive product/service, leadership skills, always to be informed and business reputation. The part concerning success factors indicates a wide variety of factors affecting success of entrepreneurs. The structure of these factors is mostly determined by the situation in the local environment. Third, five factors resulted from this research, in part, concerning problems facing entrepreneurs: regulation problems, capital problems, infrastructure problems, lack of business training and location problems. After analyzing these factors, it can be concluded that basic problems affecting entrepreneurs are generic worldwide (e.g. lack of capital, inadequate personnel, etc.), but nevertheless, there are differences (i.e., factors) that primarily depend on the current situation in the local environment (e.g. inadequate infrastructure, electricity problems, inadequate education structure of local population, etc.).

Research findings of this study concerning motivation are very similar to those obtained by Benzing et al. (2009) in the survey of Turkish entrepreneurs. In fact, since it was concluded in the previous section that the two-seemingly different factors could be treated as synonyms, it may be said that the same factors are motivating Serbian and Turkish entrepreneurs. On the other hand, success factors of entrepreneurs obviously differ from the Turkish factors. This study obtained seven factors, while the Turkish investigation revealed six factors. The nature of some factors can be viewed as similar, while others are completely different. As for the problems concerns, research findings of this study are very similar to those obtained by Benzing et al. (2009) in survey of Turkish entrepreneurs. Their results discovered that Turkish entrepreneurs face also five problem factors out of which four are the same. The only difference is that in this study "Capital problems" are identified as one of five factors, while in the study of Turkish entrepreneurs, it was the "Market problems" factor.

These results provide new insights related to the factors shaping the process of entrepreneurship in developing countries, which is an important contribution on the scholarly level. In this way, this research certainly represents contributions to a small amount of empirical research on this topic in developing countries. Thus, empirical studies, such as this one, are more than welcome to bridge the gap that exists between contemporary theory on entrepreneurship and SMEs, on one side, and poor practice in developing countries, on another side. Understanding motivational and success factors, as well as problems, can be helpful for entrepreneurs and their SMEs, because it could affect the increase of the percentage of successful ventures.

It can be discussed that, besides scholars, entrepreneurs and other practitioners in developing countries could benefit from this research. It is already well known that Serbian entrepreneurs must be more actively supported by the Serbian government. The development of entrepreneurship and SMEs ought to be one of the most important objectives of every country in the world (especially in developing countries, such as Serbia) and ought to have high priority in allocating the budget expenditures. In order to facilitate economic development, it is necessary to make significant improvements in the process of institutionalization of supporting SMEs. This can be achieved by creating an environment that will facilitate development of entrepreneurship through numerous stimulating activities, such as: incentives that would facilitate cooperation of SMEs and large enterprises and the creation of clusters, establishing organizations for providing assistance to entrepreneurs (e.g. associations of entrepreneurs, government agencies for SMEs development, business incubators, industrial parks, etc.) and providing easy access to capital.

Nevertheless, this research offers specific guidelines for the development of entrepreneurs. For example, motives of entrepreneurs can be viewed as enablers for new business ventures undertaken by some individuals, which is why the knowledge of these motives ought to provide the focal point for all relevant institutions. These motives ought to be the core of communication of these institutions in order to maximize the effectiveness of the promotion of entrepreneurship. As for the success factors concerns, they represent the key factors for business venture survival. Proper authorities and institutions ought to pay attention to these factors in order to foster an appropriate climate in which numerous enterprises will be focused on mastering. The problems that resulted from this research indicate that activities must be undertaken by relevant institutions in the near future in order to remove obstacles for the development of entrepreneurship. It is necessary for these institutions to: (a) reengineer all the processes that are focused on business regulation in order to simplify and make them more efficient in terms of cycle time; (b) foster the availability of capital through the measures undertaken by the central bank; (c) increase the investments in the education system, specifically in the professional education; (d) alter the education programs in elementary and high schools (it would be wise to establish the courses that directly support the development of entrepreneurship on this level of education, such as: entrepreneurship, personal finances, etc.)

However, this research has its limitations. First of all, Serbia is a country where the lack of transparency is the main issue in the area of entrepreneurship and SMEs. The inability to obtain wanted information concerning government strategy for entrepreneurship development, direct and indirect investments in the development and sustainability of entrepreneurship, effects of those investments, etc., had its impact on this research. The second limitation concerns the size of the sample. It would be quite interesting to obtain results of similar investigations on a much larger sample, which would produce more relevant results with greater probabilities to be generalized on the whole population of SMEs in Serbia. Finally, this research did not analyze structural problems of the SMEs sector and its impact on motivational factors, success factors and problems of entrepreneurs. This kind of research would be highly appreciated and welcomed.

5 Conclusions

Entrepreneurship and the development of SMEs are, without doubt, the future of each country, especially of developing countries. This is evident, keeping in mind that two thirds of employees in the EU are from SMEs and that 99.8 % of all enterprises are SMEs. This is why entrepreneurship and SMEs are a solid foundation for growth of the economy and development. Because of their size and agility, they also represent the most dynamic and most efficient segment of the national economy of any country, regardless of the stage of its economic development.

More than ever, it is obvious that without strong SMEs, it is practically impossible for a country to achieve a solid economic position internationally. Because of their distinct entrepreneurial role, they present a solid base for improving macro-economic indicators of a country, by attracting direct foreign investments, decreasing unemployment rate, increasing gross added value, exporting activities, etc.

This is why each country ought to define entrepreneurship, as well as the creation and support of SMEs, one of its' highest economic priorities. Only by creating a highly supportive environment, in which entrepreneurship would thrive, it is possible to increase the rate of successful start-ups which would become major job providers for generations of young people to come. In order to facilitate the creation of such a supportive environment, knowledge of the motivational factors of entrepreneurs would be more than welcome. Only if the institutions in charge of creating an economic atmosphere are aware of these factors, can they make adequate actions to improve the situation.

This research has continued a series of research on the topic of motivational factors of entrepreneurs which were conducted in several countries, by using the same methodological approach (Benzing et al. 2005a, b; 2009; Chu et al. 2007; Benzing and Chu 2005). On the other side, it certainly represents contribution to a small amount of empirical research on this topic in Serbia. The reason for this evident lack of empirical investigations on entrepreneurs may be found in the fact that Serbia is a country which is still in the process of economic and social transition. Socialism did not favor private property and entrepreneurship. Thus, empirical researches, such as this one, are more than welcome to bridge the gap that exists between contemporary theory on entrepreneurship and SMEs, on one side, and early stage of entrepreneurial development in Serbia, on another side.

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Innovation Activities in Entrepreneurial Firms: The Case of Bulgaria

Snezhanka Ovcharova and Hristo Krachunov

1 Introduction

Innovation activity of Bulgarian business is subject to a number of challenges – an aging population, climate change and competition from new economic centres in the world. As a member of the European Union, Bulgaria has formulated its innovative targets in line with the European Strategy “2020,” related with employment, scientific-research activity, education, energy, climate change and poverty reduction until 2020. This requires updating of the National Innovation Strategy and Innovation Act. Compared with other European countries, Bulgaria has a low GDP per capita, and research and development costs are twice lower. The financial crisis has resulted in the slow renewal of enterprises, due to limited funding, delayed reforms in science and education, lack of systematic and institutional interaction between them and business, and inefficient administration and use of European funds for modernization.

In this paper data was taken from national reports on SMEs and national innovation policy. The problems in the development of innovative activities and measures to be taken are described. The authors analyse the relationship between the intangible assets value and the innovation potential of micro, small and medium enterprises in Bulgaria. The types of innovations implemented in the last 4 years are viewed. Comparisons and conclusions by economic activity are made.

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Table 1 Gross domestic product in Bulgaria

GDP/year	2006	2007	2008	2009	2010	2011
<i>Million (euro)</i>	26,476	30,772	35,430	35,493	36,052	38,483
<i>Growth (%)</i>	6.5	6.4	6.2	-5.5	0.4	1.7

Source: National Statistical Institute – www.nsi.bg

2 National Innovation Policy

Innovation policy is a key area for improving the competitiveness of the Bulgarian economy and acceleration the growth potential in the post-global crisis (Innovation Policy and Sectoral Competitiveness 2011). Bulgaria is in demographic crisis, with low levels of Gross Domestic Product (GDP) per capita (Table 1).

The intensity of scientific-research and development activity is low compared to other European countries. The reasons are rooted in both the old Innovation Strategy (since 2004), pending renewed Innovation Act, which are affected by the insufficient capacity of administrative bodies to absorb project funds from the Structural Funds of the European Union. By adopting the project of Innovation Act prepared in 2011 it will provide for institutionalization of the Bulgarian Fund for Innovation (successor to the National Innovation Fund). It can ensure a complementarity between the financing sources of innovation, aimed at both SMEs and large enterprises doing well. It will comprise all national, bilateral and multilateral programs to promote innovation.

Representatives of various sectors of Bulgarian society engaged in one form or another with issues of innovation policy, met in September 2012 in the Bulgarian Industrial Chamber to identify concrete measures and steps to create a genuine Innovation strategy of Bulgaria. Developing a new Innovation Strategy provides an assessment of the effectiveness of already applied measures in the field of innovation policy and the supply of sophisticated mechanisms for coordination of research and innovation policy.

To measure progress in achieving the objectives of the new strategy “Europe 2020” – for smart, sustainable and inclusive growth, the European Commission prepared a proposal for an “Innovation Union.” The index proposed from “Innovation Union” includes 25 indicators to assess innovation. However it does not provide an opportunity to reflect hidden innovation, typical of low-tech sectors. In them lack of formalized research activity is combined with high innovative activity based on organizational and marketing innovations, and the introduction of technological innovations from outside. Indicators oriented to measure only the intensity of research (costs, patents and personnel engaged in R&D), remain out of sight of European politicians and innovative activities and companies. In addition, they distort national profiles of innovation, which warrants for inaccurate conclusions. Data for the research and development (R & D), submitted by the National Statistical Institutes lag highly from time between occurrence and publication (1–3 years) and became the basis of erroneous political decisions in dynamic environment. For Bulgaria, as a state “catching up,” this delay is even more critical

because it does not allow for quick disclosure of problems with EU alignment and the opportunity to take appropriate actions.

The Gross Innovation Product of an economy or its innovativeness is assessed by:

- The new products and services introduced,
- The new technologies created,
- The scientific results achieved.

Like other EU countries, Bulgaria has shown a high growth rate of Gross Innovation Product in the period of 2006–2010 (Bulgarian Innovation Policy 2011, p. 22).

The *innovation product* comprises the result from new and significantly improved processes, products and services based on new and/or adapted knowledge and know-how. It is determined by the innovation activity of enterprises in the country and is the most important indicator for assessing functioning of the national innovation system (ARC Fund 2009). Currently, according to Innovation Union Scoreboard (2012), Bulgaria is located in the “timid” innovators (other groups are innovation leaders, middle innovators, innovation followers).

The *technological product* is a result of the creative efforts of the participants in the innovation process. Its unique characteristics and economic significance make it attractive as an object of transfer. Patent activity is an important indicator of innovativeness. Its growth begins with foreign companies on the Bulgarian market, and then in the Bulgarian companies. The number of patents issued (Bulgarian Innovation Policy 2011, p. 24) increased by 40 % annually in 2010–2011. About 70 % of patent holders are individuals. Among the countries with the most number of patents and foreign investments in Bulgaria are Germany, USA, UK, China, Italy, Belgium, Netherlands, Austria and others.

An important prerequisite for increasing the innovation activity of the country are the *scientific products* created by scientific organizations and scientists. Bulgaria fits successfully in international research networks and is well positioned with respect to the availability of research personnel. The share of university graduates 20–29 years of age in the field of mathematics and applied sciences in Bulgaria are close to the EU average.

The number of scientific publications increased until 2007 and then declined to 23 % in 2010. In SCOPUS, the contents of 54 Bulgarian publishers in 25 editions for different periods are presented. The highest participation has natural sciences, above all chemistry, physics and biology, including border and interdisciplinary fields and related pharmaceuticals, medicine and agriculture.

The National Roadmap for Research Infrastructure (2010) defines the priority areas for the development of research infrastructure that includes major scientific centers serving specific economic and social needs of the country, the region of Southeast Europe and the pan-European infrastructures in which Bulgaria will participate. These are:

- Energy,
- Marine research,

- Information and communication technologies,
- New materials for various applications,
- Social studies.

Bulgaria signed a memorandum in three pan-European research infrastructure projects – EURO-ARGO, BBMRI, and LARIN. In addition to these projects, EA ESMIS and MTITS participate in building a pan-European high performance computing infrastructure (PRACE) and the development of a national high-performance centre that provides access to computing resources for scientists and researchers.

The impact of the crisis on innovation activity of businesses in Bulgaria is affected by the limitation of private funding for research and development and technological innovation. As most countries in the EU-27, in Bulgaria the cost of R & D in enterprises increased since 2005 at the expense of public expenditure. In 2009 R & D intensity (measured as percent of R & D expenditure of GDP) in Bulgaria increased – from 0.47 % in 2008, 0.53 % in 2009 to 0.55 % of GDP in 2010, but still lags far behind the average of this indicator for the EU-27 to 2 % (NSI 2010). The global economy continues to recover from the recession, but in the last quarter of 2011, the Eurozone GDP began to fall. And the pace of GDP growth in Bulgaria in 2011 accelerated to 1.7 %. Unlike previous years, in 2010 in Bulgaria it was observed that the R & D expenditure increased by 3.6 times in businesses (BGN 212107 thousand) and in higher education (BGN 49546 thousand) but in the public sector (Bulgarian Academy of Sciences and departmental research units) only twice as much (BGN 157132 thousand).

The *National Reform Programme* (2010–2013) has formulated the innovation target for investment in research and development to be in the amount of 1.5 % of GDP in 2020 (but in other European countries, the target is 3 %). Investment in science and innovation in Bulgaria is below the potential of the national economy.

According to the Law for Promotion of Research funds, financial incentives for research are provided by a subsidy from the state budget and from other sources, such as specialized funds, procurement, national scientific programs and projects of various departments in accordance with the objectives and priorities set in the National Strategy for Research.

The fund “Research” is the only working government instrument in recent years. There are no precise and clear principles for long-term sustainability in the financing of innovation and scientific technological activities. There is a lack of capacity, initiative, and interagency coordination of innovation activity. The State administration body is inefficient in the distribution and control of the utilization of funds under the Operational Programme “Competitiveness,” which supports innovation through projects in several axes. Bulgaria has not proposed measures and does not benefit from the Temporary Community framework for State Aid measures to support access to finance in the economic crisis.

Difficulties arise also in the development of sectorial policies. They should be based on a thorough analysis of the capabilities and needs of the participants and their specific competencies in carrying out production activities. Setting as priority,

only innovation of high-tech activities and services, and ignoring the traditional low-tech industries leads to leakage of factors important for the competitiveness and growth of the national and regional economies, and the spread of new technologies and know-how in the country. It is necessary to also include the intensity of the interaction between economic activities within the innovation system.

Strengthening the innovation potential and economic restructuring towards intensive knowledge sectors, high technology sectors and high value-added sectors, depends also on the development of *human capital*. Although the population in Bulgaria has above average levels of education, more than 40 % of the population has low literacy and numeracy. This contrast is evidence of low quality and insufficient consideration of the labor market needs. Curricula and teaching methods in schools and universities are not in congruence with the rising demands of the labor market for new knowledge and skills, including core competencies, ability to use information technology and entrepreneurial skills.

A major challenge facing Bulgaria remains the low quality of education when measured under the National Reform Programme (2012), which plans to improve the functioning of the factor for sustainable growth calling for “Improving the quality and effectiveness of education and training systems.” The planned upgrade of the system, in addition to increasing the knowledge and skills of the workforce allows for achieving a better match between the educational level and qualification of the workforce and the requirements of the labor market. As a result of the measures taken by the Government to reduce the share of students leaving school early, it has reported the reduction in the number of “school leavers.” Thus, the proportion of people aged between 18 and 24 years with education below secondary, who are not included in any form of education, decreased from 14.7 % in 2009 to 13.9 % in 2010, which is lower than the European average of 14.1 %. Over the past 10 years, there has been an increase in the share of the population aged 30–34 having completed tertiary education and a reduction in the share of early school leavers from 20 % to 13 %. This is a good prerequisite for achieving the National Goal 4 – “*The share of early school leavers of 11 percent by 2020 and the share of 30–34 year-olds with tertiary education – 36 percent by 2020.*”

To enhance the entrepreneurial and innovative culture, the 3 years project (2010–2012) “Construction and development centers for the promotion of entrepreneurship at universities in Bulgaria” is held. The project is implemented through a contract between the Ministry of Economy, Energy and Tourism and four high schools – Technical University – Plovdiv, Technical University – Gabrovo, University of Forestry – Sofia and International University College – Dobrich. The total project budget is EUR 0.4 million from the University Fund for the promotion of entrepreneurship and the utilized amount in the first 2 years of the project was EUR 0.16 million. So far, the project has trained over 1,020 students in various courses in entrepreneurship, and has assisted are 14 start-up student companies with equipment. A competition took place for “Best Business Idea for Start-up” and “Best Young Entrepreneur.” It should be noted that accredited private universities in Bulgaria were not included in these projects, although they are very flexible and entrepreneurial and self-financed a large part of their projects.

3 Innovation Activities in Bulgarian Enterprises

Acknowledged is the role of entrepreneurship in the national innovation system. It is represented by start-ups and ways of interaction and exchange of information, know-how and technology among the participants in the innovation economy. Entrepreneurship is crucial for the stability and adaptability of the national innovation system. The organization of innovation activities in firms depends on many factors.

The organization of innovation activities in firms depends on many factors. Among the most important are: the knowledge and skills of the entrepreneur, the mode of governance, human resources involved in innovation activities, the degree of development of innovation infrastructure in the company, the results of the development and implementation of new ideas, firm size and technological intensity of the sector. The administration of the state regulatory mechanisms and access to finance, influence the level of innovation activity.

Data for the number, structure and dynamics of the legal entities of the non-financial sector showing a steady upward trend in the number of micro and small enterprises continued in 2009. For the first time since 1996 their number exceeded 300,000 (Bulgarian Innovation Policy 2011, p. 29). But this does not increase the potential for technological innovations. With the exception of the newly established high-tech micro start-ups, enterprises with less than 10 employees are less innovative and reproduce existing marketing and organizational innovation. The number of newly-registered (Fig. 1) compared to re-registered companies in terms of type of ownership shows that the entrepreneurs are oriented mainly to limited-liability companies (LLCs) (44.8 % are new as compared to re-registered single-member limited liability companies and 32.3 % new as compared to re-registered limited liability companies). While the shares of the new sole traders and joint-stock companies compared to their re-registered equivalents are some 15 %. The increase is related to the changes in the regulatory framework and easier registration. The larger share of newly-registered limited-liability companies is a positive factor for innovative entrepreneurship because of the relatively higher innovation potential LLCs have in comparison with sole traders.

In terms of life cycle, the number of active enterprises grew in 2009 in all sectors of the economy, two of which – Production and Distribution of energy as well as Real Estate, registered the highest growth, 2.3 and 1.9 times respectively. The “Production and distribution of energy” is the only one in Bulgaria, which showed growth in the number of start-ups, while all other sectors experienced a decline after 2008. Most affected by the crisis are companies in the industry.

The highest share of surviving enterprises at 91 % is in the Mining and Quarrying industry, while the lowest share at approximately 65 % is in Real estate (which, according to the new classification, also includes Construction). The enterprises with the highest survival rate are those from the Financial and Insurance sector, where the relative share of surviving enterprises is about 13 %. This share is nearly four times less than the EU average (about 50). The short life-cycle of

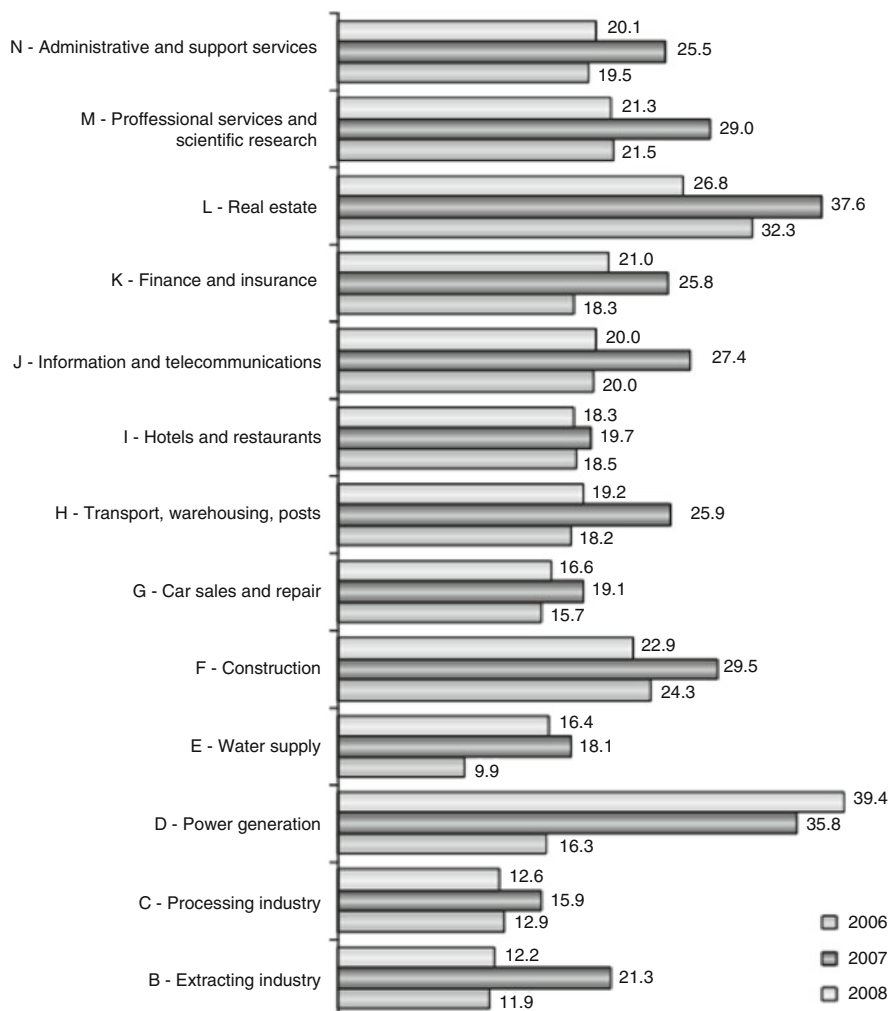


Fig. 1 The share of new established enterprises from all active enterprises (Source: National Statistical Institute 2010)

business enterprises is an obstacle for sustainable development at company and sector level, and is a barrier to innovation. Therefore the policy for promotion of entrepreneurship and innovation has to assist in increasing the average life-span of the active Bulgarian enterprises.

More than half of Bulgarian entrepreneurs are age 46 and older. Young entrepreneurs (under 29 years) account for approximately 5 % of entrepreneurs in the sector and the elderly (over 60 years), about 15 %. One third of Bulgarian Small and Medium Enterprises (SMEs) are family businesses (33 %). Almost 70 % of family firms are managed by their founder.

In 2011 the number of non-financial enterprises in the Bulgarian economy amounted to 353,588 and 352,844 of them are SMEs (Ganeva et al. 2012). The average number of employees in SMEs is 4.5. In 2010 revenues from activities in SMEs were 136,112 million, having declined by 1.4 % compared to 2009. In the services sector there is a growth of 2.2 %. The industry sector is characterized by a decline of 13.9 %. Investments in fixed assets decreased by 2.8 %.

According to the National Statistical Institute (2010) data the share of innovative enterprises in Bulgaria increased in all groups from 2006 to 2008. For small businesses an increase is observed in the share of innovative enterprises from 17 % to 20.3 %; on medium firms, from 26.4 % to 32 %; and the large firms, from 52.7 % to 59.2 %. Companies in the Industry (sectors Extractive Industry, Processing Industry, Energy Production and Distribution and the sectors of Water Supply, Channel Services, Waste Management and Recover) are more innovative than those of Services – 23.8 % and 14.5 % in 2006, and 29.2 % and 16.3 % in 2008.

According to data from the study made by the Agency for SMEs in 2011, the most common innovation activity in Bulgarian SMEs is associated with changes in business processes with an aim of optimization and cost reduction (Table 2). Two-thirds of the medium enterprises and a little more than one third of micro and small enterprises are engaged in such activities. The least popular innovation is related to the implementation of joint initiatives in the field of education between individual enterprise and academia. Only about 9 % of SMEs fall under this category in 2010. In this case, however, as in all other innovation activities, there is a strong influence on the size of the company. In medium-sized enterprises, innovation activity is much higher than that in micro-and small businesses.

To account for innovation, Bulgarian SMEs are used as an index (Ganeva et al. 2012, p. 128) that includes: Development of innovation infrastructure in the enterprise and development of new products and implementation of them on the market. The index takes values from 0 to 100. Values approaching 100, show a very high innovation activity and values approaching 0 indicate a lack of innovation activity. In 57 % of SMEs low innovation activity was observed. In 25 %, rather low; 10 % moderate; 6 %, rather high and an insignificant share of 2 % of enterprises have high innovation activity. The innovation activity of Bulgarian companies is still very low compared to Europe. In medium-sized enterprises, innovation activity is nearly three times higher than in small firms. Data show that 73 % of enterprises have low activity in respect of intellectual property. Having a low degree of internationalization are 78 % of SMEs. Best practices are widely used by 12 % of SMEs.

In 2011 the most innovative companies were in the field of Manufacturing and Construction, and the less innovative were in Trade and Services. According to the administrative division of Bulgaria, a stable trend of innovation activity higher than the national average for three regions of Bulgaria (among 6) was observed. In 2011–2012 the factors related to competitiveness for the economic recovery of the individual SME were growing significantly.

Innovativeness of enterprises by two aspects:

Table 2 Innovation activities of Bulgarian SMEs

Innovation activity	Micro (%)	Small (%)	Medium (%)
Implementation of major changes in business processes to optimize and reduce costs	31	35	67
Enterprise has sufficient financial resources to fund all its innovation	14	10	22
Staff whose job description includes research-development activities	10	15	36
Employees are trained in the field of actual innovation in the sector over the last 5 years	23	39	42
Launched an improved version of an existing product in the last year	21	33	61
Launched new product at market in the last year	12	20	44
Availability of library with professional literature (books, manuals, magazines, etc.)	30	35	47
Developing a new product that is expected to enter the market in the near future	10	5	31
Practice using the developments of researchers and institutions to create new or improve existing products, services and processes	9	7	22
Availability of own department for research and development	9	5	22
Joint initiatives with education institutions (apprenticeship programs, training, career counselling, scholarship programs, advice on drawing up educational plans, etc.)	7	3	28

Source: Survey SMEs 2012, NOEMA, Bulgaria

- Type of innovations used by the enterprises (related to a product, a process, an organization and/or the market) and
- Degree of novelty of the innovation (whether it is new only for that enterprise, for the country/the market, or at an international level) shows the following.

Process innovations (19 %) are the results of pre-crisis planning in and around 2007 – the first year of Bulgaria’s full-fledged membership in the European Union (Bulgarian Innovation Policy 2008). Along with this, EU requirements for the quality of end products and the opportunities for financing led a number of enterprises (mainly in the sectors of Agricultural produce processing, Food and drink industry, Energy, including energy efficiency and green energy) to invest in new technologies and process innovation. In 2010 process innovations have dropped sharply as a reaction to the crisis of 2009, and also due to the large portion of the enterprises which had a need to already implemented it. Three-fourth of the process innovations is *the transfer of technologies from abroad* which have already found application in the same industry. Interesting is that for 2009, 4.8 % of the enterprises thought that the process innovation introduced in them were new to the world. In these cases it was most frequently a matter of Bulgarian enterprises which had overestimated the potential of the introduced innovations or a lack of familiarity with the foreign experience to a sufficient degree, or it was a matter of foreign enterprises (multinational companies) having introduced their own projects in divisions located in Bulgaria, frequently with the help of a Bulgarian subcontractor.

Product innovations (launching new products or services) were introduced by 26 % of the enterprises in the country in 2009. The structure by degree of innovation is similar to that of process innovations. About three-fourth of the enterprises offered products new to Bulgaria or to the company; the share of enterprises which developed products or services new to the world market was 4.8 % (Bulgarian Innovation Policy 2011, p. 17). Probably in this case, too, as with process innovations, there was a measure of overestimation by the enterprises. At the same time, the novelty of the product, even with established multinational companies, may frequently be doubtful and be related to a new design of packaging or product characteristics difficult to discern by consumers. The claim of novelty is frequently part of a company advertisement strategy. In a number of cases, the “innovation” explicitly featured in the advertisements of the respective products is an excuse for the price premium the consumer is asked to pay, or a distinguishing tool. A positive development is observed with Bulgarian producers who branded new product series specifically as “innovation.”

About 10 % of all enterprises (half of the cases with process innovation and nearly 40 % of those with product innovation) invested simultaneously in new processes and products in 2009, with two-third of these also registering the effect of introduced marketing and organizational innovations.

Thirty-five percent of enterprises are considered to be innovative (with product or process innovation). This share corresponds to the 29–35 % considered to be *systematically innovating* firms (Bulgarian Innovation Policy 2011, p. 24). For 1 year, the share of innovative enterprises increased to 71 %. This could be explained by the so-called *optimizing enterprises* (26 %). Their innovation activity is limited mainly to organizational and marketing innovation. Such an approach could be considered as a reaction to the crisis:

- Considerable changes in the organization of work, mainly with the objective of cost cutting (minimizing losses) and/or restructuring of activity (37 %);
- New or considerably changed relations with partners along the value chain (32 %);
- Changes in product design or packaging (28 %);
- Application of new or considerably changed methods of sale and distribution of the goods and/or services (23 %).

The group of *catching up* enterprises relies on product diversification and partly on process innovations already made in previous periods. This group constitutes 12 % of all enterprises, demonstrating a higher innovative potential than the “optimizers,” which is a result of the new products they have already launched on the market (local, regional or national).

The largest contribution to the growth of the innovation activity is *marketing innovations*, with the exception that the influence of *organizational* innovations in the group of enterprises with 10–49 employees is most significant. The various groups of enterprises contribute differently to the growth of the various innovations. For example, *product innovation growth* depends on micro- and small enterprises (up to 49 employees), *process innovation growth* distinctively comes from large

enterprises (over 250), and growth of *organizational* innovation is evenly distributed. Growth of marketing innovation is dictated by micro-enterprises (under 10) and the group of the large enterprises (over 250). In 2011 enterprises focused on product and marketing innovation at the level of the already introduced technological solutions.

Innovations are a long-term commitment and require a specific attitude that cannot be built in a year or several months, which is the most common span of operational planning. The influence of strategic planning is expressed by the increase of the average innovativeness of the Bulgarian companies with a 3-year planning horizon by 50 %, compared to the enterprises with a 1-year planning horizon.

The scale and diversity of innovation activities in Bulgarian SMEs depends on many factors. If one looks at the size of the company, it appears that larger companies are significantly more innovative and perform more innovation than smaller companies. Other factors such as patent activity, internationalization and implementation of best practices also have an influence.

As *patent activity* increases in an enterprise, the innovation activity also increases. In 2010, 10 % of SMEs had a registered trademark in Bulgaria; 6 % had a registered trademark abroad, and in 2011 the registered trademark (at home and/or abroad) was 13 %. Based on patents, there was no change in these registrations; at the time they remained at approximately the same levels (Ganeva et al. 2012) as in 2010 – 7 %. There is polarization in terms of registered intellectual property depending on the size of the company: 42 % of medium-sized businesses have a registered trademark as do 9 % of the microenterprises. For registered patents the following was observed: 14 % of the medium-sized businesses have such, compared to 3 % of small businesses. In 2010, areas of Trade and manufacturing were the most advanced in terms of patent activity, and in 2011 there was a trend in the advances of SMEs in Manufacturing. It should be noted that Bulgarian SMEs experience significantly more financial difficulty when registering intellectual property than large companies and do not have sufficient financial resources to register.

Another influencing factor is the *internationalization* of innovation activities of the firm. With greater openness toward foreign markets, the innovation is higher. Exporters among Bulgarian SMEs are relatively small at 11 %. On the other hand, the share of exporters among medium-sized enterprises is 58 %. The share of microenterprises involved in “export” is 10 %, while that of small-sized enterprises is 15 %. Companies with the largest share in the growth of exports are processed products, and from the commodity group “machinery and equipment.”

Innovativeness of the companies operating predominantly on the international market is *three times higher* compared to the ones operating only on the local markets (situated within 30 km from the enterprise) and twice higher compared to the regional markets (situated within 100 km from the enterprise). Only 26 % of the Bulgarian enterprises operating in innovation-intensive business sectors are engaged in specific international activities supporting innovations, e.g. cooperation with local partners in other countries, employing personnel from other countries to

work full-time or part-time, carrying out market testing of innovative products in other countries and outsourcing, or investments in foreign companies. The share of medium-sized companies who import is the same as those exported (58 %). In the case of imports, there is a stronger presence of micro and small enterprise, at 17 % and 22 % respectively, than in exports.

In 2011, 10.7 % of SMEs were involved in clusters and at 4 % there was a significant growth of indicators compared to 2010. The type of enterprise breakdown is 10 % of micro, 15 % small and 19 % of medium-sized enterprises.

Best practices are related to ICT, human capital and strategic management. The higher the degree of implementation of best practices, the higher is the innovation activity in the enterprises. In 2011, there was a slight increase over the previous year. The rate and extent of best practices in enterprise were as follows:

- 12 % – widespread;
- 22 % – moderately;
- 44 % – rather low;
- 21 % – the lowest level.

The implementation of best practices is significantly more prevalent among medium-sized enterprises. Most of these are found in the Northeast region of Bulgaria (near Varna city). No significant differences with respect to best practices existed in different fields of activities.

Human resource management in large companies differs significantly than in SMEs. It was found that by recruitment, SMEs do not use science-based criteria and ensure less employee training, because the costs are higher than the expected returns. These companies have fewer financial resources, less time for staff training and apply slightly modern motivational tools.

Regarding the implementation of best practices in Bulgarian SMEs other factors beyond the size of the enterprise effect it (Ganeva et al. 2012):

- *Characteristics of entrepreneur* – the younger and more highly educated entrepreneurs generally apply best practices at a greater degree; and regarding the gender of the entrepreneur women entrepreneurs apply more good practices;
- *The level of competitiveness* in relation to other factors in the company's development: access to finance (better access related to the implementation of more practices), innovation activity (higher innovation activity leads to a more widespread application of best practices), and activity in terms of intellectual property (contributing to the implementation of these practices).

The share of Bulgarian SMEs using ICT in business increased: 45 % of businesses have a website, 61 % have a digital signature of the management, 32 % have the ability to order online, and information management systems are a part of 11–15 % of enterprises. In 2011, 36 % of SMEs had corporate training and 13 % had external specialized training in ICT.

In respect to *orientation to the future* – 56 % of Bulgarian entrepreneurs had short-term business plans, and 24 % had medium term plans. Developed marketing

strategies exist in 30 % of companies in the SME sector. Best practices are widely used by 12 % of businesses and a fifth apply best practices at a lesser rate.

Under the indicator “*Expenses for innovative activities*” the Bulgarian enterprises follow structurally the European model, that calls for most of the enterprises investing in innovative activities below 5 % of their turnover (24.7 % of the enterprises in the representative sample), followed by the enterprises which make investments of up to 25 % (18.4 % of the enterprises) and over 25 % of the turnover (3.9 % of the companies). However, the discrepancy in respect to the relative share of the enterprises which make such investments is substantial: for the EU-27, 85.2 % of the investigated companies state that they invest in R&D, while in Bulgaria only 47 % of the companies provide resources for research and innovative activities (Bulgarian Innovation Policy 2011). More than half of the companies limit these expenses to 5 % of the turnover. Nevertheless, 52.6 % of the enterprises, which invest in R&D, state that for the 3-year study period, they increased these expenses and only 10.1 % were forced to reduce it. With 37.3 % of the enterprises there was no change of the expenses for research and innovations.

Innovation activities are characterized by high risk. In 2011, the most common source of funding among Bulgarian SMEs was means of the owner (62 %). Access to finance is very difficult for 69 % of enterprises and 86 % of SMEs do not have sufficient financial resources for investment.

To assist SMEs in Bulgaria in 2010 under the Operational Programme “Development of the Competitiveness of the Bulgarian Economy” (OPDCBE) concrete actions were taken to improve access to finance for enterprises using financial engineering instruments. The special Holding Fund “Jeremy Bulgaria” Ltd. was created, responsible for the implementation of these instruments. Financial instruments for improving access to finance for SMEs, which are organized to date, are five: Emerging business fund, Venture Fund, Growth Fund, Mezzanine Fund and Guarantee Fund.

With these tools through a combination of public support and private investment, the “Jeremy Bulgaria” EAD contribution to finance micro-small, medium and medium-sized enterprises totaled 562 million euro, 199 million of which, will be granted OPDCBE until 2015, while others, mostly private funds, will continue to be provided in the longer term. For the support of investment activity of enterprises within OPDCBE to December 31, 2011 have announced five procedures for technological modernization of SMEs, two procedures for technological modernization of large companies and one procedure for technological upgrading of enterprises and cooperatives of people with disabilities. Implementation of projects under these procedures will continue until 2015. In 2012, the amount of new loans guaranteed under the Guarantee Fund in which five banks lend to SMEs, with less stringent conditions, is up to 200 million euro.

One of the problems explored by the Bulgarian Chamber of Commerce (2012) is a limited relationship between business and academia. A survey conducted in July 2012 showed 60 % (10 % increase) confidence in the scientific institutions that provide the following conclusions: First, the state should allocate more money from the budget for the development of science and innovation. Second, the use of these

funds should be tied to the cooperation of science in the form of business' obligation to invest such funds (whether it be 5 % or 10 %, it makes sense to incorporate a legal rate); and self-participation of companies, which will provide greater persistence on their part to achieve the innovation goals followed by the rapid deployment of actual innovations. Third, universities, research institutions, and the Bulgarian Academy of Science should receive more funding, but in most cases it should be linked to their ability to work on issues that will attract businesses.

In 2012 the Bulgarian SMEs competitiveness remains low. Access to finance is very difficult for 69 % of them. The short and long-term sustainability of the SME sector depends on its successful development in terms of access to finance, innovation, intellectual property, internationalization and implementation of best practices. Therefore, national economic policies should be aimed in this direction.

4 Role of Intangible Assets for Innovation Activities of Enterprises

This article explores the status of intangible assets of micro, small and medium enterprises on their balance sheets and is looking for the impact on the innovation potential of firms. It should bear in mind that the National Statistical Institute (NSI) does not publish data on intangible assets. The authors have ordered the collection of data from balance sheets in NSI.

According to the Bulgarian Law of the Small and Medium-Sized Enterprises, micro enterprises are the enterprises which have an average number of up to 10 employees and an annual turnover of up to BGN 3,900,000 and/or assets value not exceeding a BGN of 3,900,000; small enterprises are the enterprises which have an average annual number of up to 250 employees and an annual turnover not exceeding a BGN of 97,500,000 and/or assets value not exceeding a BGN of 84,000,000 (Bulgarian Small and Medium Enterprises Promotion Agency 2011).

The present study encompasses micro, small and medium-sized enterprises, and was submitted to the National Statistical Institute (2010) with their annual balance sheets for the period 2006–2009. The study was carried out for the 12 major economic sectors, shown in Table 3. After 2008 there was another classification of economic activities.

The statistical data has been processed graphically using the Excel software for the purpose of visualization and easier comparison. The result includes Figures of 2, 3, 4, and 5, which have been obtained for the years 2006, 2007, 2008 and 2009 respectively.

The analysis shows that the highest values of Intangible assets for the 2006–2009 period were in the following sectors: “Processing Industry,” “Commerce, Car Repairs, Personal Effects and Household Commodities,” and “Real Estate Operations and Business Services.” Since 2008 the sector “Real Estate Operations” includes Construction. Sector 3 predominately includes medium-sized enterprises

Table 3 Economical sectors in research

No	2003	Economical sectors	2008
1.	A	Agriculture, hunting reserves and forestry; fish industry	A
2.	C	Extractive industry – mining and quarrying industry	B
3.	D	Processing industry	C
4.	E	Production and distribution of electric power, gas and <i>water</i>	D
		Supply of water, channel services and waste management	E
5.	F	Construction	F
6.	G	Commerce, car repairs, motorcycles	G
		Personal effects and household commodities	
7.	H	Hotels and restaurants	I
8.	I	Transportation, warehousing and communications	H
9.	K	Real Estate operations and business services	L
10.	L	Education/professional activities and scientific research	M
11.	M	Health and social affairs	N
12.	N	Other activities, serving the society and the individual	

Source: National Statistical Institute 2010

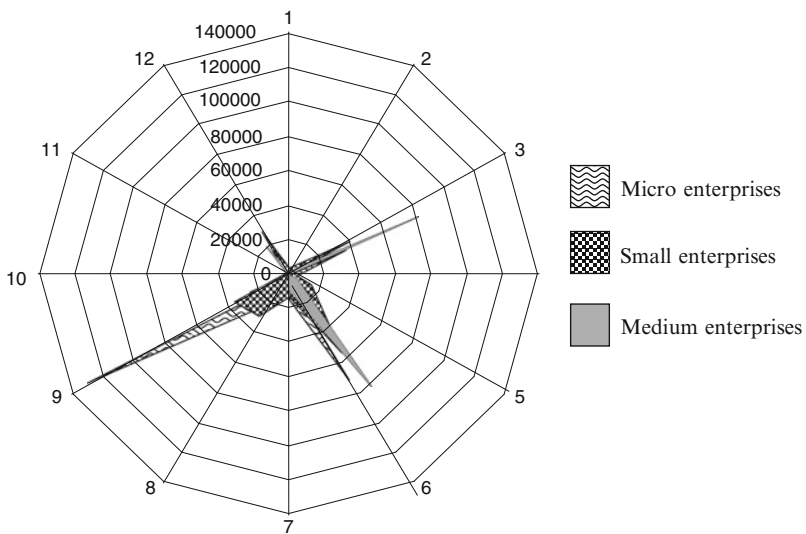


Fig. 2 Intangible assets value of micro, small and medium-sized enterprises for 2006 (Source: Own research)

and sector 9, micro enterprises. Since 2007 there has been an observed increase of intangible assets in sector 8. Obviously the companies’ interest towards acquiring intangible assets has been expanding and from *three* sectors in 2006 this interest increased to *five* sectors in 2009. This tendency coincides with the state of these assets in the economically developed countries.

There is also another tendency of the general increase of the intangible assets value in the investigated sectors: for 2006 the most developed sector 9 for micro

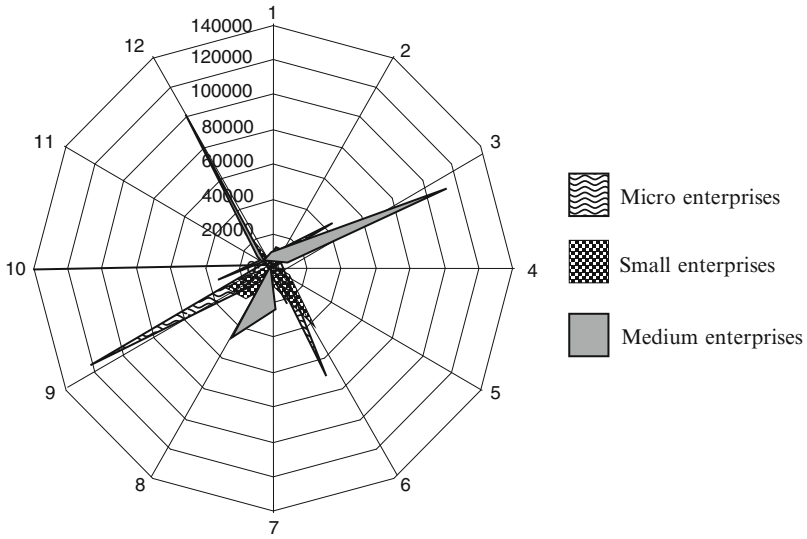


Fig. 3 Intangible assets value of micro, small and medium-sized enterprises for 2007 (Source: Own research)

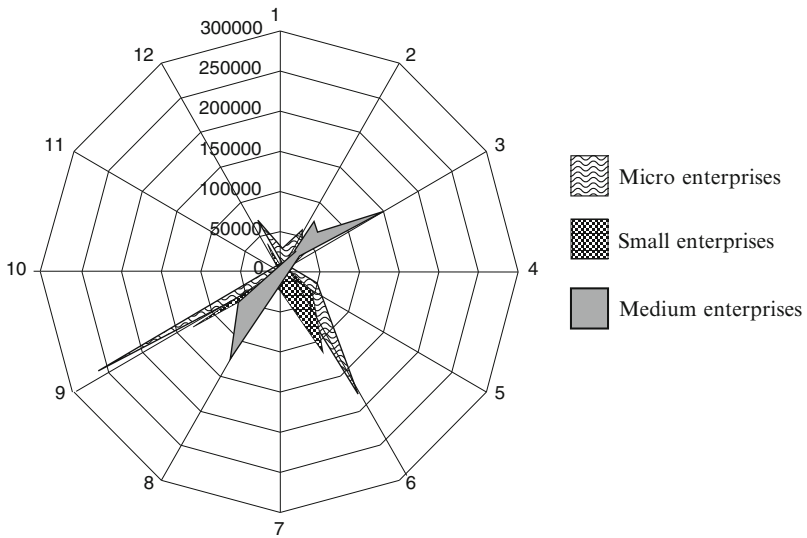


Fig. 4 Intangible assets value of micro, small and medium-sized enterprises for 2008 (Source: Own research)

enterprises had a BGN of 129,048 thousand and the same sector reported a BGN of 257,689 thousand in 2009, which is a growth of approximately 100 %.

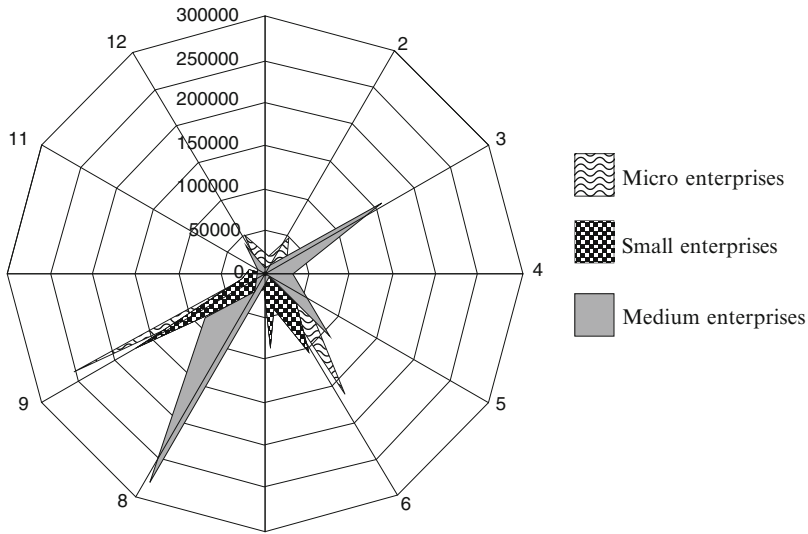


Fig. 5 Intangible assets value of micro, small and medium-sized enterprises for 2009 (Source: Own research)

A similar growth has been reported for the small and medium-sized enterprises, which is 407 % and 265 % respectively.

The change of the intangible assets value in sector 3 is substantial, too. For the micro enterprises the BGN was 40,032 thousand in 2006, and in 2009 the BGN was 27,178 thousand, which is a negative growth (drop) of 47 %. This change for the small enterprises for the same period represented a positive growth of 7 % and for the medium-sized enterprises it also represented a positive growth of 15.8 %.

The increase of the intangible assets value for sector 6 “Commerce, Car Repairs, Personal Effects and Household Commodities” was steady too. For the micro enterprises the BGN was 71,882 thousand in 2006, and the BGN was 181,996 thousand in 2009, which represents a growth of 153 %. This growth for the small enterprises for the same period was 202 %, and for the medium-sized enterprises it was 77 %. It is noteworthy that the sector of “Hospitality” represented an important sector for the Bulgarian economy in the form of tourism, of which investments in intangible assets began in 2009. Apparently the managers in these sectors underestimated the role of intangible resources to improve service quality and staff qualifications.

As a result of analysis, the authors argue that there is a relationship between the intangible assets value in SMEs and innovation activities of enterprises.

5 Conclusion

On the grounds of the above analyses the reasons for unrealized innovation potential of national economy were revealed. The following conclusions and recommendation can be drawn:

- Bulgarian SMEs are not sufficiently competitive in terms of access to finance, innovation, intellectual property, internationalization and implementation of best practices. Actions must be taken to provide a stimulating environment for research and innovation by reducing the administrative burden, increasing the access to finances for SMEs through the internationalization of research and innovation in the European and international projects.
- There is a need for a new national innovation policy and development of programs for scientific and technological development, and information and communication technologies, so that Bulgaria can maintain a long term standing at a level aligned with the average European level.
- Bulgaria needs an integrated national strategy for: scientific, technological and innovation development; defining priorities (economic sectors, technological fields) which will become the driving factor for the development of the economy as a whole; for applying working mechanisms in order to achieve the strategic goals of Bulgaria in accordance with the EU strategy “Europe 2020.”
- The financing of innovations must be combined with the implementation of several basic principles: transparency in the management of funds, superiority of designing over the institutional approach, accurate monitoring mechanisms and control over the results.
- It is necessary to develop the competences of all participant groups for the creation and implementation of new knowledge in the form of research and educational groups, business organizations, technological brokers and intermediaries.
- The number of people engaged in research and development activities is insufficient and the structure of the employment in the respective sectors is ineffective; in Bulgaria most of the personnel engaged in scientific and research activities is in the state sector.
- There is no system and no instruments for cooperation between the state and the private sector in the field of research and development activity.

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Risk Management in SMEs: The Croatian Experiences

Valerija Bublic, Tihomir Hunjak, and Mirna Varlandy Supek

1 Introduction

In the context of globalisation, turbulence and recession, the future of the enterprise depends on how the management handles risks, how it will organise its uncertainty and threat management activities, how it will engage employees, follow procedures and apply risk management tools. In other words, it is essential how the enterprise balances between highly likely risks generating minimal losses and highly unlikely risks generating huge losses (Federation of Risk Management Associations FERMA 2008).

The literature on business risk management shows that throughout the world risks are properly managed mostly by large enterprises, particularly multinationals, banking institutions and insurance companies with a well-developed organizational structure including controlling a high level of information, corporate knowledge management and clearly divided roles of the Board of Directors and Executive Officers. Such an approach is based on a high level of awareness of the need for an integral and a holistic approach to business risk management and an appropriate formal framework.

Objectives of the survey conducted on a sample of small enterprises in Croatia were the following: identification of business risks that have the largest impact on the sustainability of small enterprises today and in the future; identification of mechanisms that small enterprises apply for treating business risks; and identification of employees' participation in the process of business risk management.

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The limitation of the research survey was financing the survey on the relevant random sample of small enterprises in Croatia. Originality and value of this paper comes from the fact that it is the first study on this issue in the small enterprises sector in the Republic of Croatia.

The book chapter is organized in seven sections. In the second and in the third sections authors investigate the literature about small enterprises, risk and risk management. The overview of the methodology is described in the fourth section. The fifth section highlights the findings of the survey. The sixth section is dedicated to conclusions and recommendations for the further research. At the end of the chapter there is a list of references and information about the authors.

2 Small Enterprises

The sector of small enterprises in Croatia consists of 89,438 businesses, which accounts for 98 % of all companies. It employs 66.0 % of the total workforce and generates 53.6 % of total revenues. It accounts for nearly 44.0 % of direct exports, 56.4 % of post-tax profits and about 45 % of assets and 35.6 % of capital and reserves. Productivity is lower in small businesses than in large corporations. The small business sector is considered to be a significant initiator of innovation and change in the European Union (Croatian Chamber of Economy 2010)

In the First Section of the Annual Report on EU Small and Medium-sized Enterprises the following is highlighted (Audretsch et al. 2009):

- (a) The EU non-financial business economy counts over 20 million enterprises, over 99 % of which are SMEs, i.e., enterprises having less than 250 employees. Within the SME sector, the vast majority (92 %) are micro enterprises, having less than ten employees. The typical European enterprise is a micro enterprise.
- (b) Between 2002 and 2007, the number of SMEs increased by over two million, the number of large enterprise by only 2,000. Most new firms are created in the service sector and are micro enterprises.
- (c) About two-thirds of total employment in the private sector is found in SMEs. Micro firms, which have on average two employees, employ 30 % of the total private sector labour force.
- (d) SMEs' contribution to employment growth between 2002 and 2007 (84 %) was much larger than could be expected from their share in total employment (67 %).
- (e) SMEs have a lower labour productivity than large enterprises. Thus, SMEs contribute considerably less to the added value (58 %) than to employment (67 %). Labour productivity is lowest in micro enterprises. SMEs and micro enterprises in particular, exhibit lower profitability and employee compensation than large enterprises.

Table 1 The role of SMEs in the contemporary economy of Croatia (RH) and EU

Size	Share (%) in						Average	
	Number of enterprises		Number of employees		Net profit	Added value	Number of employees in 1 unit	
	RH	EU	RH	EU	RH	EU	RH	EU
Small	98.0	98.7	47.5	50.4	41.9	40.0	4.7	3.0
Medium	1.5	1.0	18.5	16.8	15.8	18.0	113.8	100.0
Large	0.5	0.2	34.0	32.8	42.3	42.0	693.0	1,003.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	9.7	6.0
SMEs	99.5	99.7	66.0	67.2	57.7	58.0	6.5	4.0

Source: Croatian Chamber of Economy (2010), Audretsch et al. (2009)

- (f) In a globalizing economy, with large incumbent firms outsourcing and off-shoring production and jobs to low cost locations, SMEs are an important source of job creation.
- (g) In a globalised economy, when large corporations take advantage of relocating production facilities and business activities to cheaper locations, small businesses may become a significant source of employment at the local level.
- (h) SMEs serve as the key mechanism facilitating knowledge spill-over.

The overview of the role of SMEs in the contemporary economy of Croatia and EU is presented in Table 1. The role is similar, as the data demonstrate.

3 Risk and Risk Management

When there is risk there must be at least two outcomes. If there is absolutely no doubt that the outcome will be loss, there is no risk. But if one of the possible outcomes is loss and the other a possible gain, the decision maker is facing risk by choosing between two situations. The term risk can be defined differently: as a possible loss, as a likely loss, as uncertainty, dispersion of actual from expected results or likelihood of any unexpected outcome (Vaughan and Vaughan 2000).

In the narrow sense of the word, risk designates danger of loss. While risk describes possible negative outcomes of decisions, activities and events, chances reflect their possible positive outcomes (Official Gazette of The Federal Republic of Germany 1998, pp. 42–46). In its broad sense, risk is considered in terms of its variability and dispersion. In the investment theory in particular, risk reflects a possibility of a different outcome, either better or worse than expected. From the perspective of internal audit, risk is considered as a danger that events, actions and/or missed opportunities may have a negative impact on achieving the objectives (Institut für Interne Revision Österreich 2006). Risk does not affect just one limited area, but also all primary and secondary areas that are mutually related. The risk of losing market share affects the turnover, output, storage, use of capacity, revenues, profits, cash flow, so it is difficult to narrow down the affected areas.

Table 2 The results of uncontrolled risk

Type of risk	Initial effect	Ultimate effect
Quality problem	Product recall, customer defection	Financial losses
Environmental pollution	Bad publicity, customer disfavor and defection, court action, fines	Financial losses
Health and safety injury	Bad publicity, worker compensation claims, workforce dissatisfaction, statutory fines	Human suffering Financial losses
Fire	Harm to humans, loss of production and assets	Human suffering Financial losses
Computer failure	Inability to take order, process work or issue Invoices, customer defection	Financial losses
Marketing risk	Revenue drops	Financial losses
Fraud	Theft of money	Financial losses
Security	Theft of money, assets or plans	Financial losses
International trading	Foreign exchange losses	Financial losses
Political risk	Foreign government appropriates assets; prevents repatriation of profits	Financial losses

Source: Sadgrove 2005, p. 8

Business risk is the risk of inability to achieve profit before tax. It is manifested in the danger that various business activities will not yield the expected and desired results, thus leading to unpredicted outcomes that will have a negative financial impact on business. It can be caused by an unforeseen and inimitable event, recruitment failure, wrong decision etc. Causes of inimitable and unforeseen events may lie in the company's operation itself, may be the result of former and current decisions or their poor execution and negative influences of environmental factors or poor judgement of their importance (Deželjin et al. 2002, p. 175). The results of uncontrolled risks are shown in Table 2.

A study by the Federation of European Risk Management Associations (FERMA) (2008) in 289 leading European companies, showed that 55 % of them saw operational, production and commercial risks as the most important, 41 % thought that legislation and regulation were also the most important, while 39 % were concerned about the risk of a major crisis. Thirty-seven per cent believed that data system risks were among the greatest. The same study also showed that some risks, such as data system risks, environmental risks and risks of corporate governance would grow in the future (Sadgrove 2005).

FM Global, the insurance company which operates in 125 countries throughout the world, conducted a study to determine what would cause the most disruption to the business in the future. Chief financial officers and risk managers of large firms who participated in the survey ranked labour issues as the single most important issue, followed equally by production issues, supply chain matters, fire/explosion, natural disasters, price fluctuation, IT and telecommunication systems, governments and regulations, frauds by executive management and employees, legislation, terrorism and sabotage (Sadgrove 2005).

Management can be defined as effective and efficient coordination of work activities in order to achieve the objectives set by the organisation. Effectiveness means yielding the best possible result using as few resources as possible. Efficiency means engaging only in activities that will lead to the realisation of the objectives (Robbins et al. 2005, p. 78). It denotes a process of achieving organisational goals working with people and through people as well as with other organisational resources. Management is the basic task of any organisation. It emphasises managers to design the internal environment, yet the organisation should not forget to plan to act in the external environment as well (Wehrich and Koontz 1998).

Managers sometimes consider the decision-making as their central task as they are continuously facing issues such as what to do, who by, when, where, and, occasionally even how. Decision-making is a process consisting of several steps: problem identification, setting relevant criteria for making the decision, assigning weights or significance to the selected criteria, generating, analysing and selecting alternatives, applying the selected alternative and assessing the effectiveness of the business decision. Each decision is a combination of factors: intuition, judgement and rationalisation. Thus there are three types of decisions: intuitive, experience-based and rational. Intuitive decisions are based on intuition, i.e., on the feeling of the decision-maker. The decision-maker is unable to explain the reasons why certain actions were taken during the decision-making process. Intuitive decisions are mostly made on a daily basis, in a word of mouth manner and are not documented. Decisions based on experience, are used in situations that are repeated. Decisions depend on the decision-makers prior experience, judgements and knowledge about the same or very similar situations. A rational decision is based on an analytical procedure which consists of a number of steps and it is used in situations that are not repeated. Decision-makers investigate the problem, collect data and consult the parties involved. Due to the analytical procedure, this type of decision-making is relatively slow and costly (Sikavica et al. 1999).

Risk applies to all enterprises. Risk management helps an enterprise to avoid costs, disruption and unhappiness. Risk management is based on the model of rational decision-making and it consists of several steps: communicating and consulting; establishing the context; risk assessment (identification, analysis and evaluation of risks), risk treatment; and continuous monitoring and reviewing risk (AS/NZS 4360:2004). Enterprises tend to introduce risk management in response to outside factors, such as scandals, legislation or regulation and are less likely to introduce risk management because it will help the business to produce better results (Sadgrove 2005). There are many standards that can help enterprises, regardless of their size, to manage business risk such as: ISO (International Organisation for Standardisation) standards in the form of Quality Management (ISO 9,000 family) (International Organization for Standardization 2008), Risk Management (ISO 31,000) (International Organization for Standardization 2009), Information Security Management (ISO 27,000 series) (International Organization for Standardization 2005b), Environmental Management (ISO 14,000 family) (International Organization for Standardization 2004), Food safety management systems (ISO 22,000) (International Organization for Standardization 2005a),

A Risk Management Standard (Federation of European Risk Management Associations FERMA 2002), A Risk Management Standard (The Institute of Risk Management IRM 2002), Risk Management Standard AS/NZS 4,360:2004 (Standards Australia and Standards New Zealand 2004). Apart from the above standards, business owners and risk managers can use available risk treatment and control options, such as insurance policy, contract, debenture/promissory note, credit limit, health and safety at work regulations, record of individuals and cars entering the company's premises, computer and data access protection, antivirus software, staff training and advising with consultants.

4 Research Design

Research has been carried out applying a combined method. Parallel transformative strategy was applied for parts of the theoretical framework of risk and risk management. A quantitative method was used for collecting data through a survey of small enterprises, conducted in 2011. A qualitative method was applied in researching legislation regulating the size and activity of enterprises, in interviewing owners of small enterprises in the preliminary research of the risk management issue and in the questionnaire testing stage. Data collected by quantitative and qualitative methods have been integrated at the analysis stage and the results interpretation stage. Following the preliminary research, the interview method was applied, and the survey was selected as the optimal method of investigation.

Survey research is one of the most important areas of measurement in applied social research. The broad area of survey research encompasses any measurement procedures that involve asking questions of respondents. Surveys can be divided into two broad categories: the questionnaire and the interview (Žugaj et al. 2006).

The goal of sampling is to obtain a sample that is representative of a larger population. Probability sampling is any sampling method in which every population unit has a chance of being selected in the sample, and this probability can be accurately determined. A random sample is a subset of individuals that are randomly selected from a population. Nonprobability sampling is any sampling method where some elements of the population have no chance of selection or where the probability of selection cannot be accurately determined. It involves the selection of elements based on assumptions, the selection of elements is non-random, and nonprobability sampling does not allow the estimation of sampling errors. Convenience sampling is a type of nonprobability sampling which involves the sample being drawn from the part of the population which is close at hand. A convenience sample is a sample of subjects taken from a group which is conveniently accessible to a researcher. The advantage of a convenience sample is that it is easy to access; the disadvantage is that it is not an accurate representation of the population and that the results from a study conducted with such sample cannot be generalized to the population as a whole (Žugaj et al. 2006).

Because of the large number of small enterprises and limited financial resources it was not possible to conduct the research on a random sample. Population scope

(N), i.e., the target basic set presented the final set of 89,438 small enterprises in the Republic of Croatia. Due to the availability of respondents, a convenience sample (n) of 150 small enterprises was drawn. The sample was set up in collaboration with the Croatian Employers' Association (HUP), consisting of The Association of Small and Medium-sized Entrepreneurs, The Association of Teachers/Trainers' for the Entrepreneurship, The Development Agency of Zagorje (ZARA) and several small enterprises which were accessible to the authors. The ratio of the sample size and population scope is called the choice fraction (f) (Žugaj et al. 2006). The choice fraction for the related research is 0.0017, Eq. 1.

$$f = \frac{n}{N} = \frac{150}{89,438} = 0.0017 \quad (1)$$

Descriptive statistics: the distribution, the central tendency and the dispersion were used to describe the basic features of the data in the study. They provide simple summaries about the sample and the measures. The distribution is a summary of the frequency of individual values or ranges of values for a variable. One of the most common ways to describe a single variable is using a frequency distribution. Depending on the particular variable, all of the data values may be represented or the values may be grouped into categories. The mean, the mode and the median are measures of central tendencies. The mean is equal to the sum of all the values in the data set divided by the number of values in the data set. The mode of a data set is the number that appears most frequently. The median of a data set is the middle number when the set is sorted in numerical order. Measures of the dispersion are standard deviation and variance. The variance is a measure of how far each value in the data set is from the mean. The standard deviation is a measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. Standard deviation is calculated as the square root of variance (Huzak 2006).

Questionnaires are usually paper-and-pencil instruments that the respondent completes. A multiple choice question with a single response is a type of form to be filled out by ticking one of the choices in a list. A multiple choice question with multiple responses is a type of form to be filled out by ticking one or more of the choices in a list. Questions and the choice of answers in the questionnaire were set up based on the literature overview and preliminary interviews with owners-managers of small enterprises.

The questionnaire was designed using multiple choice questions with a single response and multiple responses to produce large amounts of general data, as well as risk and risk management related topics. The questionnaire was split into two sections. The first section of the questionnaire consisted of 11 multiple choice questions with a single response about the name of the enterprise, legal form, head office, foundation year, core business activity, the average number of employees, revenues, funding and value of long-term assets. It also covered the respondents' age, job position, work experience in the current position, and

educational background. Business activities were classified according to the Croatian national classification of economic activities NKD 2007 (Official Gazette of Republic of Croatia, No. 58/07 2007).

In the second section of the questionnaire the respondents were asked to answer three questions. The first question was about the exposure of their businesses to 13 risk categories nowadays and in the future. To list the risk categories, authors used an adjusted decomposition of risk categories based on the Risk Management Guide for Small Business (Global Risk Alliance Pty Ltd jointly with NSW Department of State and Regional Development 2005, p. 16). The respondents were asked to use the following scale to evaluate the exposure to each risk category: (1) not at all; (2) to a small extent; (3) to a moderate extent; (4) to a great extent and (5) to a very great extent. The second question which investigates the application of business risk treatment options, allowed the respondents to choose among four international standards: (a) ISO 9,000 – Quality Management (International Organization for Standardization 2008), (b) ISO 14,000 – Environmental Management (International Organization for Standardization 2004), (c) ISO 27,000 – Information Security Management (International Organization for Standardization 2005b), and (d) ISO 31,000 – Risk Management (International Organization for Standardization 2009), which, when integrated, creates a solid basis for the overall risk management. In addition, there were also ten commonly available risk treatment options from which to choose: insurance policy, contract, debenture/promissory note, credit limit, health and safety at work regulations, record of individuals and cars entering the company's premises, computer and data access protection, virus protection, staff training and advising with consultants. The respondents were asked to use the following scale to answer: (1) never; (2) rarely; (3) sometimes; (4) often; and (5) always. The purpose of the third question in the second section of the questionnaire was to obtain data on how employees participate in risk management. It was a multiple choice question with a single response. The respondents were offered to choose among three options: on a daily basis, through word of mouth and with no documentation, i.e., intuitive; by using experience, judgement and available information, i.e., experience-based; and by investigating, gathering information and consulting the parties involved, i.e., rational.

5 Findings

Most questionnaires were distributed to small enterprises in the following Counties: The City of Zagreb 62(40 %); Zagreb County 12(8 %); Krapina-Zagorje County 33 (22 %), which makes a total of 46(70 %).

Questionnaires were returned by 65 (43 %) small enterprises, five of which were not valid. The data from 60 valid questionnaires were processed and analysed. The structure of distributed and returned questionnaires according to Counties is shown in Table 3.

Table 3 The structure of distributed and returned questionnaires

County	Questionnaires			
	Distributed		Returned	
	Number	%	Number	%
City of Zagreb	62	40	25	38
Zagreb County	12	8	8	12
Krapina-Zagorje	33	22	13	20
Požega-Slavonia	1	1	1	1
Bjelovar-Bilogora	4	3	3	6
Split-Dalmatia	9	6	3	6
Istria	1	1	1	1
Međimurje	8	5	3	6
Karlovac	2	1	2	3
Koprivnica-Križevci	1	1	1	1
Varaždin	9	6	2	3
Vukovar-Syrmia	4	3	1	1
Zadar	2	1	1	1
Osijek-Baranja	1	1	1	1
Šibenik-Knin	1	1	0	0
<i>Total</i>	150	100	65	100

Source: Own research

Out of 60 small enterprises, 33 (55 %) small enterprises were founded 11–20 years ago, 10 (17 %) small enterprises were founded less than 5 years ago, 10 (17 %) were between 5 and 10 years old and 6 (10 %) were between 21 and 30 years old. Only one small enterprise was founded more than 30 years ago. The age of small enterprises is depicted in Fig. 1.

Questionnaires were filled out by respondents/small enterprises from various economic activities: 16 (27 %) were in wholesale and retail trade; 15 (25 %) provided business services; 10 (17 %) were in the manufacturing; 4 (7 %) were in construction, 2 (3 %) in agriculture, hunting and forestry; and 13 (22 %) from other business activities. Economic activities of small enterprises are depicted on Fig. 2.

The average number of employees at the end of 2010 ranged from 1 to 49. Out of 60 small enterprises, 38 (63 %) had between 1 and 9 employees. Half as many, at 19 (32 %), had between 10 and 29 employees and 2 (3 %) had between 30 and 39 employees. Only one small enterprise had between 40 and 49 employees. Enterprises of this size are classified as micro businesses both according to criteria from the Act on encouraging the development of SMEs and the criteria of the EU. The average number of employees at the end of 2010 is depicted in Fig. 3. Out of 60 small enterprises, 52 (87 %) had total revenues under 10 million HRK, 5 (8 %) between 10 and 30 million HRK and 3 (5 %) over 30 million HRK.

Out of 60 small enterprises, 35 (58 %) financed business activities by their own capital, 8 (13 %) by own capital and short-term loans, 9 (15 %) by own capital and long-term loans and 7 (12 %) by own capital, short-term and long-term loans. One respondent/enterprise did not answer this question. The structure of funding is depicted in Fig. 4.

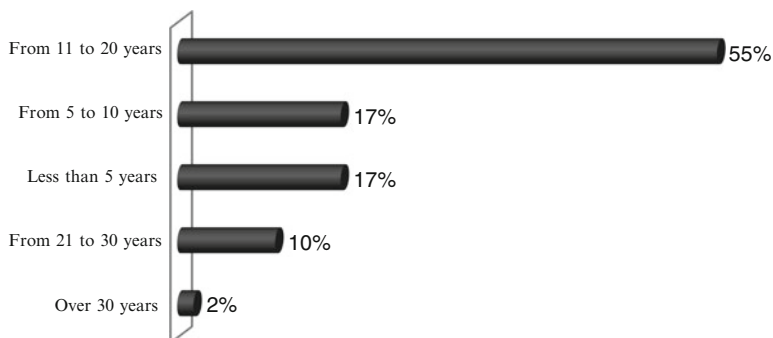


Fig. 1 Age of small enterprises (Source: Own research)

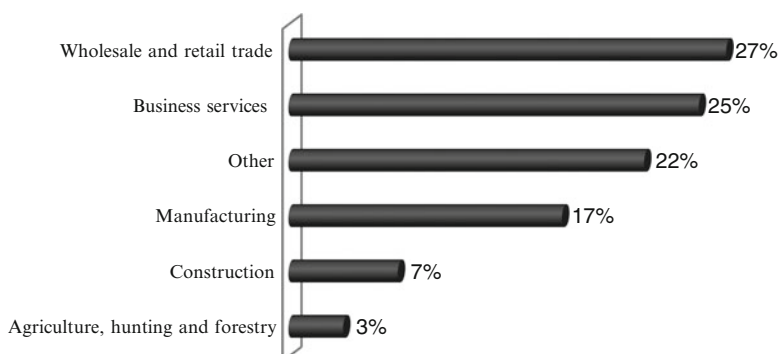


Fig. 2 Economic activities of small enterprises (Source: Own research)

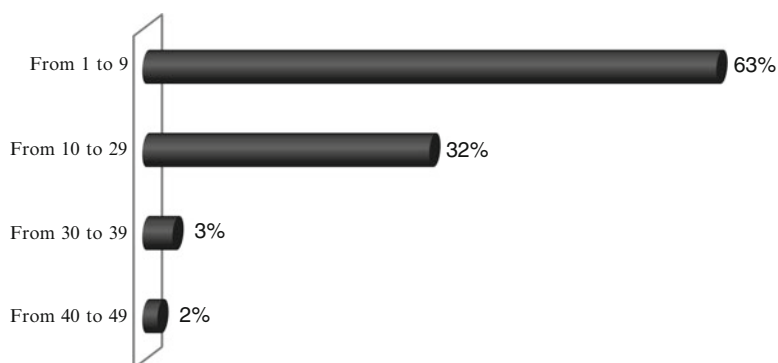


Fig. 3 The average number of employees in small enterprises (Source: Own research)

The value of long-term assets on December 31, 2010 was under 7 million HRK in 51 (85 %) small enterprises, and between 7 and 37 million HRK in 9 (15 %) of enterprises. The questionnaire was filled in by 27 (45 %) owners – managers of

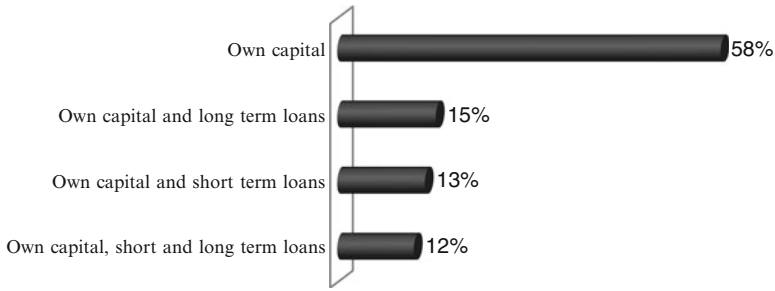


Fig. 4 The structure of funding (Source: Own research)

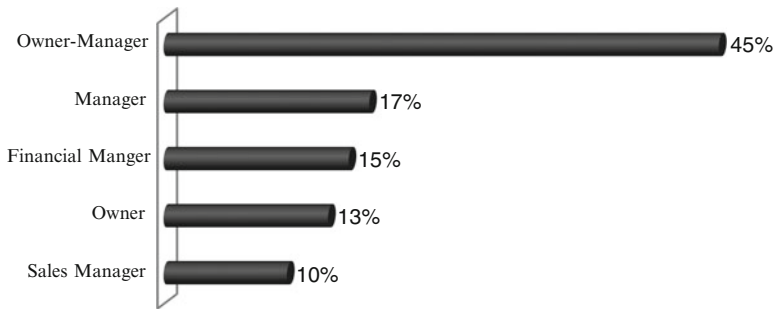


Fig. 5 Structure of job positions (Source: Own research)

small enterprises, by 9 (17 %) financial managers, 10 (15 %) general managers, 8 (13 %) business owners and by 6 (10 %) sales managers. The structure of job positions of respondents is depicted in Fig. 5.

Out of 60 respondents, 30 (50 %) of the respondents have been working in their current jobs for up to 10 years, 21 (35 %) between 10 and 20 years and 8 (13 %) for over 20 years. One respondent did not answer this question. As for educational background, 33 (55 %) of respondents had a university degree, 9 (15 %) a 2-year post-secondary school degree and 18 (30 %) a secondary-school degree.

Aggregate results of the analysis of answers in the first part of the questionnaire show that 55 % of enterprises were between 11 and 20 years old; 52 % were from the trading and service sector; 63 % had between 1 and 9 employees, i.e., were from the micro enterprises sector. In 2010 total revenues were under 10 million HRK in 87 % of enterprises; 60 % of enterprises used their own funds only; in 85 % of enterprises the value of long-term assets was under 7 million HRK; 53 % of respondents have been in their present work positions for up to 10 years; and 75 % of respondents were either owners-mangers or managers or owners, i.e., represented the top level of management.

The objective of the first question in the second section of the questionnaire was to reveal risks small enterprises are nowadays exposed to the most and will be exposed to the most in the future. For 13 risk categories measures of central tendencies for sets of data were calculated: mean, mode and median; as well as measures of variability: variance and standard deviation (Tables 4 and 5).

Table 4 Measures of central tendencies and measures of variability of risk categories – nowadays

No.	Risk category	Nowadays				
		Mean	Mode	Median	Variance	Standard deviation
1	Financial	3.775862	4	4	0.843618	0.918487
2	Management	2.793103	3	3	0.973987	0.986908
3	Legal and regulatory compliance	2.655172	2	2.5	1.528131	1.236176
4	Operational	2.672414	3	3	0.745366	0.845793
5	Commercial	3.982759	4	4	0.683908	0.826987
6	Health and safety	1.913793	1	2	0.922263	0.960345
7	Strategic	3.017241	3	3	0.824259	0.907887
8	Equipment	2.105263	2	2	0.917293	0.957754
9	Security	1.896552	1	2	0.866304	0.930754
10	Reputation	2.413793	2	2	1.159105	1.076617
11	Service delivery	2.603448	2	2	1.647005	1.283357
12	Stakeholder management	2.465517	3	2	1.060194	1.029657
13	Technology	2.368421	2	2	0.736842	0.858395

Source: Own research

Table 5 Measures of central tendencies and measures of variability of risk categories – in the future

No.	Risk category	In the future				
		Mean	Mode	Median	Variance	Standard deviation
1	Financial	3.566667	4	4	1.164972	1.079339
2	Management	2.816667	3	3	0.931921	0.965361
3	Legal and regulatory compliance	2.716667	2	2.5	1.460734	1.208608
4	Operational	2.683333	2	3	0.864124	0.929583
5	Commercial	3.830508	5	4	1.074226	1.036449
6	Health and safety	2.016667	2	2	0.965819	0.982761
7	Strategic	3.166667	3	3	1.022599	1.011236
8	Equipment	2.152542	2	2	0.821157	0.906177
9	Security	1.850000	2	2	0.909322	0.953584
10	Reputation	2.508475	2	2	1.426651	1.194425
11	Service delivery	2.550000	2	2	1.607627	1.267922
12	Stakeholder management	2.750000	3	3	1.105932	1.051633
13	Technology	2.616667	3	3	0.816667	0.903696

Source: Own research

The exposure of small enterprises to various risk categories nowadays and in the future is depicted in Fig. 6. Findings indicate that nowadays small enterprises in Croatia are the least exposed to risks related to security, health and safety at work, and equipment. On the other hand, they are the most exposed to market, financial, and to strategic risks. Small enterprises do not expect any major changes in their exposure to the observed risk categories in the future. A slight decline in their

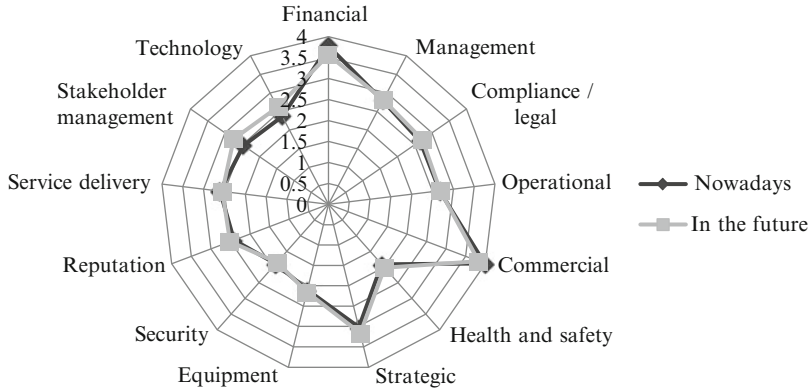


Fig. 6 Exposure to risk categories nowadays and in the future (Source: Own research)

exposure to commercial and financial risks is expected, as well as an increase in their exposure to strategic, management and technological risks.

Results of the survey on exposure of Croatian small enterprises to various risk categories nowadays and in the future can be compared with the results of several similar global surveys. Leading European companies believe that nowadays commercial, operational and production risks are the most significant and that this will remain the same in the future with possible change in their significance. CFOs and risk managers of large global corporations see problems related to labour force, production and supply chain as the most important challenges in the future. Future price fluctuations, government actions and regulation are seen as the biggest hazards by global investors. CFOs of US companies expect the most risks to be strategic management of change, capacities, incentives, human resources and frauds (Sadgrove 2005).

For Croatian small enterprises commercial, financial and strategic risks seem to be the most significant risks nowadays and in the future. It may be concluded that ranking risks is by no means an easy task. It all depends on who and how one asks questions. Also, the significance of various risks changes over time.

The purpose of the second question in the second section of the questionnaire was to reveal options which small enterprises use for treating and controlling risk in order to either reduce or eliminate negative consequences, or to reduce likelihood of an adverse occurrence. Measures of central tendencies for sets of data for 14 options were calculated: arithmetic mean; mode and median; as well as measures of variability: variance and standard deviation (Table 6).

The scores indicate that the most widely used commonly available risk treatment and control options include anti-virus software, contract, and staff training. The least widely used options were the following: record of people and cars entering the premises, credit limit, and debenture/promissory note.

The international standards such as: ISO 9,000 – Quality Management; ISO 14,000 – Environmental Management; ISO 27,000 – Information Security

Table 6 Measures of central tendencies and measures of variability of risk treatment options

No.	Risk treatment option	Mean	Mode	Median	Variance	Standard deviation
1	ISO 9000	2.241379	1	1	2.291591	1.513800
2	ISO 14000	1.706897	1	1	1.649425	1.284300
3	ISO 27000	1.844828	1	1	1.501815	1.225486
4	ISO 31000	1.758621	1	1	1.37931	1.17444
5	Insurance policy	3.400000	5	4	2.413559	1.553563
6	Contract	3.900000	4	4	1.413559	1.188932
7	Debenture/promissory note	2.600000	1	3	1.600000	1.264911
8	Credit limit	2.333333	1	2	1.785311	1.336155
9	Health and safety at work regulations	3.600000	5	4	2.549153	1.596607
10	Record of individuals and cars	2.283333	1	1	2.647175	1.627014
11	Computer and data access protection	3.616667	5	4	1.799718	1.341536
12	Anti-virus software	4.366667	5	5	1.083616	1.040969
13	Staff training	3.800000	5	4	1.416949	1.190357
14	Advising with consultants	3.633333	5	4	1.659887	1.288366

Source: Own research

Management; and ISO 31,000 – Risk Management are hardly ever used. Average use of all risk treatment and control options in all small enterprises (mean = 2.934647, mode = 2.928571, median = 2.785741, variance = 1.799362, standard deviation = 1.330460) is depicted in Fig. 7.

Implementing all treatment options is often neither possible nor cost effective. A business owner should aim to choose, prioritise and implement the most appropriate combination of risk treatment options. Authors have also tried to find out if there were any differences in the use of risk treatment and control options in relation to the enterprise's age, economic activity and structure of funding.

The comparison of the means of all risk treatment and control options and the age of small enterprises has highlighted that the use of risk treatment and control options increase with the enterprise's age. The use of all risk treatment and control options in relation to the age of the enterprise is shown in Fig. 8.

The comparison of means of all risk treatment and control options in relation to economic activity indicated that enterprises engaged in various economic activities use different risk treatment and control options. In the construction sector, ISO 9,000 – Quality Management; and ISO 14,000 – Environmental Management and Contract are used more than in other sectors. In the manufacturing sector it is more common to use safety at work regulations. In trading, debenture/promissory note and credit limit are used the most. In business services staff training is used more than elsewhere. The implementation of all risk treatment and control options in relation to the economic activity is shown in Fig. 9.

The comparison of the means for all risk treatment and control options in relation to the structure of funding indicated that enterprises which finance their business with their own capital and long-term loans use risk treatment and control

Fig. 7 The use of risk treatment and control options
(Source: Own research)

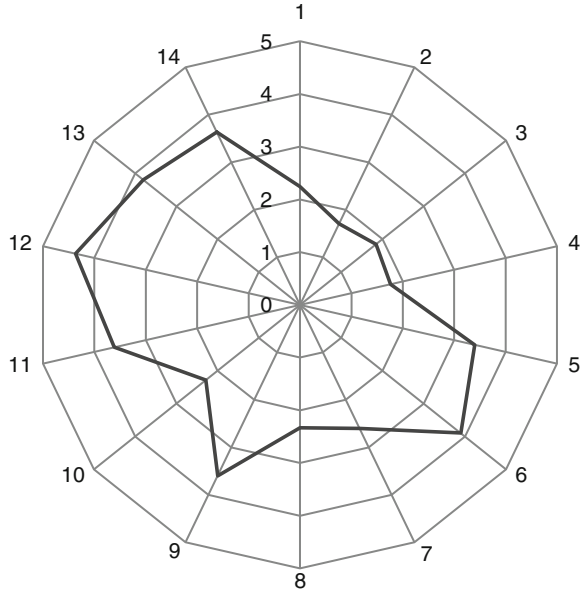
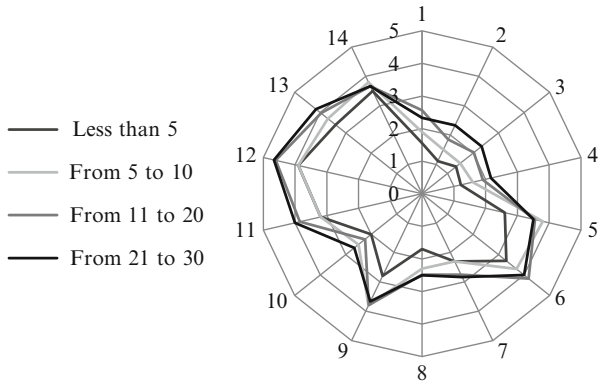


Fig. 8 The use of all risk treatment and control options related to the enterprise's age
(Source: Own research)



mechanisms the most. The use of all risk treatment and control options in relation to the structure of funding is shown in Fig. 10.

The purpose of the third question in the second section of the questionnaire was to obtain data on how employees participate in risk management. It was a multiple choice question with a single response. In 55 % of small enterprises employees participate in risk management on the basis of experience, i.e., according to their prior experience, judgements and knowledge of such and similar situations. In 37 % of small enterprises employees participate in risk management intuitively, i.e., according to how they feel, on a daily basis, by word of mouth and with no documentation. Only in 8 % of small enterprises employees participate in risk management on a rational basis, i.e., based on an analytical procedures consisting of

Fig. 9 The use of all risk treatment and control options related to the economic activity (Source: Own research)

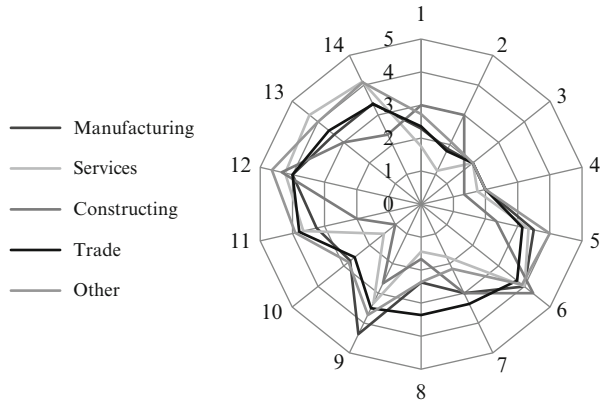
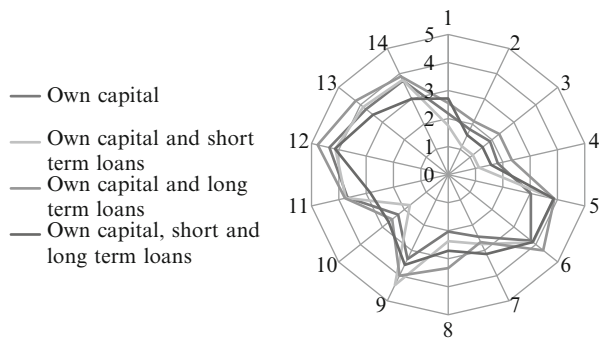


Fig. 10 The use of all risk treatment and control options in relation to the structure of funding (Source: Own research)



investigation of the problem, gathering data and consulting the parties involved. Participation of employees in risk management is shown in Fig. 11.

6 Conclusion

Small enterprises are a significant segment of the business sector both in Croatia and in the European Union. They own fewer assets compared to large enterprises and have much less capital and reserves and are, therefore, more vulnerable in terms of sustainability than large enterprises. Business risk represents the likelihood of a situation that may have a negative impact on the achievement of goals and sustainability of business. It is part of every business and its ultimate effect is financial loss. In order to control negative impacts, business risk is becoming an important aspect of managerial thinking and acting.

The main purpose of the current study was to determine the exposure of small enterprises in Croatia to several business risk categories nowadays and in the future, the use of risk treatment and control options and the participation of employees in

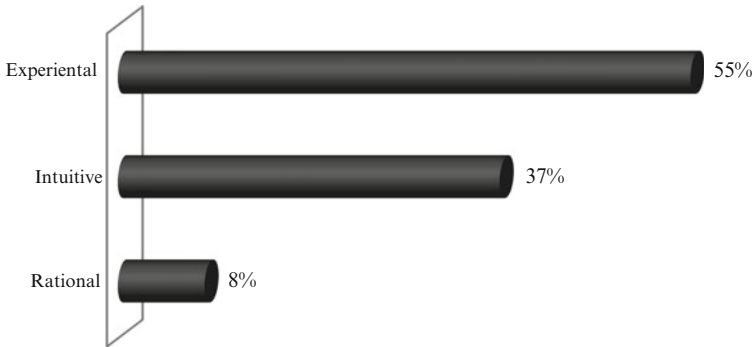


Fig. 11 Participation of employees in risk management (Source: Own research)

risk management. The results of the survey have certain limitations due to the nonprobability sampling method and the small convenient sample size, which is not an accurate representation of the population. The results cannot be generalized to the population of small enterprises in Croatia as a whole. The findings that emerge from this study are more indicative for the population of small enterprises operating in the City of Zagreb, Zagreb County and Krapina-Zagorje County, as the majority (70 %) of the questionnaires was distributed to small enterprises in this part of Croatia.

Questionnaires were sent to 150 small enterprises, of which 65 were returned, 5 being invalid. Aggregate results of the analysis of answers showed that 55 % of enterprises were between 11 and 20 years old; 52 % were from the trading and service sector; 63 % had between 1 and 9 employees, i.e., were from the micro enterprises sector. In 2010 total revenues were under 10 million HRK in 87 % of enterprise; 60 % of enterprises used their own funds only; in 85 % of enterprises the value of long-term assets was under 7 million HRK; 53 % of respondents have been in their present job positions for up to 10 years; and 75 % of respondents were either owners-managers or managers or owners, i.e., represented the top level of management.

Small enterprises in Croatia are nowadays less exposed to security risks, health and safety at work risks and equipment related risks. They are mostly exposed to commercial, financial and strategic risks. Small enterprises do not expect any major changes in exposure to the observed categories of business risks in the future.

The most widely used and commonly available risk treatment and control options include antivirus software, contract and training of employees. The use of risk treatment and control options increase with the age of the enterprise. Enterprises from different industries use different risk treatment and control options. Risk treatment and control options are mostly used by enterprises that finance the business with their own capital and long-term loans. International standards ISO 9,000 – Quality Management; ISO 14,000 – Environmental Management; ISO 27,000 – Information Security Management; and ISO 31,000 – Risk Management are used by a very small number of enterprises. Employees in small

enterprises participate in risk management mostly on the basis of experience and intuition and to a very small extent on the basis of rationality.

In response to the findings linked to the usage of risk treatment and control options and the involvement of employees in risk management the authors recommend to the owners of small enterprises to gain risk management education in order to raise a better understanding of risk management and the role it should play within their enterprises. There are ways in which owners of small enterprises can assess and manage the risk to themselves, their businesses, their employees, their customers and their suppliers.

The results of this study can be useful in further research of the business risks issue in the small business sector in order to create a comprehensive business risk management model adjusted to small enterprises.

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Growth Strategies of Entrepreneurial Businesses: Evidence From Macedonia

Bobek Suklev and Gadaf Rexhepi

1 Introduction

The research conducted by Stapford and Baden-Fuller (1990) showed that almost all analyzed enterprises invested in new equipment and organizational change. But, after some months, the results showed that not all of the businesses that made investment managed to survive. The reasons for failure varied for different situations, but most of all, they represent a result of failure to adapt and continuously innovate the enterprise strategy. Depending on the phase of the life cycle where they currently operate, enterprises use different strategies in order to compete successfully in the market. One of question that still remains unanswered is why some enterprises are more profitable than others. Porter (2004) considered that industry profitability results from the interaction of five competitive forces that he proposed, and that industry profitability depends from the impact of these five forces. But why then enterprises in the same industry differ in their profitability? Some research had pointed out that profitability inside the industry differs three to five times more than profitability between industries (Roos 2005). We propose that choosing the right strategy for the right moments has huge impact on enterprise profitability. This research is oriented toward enterprises that are in the growth phase of their life cycle. There are several alternative types of strategies that are available to businesses, but we will try to identify the growth strategies that will enable growth to enterprises.

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2 Characteristics of the Growth Phase

Growth implies continuous growth of sales, purchases, number of employees, profit and thus the normal growth of the enterprise. The growth of the enterprise from an internal point of view at the same time means increased management-type problems in all spheres, but also facing greater competition from an external point of view. The competition which the enterprise starts facing with is not as simple as it was in the past and therefore requires special attention and analysis.

Furthermore, the enterprise should continue its confrontation with a number of specific requirements of customers and finding quality suppliers. This means almost complete change of the usual management operation and undertaking of new management activities. The manager at this phase will hardly be able to perform all tasks related to his work. In this section, the use of the technique empowerment as a way that will make it easier for enterprises to overcome these problems is recommended.

During analyzing the growth phase of the enterprise, will appear the following characteristics:

- More frequent undertaking of new competitive moves,
- Increase of productivity and efficiency as a result of the accumulated knowledge and skills,
- Problems with volume production as well as production efficiency and quality,
- Establishment of formal organizational structure,
- Reduced variation of the strategy,
- Continuous growth in sales and profits,
- Sophisticated consumer demand,
- Increasing entry barriers,
- Consumers are gradually familiar with the products/services of the enterprise,
- Increasing demand.

It is important to emphasize that not every enterprise will be able to pass the first phase of the life cycle. Most of the enterprises usually fail to pass the first phase in the first year. Statistics showed that only one of three enterprises will be able to move into the next phase of the enterprise life cycle. Entry of the enterprise in growth phase implies the need for a larger space, so that enterprises can breathe freely. In order to achieve this, it is necessary to manage the enterprise effectively and efficiently throughout its development. Usually enterprises are not aware of the fact that they have progressed to the next phase of their development. In order for enterprises to be able to correctly determine when the enterprise has stepped into the growth phase, it is necessary to define what growth phase is. It is assumed that an enterprise enters the growth phase after it achieves a positive growth of the profit of more than 1 % per month (Rink and Fox 2004). We should also take into consideration that the duration of one phase of the life cycle of enterprises is different and depends on many factors.

Factors that affect the duration of enterprise life cycle are: (Balanko-Dickson 2007)

- *Capacity* – refers to whether enterprises have adequate financial capabilities.
- *Premises* – refers to whether enterprises have the necessary office/warehouse space, necessary to achieve their objectives.
- *Attitudes* – ways you can elevate your emotional and intellectual capacity.
- *Opportunities* – analysis of the capabilities of enterprise to accept opportunities in the last 6 months, as well as the necessity to increase the ability to leverage the opportunities offered.

Most of the enterprises, as we noticed earlier, have problems in identifying the phase of the enterprise life cycle. They do not notice that their enterprise is in another phase ahead and that the enterprise cannot perform in the old way. The ability of the enterprise to adapt to the new demands is related to the enterprise future success or existence. Transition from one phase to another is a difficult, but necessary process.

The Management of enterprises should realize that each phase of the enterprise life cycle is special, because the needs and benefits at each phase are different. Each phase is characterized by different ways of decision-making, it has a different organizational structure and therefore normally requires different strategies (Kazanjian and Drazin 1990).

It is important to bear in mind that the factors that made an enterprise successful in the first phase (low cost, good quality, etc.) must remain present in growth phase. This means, the enterprise should continue offering products or services with the same quality in the second phase, as well as do its best in improving the quality of a given product or service. Despite the changes in the management approach, a very strong accounting unit which will provide a clearer financial picture of the overall situation of the enterprise is also required. These data should be valid and timely.

At this phase, it is necessary to increase the number of employees as well as explore new sources of funding that will allow funding of growth and utilization of the new alternatives. This phase is followed by an increase in revenue, number of employees, etc., which represent a huge management challenge and as a result – increasing difficulties in controlling and managing the enterprise.

3 Growth Strategies

The point of strategy is to offer an enterprise a sustainable competitive advantage and this can be done only if the enterprise has a strategy which is original compared to other enterprises and a strategy which is coordinated with all enterprise activities and emerges through time.

Growth strategies are classified into two basic categories, concentration on existing business or industry and diversification into other businesses or industries. Concentration strategy is used primarily in cases where the enterprise operates in an

attractive industry with good growth potential. Diversification strategy is used in opposite situation where the enterprises operate in unattractive industries. Concentration strategy further can appear in the following two types:

- *Vertical integration* – is used in cases when the enterprise has a strong competitive position in a growing industry.
- *Horizontal growth* – involves expansion of the current product into other market segments or increasing of the volume of products in the existing market, or a combination of both.

Also there are several *diversified growth strategies*, including:

- *Related diversified strategies (concentrated)* – involves the expansion of the activity of enterprises in related industries that are in synergy with existing lines of businesses.
- *Unrelated diversified strategies (conglomerate)* – includes entry into new businesses that are not related to existing business lines.

Furthermore, enterprises can exploit the benefits of generic strategies (cost leadership, differentiation and focus on cost leadership and differentiation) in the growth phase. These are the main strategies that usually enterprises in the growth phase can use. Enterprises also need to understand that *choosing the right strategies for given situations in the right moment* is the best competitive advantage that an enterprise can invent. Most enterprises, when shaping their strategy, are usually oriented towards strategies of other successful enterprises. But, it is unlikely that a strategy which is successful in one enterprise will be successful in another enterprise, if we take into the consideration the uniqueness of each enterprise.

3.1 *Deciding on the Strategy*

One of the dilemmas that enterprises have in this phase is whether to grow or remain small. In the literature, there is a dilemma about what will happen if the enterprise decides to remain in the current position and does not want to grow, will it continue to exist and perform successfully or will it disappear? Some authors believe that those enterprises that choose to act in niche markets do not need to grow in order to survive (Agarawal and Audredsch 2001). This means that enterprises can *use niche strategy* to remain small and to achieve excellent profitability by occupying parts of the market that are not attractive to bigger companies. According to Churchill and Lewis (1983), the choice of such strategy (niche market) will not be significantly influenced by external circumstances. With the growth of the enterprise, there will be a need of engaging functional managers who do not have to be from the highest caliber (because their goals can be higher than those that enterprise owners want to reach). The strategy for performing in niche market can be used if the industry is in the maturity phase; if the industry is in introduction or growth phase, then this strategy is not recommended (Agarawal and Audredsch 2001).

Another strategy that enterprises can choose is to continue the growth of the enterprise. The growth of the enterprise will be financed from the generated profits and financial assets that are available. Engaged managers need to address the future as well as to install a system that will be oriented to future needs. Owners are engaged in all phases of strategic planning of the enterprise (Churchill and Lewis 1983).

The growth of the enterprise in growth phase can be achieved in two ways:

- Growth through direction,
- Growth through delegation.

According to a research conducted by Wu, Wang, Chen and Pan (2008), it was found that in 166 enterprises in Taiwan the competitiveness of enterprises increases as resources increase. Under resources, the authors take into account both touchable and untouchable resources and capabilities of the firm during the growth phase. Resources fall into five categories (Wu et al. 2008, p. 537):

- A specialized know-know,
- Financial capital,
- The ability of managers,
- Reputation,
- Past experience with alliances.

Hwang and Park (1999) consider that enterprises at this phase are mainly internally oriented. They worry about the way how to produce and sell product that will increase its financial performance. It is recommended for the enterprises at this phase to use incremental innovation. There are eight factors that are suggested as important for the growth of the enterprise at different phases of the life cycle and that act differently in each phase (Mitra and Pingali 1999, p. 66):

- Management orientation,
- Management objectives,
- The current business strategy,
- Human Resources Policy,
- Orientation towards customers,
- Consumer base,
- The current management style,
- The managers' capacity.

Extremely important aspects related to the growth of the enterprise are management orientation and objectives. They are more important for the growth of the enterprise rather than consumer satisfaction and current business strategy. Taking into consideration the characteristics of the growth phase, there are several strategic options that enterprises can undertake at this phase:

- Try to grow faster than the industry itself (if the industry is on the growth phase),
- Use the low cost strategy in order to attract new customers (if the industry is in the growth phase and maturity phase),

- Use innovation as a strategy to offer innovative products and increasing the value of the existing products (in all phases of development of the industry),
- Establish access to additional distribution channels and retail outlets,
- Expand the market in which they act in order to access new customers,
- Expand production lines in order to offer them to a wider range of consumers,
- Use empowerment and
- Make alliances and network strategies.

Besides enterprise life cycle, Hofer (1975) considers that the product life cycle is also very important when we want to establish enterprise strategy, in whatever phase the enterprise may be. Thus, we also need to define what the growth phase of the products. We can define it as time period from commercial birth and maximum monthly income (Cox 1967). It is assumed that this period most frequently lasts for 7 months, depending on the nature of the product.

According to Rink and Fox (2004), when both enterprises and their products are in the growth phase, enterprises should *follow the below listed strategies* related to their purchases and sales:

- Strictly maintaining the quality standards,
- Monitoring reports for sale,
- Extensive list of suppliers, switching to large suppliers,
- Using the internal changes in product modification,
- Creation of large amount of stocks
- Instant payment of the invoices to local suppliers.

These strategies can be of great help to the enterprises in making decisions about their purchases that are larger and rising at this phase. When being in this phase, *strategic alliances and cooperation* with other enterprises are highly recommended. Hwang and Park (2007) in their research related to the formation of strategic alliances across the life cycle of the organization, propose the following: “During the growth phase, the decision to enter into alliances should be aimed at finding partners that suit their specific requirements and match their strategies. Furthermore, these enterprises together should be able to achieve better efficiency in production and marketing activities” (p. 431).

4 Research Methodology

Beside the theoretical analysis presented within this research, we have also conducted an empirical research which was carried out in several ways, starting with a personal interview with the general managers of several enterprises, further questionnaire sent by mail and finally using the e-mail. Direct interview was conducted in total 20 enterprises, by post are sent 25 questionnaires, 18 were returned. Via e-mail, 200 questionnaires were sent, out of which only 7 were returned, resulting in a total of 45 enterprises surveyed. This showed that the direct

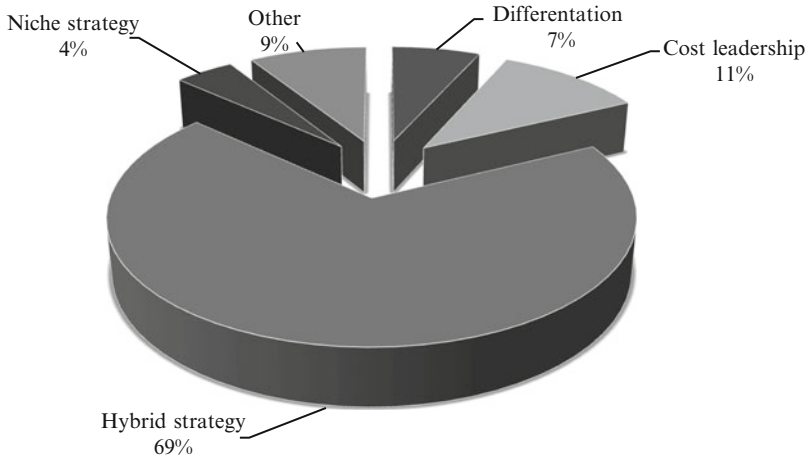


Fig. 1 Strategy selection (Source: Own research)

interview and the use of the mail is still the best way of communicating with the enterprises in the Republic of Macedonia, and the use of electronic mail proved to be quite inefficient. The survey was conducted in the period from 15 May to 25 August 2012. Data from the questionnaire were processed using the statistical program Statistical Package for the Social Sciences (SPSS).

5 Research Results

Research showed that the most frequent strategy used by enterprises in growth phase is hybrid strategy, where 69 % of the analyzed enterprises said that they use this strategy which incorporates both strategies on cost leadership and differentiation (Fig. 1). The pure strategy on cost leadership has been used in 11 % of the cases, differentiation strategy has been used in 7 % of analyzed enterprises and focus strategy in only 4 % of cases. More than 90 % of analyzed enterprises which used hybrid strategy were successful in the past 5 years (2006–2011) which leads us to the conclusion that hybrid strategy is the most successful strategy for enterprises in the growth phase in Macedonia and in countries similar to Macedonia.

A part of this research has also included the question if the strategy of the enterprises in the growth phase emerges or it is deliberate and does not change over time. Empirical research has shown that only four enterprises, or 9 % of enterprises had committed a complete change of the strategy, 22 % of enterprises had made major changes rarely, the other 29 % of the enterprises had made small changes frequently, while 39 % of enterprises had made minor changes rarely, and only one enterprise had never made any change in their strategy (Fig. 2).

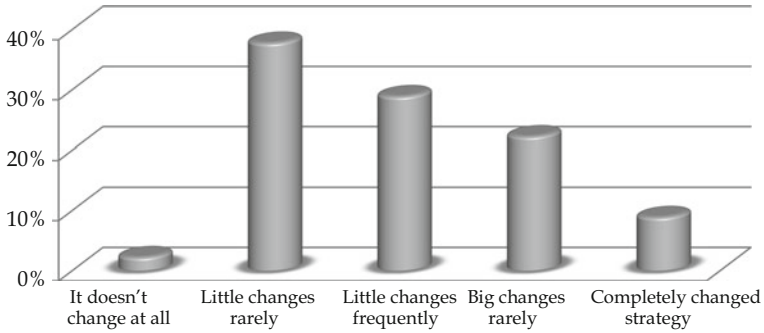


Fig. 2 Degree of change of the strategy (Source: Own research)

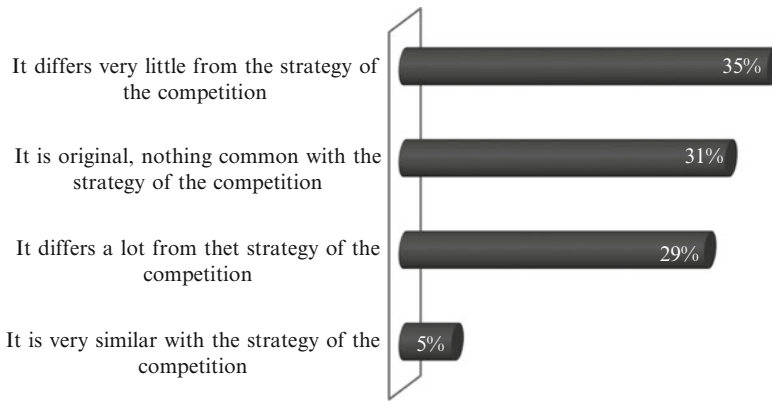


Fig. 3 Degree of strategy differentiation (Source: Own research)

The strategy should be original and innovative, especially when the enterprises are in the growth phase. The research results presented in Fig. 3, showed that only 31 % of surveyed enterprises have original strategy that is very different from that of the competition, 29 % of them said that their strategy differs in many aspects from the strategy of other enterprises-competitors. About 40 % of the enterprises said that their strategy has just some minor differences or it is completely equivalent to that of the competition.

Studies presented in Fig. 4 show that only 51 % of the enterprises which are in the growth phase coordinate their strategy with all of their activities, in 29 % of the cases the strategy is coordinated with more than three activities, while in the remaining 20 % of the cases the strategy is coordinated with one or two activities which is as an indicator of the strength of the strategy.

The research also included the question – what is more important in establishing strategy in the growth phase, industry life cycle or enterprise life cycle? The survey showed that 62 % of enterprises responded that the phase of development in which

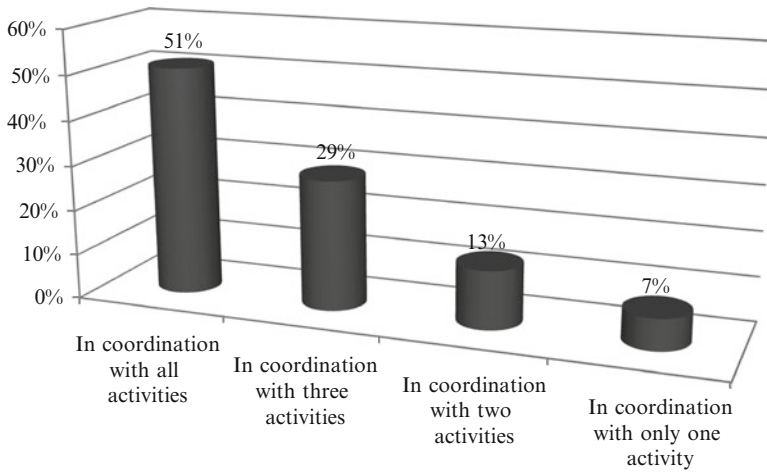


Fig. 4 Degree of coordination of the strategy (Source: Own research)

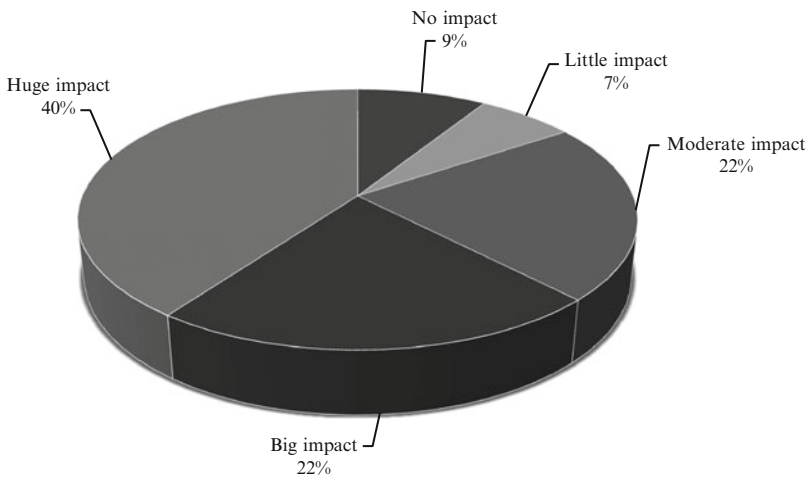


Fig. 5 Influence of enterprises life cycle (Source: Own research)

the enterprise is located has a great and profound impact on the choice of strategy, while only 16 % of enterprises believe that it has no or little effect (Fig. 5).

On the other hand, only 29 % of enterprises believe that the phase of development of their industry has big or huge influence in formulating strategies, while 27 % of the enterprises responded that the phase of industry development has little or no impact in their strategies, as presented in Fig. 6.

The results showed that the impact of both life cycles is very important, but the enterprise life cycle is more important than the industry life cycle in selecting enterprise strategy in the growth phase.

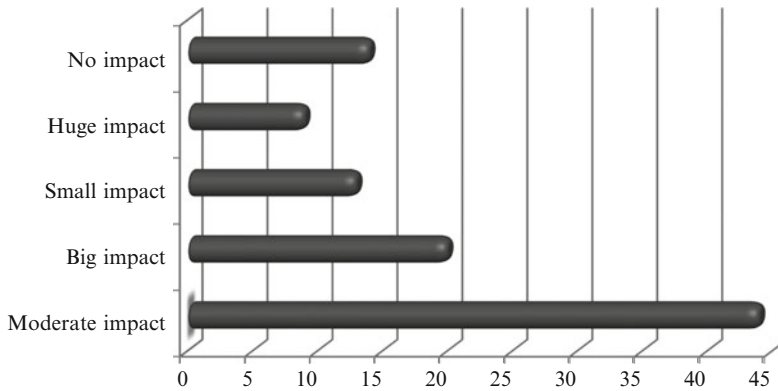


Fig. 6 Impact of industry life cycle (Source: Own research)

6 Conclusion

For the enterprises that are in the growth phase, the use of incremental innovation is recommended. It is very important that these enterprises ensure that products or services that are offered in the first phase and continue to be offered in the second phase retain the same quality, and if possible, improve. At this phase, the formulation of strategic directions toward which the enterprise will be moving in the future in order to become recognized by their customers takes place. In this regard, this is the phase when the enterprise should decide whether it will expand or stay at the current market position.

Strategies in the growth phase of the enterprises should definitely be planned, but it is necessary to allow these strategies to change, upgrade or evolve over time. Empirical research has shown interesting results and that, only 4 out of 45 enterprises committed changes in their original strategy. Most frequently or in 68 % of cases enterprises, have committed minor changes to their original strategies, while only 23 % of the enterprises made major changes in their strategies, although this does not mean that they have completely changed their original deliberated strategies. This leads us to the conclusion that growth strategies emerge but in their own shape.

When selecting the enterprise strategy, the impact of the enterprise life cycle and industry life cycle of the industry is quite significant, but the enterprise life cycle is more important than the industry life cycle. The results showed that 62 % of surveyed enterprises believe that the enterprise life cycle has more impact in the formulation of strategy, while only 27 % of surveyed enterprises believe that the impact of industry life cycle has a great influence in the formulation of strategy.

According to the survey conducted among 45 enterprises which are in a growth phase, it can be concluded that the most common strategy that these enterprises use or 69 % of them is the hybrid strategy. This means that these enterprises use a combination of the two strategies, strategy of differentiation and cost leadership

strategy. The consecutive strategy is the strategy of cost reduction which is used in 11 % of enterprises in the growth phase and only 7 % use differentiation strategy, while the strategy of focus is hardly used. The high percentage of using hybrid strategy confirmed that the enterprise which is at this phase very rarely uses the option of pure strategy despite the opinion of many authors who believe that the use of the hybrid strategy is very dangerous. Other strategies which can be proposed to enterprises in the growth phase are: vertical integration strategy, innovative strategy, increasing sales to existing customers, building new flexible competitive capabilities, strategy of continuous quality improvement and blue ocean strategy.

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Part II
Diversities and Perspectives

Family Businesses in Republic of Kosovo: Some General Issues

Gramos Gashi and Veland Ramadani

1 Introduction

Family businesses constitute the dominant and oldest form of business organizations. They had a special importance in the economy throughout history, which continues today in the modern world. Almost in all countries of the world, family business plays a key role in overall economic development, including workforce engagement. Understanding the family business ranges from a small enterprise on the edge of a road to a neighborhood, to large conglomerates that operate in different industries and countries (IFC 2008). Therefore, the definition of family businesses is a quite complex issue, where relevant difficulty represents the interaction of the family system and business. All of this said, even today there is not a generally accepted definition for family business (Chua et al. 1999).

The general concept of the family business includes any business, in which the bulk of the ownership or control lies in a family, and in which two or more family members are involved directly. Family business is a double complex system, comprising business and family. These systems overlap and are both dynamic organisms that develop and change and are both unique with their particular history, challenges, strengths, weaknesses, opportunities and threats that are exposed. Family members who are involved in the business are part of a system of tasks of business and part of the family system. For this reason, conflicts may occur because each system has its own rules, roles and requirements. Families can have their own style of communication and conflict resolution which can be good for the family but

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it does not mean that this will be good for resolving business disputes. Entry to the family system is from the east and membership is permanent, whereas entry into the business system is based on experience and opportunities. As in the family, also in business too, roles as president of the company, manager, employee, shareholder or owner carry their responsibilities and expectations. Conflicts may arise when the problems from one system are transferred to another system (Bowman-Upton 2009).

A definition of family business should determine why it is unique, and this raises the question of “what is it unique?” This has nothing to do with the fact that family members own or manage a business. What makes a family business unique is that the model of ownership, governance, and succession management, materially affect the objectives, strategies, structure, and the way in which it is formulated, designed and implemented as business activity (Chua et al. 1999).

According to Poza (2010) if a business is to be considered a family business it must meet the following characteristics: (a) ownership control (15 % or higher) by two or more members of the family or families partnership; (b) strategic influence by family members on the management of the firm, either by being active in management, continuing to create culture, serving as an advisor or board member, or by being an active shareholder; and (c) concern for family relationships; the dream or possibility of continuity across generations. Further, the same author, to this list of features, in the tendency to give a clearer picture for the family business and to differentiate from other businesses, adds several features, as follows: (a) the presence of the family; (b) the overlap of family, management, and ownership, with its zero-sum (win-lose) propensities, which in the absence of growth of the firm, render family business particularly vulnerable during succession; (c) the unique sources of competitive advantage (like a long term investment horizon), derived from the interaction of family, management, and ownership, especially when family unity is high; and (d) the owner’s dream of keeping the business in the family (the objective being business continuity from generation to generation).

Alderson (2011, p. 6) defines a family business as “business governed and/or managed in order to form and follow the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families that is potentially sustainable in all generations of the family or families.” Carlock and Ward (2001) described a family business as a scale which should be balanced between the requirements and business opportunities and the needs and desires of the family. The balance between these two ‘forces’-business and family can be achieved based on five variables, including: (a) control: setting in a fair way who will arrive at the decisions; (b) career: need to make it possible for family members to be rewarded and promoted based on their performance; (c) capital: family members can reinvest without damaging the interests of other family members; (d) conflict: conflict must be addressed due to the proximity between business and family; and (e) culture: family values have to be used in the development of plans and actions.

Table 1 Family business: numbers and facts (Statistical history)

Family business constitute	80–98 %	Of the business in the worldwide free economy
Family business produces	49 %	Of the gross domestic product (GDP) in the United States of America
Family business produces more than	75 %	Of the gross domestic product in the most countries worldwide
Family business employs	80 %	Workforce in the U.S
Family business employs more than	75 %	Of the workforce worldwide
Family business creates	86 %	Of new jobs in the U.S.
A total of	37 %	Of Fortune 500 companies are family businesses
A total of	60 %	Of all public companies in the U.S. are under the control of family businesses
The number of family-owned businesses in the United States is	17 million	
The number of family-owned businesses in the U.S. with revenues greater than 25 million is	35,000	
Performance of family businesses from non-family businesses in the U.S.	6.65 % a year in returns on assets (ROA)	10 % in market value
Performance of family businesses from non-family businesses in Europe	8–16 % per year in Return on equity (ROE)	

Source: Poza [2010](#)

2 Family Business and the Economy: Some Facts

Family businesses have great importance for the country's economy. Establishment, growth and their longevity are vital to the success of the global economy. Economic and social importance of family enterprises has become internationally recognized because they are the dominant form of business organization. Their stability is critical to global economic growth. A scale of their domination is the number of businesses registered as family businesses, where 75 % are in the UK; and 95 % in India, Latin America or the Middle East (Cadbury [2000](#)). Today they are the main driving force of economic growth in a free economy worldwide. Regarding this issue, some relevant data are shown in [Table 1](#). Being unique in their attributes, they also have unique strengths and weaknesses that they bring to the market (Poza [2010](#)).

Because family businesses are among the most important contributors to the creation of wealth and generating employment vacancies, in almost every country in the world it is very important that this type of business be given more attention by public policy makers in order to ensure the health, prosperity and longevity (Neubauer and Lank [1998](#)).

3 Succession and Family Business

3.1 *Understanding of Family Business Succession*

As mentioned above, family businesses bear the brunt of economic wealth creation in most countries of the world. They represent the majority of companies and are an important source for the generation of jobs in most countries. Continuity of family businesses generation after generation is very important for family businesses and for the economy as a whole. Succession is one of the most difficult decisions for the family business, but is also one of the most important. In the case when an extension is well structured it can preserve the business for the next generation, and when business continuity is not well structured it could cause expensive legal issues between the members of the next generation, and the sale or eventual loss of the business (Lipman 2010).

Succession refers to the transfer of the management and control of a business. Ownership succession focuses on who will own the business, and when and how this process will occur. Management succession focuses on who will lead the business, what changes will occur, when they will be accountable for the results and when these results will be achieved. Unfortunately, the evidence shows that the process of succession in family businesses is fraught with problems and very few of these businesses manage to survive beyond the first generation. Less than 30 % of these businesses manage to survive in the second generation and fewer than 15 % survive to the third (Efendioglu and Muscat 2009).

Effective integration and management of the family component will have a decisive effect on the success of the succession process (Walsh 2011). As a definition, succession is the replacement of the founder and management tasks by the successor. According to Handler (1994) the continuity process is described as a joint arrangement of the role between members of the current and succeeding generations. In order to become a successful leader, the successor must be fully engaged in the process of continuity. The process of continuity in family businesses is intended to provide competent leadership in all generations. This process involves changes at a managerial level that includes CEO and top management and ownership level (Giudice et al. 2010).

Succession is the biggest challenge facing family businesses in the long term. The desire of the owners to plan for succession in ownership and management is often the main factor that determines survival or failure of their business (IFC 2008). The generation change process is difficult and continuity is required as the last and most difficult test for family businesses. Succession is not a single event that occurs when the old leader retires and passes the torch to the new leader, but is a process driven by development that begins very early in the life of some families and continues through maturation and aging generations. Succession is a process of preparation and forecasting, which helps in better way to surrender the keys of leadership, regulation and business adjustment in cases of illness or sudden death.

This process in family businesses, presents a unique opportunity for strategic re-orientation based on the shared values of the family (Gersick et al. 1997).

The faces of every business change. If there is no a succession plan, the sudden death of the founder can throw everything and everyone in a real chaos. Who should lead the business now? Will it be able to operate effectively? Can business survive under new leadership? Shall I have a job? What will I do after retirement? When there is no a succession plan such questions may be submitted to an organization and can reduce the morale, productivity, and can overthrow the gains of the company. With aim that everyone in an organization can breathe easily and be more relaxed, it is required that change in leadership be planned, since so they will feel more confident about the future and their future business. The purpose of succession planning is to achieve the transfer of control and responsibility in the family business in the best way possible to the next generation (Kanef 2011).

One of the most difficult obstacles to the stability and growth of the family business is the issue of succession. For a business to remain a family business, each generation must be followed by another, which often is the final challenge of management. The generation that is in power should be removed and the next generation should be involved. Succession imposes a variety of significant changes in the ownership structure and management of the family business at the same time (Venter 2002).

For the majority of family businesses, succession can be a minefield as it is a very complicated process. Problems that family businesses face at the time of succession can break family relationships and can cause conflicts that could cause the destruction of the business (Family Business Experts 2012).

The importance of succession for family businesses is such that one of the authors has studied the most the phenomenon of family business defines these businesses in terms of their potential for succession. His defining for family business is: “The family business is a business that will pass to the next generation of the family to manage and control” (Ward 1987 p. 252).

The founder should commit to transfer his knowledge and intellectual capital to the next generation, so that his family business can survive and continue on to the next generation. It is important that the founder convey to his children a sense of pride for the family business and at the same time sincerely discuss the risks and problems that they may face. In order to become a successful succession, planning is required as is mentoring the next generation, because the succession is a process that takes time to develop and requires management if we want to be the successful (Lipman 2010). An academic study divides this knowledge into three categories (Lipman, pp. 8–9):

- Competencies related to the industry (more specifically unique knowledge for industry);
- Business competencies (e.g., methods of business operation, products and services, calculating risks, problem solving and conflicts);

- Competencies of ownership (e.g., governance, maintaining a fair balance between the different actors, and the addition to the business of the economic value).

Succession planning should be the most important task of the leader of the family business and should be initiated at an early stage of the life cycle of the business. Succession includes two movements: the successor that moves and takes office and the leader who retire. This motion is very important for the process of succession as it should be done with the selection of the right successor. Succession planning is like insurance, as it protects the family from the destruction of financial value (Hess 2006).

3.2 Preparatory Activities for Succession Planning

Continuity planning in family businesses is the critical issue. Succession may be the crowning achievement for a family business owner, as that is the time when he could share the success with his son or daughter. More than 30 % of all family businesses survive the second generation, and after that the numbers begin to fall, where only 12 % of family businesses are able to move on to the third generation, and only 3 % can continue in the fourth generation (Strategic Designs for Learning 2012).

Good succession planning takes time and is successful when it results from the creation of good relations with the next generation and is based on responsibility, commitment and mutual respect. This planning should begin as soon as it is established if the company's target is keeping the business within the family, as it is necessary that strong leadership guide the business through the transition process. Both generations have to look at succession as a process and not as an event (IFC 2008).

For the transfer of control and responsibility of the family business to take place in the best way possible it is necessary that the next generation become the main purpose of succession planning that has to be achieved. Preparation for the transfer of ownership is to say to one's son/daughter that the transfer of the business will be made to him/her. Change of leadership should be planned carefully and should avoid making hasty decisions based on events that may occur as: diseases, marriages, separations or deaths.

Kanef (2011) proposes that the preparations for the transition be made in a way similar to preparations made for a family trip, where preparations are made much earlier. Preparations must be made for contingencies that may occur and the needs and concerns of all those involved should be taken into consideration. So as to enhance possibilities for a memorable and hassle-free transition, the prepared itinerary should answer the following three questions (Kanef 2011):

1. *What are your destinations?* For transition journey three main areas should be addressed: leadership selection, transfer of ownership and estate planning. When

providing information and making decisions, or when circumstances change, one should check out these three areas as these have an impact on each other. For example, if in the end, the chosen successor does not want to work in the family business, it makes it necessary to return to the process of selecting a successor. One needs to make the adjustment of property planning documents, in order to reflect the change and then has to create a new strategy for the transfer of ownership to a another successor. This three-part journey should be broad in scope and should go beyond the appointment of the new leader. The current leader and all other stakeholders need to address the many issues of personal concern, in the form of special points to be written out for the purpose of record keeping.

2. *What is your schedule?* Once a succession plan is decided, a detailed schedule must be created, in order to move on the journey together. When arranging the trip, one must also plan for emergencies, because different crises can arise. For example, a major customer could slip to a competitor, one of the main members of the family in the business may die suddenly or may divorce, or any natural issue can result in a lawsuit. These unforeseen events are another reason to start the journey as soon as possible.
3. *Who is the leader?* Usually the leader who will lead the process of succession is the current chief executive, who should possess strong leadership skills, the ability to make others listen and who must demonstrate sensitivity to all members of the family. The leader should guide the planning, but it must do so in a patient and persistent manner.

The formula for success in transition for travel that Kanef (2011) presents is:

$$\textit{Path} + \textit{Time} + \textit{Leader} = \textit{Successful Transition Journey}$$

The purpose of the succession is to make the business successful in the future, and at the same time be independent from the outgoing chief executive. The family business should be left to the successor in the best possible condition so that he/she can easily integrate into the business and continue successfully. The business should be left for the successor in the same way it should be presented for sales, with the highest value possible.

3.3 Succession Models and Their Specifics

A succession model presents a frame of analysis of phases related to one another. The model presented by Longenecker, Moore, and Petty (2000) consists of three levels and seven stages. In this model the first level includes introductory activities, which must be performed before the successor enters the business. This includes the following phases: pre-business phase, introductory phase and introductory functional. The second level includes activities dealing with the successor's entry in the

enterprise as an employee in a regular relationship. Activities relating to the transfer of business leadership to successor constitute the third level. These include the early stages of succession and succession maturity. The stages of this model are treated below:

1. *Pre-business phase*. This is the stage where the potential successor is notified of the business. At this stage, a basis for succession is created that will happen in the coming years. Here, potential successors accompanied by a parent of the business visits the offices and warehouses of the company, and plays with equipment dealing with the business in order to become more familiar with business.
2. *Introductory phase*. This phase includes those experiences that relate to the period before a successor will be of legal age and is willing to join the business part-time. This is the stage where the child is notified with people and other aspects that are directly or indirectly related to the business, such as the introduction of the child to any collaborator or banker.
3. *Introductory functional phase*. This is the stage where the potential successor is employed in the business part-time and during breaks, or after school hours. At this stage the successor is involved in formal education and working in other enterprises. Also at this stage, the successor develops special reports with the people in the enterprise.
4. *Functional phase*. This is the stage where the successor has completed formal education and is employed full time and indefinitely in the companies. Before he/she advances to managerial positions he/she may engage in different jobs within the company as in accountancy or sales, and be fitted with different experiences. This stage for the successor includes granting initial non-managerial tasks.
5. *Advanced functional phase*. At this stage the successor takes on a managerial position that has to do with the management of the workers but not the entire company. He/she may engage in various managerial positions before becoming the general leader of the company.
6. *Early succession phase*. This is the stage when the successor has been named president and general manager of the company. At this stage successor is de jure leader of the enterprise because he/she performs this function with the help of parents
7. *Mature succession phase*. This phase usually begins 2–3 years after the successor was appointed chairman or general manager of the enterprise. Now, the successor is the de facto leader. But in some cases this does not happen until a parent dies, because for some leaders it can be difficult to leave the business and to give up the management of the enterprise. This is the stage which completes succession.

Churchill and Hatten (1987) have developed a life cycle approach in order to explain the process of succession between father and son in a firm. They distinguish four phases: (a) management by the owner, (b) training and development, (c) the

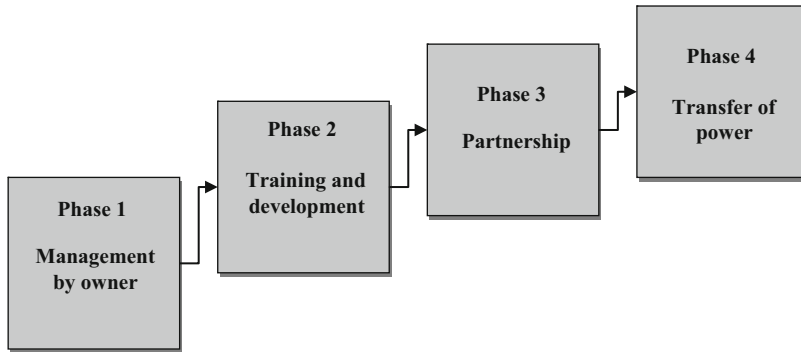


Fig. 1 Succession model based on the life cycle of business (Source: Adapted from Churchill and Hatten 1987)

stage of partnership between father and son, and (d) power transfer. This model is presented in Fig. 1.

The first phase of the management by the owner is the stage where the owner is the only family member directly involved in the business, and the successor is not directly involved in the business. At this stage, the founder has complete business direction and is using his/her skills trying to create organizational culture which on the one hand it is necessary to run the daily affairs of the business and in the long term is beneficial for successful succession. During this stage the founder learns to delegate.

The second phase is known as the training and development phase and is the phase where the successor becomes familiar with the business. At this stage the successor has entered into organization and has begun to participate in the daily chores. The descendant learns and develops his/her skills to run the business and also develops the ability to delegate.

The third stage is the stage where the partnership develops between ancestors and descendants. Here more authority is given to the descendants and a strong relationship between the two is developed.

The fourth phase is the last stage where the current power is transferred under the responsibility of the descendants business. At this stage the ancestors seek new opportunities for his/her life which really simplifies the process of succession.

Another model of the succession process model is the model known as “six stairs to transfer the family business” (Fig. 2). This model is presented by Lambrecht (2005) and is based on empirical research where different family businesses were taken into consideration.

In this model *the first degree* is entrepreneurship, where during this degree the transfer of professional knowledge, values, management, leadership characteristics and the soul of the organization are transferred to the next generation. The parent distinguishes three stages of the child’s life that affect the transfer of professional knowledge. Potential offspring can learn the secrets of product and trike sales through these three stages. Family business is like a playground for children.

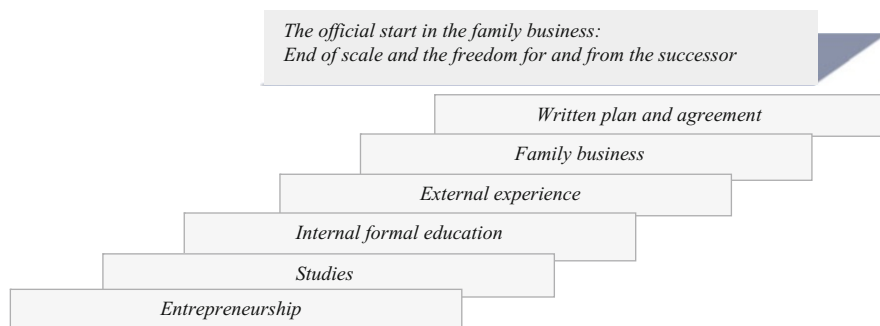


Fig. 2 Six-stairs model for family business transfer (Source: Adapted from Lambrecht 2005, pp. 267–281)

In the second stage, successors are given the easiest tasks in the family business and in the third phase are asked to perform more serious tasks in the family business.

The *second degree* for the successful transfer of family business consists of studies. Most of the successors are encouraged before entering fully into family business to take an advanced degree, where in most cases the studies are oriented towards a family business sector. In other cases, the potential successors are free to choose which discipline they wish to study.

The *third degree* consists of internal formal education. During this phase, the successor learns about great business contacts and is provided with the business contacts, after meetings in order to achieve a proper understanding of the business. At this stage the potential successor skills are judged by the predecessor.

Provided in the *fourth degree* is the acquisition of experience by the successor through working in other companies. This experience provides the potential successor with a knowledge and wisdom that helps him/her develop confidence.

The *fifth degree* is the official beginning of the successor in the business. Before the successor takes a management position, it usually passes through the various departments in the business. In this way, the successor becomes self proven and tries to win the trust of employees, and reveals business sectors and consumers. Freedom for the successor means taking responsibility, respecting previous generations, seeking advice from the transferor, and realize that the past is the basis which leads to the future.

The *sixth degree* is associated with planning and writing arrangements. Here consideration is given to the needs that may arise in the bad days of business that may come as a result of the death or resignation of a member of the family. Written plans should be well planned because poor planning can be very costly for the family and for business.

3.4 Factors that Affect the Family Business Succession

In family businesses, continuity transition imposes a wide variety of important changes. Family relationships must be rebuilt, traditional patterns of impact redistributed, and management and ownership structures that have been around for a long time, should open the way for new structures. Among the factors affecting the succession planning process, according to Lansberg (1988) are:

- (a) *Founder* – although the founders are often aware of the benefits that come from succession planning, they also face psychological obstacles to manage their exit from the business. A difficult obstacle to continuity planning is the founder's reluctance to cope with his/her death, as to begin continuity planning means that they are approaching death. The founders also resist continuity planning because it includes giving up their directing of the daily business operations. Also, they may resist planning because of the fear that retirement means that they may lose the position and respect in the family, and could lose a significant part of his/her identity.
- (b) *Family* – in order to understand the reactions of family succession planning, and the reasons why family members may be against planning, it is important to consider the stage of the life cycle in which succession will occur in the family business. Another reason is that the retirement and change of status that comes with it can worsen things. There can be a lack of desire for open discussion about the succession. The younger generation sometimes avoids succession planning because it brings about fear of parental death, separation or abandonment.
- (c) *Managers* – difficulties related to succession planning are not only experienced by the founder and family. Many senior managers are willing to change their relationship from the personal relationship they have with the founders in formal relations with the followers. Managers do not want to limit their autonomy and their impact on the budget, information management systems and personnel.
- (d) *Owners* affect succession planning, as the founder provides shares for the purpose of their motivation to be involved in the family business, and these owners do not want to open the issue of succession because they fear they will betray the founder. Fear that the successor would not be the best person to take over the business, is another reason business owners refuse to plan the succession.
- (e) *Environment* affects succession planning: these forces consist of suppliers of clients who have grown dependent on the founder as their main contact in the business, and these people know that the founder is the one with whom to talk. They may fear that the successor can terminate those relationships created by the founder.

4 The Profile of Family Businesses in the Republic of Kosovo

Family business should be governed and kept healthy in the best way possible, because the success of family business largely depends the well being of our society. Not only are family businesses the dominant form of business in Kosovo, but we can say that they are even more functional, effective and beneficial to the economy of our country. These businesses demonstrate the highest level of loyalty, increasing community development, perspective on long-term vision, and motivation that comes from the feeling of wealth and reputation associated with the business.

Family businesses are an important pillar for economic development. Their growth is essential for the development of economic productivity. Their sustainability is crucial, as they are key components of local economic development. Despite their great importance in Kosovo there has been very little research and dedication to the importance of these businesses with regards to their functionality and challenging problems. An institutional framework should be constructed with regard to family businesses, and legislation should be adopted related to family businesses, in order to promote the family businesses. Family businesses in Kosovo are perceived more as a sociological phenomenon and not as a legal category.

When family businesses are mentioned in Kosovo, the first thought that comes to mind is perhaps that these businesses are craft stores, confectioneries, bakeries or small manufacturing companies. These businesses, in most cases are shaped by the need, due to the high rate of unemployment that exists in our country, and the establishment of these businesses is seen as the best way to ensure existence. In other countries a business owner must learn to make decisions, while in Kosovo it is not very important, it is enough to be a business owner. It often happens that a business owner thinks that he knows everything and is closed for advice and changes.

Family businesses supply the country's economy with employment, income and capital. A major concern for researchers is the lack of longevity of these businesses. By understanding their characteristics, we could raise efforts to protect their significant contributions that they provide to the national economies worldwide. Characteristics of family businesses cover some areas such as the following: the type of business, number of employees, age of business and type of ownership. Most of these businesses are created near settlements of the owners. One of the main characteristics of family businesses is a strong interrelationship between family and business. In family businesses, family formally or informally has a great impact on the business. Like any other business, the family businesses in Kosovo face many changes and family development, which have an impact on the company's human resources and financial aid. Successful companies provide a better life for owners and their family members. In many companies there is no separation between working hours and private hours, since the owners of these businesses and their family members work hard in order to strengthen their living resources. Family businesses in Kosovo have a particular strength that comes from

shared values, history and family identity, which for family members serves as a source of great pride.

Characteristic of family businesses is their focus for the future. Most of these businesses want to transfer the ownership of the business to the next generation, and this is what is considered as the greatest attribute of family businesses. But the biggest weakness of these businesses is considered the lack of planning for the future.

Another characteristic is that as a family, decisions can be made quickly, and development of the business can be based on relationships and personal integrity. Harmony is a feature that keeps the family business alive. These businesses not only need to engage and take care of the business, but they also need to care for the interests of the family, and their mutual relations. Family business owners try to involve their children in businesses as quickly as possible so that their children can learn how to lead a business 1 day and what challenges they will face when leading the business. Characteristic of these businesses is the emotional bond between family members. Concerning business matters, it is much easier to entrust family members than any employee outside the family. Another feature which makes the family businesses successful, is that they are guided by a strong family culture.

4.1 Family Business Environment

From a strategic perspective, family businesses must, at the beginning of their existence deal with understanding the environmental impact of their sustainability. These businesses firstly need to establish a credible position in the market, and then successfully follow this path to hold this position. Environmental challenges faced by family businesses in Kosovo are: difficulties in accessing capital funding, education of participants in business, conflict management in relation to continuity of generations, and the impact of cultural dimensions in the business. For policy makers, knowing the state of the economy and how it will affect the ease of doing business is very important. Also it is important to know where Kosovo ranks in terms of ease of doing business in comparison with regional countries. Like other businesses, family businesses also face the external and internal environmental conditions. The external environment includes all the market variables that determine the strength of competition in the industry in which the business operates. The main variables are customers, competitors, intermediaries and suppliers. Business management has no control over these variables but can influence them through strategies that it implements. The external environment includes a macro environment consisting of technological, economic, social, demographic, political and institutional variables. These external factors are unpredictable and variable. The internal environment of the family business includes all those factors that exist inside of the business that can be impacted by management of the business. These factors include the vision, mission, goals, functions and resources available to the business. Family businesses in Kosovo face many problems, ranging from the lack

of financial resources, to problems within the family. High interest from commercial banks makes it very difficult for family businesses to obtain a loan for starting a business or developing an existing business. Most family business owners say that there are many barriers to doing business and among these are: unfair competition, legislation, corruption, fees and access to financial resources. Family businesses that deal with manufacturing also face another challenge: the lack of electricity. The existing level of energy is not sufficient to overcome outages. Even the road infrastructure is very poor. It offers only basic conditions. Kosovo has been left out of the Pan-European corridors. In order to prevent the isolation in the region and beyond, for Kosovar businesses to prosper, improvement to the corridors of Durres-Pristina-Nis and Mitrovica-Skopje, would have to take place (Government of The Republic of Kosova 2011). In these businesses other problems also exist, that can include members of the wider family that are involved in management; i.e., the roles of family members are not defined, and it is much more difficult for a business owner to stave off an immediate or distant family member than a worker or manager who is not a family member. It often happens that those family members abuse their family relationship and they disregard the duties for which they are responsible. Also, managers who are not family members have much more difficulty operating and making decisions when “between” family members because their word cannot be taken into account. Wider family members who are employed in a family business feel more comfortable and privileged regardless of their hierarchical position. These problems are important and require solutions, in order not to affect the harmony and performance of other workers that will directly impact performance and business development. It would be ideal if everyone in a family business would work to full capacity, contributing to the development of the business, and if all were to be paid based on merit, by not distinguishing through the proximity of family members, who lead the business from managerial positions. Involving family members in a business is a most special feeling and provides a greater incentive to succeed. In order to make improvements and to create a friendlier environment for the development of family businesses, Kosovo’s government has undertaken a reform of all rules, where the core of its implementation consists of measures to reduce administrative barriers and the cost of business.

Due to the unfavorable environment for doing business in the absence of a creative culture of entrepreneurship, Kosovo has no shortage of innovative firms with rapid growth, which could be among the main contributors to the generation of jobs. On the basis of a European progress report in 2010 there are three main barriers faced by Kosovar businesses. The first barrier is related to the instability of the electricity supply and water, which are serious and necessary, especially for manufacturing businesses. Another barrier also identified is the limited access to finance. The third barrier is even more disturbing and is the lack of rule of law, which affects all citizens. The financing of family businesses in Kosovo is usually based on self-financing and loans offered by a new system and banking stability during these last years. Family businesses complain about the high rate of loans that commercial banks offer. Our compatriots who live in different countries of the world provide a great help to these businesses, as they help their family members

with financial resources to develop their business (Government of The Republic of Kosova 2011).

4.2 Characteristics of Succession in Kosovars Family Businesses

The issue of succession is one of the main and more critical problems and challenges for every family business, as it is shown that the larger number of family businesses fail to pass in the third generation (where only about 10 % of these businesses manage to enter into the third generation). In family business, succession is the transfer of business from one generation to the next. It is very important to prepare continuity of these family businesses in order to continue the family goals. Typical problems that arise at this stage involve business founders' resistance to retire, difficulties in determining the CEO, difficulties between founders and successors, and some different approaches to management. Many business owners in Kosovo fear that if they leave their business, then their jobs inherited by their successors may fail. They find it difficult to accept the fact that someone can replace them and can do the job with great success and maybe even do it better. For any family business entrepreneur it is their dream that 1 day they will pass on the business to the successor. In order that the successor succeeds, he should not only see his family business as a liability which must be met, but he must see it as a challenge and a special honor to be at the top of the business, which he inherited from his family. The advantage of a family business is that the children of the business owner usually gets involved at an early age in the business, and expends a lot of energy to train their successors, as a means to help one get acquainted with the procedures and challenges of the business. They must be aware of everything that happens in the business, and should be an example for other workers by being the first to arrive at work and the last to leave.

The purpose of this study is to understand some important issues related to family businesses in the Republic of Kosovo. We would also like to understand how much family business owners knows about the succession issue, whether they have a succession plan and how they might be planning it.

Questionnaires were distributed to the owners of several businesses as well as through e-mail. The questionnaire was distributed to 120 businesses, depending on the size of cities. The questionnaire consisted of 20 questions. We asked business owners to send us the completed questionnaire within 2–3 weeks. Of these 120 businesses, 100 responded positively to our questionnaire and thanked us for the commitment to the study of these businesses, manner of their functioning and our advice from our research report that can help exploit the issue of succession. The number of businesses that have not answered is 8 and 12 businesses have stated that they do not consider their business as a family business. The largest number of businesses that responded to us were located in Prishtina where 26 % surveyed

expressed a desire to meet us. It was learned that 14 % of family businesses operate in Mitrovica. The rate of family businesses in Gjakova, Peja and Gjilan was 10 %. Of the family business surveyed, 12 % were from Prizren, and 12 % from Ferizaj. Also 6 % are family businesses that operate in more than one city. Businesses were identified as family businesses if the manager or owner confirmed to us that their business was a family business.

The summary of responses collected by the questionnaire and the respondents are arranged in table and graphical form, and are presented in the order of the questions on the survey. After each section the results are discussed.

- (a) *Business sector.* Kosovar family businesses operate in various sectors such as trade, services, construction, manufacturing and other sectors. According to the research data, 65 % of respondents operate in the trade sector, 11 % of family businesses provide various services, 7 % are in the construction sector, 14 % are in the manufacturing sector and 3 % stated that they operate in other sectors.
- (b) *Gender of the founder.* Regarding the gender of the founder of the family business, 94 % of businesses stated that they were men and only 6 % are women. This, at best, demonstrates the difficulties that still exist for a female to establish a business. Women need to have greater support to establish their businesses.
- (c) *Age of the business founder.* In Fig. 3 the age of the business founder is illustrated. According to the statistics that we extracted, it was learned that 20 % of the founders of the business are under the age of 40 years, while 25 % are between 40 and 50 years. According to this survey, 32 % of the respondents were between 51–60 years and 23 % were over 60 years.
- (d) *Age of the business.* Regarding the age of the business (number of years in business), most of the respondents stated that their business was in a very young age, which means that it is still in the first or second generation and none of the respondents stated that their business was in the third generation, which is quite disturbing. For a family business it is a very difficult transition to the third generation.

From the data presented in the Fig. 4, it can be seen that 28 % of businesses are under the age of 10 years, which means that they are still in the early stages of the business. Of the family businesses, 34 % were between the ages of 10 and 15 years. In the 15–20 year age range were 30 % of the family businesses. Only 8 % of businesses were over 20 years of age.

- (e) *The level of education of the founders.* Regarding the issue of the level of education of the founders of the business, our data showed that 10 % are with primary school, 35 % of these founders are with secondary school, and 50 % are with faculty. Only 5 % of business founders are with masters or Ph.D (Fig. 5).
- (f) *Number of the employees.* We have been interested to derive information about how many employees are employed in family enterprises in order to better appreciate their contribution to the economy and society at large. From the survey data (Table 2.) it can be concluded that 22 % of family businesses are

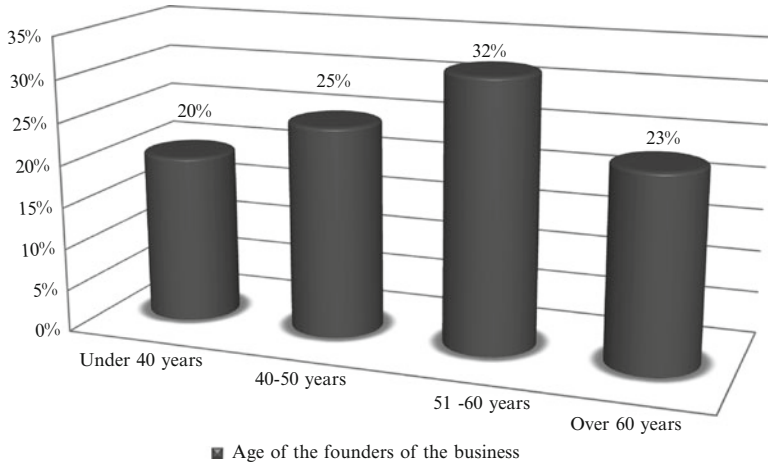


Fig. 3 Age of the founders of the business (Source: Own research)

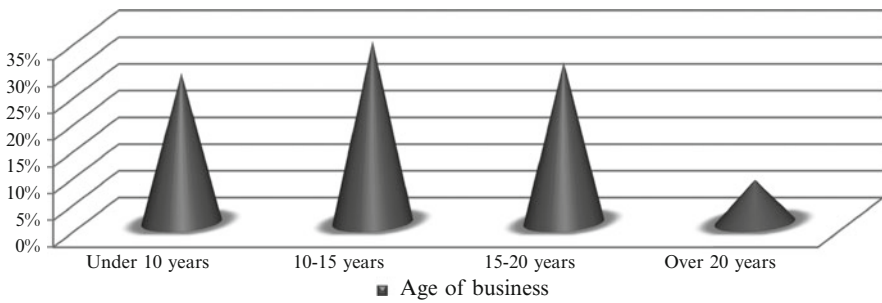


Fig. 4 Age of business (Source: Own research)

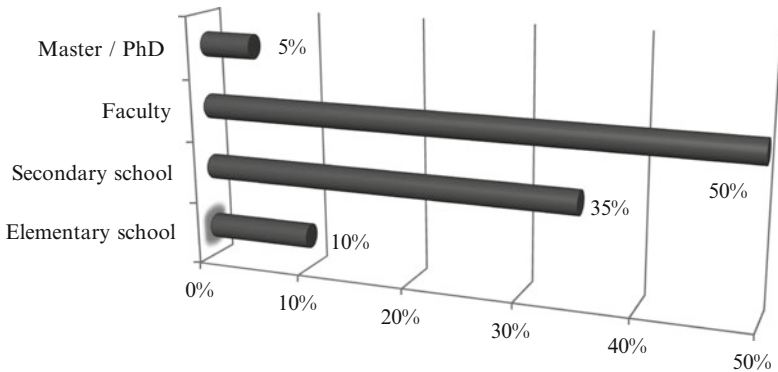


Fig. 5 Level of founder's education (Source: Own research)

Table 2 Number of employees in family businesses surveyed

Number of employees	Less than 10 employees	From 10 to 15 employees	From 50 to 250 employees	Over 250 employees
Percentage of businesses	22 %	38 %	30 %	10 %

Source: Own research

Table 3 Number of employees who are members of the family

Number of employees that are family members	75–100 % are members of family	50–75 are members of family	30–50 % are members of family	Under 30 % are members of family
Percentage of businesses	30 %	25 %	25 %	20 %

Source: Own research

employing less than 10 employees. Family businesses that employ 10–50 workers constitute 38 %. Family businesses that employ 50–250 workers account for 30 %, while those employing more than 250 workers make up 10 %.

It is important to know the number of family members employed in these enterprises. In Table 3 data is presented revealing that businesses that employ family members in which employees are family members are less than 30 %. Of the total number of enterprises surveyed the rate was 20 %. Of the total companies, 25 % were companies in which 30–50 % of the employees were members of the family. A total of 25 % of the businesses employ 50–70 % of family members. A total of 30 % of the business employ 75–100 % of family members.

- (g) *The gender of the first child.* Another interest of the study was to learn whether the first child of the founder was male or female. Also a goal was to learn of the founder's intention of transferring the business over to a female even if she was the oldest. The data showed that of the family businesses surveyed 58 % of the founder's first child was a boy and in 42 % of the cases, a girl. Discussion takes place later, relative to the transfer of the business in terms of the first child, other children, and sons or daughters as heirs.
- (h) *The level of education of the founder's children.* Education of children is very important to the founder if he wants his child 1 day take over the leadership of the business. The more prepared their child, the more successful will be the leadership of the business. Statistics from our data showed that in 28 % of the businesses, the founders' children are still in school and are not engaged in business. There are 15 % of businesses where the founders' children are not in school and are not engaged in business. In 26 % of businesses, the owners' children are at school or studies, but also are engaged in the business part-time in order to become more familiar with their family business and be ready when the time comes to make business decisions. There are 31 % of businesses, where the children of the founders have completed their studies and are engaged together with their parents in everyday tasks of full-time businesses.

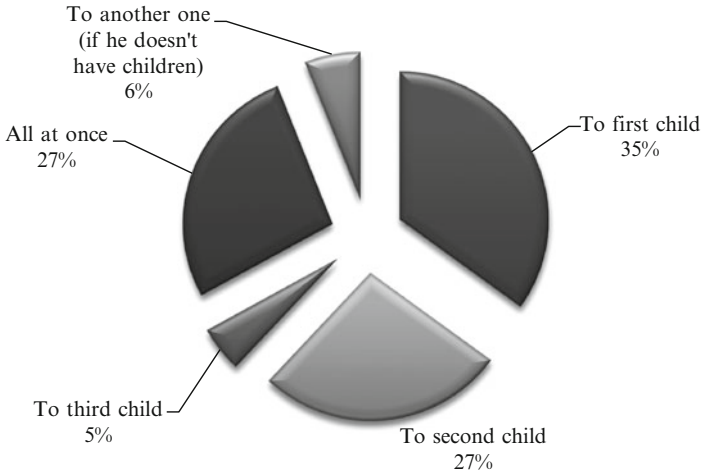


Fig. 6 The child that will inherit the business (Source: Own research)

- (i) *Planning of the succession issue.* According to respondents, 36 % of family businesses do not have a plan regarding the issue of succession. Many of these have no knowledge about the issue of succession, as some even asked what it means. Our society has learned to leave the business to the son or daughter when it comes time to retire or when the founder can no longer work. Not all businesses are taught that everything in life should be planned, and succession should be in place so as to be prepared for the unexpected. Founders who have planned succession constitute 18 % of the businesses. Those who think about the issue of succession constitute 26 % of businesses. Of the businesses, 20 % of the founders responded that for a time they are not planning anything. These data are of concern to family businesses, since each founder should plan his retirement and needs to arrange the preparation of the seed which will deal with the business in the future.
- (j) *The child that will inherit the business.* The data from the Fig. 6 are showing that the majority of family business founders or 35 % shall transfer business leadership to their first child, because they thought that the oldest child can better lead the business and is more experienced for business leadership. Those who have declared that they will transfer their business leadership to the second child make up 27 % of businesses; however, most of those indicated that the gender of the first child was “female”. It seems that founders of businesses still do not have the courage to transfer the business leadership to their girls. The founders that claim that they will transfer the business leadership to their third child constitute 5 % of businesses. A large number of founders wish to transfer business leadership to all the children at once, and they make up 27 % of the businesses, since they do not want to make distinctions among their family to have conflicts. Of the businesses 6 % of the founders stated that their business leadership could be transferred to someone else because they do not have children.

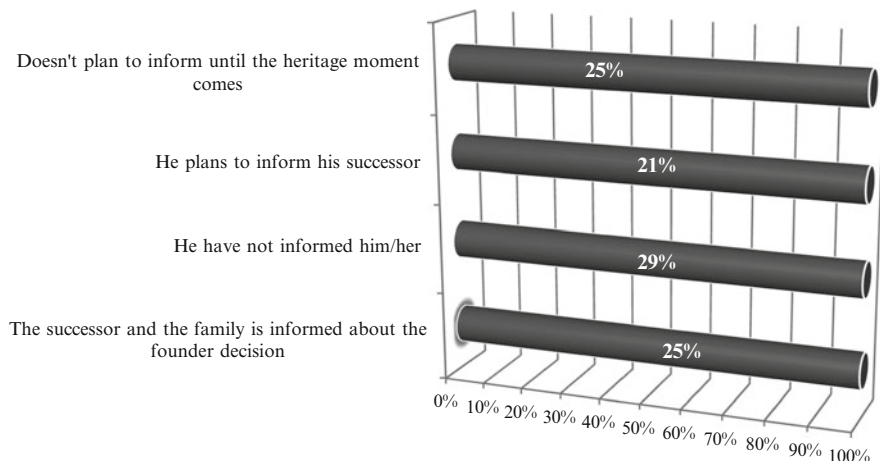


Fig. 7 Founder and informing the heir for leadership post (Source: Own research)

- (k) *Naming and informing the successor for it.* In order to avoid family conflicts the business founder often does not announce who they prefer to have as heir to the leadership of the business. In Fig. 7 data from the survey is presented pertaining to the founder and whether he has identified and informed his successor of such. Of the family business founders, 25 % informed their successors of their role as a successor. Those who have not yet informed their successor constitute 29 % of family businesses. Some (20 %) founders are planning in the near future to notify their successors. Many (25 %) founders of businesses do not want to inform their successor about the decision until the time comes to transfer the leadership because as was stated, they wish not to bring about jealousy between their children.
- (l) *The age of founder's children.* Children of the founders of family businesses vary in age. The survey results revealed that the chosen successor of the founder who is under the age of 20 constitutes 14 % of family businesses. Chosen successors in the age range 20–25 constitute 25 % of family businesses. Most founders declared that their chosen heir for business leadership is between the ages of 26–30 and they constitute 35 % of businesses, while those founders who constituted 26 % of family businesses declared that their chosen successor is over the age of 30 years.
- (m) *The ideal age for the founder to transfer the business management.* What is the ideal age for the founder to transfer the business management to his successor? This is a very difficult question for business founders, because for many, a retreat from the family business presents a real challenge for them, because there is often a fear of retirement and what they will do after leaving the business. This is best shown by the responses of the founders with only 8 % stating that the ideal age to inherit business management to successor is under the age of 50. A slightly larger number of them (29 %) think that the ideal age to transfer the management of the business is between 50 and 55 years of age.

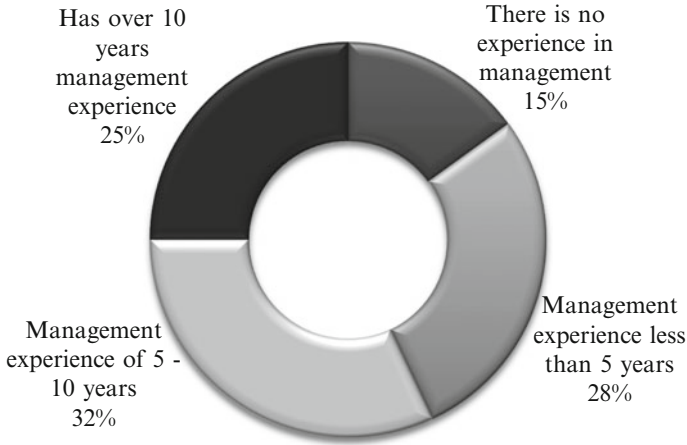


Fig. 8 Heir of the family business and management experience (Source: Own research)

The largest number (41 %) of founders of businesses, think that it is best to transfer the business management to the successor when they are between 55 and 60 years of age. According to them, this is the best time for retirement and for a more comfortable senility. But those who think that the ideal age to transfer the management of businesses to a successor after 60 years of age constitute 22 % of the businesses surveyed.

- (n) *Heir of the family business and management experience.* Before successors take over the management of the family business, he should be familiar with the business and the industry in which it operates the family business. Also he must understand how the business is operating if he wants to continue to successfully conduct businesses which his parents have led for many years.

From Fig. 8 it can be seen that the family business successor that is expected to be in their family business management and has no management experience makes up 15 % of the businesses surveyed. Those who have at least 5 years management experience make up about 28 % of the businesses surveyed. More family business successors are expected to manage the business with 5–10 years of experience in management, and they constitute 32 % of the businesses surveyed. Those who have over 10 years of experience in management positions constitute 25 % of family businesses.

- (o) *Length of “owner-successor” joint management.* For the successor it is important that in the early years as a business manager that he work along with and take business decision leadership advice from his parents who previously led the business in order to better learn about the business. The successor should also be taught how to avoid conflicts among family members, which can arise and can cause many problems. According to data from the field, 36 % of the founders stated that after inheriting the management of the business, the

successor should work together with the founder to manage the business for at least 2 years. This shows the commitment of the founder to the family business and their desire to prepare the successor for leadership, to help prevent failure during the transition. Founders at the rate of 30 % believed that they should manage the first 5 years together with the successor. There are also those who think to manage the business along with successor to death, and they make up 10 % of the respondents. But there are also founders who think they will leave immediately after they transfer their business to the heir. They probably want to relax from daily chores, because business leadership requires an energy and high potential.

- (p) *The willingness of the children to manage the business in the future.* There are children who do not wish to continue the business of their parents but wish to pursue their dreams. Maybe they do not want to be entrepreneurs but they want to be actors, singers or another profession that is not related to the entrepreneur. For a business founder and for business in general, it is more important that the successor be dedicated when taking over the torch of leadership in his hands. The successor must also be eager to take over the business because they really want to be entrepreneurs or maybe just because it is naturally expected. Thoughts of the founders of the business are different. From the survey, the data showed that 38 % of the business founders think their heir wants to manage the businesses surveyed. Those thinking that their heir does not want to manage the business but that there was no other choice accounted for 12 % of the respondents. Taking over a business because there is no other choice can be dangerous and can lead to business failure. Often it is better that the heir goes to work somewhere else, and then return to the family business. He would benefit from experience outside the family business and will be informed of the strategies used by other businesses that in the future would be competing for his family business. Respondents (26 %) felt that their successor will work elsewhere and then return to the family business along with the experience it has gained which will contribute to the success of the enterprise. Those who do not have information on what their descendants prefer to do in terms of taking over the family business make up 24 % of the respondents.
- (q) *Succession process and conflicts.* During the succession process often conflicts arise. Perhaps each of the children wants to be in charge of the family business in the future, which can cause family problems. Business founders (34 %) felt that the process of succession in family business will pass without dispute. Small disagreements can often occur, and it is the opinion shared by 38 % of respondents that the process of succession in their business will pass with petty disputes. But jealousy and expectations of children can lead to major disputes according to the opinion of 18 % of the founders of family businesses. Founders at a rate of 10 % think and expect that the process of succession in their business will pass with very large odds.

Every successful founder of the family business has a plan for the succession process. Conflicts and disagreements can happen, but is there a plan to resolve them? The founders did indicate that they have a plan for conflict management related to succession. On the basis of statistical data it is clear that 30 % of respondents have a plan to solve possible disputes over the succession process, while 38 % of respondents are developing a plan. Those who do not have plans about the resolution of conflict for the moment constituted 26 % of the respondents. For some entrepreneurs, the development of a plan for the succession process included a dispute resolution but it was not always of primary importance. According to 6 % of the respondents, they can resolve their differences without such a plan.

5 Suggestions for Further Research

In this research, efforts have been made to raise the awareness of the founders of family businesses in regards to the importance of succession planning and dealing with problems arising from this transformation. The findings of this research provide an overview of Kosovar's family businesses and succession issues in these businesses, viewed from the perspective of business founders. Therefore, we suggest that in the future, similar research be conducted that surveys children/heirs to see what attitudes they have about the issues of succession and management of family businesses.

6 Conclusion and Recommendations

Succession can be defined as the process by which the transfer of leadership takes place from the outgoing generation to the next generation, which may include family members or non-members of the family. The founders of businesses should start planning the succession process in the early time of starting their business, so that any sudden necessity for change does not find them unprepared. When children should get involved in the business, when to identify the successor and begin his training, and when the founder must retire and transfer business leadership to the successor are critical questions that must be answered by the founder of the business.

It is important for the successor to be equipped with the knowledge and experience before he begins running the business. The founder should probably play the role of mentor by transferring his knowledge and experience in order to learn about business concepts. It is good that sometimes he gives the opportunity to the successor to take control of the business decisions.

Expansion of the family can be good for businesses but it can also create problems. Women or men of the founders' children, and grandchildren of the

founder, may want to join the family business even though there may not be room for everyone. Therefore it is necessary to create a transparent process and to establish some criteria for those who want to get involved in the family business, especially those serving in managerial positions.

Family businesses need to understand the business environment and must be flexible to adapt to changes that come from it. They should create a respectful position in the market and should be creative innovations in order to have longevity and success.

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Gender Perspectives of SMEs Networking Activities: Evidence from Slovenia

Karin Širec and Katja Crnogaj

1 Introduction

Today, there is an indisputable fact that business success derives from the establishment of mutual connection and cooperation, thereby presenting the essence of economic activities. This is especially important for SMEs, whose small size make them generally more risk-averse and forced to accept change. Organizations' contemporary circumstances demand radical transformations. They accommodate themselves through network structures or introduce modern management concepts. One of the major concepts to emerge in recent years is networking. Companies have realized that they can create and sustain competitive advantages by networking with organizations, groups, or individuals. This leads to business success as well as the growth of firms.

The current research followed the principles of modern theory of organization with the principles of entrepreneurship theory based on Thompson (1999). Thompson defines entrepreneurship as a pattern of behavior, a style of management concerned with obtaining and managing resources to exploit opportunity (Fig. 1). Entrepreneurs respond to environmental turbulence and uncertainty, attempting to establish a strong strategic position, albeit temporary in nature; they also create uncertainty for others with proactive initiatives. They create opportunities by disturbing the existing status quo, they spot and seize new opportunities ahead of any competitors, and they stay vigilant to potential threats (Thompson 1999).

Companies respond to opportunities and potential threats from the environment with different entrepreneurial activities, attempting to achieve more successful performances and higher growth. One such activity is to create network connections. According to Valkokari and Helander (2007), success depends primarily on collaboration with other organizations. On the other hand, networks can also be based on

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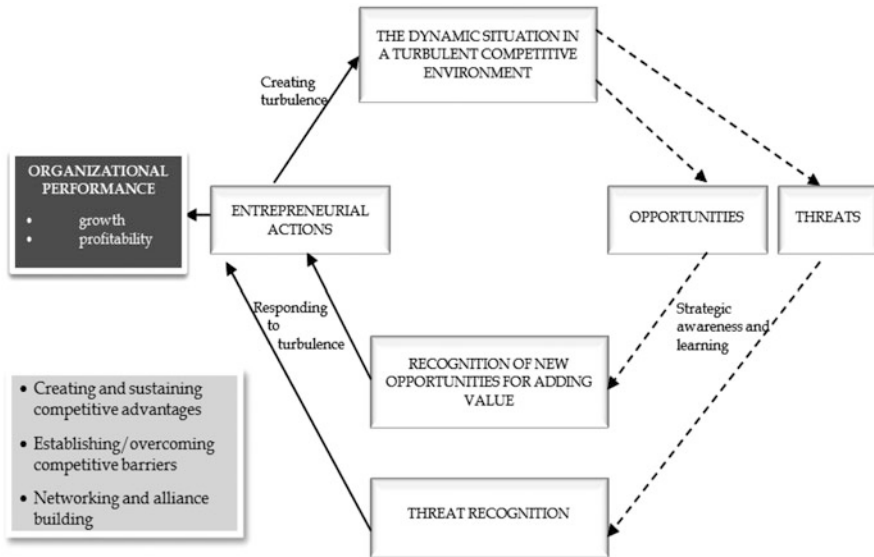


Fig. 1 Entrepreneurial behavior (Source: According to Thompson 1999, p. 288)

personal relationships. Biggiero (2001) writes that networks of SMEs in particular are based on personal relationships, where small companies' networks overlap with entrepreneurs' networks.

The purpose of the current study is to investigate networking activities on different levels: entrepreneurial networking (entrepreneurs' personal networking) and business networking (networking between enterprises and organizations). The chapter also seeks to explore correlations between both investigated dimensions with respect to gender gap (male versus female entrepreneurs). Based on the presented objectives, the main research question can be presented as follows: *How does activity in network relationships differ between male and female entrepreneurs and the companies they are directing?* A framework for an entrepreneurship conceptualization that incorporates measures of investigating dimensions regarding gender perspectives in SMEs has been developed. This involves a refinement of previously proposed, but inadequately tested theoretical constructs into an empirically testable framework.

2 Networking Activities

Networks can be defined as patterned relationships among individuals, groups, and organizations (Dubini and Aldrich 1991) and can be seen as facilitating or constraining (Aldrich and Zimmer 1986) the action of people and groups (Antončič 1999). Economists did not recognize the usefulness of this concept for several years

because of the mentality that companies can only compete with each other. In today's market economy, the essence of economic activities presents the core competitiveness while companies' success relies on cooperation (Jarillo 1993). The basic motive of various integration forms – and hence of networking – is primarily to promote long-term performance while reducing potential threats. Connections and partnerships are not industry- or region-dependent, but they appear in various industries and spread across national borders (Lipnack and Stamps 1994).

Networking continuously produces network outcomes for every participant (Ford et al. 2002). This is especially important for SMEs as they usually face a lack of resources regarding knowledge, professionalism, access to customers, and intangible resources. With connections, SMEs can eliminate these various barriers, exchange information, and create competitive advantages (Richter 2000). Furthermore, smaller and recently established companies often grow more slowly; however, with connections, they may obtain certain advantages usually reserved for larger companies (Arena 2004).

In a small-firm context, networking could be defined as activities in which the entrepreneurially oriented SME owners build and manage personal relationships with particular individuals in their environment (Carson et al. 1995). The new information economy defines the most important organizations to be those that are organized as network organizations while successful entrepreneurs are those who would be in the process of establishing and growing their companies and capable of establishing numerous contacts and building a business network (Krebs 2006). Many classifications exist regarding the types of networks. Field exploration is still relatively new; studies and other literature have traced a patchwork of definitions, concepts, and understanding of networks and networking operations.

2.1 Networking Activities Between Enterprises and Organizations

Networking between organizations and enterprises is a voluntary arrangement between two or more firms that involves durable exchange, sharing, or co-development of new products and technologies (Groen 2005). Inter-organizational networks comprise a number of business-related partners, among which a relationship exists. The enterprise cooperates primarily with a number of business partners – enterprises and organizations such as consultancy organizations, universities, agencies, and holding companies. Together with these partners, the enterprise forms a network. However, when the enterprise cooperates only with other enterprises, the network is between enterprises. The literature focuses primarily on the connection of two enterprises (the relationship between two companies). Networks between organizations are beyond this level. Routine communication is

evolving into long-term business relationships within the extended environment, which consists of both firms and other organizations (Munih 2003).

Organizational networking at the intra-organizational level involves a network of organizational structures developed with the intention of quicker responses to requests from the environment. Different forms of network organizations exist; according to Kovač (1999), they have been changing the way of integration and trying to exceed the negative dimension of specialization. Consequently, they are trying to increase the level of business performance, meaning that building organizational structures remains an important factor for business success (Ivanchevich and Matteson 1993).

Some authors use the term *business networking* instead of *networking between organizations or enterprises* in their studies. Business networks can be perceived, according to Anderson et al. (1994), as sets of connected relationships between firms; thus, they differ from personal networks. Similarly, Johanson and Mattsson (1993) as well as McAuley (1999) consider business networks to include companies that, through their own activities, establish long-term relationships with other entities in networks (Ruzzier and Konečnik 2007). Long-term relationships and activities in networks enable them access to rare sources, information, technologies, and markets, which are very important to achieve competitive advantages in domestic and foreign markets (Buckley 1993; Hitt, Ireland, Camp, and Sexton, as cited in Ruzzier and Konečnik 2007).

2.2 Personal Networking

However, networks are also often defined as relationships between different actors (Aldrich and Zimmer 1986; Gulati 1998; Ireland et al. 2001). Such networks refer to personal networking, which is defined as the management of relationships or alliances that the individual has with others in their society (Aldrich and Zimmer 1986; Dubini and Aldrich 1991). Each individual has at least one group of people he or she knows or can get to know for the purpose of sharing information. These networks may occur in personal life, professional relationships, local and national paralegal organizations, or community affiliations. These networking opportunities may even occur as a result of chance encounters. Acknowledging networks leads to the true and basic idea of networking: developing contacts and relationships (Standke and Stell 2000).

The size of an entrepreneurs' network plays an important role in the process of identifying business opportunities, as an entrepreneur with a larger network has access to more information. Entrepreneurs who spread their personal networks beyond their narrow circle of friends and family members deal with a larger number of opportunities that can be realized in new entrepreneurial ventures (Singh, Hills, Hybels, and Lumpkin, as cited in Drnovšek 2007).

The current chapter is focusing on both: entrepreneurs' personal networking (*entrepreneurial networking*) as well as networking between organizations or

enterprises (*business networking*). Entrepreneurs' personal and business networks should not be seen as two unrelated phenomena, but as social networks that are overlapping and influence one another (Nohria, as cited in Antončič 1999).

3 Gender Specifics of Entrepreneurship in Slovenia

Entrepreneurs are a rare resource and, as such, are extremely important in a society that strives to increase the level of entrepreneurial activity among people. Males and females are viewed as two separate groups, each with equally effective and valid – but distinct – ways of thinking and rationalizing (Johnsen and McMahon 2005). As research throughout the world indicates (Reynolds et al. 2002), in most countries, women lag behind men in this area; the results of the current investigation are presented in light of such distinctive features.

Statistical data for the second quarter of 2010 (Statistical Office of the Republic of Slovenia 2011) indicate that women represented 46.2 % of active paid employment in Slovenia. The highest percentage of active working women occurred in service and sales workers (63 %), clerks (61 %), and professionals (61 %). The lowest occupation groups were in non-industrial types of work (8 %). Among registered unemployed persons, less than half were women (46.5 %), although the unemployment rate among women has been declining since 2006. In the second quarter of 2010, unemployment was 7.5 % among men and 6.7 % among women. Women are generally a little more educated than men, especially among 25- to 44-year-olds, which includes almost twice as many women with tertiary education than men (17.7 % of women versus 11.3 % of men). Meanwhile, women earn on average 96.5 % of the average man's gross monthly salary. Thus, despite a decade of efforts to create legal and formal equal conditions for men and women (Zimmerer and Scarborough 2005), women still face discrimination in certain situations. At this point, it needs to be addressed that it is the entrepreneurial sector that offers women an opportunity for economic participation through the mechanisms of employment and entrepreneurship. A growing number of women have realized that one option for avoiding the "glass ceiling" that prevents access to top positions in many organizations is to start their own business.

A more detailed insight into female entrepreneurship in Slovenia demonstrated a considerable reserve. Female entrepreneurs in Slovenia more often than not face prejudice in their entrepreneurial career. Indeed, there are no legal barriers to restrict women in the ownership of enterprises. In recent years, relevant legislation to allow equal opportunities has also been taken. According to Global Entrepreneurship Monitor (GEM) research (Kelley et al. 2012) men are more likely to be involved in entrepreneurial activity than women. Empirical evidence can also be found in a recent GEM research report on women and entrepreneurship (Kelley et al. 2011). The research reveals a clear picture of a gender gap in venture creation and ownership activity. The proportion of female early-stage entrepreneurs in Slovenia equals only 35.7 % (Rebernik et al. 2012). In almost all participating

GEM countries in 2011, the structure by gender reveals that men are more entrepreneurial active than women.

The analysis results indicate that Slovene women – despite their relatively high social and cultural support – do not take advantage of business opportunities sufficiently; rather, to a greater extent, they undertake business activities out of need. The fact that Slovenian female entrepreneurs lag behind men in entrepreneurial activity can be associated with their significant educational and career choices. Women work predominantly in the economic sector, which promotes serial production and a strong division of labor. For this same reason, women are not trained for the overall management of their own business. They are also employed in public service organizations, which involve the regulated and limited transition to self-employment (e.g., concessions in health care, the problem of public funding for education, child care, and social protection). Consequently, women remain a largely unexploited entrepreneurial resource.

Furthermore, additional circumstances should be considered. Slovenia, as a Central and Eastern European country, is facing a transition process that is not yet complete, despite Slovenia's May 2004 entry into the European Union. Transitional countries share many common features with regard to female participation in the labour force, including the average level of education and gender wage gap. The transition process has affected both men and women, creating a loss in job security and employment costs; however, women seem to have taken over a larger share of the adjustment costs (Ruminska-Zimny 2003). The establishment of effective mechanisms for the promotion of female entrepreneurship could be an important additional source of entrepreneurial ideas in Slovenia. Support and development programs, which some EU countries have already implemented, focus primarily on ensuring gender equality and do not focus on women's entrepreneurship as such. The programs are not tailored to the specific needs of female entrepreneurs.

Long-term national policy should include the criteria and measures to cope with the future population and negative demographic developments. Thus, the consideration of the female role, which is so crucially associated with the two key elements of the future, and efforts to achieve gender equality cannot be absent in the formulation of political and economic guidelines for the future (Rebernik et al. 2004).

4 Conceptualization of the Research Model

Previous studies have shown that companies differ in their competitive stance, strategy and structure, technological orientation, and networking (Solymossy 1998). The latter is at the heart of the current investigation. The nature of networking activities differ according to industries, yet its core function is to enable information flow in order to increase acquired know-how and capabilities. Entrepreneurship research shows that networking activities represent an adequate way of gathering information (Ostgaard and Birley 1996; Peters and Brush 1996).

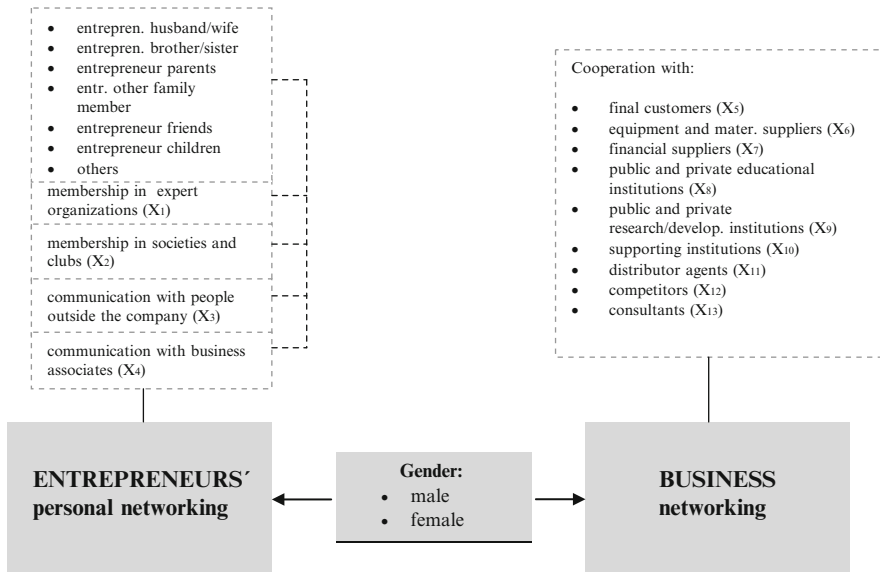


Fig. 2 Studied model of SMEs networking activities (Source: Authors)

Information exchange contributes to efficiency as a result of lower transaction costs (Blois 1990; Jarillo 1990).

Entrepreneurs’ networking size and activities have been studied by Ostgaard and Birley (1996), Drnovšek (2002), and Ruzzier (2004). The current approach measured entrepreneurs’ personal network by identifying relatives, friends, mentors, etc., who are also entrepreneurs. Respondents further appraised their membership in expert or business-related organizations, sport clubs, as well as cultural and other voluntary arrangements, estimating the number of people with whom they spoke about their business (outside the company) during the previous 2 years. Respondents rated the frequency of contact with target groups – namely, final customers; equipment and material suppliers; financial suppliers; public or private educational institutions, public or private research/development institutions, supporting institutions (chambers, ministries, regional agencies); distributor agents (wholesalers, retailers, agents); competitors; and consultants – on a scale ranging from 1 (at least once a month) to 5 (no cooperation at all). Figure 2 presents the studied model of networking.

The statistical population of the research is Slovenian SMEs (e.g., joint-stock companies, limited liability companies, non-limited liability companies) in all Standard Industry Classification (SIC) categories. Quota sampling, as one aspect of non-probability sampling, was used. Obvious advantages of quota sampling are the speed with which information can be collected, the lower cost of doing so, and convenience. In quota sampling, the population is first segmented into mutually exclusive sub-groups, just as in stratified sampling. Judgment is then used to select the participants or units from each segment based on a specified proportion – in the

current case, company size, regional representation, SIC representation, and appropriate share of males and females in the sample (70:30). The entire sample comprises 32.1 % female and 67.9 % male respondents. The quota sampling helped achieve the pattern of the relationship, according to the latest GEM research results.

Questionnaires were used to gather data regarding entrepreneur and enterprise networking. A central difficulty with researchers trying to accumulate primary data about companies' activities – and in this case the specific topic that affects the very personal area of search data on the networking activities – is how to ensure a satisfactory response rate. The preparation and realization of research have been subordinated for the need of ensuring the highest possible response rate. Interviews were conducted using the Computer Assisted Telephone Interviewing (CATI) method. The response rate was 11.4 %. Questions were prepared according to the interviewing method and the desired response rate. No open questions were used in an effort to ensure simplicity in completing the questionnaire.

An extensive review of the literature and empirical research was used to determine participants' current stage of knowledge regarding the determinants of companies' networking orientation. The Pearson correlation was used to measure the association or correlation between variables for data in the form of measurements on quantitative variables. To compare averages among different groups, an independent sample *t*-test was used for quantitative variables. In the case of nominal variables, the chi-square test was used to test the independence of two variables. The general criterion for accepting the hypothesis was that the difference was statistically significant at the 5 % level (two-tailed test). For data reduction, a factor analysis was performed.

5 Research Results

This section presents the empirical results of the analysis in three parts: entrepreneurs' personal networking, networking features of the enterprise function (business networking), and the interconnection of entrepreneurs' personal networking with business networking. Only the results of the relevant areas of treatment, in regards to gender (male versus female entrepreneurs) are presented.

5.1 *Entrepreneurs' Personal Networking*

Entrepreneurs' personal networking was assessed according to its personal connections network. Respondents indicated whether they have relatives, friends, and mentors who are entrepreneurs. Table 1 shows the rate of these responses, in ascending order.

The proportion of respondents who indicated that immediate family members are involved in entrepreneurial activity is significantly lower than that of those

Table 1 Network of respondents' personal connections

Type of personal connection	Frequency	%
Children	9	4.7
Parents	17	8.8
Sibling	29	15
Spouse	35	18.1
Other family members (e.g., uncle, aunt)	36	18.7
Good friends	66	34.2
None of the above	77	39.9

N = 193, Source: Own research

whose friends and acquaintances are involved. A calculation of the χ^2 test demonstrated a statistically significant correlation in relation to entrepreneurs' gender only for those respondents who indicated that the entrepreneurs they know include either a spouse ($\chi^2_{(1)} = 7.059$, $p = .008$, $\Phi = \text{Cramer's } V = .187$) or parents ($\chi^2_{(1)} = 7.480$, $p = .006$, $\Phi = \text{Cramer's } V = .193$). Thus, Slovenian female entrepreneurs – more often than male entrepreneurs – have a spouse who is also an entrepreneur. However, female entrepreneurs – more often than males – come from families in which their parents have also been entrepreneurs. For all other options, no statistically significant correlations could be confirmed. Based on these results, Slovenian entrepreneurs more often opt for an entrepreneurial career when their spouses or parents are also entrepreneurs.

Almost 80 % of the respondents are members of 1–5 expert or business related organizations while only 28.9 % are members of 1–5 sport clubs or cultural and other voluntary arrangements. Entrepreneurs, at an extremely high percentage (70 %), are not members of any of the described initiatives. This finding indicates that entrepreneurs are very occupied with their business activities and do not have time for larger social engagements. The size of entrepreneurs' network, determined by the number of people with whom they spoke about their business (outside the company) over the last 2 years, demonstrates that almost 30 % of respondents communicated with 5–10 individuals. Furthermore, 33.3 % respondents said that more than half of these individuals are current business partners.

A comparison of genders demonstrated that females are members of more professional and business-related organizations than men and communicate slightly more intensively with both business-to-business partners and people outside the company. Men participated more in sports associations and clubs than women. However, none of these differences are statistically significant.

5.2 Business Networking

For SMEs, cooperation with different partners is of utmost importance as they lack a certain amount of expertise, knowledge, experience, etc. Figure 3 presents the frequency with which female and male entrepreneurs cooperate with these partners. The data indicated that women assess the intensity of cooperation higher

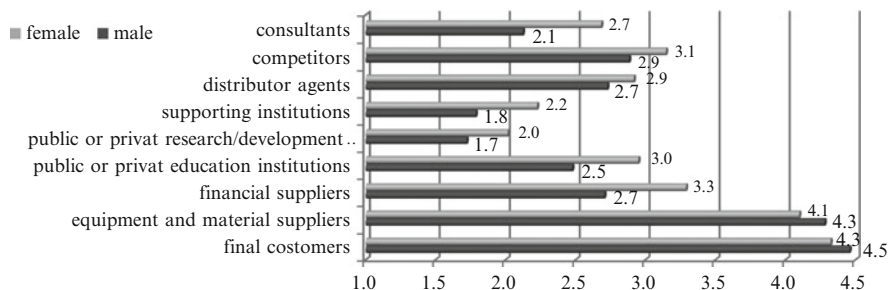


Fig. 3 Frequency of cooperation with different partners (Male versus female) (Source: Own research)

than men do; the exception was items of cooperation with equipment and material suppliers and final users. The *t*-test reinforces this conclusion. Thus, again with the 5 % of risk, it can be generalized that female entrepreneurs in Slovenia significantly and intensively cooperate with the suppliers of financial resources ($t_{(189)} = -2,449$, $p = .015$), public or private educational institutions ($t_{(189)} = -2,144$, $p = .033$), supporting institutions (such as chambers of commerce, the ministry, and regional agencies) and consultants ($t_{(187)} = -2,385$, $p = .018$).

The findings herein conclude with the observation that Slovenian companies run by women (entrepreneurs) network more intensively at the intercompany or inter-organizational level than those run by men.

5.3 Relationship Between Investigated Dimensions

To verify the relationship between entrepreneurs' personal networking and business networking, the study first reduced the number of variables through exploratory factor analysis. We have used the Principal Component Analysis extraction method and Varimax rotation method with Kaiser Normalization. The results of EFA are shown in Table 2.

Five factors were defined by EFA, as indicated in the third column of Table 2. The first two factors relate to the entrepreneurs' networking activities, while the third, fourth, and fifth define the performance of the SME business networking. To establish a relationship between the two levels of study treatment, the next step used a correlation analysis. The results are provided in Table 3.

The results point to an association between the personal networks of entrepreneurs due to membership in professional organizations, associations, and clubs and all categories of companies' networking activities. Entrepreneurs' informal networks, as reflected by their contacts with individuals outside the company, do not relate with companies' networking. Of course, correlations exist between the investigated categories of companies' networking activities.

Table 2 EFA of Slovenian SME networking

Variable	Communalities	Rotated factors	Defined factors (Cronbach α : 0.61)	Reliability tests
X ₁	.746	.840	Factor 1:	Kaiser-Meyer-Olkin: .64
X ₂	.438	.550	Membership in professional org., societies, and clubs	
X ₃	.684	.724	Factor 2:	
X ₄	.720	.779	Cooperation with people outside the company	
X ₅	.542	.703	Factor 3:	Bartlett's test of sphericity: $X^2(78) = 239.813$; $p = .000$
X ₆	.475	.643	Cooperation with customers, equipment and material suppliers, distributor agents	
X ₁₁	.462	.583		
X ₇	.428	.446	Factor 4:	Variance explained: 57 %
X ₈	.628	.754	Cooperation with education, research, supporting institutions, and financial suppliers	
X ₉	.516	.668		
X ₁₀	.527	.628		
X ₁₂	.659	.714	Factor 5:	
X ₁₃	.602	.706	Cooperation with competitors and consultants	

Source: Own research

Table 3 Pearson correlation coefficients between entrepreneurs' networking (Factors 1 and 2) and business networking (Factors 3, 4, and 5)

		Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
Factor 1	Pearson correlation	1				
	Sig. (2-tailed)					
	N	193				
Factor 2	Pearson correlation	.015	1			
	Sig. (2-tailed)	.834				
	N	193	193			
Factor 3	Pearson correlation	.216(**)	.098	1		
	Sig. (2-tailed)	.003	.186			
	N	183	183	183		
Factor 4	Pearson correlation	.183(*)	.122	.245(**)	1	
	Sig. (2-tailed)	.012	.096	.001		
	N	187	187	179	187	
Factor 5	Pearson correlation	.146(*)	.087	.271(**)	.214(**)	1
	Sig. (2-tailed)	.045	.234	.000	.003	
	N	189	189	182	185	189

Source: Own research

* Correlation is significant at the .05 level (2-tailed)

** Correlation is significant at the .01 level (2-tailed)

A comparison of entrepreneurs' personal and business networking provides an interesting lesson for investigating the differences between genders. Men have many more correlations among the categories of personal and business networking

than women. Consequently, women are largely separating their private life from the business.

6 Conclusion

The research revealed interesting findings on personal and business networking, with interesting findings being identified regarding the correlation between both investigated dimensions. At all three levels, differences were observed among SMEs regarding gender.

For entrepreneurs, the connection with different partners is of utmost importance; entrepreneurs need a lot of information and knowledge. Some researchers have shown that networking is one of the key elements for business success – for both enterprises and entrepreneurs. Entrepreneurs obtain lots of information from their own network, which is necessary for further business activities as well as further development. Enterprises and entrepreneurs cannot function as individuals; consequently, networking has become a way of life economically as well as in all other environments.

Our findings show, that Slovenian entrepreneurs often decide to pursue an entrepreneurial career when their partners or parents are also entrepreneurs. This finding is consistent with the previous findings of Caputo and Dolinsky (1998), who reasoned that role models, advice, and encouragement were the most important components for starting a business. The comparison of genders demonstrated slightly more intensive personal networking on the side of women (men engaged in more sports and interest activities), but such differences were not statistically significant. This is consistent with findings of Katz and Williams (1997), who also found hardly any difference between the sexes, although they found significant differences between entrepreneurs and managers.

The comparison of the genders regarding the networking of enterprises demonstrated some statistically significant intensive networking on the side of women entrepreneurs. Interesting areas in which women's networks are more intensive than men's include financial suppliers, public or private educational institutions, supporting institutions and consultants. Such findings are consistent with the results of certain authors. Buttner and Rosen (1988) found that bank loan officers perceived men to be more "entrepreneurial" than women. Perhaps this mentality is still present among Slovenian women entrepreneurs; consequently, women are more intensively collaborate with financial suppliers. The most recent studies on this subject no longer show the significant differences between sexes, e.g., Carter and Rosa (1998); Coleman (2000). Intensified cooperation with educational, supportive institutions and consultants on the side of female entrepreneurs can be argued in a way that women are more willing than men to admit their shortcomings earlier, and therefore seek appropriate assistance when needed.

The comparison of entrepreneurs' personal and business networking reflect the increased interaction between entrepreneurs' personal and business networking.

However, according to the findings herein, women separate their private life from business. Again, this finding concurs with previous research. Ahl (2004) explained the existence of a division between a public and private sphere of life. The line dividing the public sphere of work from the private sphere of home, family, and children is also taken for granted in the entrepreneurship literature. In the mainstream literature, the private sphere is not even mentioned. Entrepreneurship is something that takes place in the public sphere. The dividing line does not become visible until women enter the literature as research objects, when it becomes visible in several different ways. The private sphere of life is very important for women and brings lots of personal connections, which are tied to professional life.

Policymakers need to bear in mind that in some fields, differences among sexes do exist. Therefore, the 'gender-specific policy' presents an imperative as firms that want to grow have many specific needs that must be addressed with flexibility and agility. As such, the findings of the current research are particularly significant as differences between male and female owners related to networking could provide explanations for the existing gender gap.

Our findings suggest that policymakers should, as much as possible, influence the establishment and maintenance of a favorable business level. Entrepreneurs (males and females) should be motivated to achieve higher company growth, employment, development, and higher performance, which also depends on the conditions created in society. Thus, a supportive environment is essential as it should encourage a large number of people to decide to pursue an entrepreneurial career in the near future. This cooperation can be achieved through intensive supportive programs that can provide all the necessary information for entrepreneurs, ensure appropriate advice, and offer education and training. Different state institutions can promote such supportive programs.

An important strategy that also needs support from the government is networking creation. The government should strengthen the networks and cooperation as well as organize meetings and forums in which entrepreneurs can share their ideas and create informal links between each other. In addition to the links between entrepreneurs, the creation of formal and informal links between companies, potential investors, and other supporting organizations should be promoted.

It appears that male entrepreneurs have less intensive cooperation with educational institutions, supportive institutions, and different consultants. Meanwhile, the results show that female entrepreneurs more often recognize the needs for such assistance and cooperation and largely separate their private life from business. Given that women remain an unexploited source of entrepreneurship, establishing effective mechanisms for the promotion of female entrepreneurship could be an important source of entrepreneurial potential. Apparently, entrepreneurs are different, and further research is needed to distinguish policy instruments for different entrepreneurship groups. According to our research, males and females express different networking activities and need to be treated separately.

The construction of an adequate supportive environment provides an opportunity for the successful operation and growth of SMEs, encourages economic activity, and consequently increases the proportion of enterprises and entrepreneurs

who – because of more favorable conditions and support from the environment – more effectively address the business. All this in turn affects the prosperity of the entire society.

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The Role of Women in Family Businesses: The Case of Slovenia

Jaka Vadnjal and Blaž Zupan

1 Introduction

While female entrepreneurship is still not adequately developed in Slovenia (considering GEM studies 2003–2010) and behind its density in most other EU countries, it is assumed that women play a very important role in family firms, which is an extremely important segment of the entrepreneurship movement emerging from the economic transition period. Women in Slovenia have reached a high level of equality in both fields of education and employment and it may be expected that they would be able to grasp a crucial role in family firms, as well. The demographic trends over the last decades with a low number of children should enable them to establish themselves as heiresses of family firms as well, which is important since a large proportion of family firms will be entering the succession process from the founding to the next generation in the near future (Glas et al. 2005). In this chapter, the meaning of women in Slovenian family firms is examined considering their role in the ownership, managerial positions, as well as the differences in values, attitudes towards family firms, their managerial styles, etc. Their real contribution seems to be underestimated and undervalued due to the conservative, more patriarchic tradition and the full potential of women is still not well utilized. However, the role of Slovenian women in family firms should be further supported and enhanced to the benefit of their important economic and social role, the family well-being and improved prospects of the development of family firms into the next generation.

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2 Study Background

The family business literature is sparse on this topic and in the past, very few contributions were based on empirical research (Rowe and Hong 2000; Bowman-Upton and Heck 1996). Women as family members are one category of stakeholders with a vested interest in the viability of the business, next to owners and employees (Davis and Tagiuri 1991) and they usually have an important although often informal impact on the business. While women tend to enhance their presence as female entrepreneurs, research on women in family businesses suggested that a majority of women continued to remain to be anchored in the background, staying “invisible” (Cole 1997; Fitzgerald and Muske 2002), contradicting the feministic understanding of women in the business. Occupying a subdued role, however, to some authors (Dumas 1998; Lyman et al. 1985) provided them with a unique vantage point of a rich understanding of the prevailing issues and relationship dynamics where they might exercise a highly valuable input into the efficient conduct of business and management of relationships among family members. Sharma (2004) even exposes that if used astutely, wives observations, intuition, and emotional capital can make a distinction between the success and failure of a family firm.

The main motivation to write this chapter was to explore some particularities of the contribution of women to family businesses through the paradigm of possible different approaches between the two genders regarding managerial styles and ownership issues including the transition to the next generation of questions and dilemmas. The theory on women’s involvement and roles in family businesses is set from the literature review. Based on the theoretical background and extensive anecdotal experience of the researchers (from own family business careers and consulting to family firms), five propositions are pulled together. The methodological approach is based on the focused surveying of the opportunistic sample of family businesses where a certain degree of female involvement was assumed. The results are discussed through several blocks of topics covering the managerial role of women, ownership dilemmas and different gender-based roles in family firms. The chapter ends with conclusions and implications.

3 Literature Review

Poza and Messer (2001) listed six different types of roles adopted by spouses of successful family entrepreneurs: jealous spouse, chief trust officer, partner in a copreneurial venture, vice-president, senior advisor, and free agent. Curimbaba (2002) reported that Brazilian women occupied either a professional, invisible, or anchor role in their firms. Due to the small convenience samples, these studies mainly provide an indication of the varying types of women’s roles. However, it is mostly expected from women to occupy the second position or to become head of

one of the business functions, traditionally finance and accounting or sales which are usually not formally defined because the discussion is mostly about small businesses. Danes and Olson (2003) reported 42 % of wives are major decision makers even in family firms owned and managed by men. Furthermore, spouses and other female family members are often just paid employees in family firms. Danes and Olson (2003) revealed that of 57 % of working spouses including husbands' owned family firms, 47 % are being paid, which may suggest a certain level of discrimination at this point.

Some authors analyzed the advantages and disadvantages for women in family firms (Frishkoff and Brown 1993), including flexible working hours, access to positions in traditionally male-dominated industries, job security, professional challenges, and opportunities for personal growth (Barnett and Barnett 1988). However, family firms' life can also involve gender stereotyping and discrimination found in society at large (Jaffee 1990; Salganicoff 1990), like a popular cliché that the male partner is the entrepreneur, while the female partner does the book-keeping in the back room (Dumas 1998). This belief leads to the conclusion, that even important contributions of women to the family businesses would not be properly recognized in terms of job titles or salaries (Gillis-Donovan and Moynihan-Brandt 1990; Lyman et al. 1985). Marshack (1994) found that 80 % of male co-owners in husband-wife businesses advocated a stereotypical masculine gender-role orientation and 76 % of the female business co-owners supported a stereotypical feminine orientation.

Traditional gender roles are often present in family businesses. Alcorn (1982) suggested the prevalence of the dominant father figure and a subordinate mother figure throughout family businesses. Lyman et al. (1985) stated that the work environment in family businesses displayed the cultural traditions that placed women and men in different social positions and different work and family responsibilities. According to Ponthieu and Caudill (1993) these characteristics apply to wives, mothers, and daughters. Evaluation of the real contribution to the family economic well-being therefore faces a different mix of paid employment and unpaid family work between men and wives (Voydanoff 1990). A number of wives simultaneously (a) hold employment somewhere else, (b) manage a household, and (c) work in the family business, balancing three layers of obligation (Rowe and Hong 2000).

Involvement in a family business means being a part of the family business core setting; the role of family members in the business, how bonded the members are and how the business defines itself in relation to the outside world (Doherty et al. 1991). Not being adequately recognized and involved in running the business and making business decisions creates tensions out of the dissatisfaction and clashes of values and beliefs about the operation of the business and the involvement, tasks and rewards for family members (Danes and Amarapurkar 2001; Frishkoff and Brown 1993). Prolonged and unresolved tensions eventually affect the achievement, health, and fellowship of the business (Danes et al. 2002). However, as Danes and Olson (2003) discussed, tensions and conflicts can either foster a constructive climate that focuses resources on targeted goals, leading to growth and/or continued

success (Cosier and Harvey 1998; Danes et al. 2002) or they could create an environment of lack of trust and fellowship (Danes and Amarapurkar 2001).

Gender roles in family firms are changing, but when a female chooses a nontraditional role, tensions often come to the surface (Freudenberger et al. 1989; Hollander and Bukowitz 1996; Lyman et al. 1996). As entrepreneurship has emerged as a career choice for both men and women, that choice has disrupted traditions about how they manage their work lives and negotiates the overlap of their entrepreneurship endeavors and their family obligations (Greenhaus and Callanan 1994). Wicker and Burley (1991) proved that wives' influence in the business increases when they work in the family business. That relative influence can be a source of conflicting goals and can create tensions for the family business (Levinson 1991; Marshack 1998; Rodriguez et al. 1999). Work-family issues at the intersection of the business and family systems within family businesses are a particular fertile area for conflict (Harvey and Evans 1994), with the content of conflict arising from five categories: justice, role, work-family, identity, and succession conflict (Danes et al. 2000; McClendon and Kadis 1991). The existence of more than one decision maker in a family business will, at times, create some level of disagreement and tension (Kaye 1996). This certainly depends on the situation, whether (a) spouses are partners so they should have a voice in family business decisions or (b) husbands are in control of the family business and the views which may not be taken seriously (Rosenblatt et al. 1985). According to Danes, Leichtentritt, Metz and Huddleston-Casas (2000) men and women use different conflict styles and the conflict begins most easily to subside when women try to avoid the tensions.

4 Methodology

A sample of Slovenian family firms was compiled by third year undergraduate students. Collection was made from different public sources like popular press, professional magazines, public events, etc. following the criteria that women played certain significant roles in compiled companies for the sample. Students were sent out to make questionnaire-based interviews as a part of their family business course obligations. In order to be able to get a picture of different gender roles, students were advised to interview family firms respecting the following criteria: (a) at least five employees, (b) at least two family members employed, (c) being in business for a minimum of 3 years to have certain track record and quite well established patterns of behavior. As a matter of definition, students were encouraged to make their own decisions regarding the particular family business they surveyed as to whether it was a family business or not. Additionally the students' opinion was confirmed by the surveyed company as to whether or not they thought it was a family business. Thus, it can be stated, that a self-definition (Birley 2001) of family business was applied in this research to compile the sample.

Students were provided thorough guidelines on filing the rather extensive questionnaire which included the following sections: (a) general data on the family firm, (b) data on the manager, (c) data on the key woman in the firm (in case she would not fill the manager's position, (d) data on the second woman in the firm (if there was one), (e) data on women not yet employed in the family firms (mostly daughters still in school), and (f) data on women not employed in the family firm. The data on the second woman and women not employed were relatively scarce, compared to the whole sample, which is the reason that these data were excluded from the further analysis.

Since this was the first study about the role of women in family firms in Slovenia and it can be doubted that findings from other countries would generally be applicable due to the different history, culture and tradition in gender issues, the five propositions were developed from the overviewed literature survey and some fragmented findings from past surveys in Slovenia:

- P1: Women usually do not act as CEOs in family firms but dominate in second-level managerial positions (Cole 1997; Fitzgerald and Muske 2002).
- P2: Women are modestly represented in the ownership structure of family businesses and consider this issue as fairly unimportant (Lyman et al. 1996; Danes et al. 2002).
- P3: Women's views on transitional issues of their family firms are different from men's views (Danes et al. 1999; Sharma 2004).
- P4: Women in family firms would exercise a different, "feminine" style of management due to the differences in their values, personal traits and experience (Dumas 1998; Poza and Messer 2001).
- P5: While there are differences in the gender roles and rewards in family firms, this situation is not perceived by both genders as an intriguing case of discrimination that would demand an immediate action (Danes and Olson 2003; Rowe and Hong 2000).

5 Sample Characteristics

Family firms are mostly active in trade, but they are also represented in manufacturing and construction businesses. One third of them indicated that they cover two different activities, mostly to ensure more stable flow of revenues. As presented in the Table 1, only 15 % of participating companies were 12 or less years in the business while other companies were older.

On average, participating companies employed 12.8 employees. According to EU criteria taking into account the number of employees, there were 60 micro, 45 small and 2, medium-sized firms. Approximately half of the sample (51.4 %) employed up to two family members while others employed at least three relatives. As expected, the vast majority of businesses were in the ownership control of the family, managed mostly by men on CEO positions (83.2 %). One particular family

Table 1 Sample characteristics

Parameter	Number	Percent	Characteristics	
Activity (firms were allowed to list up to two activities, with 34 having two activities)	37	34.5	Retailing and wholesale	
	20	18.7	Manufacturing	
	19	17.8	Construction	
	12	11.2	Transport and communications	
	8	7.5	Other services	
	6	5.6	Tourism and restaurants	
	3	2.8	Financial and other services	
	36	33.6	Other activities	
	Legal status	62	57.9	Incorporated businesses
		45	42.1	Sole proprietors
Number of employees	Average: 12.8			
Number of family members employed	Average: 2.67		55 (51.4 %) with two or less, 52 (48.6 %) with three and more	
Founders	63	58.9	Husband	
	8	7.5	Wife	
	23	21.5	Spouses as partners	
	13	12.1	Others (businesses inherited)	
Foundation year	41	38.2	Before 1989	
	50	46.7	During 1990–1994	
	16	15.0	After 1995	
Family ownership	97	90.7	100 % family ownership	
	9	8.4	50–81 % family ownership	
	1	0.9	No family ownership	
Gender of the manager	89	83.2	Male	
	18	16.8	Female	

Source: Own research

business with no family ownership was recently sold to a multinational holding company but family members who agreed with the new owners retained managerial positions. Some gender based characteristics of observed groups within the sample are given in the Tables 2 and 3. As it can be observed in Table 2, women are on average younger than men in the sample. There is no great difference between CEO women and key non-CEO women regarding the age and years of professional experience. The second woman in a family business is younger and less

Table 2 Some age and experience related data on key groups of respondents

Group of respondents	Number of respondents	Average age (years)	Average work experience (years)	Work experience in other firms (years)	Years in the CEO position
Managers: all	107	47.2	25.6	10.2	14.2
Male CEOs	89	48.2	26.8	10.5	14.9
Female CEOs	18	42.6	19.4	8.7	10.3
Key women – all	107	42.2	20.7	9.0	
Key non-CEO women	89	42.1	20.9	9.1	
Second women	25	38.4	16.4	7.5	

Source: Own research

Table 3 Level of formal education in the sample of family firms

School completed	Founders of family firms (%)	Managers (%)	
		All	Female
Grammar school	1.9	1.9	–
Vocational school	32.7	25.2	16.7
Secondary school	43.0	49.5	50.0
College	10.3	10.3	22.2
University	11.2	12.1	11.0
Other	0.9	0.9	–
Number of persons	107	107	18

Source: Own research

experienced which may be interpreted with an assumption that in several cases, the second woman is probably founder’s daughter.

A possible drawback of Slovenian family firms is the large share of these firms originating from the crafts sector which had intensive development during the 1980s with a more liberal economic policy. This crafts tradition provides a conservative view on some factors of the success (Vadnjak and Glas 2008): education of the managerial staff, market orientation vs. product infatuation, acceptance of modern technology, etc. Having mostly first generation family firms in the sample, there is hardly any difference between the level of education of founders and the acting managers, as it is often expected in family businesses that younger generations would hold higher levels of formal education. On the other hand, as presented in Table 3, women in the sample tend to hold significantly higher levels of formal education than men ($\chi^2 = 11.64$; DF = 5; $\alpha = 0.04$).

Table 4 Business/managerial role of women in Slovenian family businesses

Business/managerial role	Key woman in the firm		Second woman in the firm	
	Number	%	Number	%
Manager (CEO)	18	17.8	–	–
Assistant manager	9	8.4	1	4.0
Second-level managerial rank	40	37.4	10	40.0
Procurist	7	6.5	2	8.0
Production	8	7.5	1	4.0
Finance and accounting	16	14.9	1	4.0
Marketing and sales	9	8.4	6	24.0
Professional staff	31	29.0	12	48.0
Supporting staff	7	6.5	2	8.0
No answer	1	0.9	–	–
Number of respondents	107	100.0	25	100.0

Source: Own research

6 Different Business and Managerial Roles of Women

First, the roles that women are occupying in the family firms are indentified. In the start-up phase these firms are mostly men's affair, since 58 % were established by men, 22 % were the joint undertaking of the couple, and only 7 % were initiated by women; the rest have been established in the earlier generations. The major role of men is also confirmed by the fact that 83 % of firms have men as the CEO, although the 17 % of women managers is quite close to the lower estimates of the share of women entrepreneurs in Slovenia (Vadnjal et al. 2009).

While only a minor part of women (18 %) occupy the CEO position, Slovenian women are far from playing only a supportive role or being "invisible" in the background. As presented in Table 4, they hold the second highest managerial rank in 46 % of firms and 29 % are among professional staff with some level of decision making power. In several cases, these formal ranks only seem to represent a formal designation to establish a position towards non-family employees; on the other hand, men often discuss their decisions and listen to wives beyond their formal status in the firm (Danes and Olson 2003).

Considering the Curimbaba (2002) groups, Slovenian women are present in the anchor role (managerial position) in 18 % and a weaker anchor role (second-level managers) in 46 % of all cases, followed by the professional status in 29 % and invisible in their supportive role in 7 % of all cases. However, a look at the business functions occupied by women partly downplays this extreme position. It shows that a number of women with formal managerial roles are in fact doing supportive tasks.

While 40 % of key women have well designated business functions (Table 5), mostly in finance and accounting, another 40 % handle the administrative tasks that usually cover everything needed to run a micro business, and 19 % are in the supportive role, mostly described as "a girl for all." There seems to be a pattern of behavior that men take the CEO position and key women handle finance and

Table 5 Business areas occupied by non-CEO women

Business areas occupied by women	Key non-CEO woman		Second woman in the firm	
	Number	%	Number	%
Managerial ranks:	35	39.8	18	72.0
Finance, investment	16	18.2	5	20.0
Marketing and sales	12	13.6	11	44.0
Production	6	6.8	1	4.0
Human resources	1	1.1	1	4.0
Professional: administration	35	39.8	–	–
Supporting role:	17	19.3	7	28.0
Supporting role	5	5.7	2	8.0
“girl for all”	12	13.6	5	20.0
Other	1	1.1	–	–
Number of respondents	88	100.0	25	100.0

Source: Own research

accounting. Considering the stereotype that women have the key role in working with employees, these family firms are largely too small to have a HRM department and women take these tasks mostly as a part of their managerial/administrative tasks.

This allocation of business areas is not only a matter of tradition and chance but, it also relies on an educational background. While the level of education is generally low in family firms (Glas 2003), the second generation tends to improve this (Glas et al. 2006), and women have a higher level of formal education (see Table 3). However, they differ significantly in the field of education and consequently in their business expertise area.

While men are very proficient in the technical expertise, only a tenth of non-CEO women possess technical knowledge and skills while the huge majority has the background in business or social sciences, proving the often repeated gender differences in professional orientation in Slovenia. Some common attitudes toward the managerial role of family members were also researched asking respondents from different groups to indicate their (dis)agreement with some statements on the behavior of family firms, used in some previous research (Vadnjal 2008). Respondents expressed their attitude on a 5-point Likert scale from 1 (completely agree) to 5 (completely disagree). The mean values were computed and t-tests for the differences in mean values were run.

Considering issues in Table 6, there were significantly different answers between male and female managers regarding the first two statements: women in the CEO position are more liberal towards children, allowing them to exercise more freedom in the decision about joining the firm and choosing their education. They probably understand the dilemmas of children about their future in the family firm better since they spend more time with them and they might well remember their difficult times in developing their own managerial status. While female CEOs are less inclined to have managerial positions monopolized by family members and to apply different rules on rewarding family members, the differences are not

Table 6 Attitudes towards the managerial roles of family members

Statements about the managerial roles and succession in family firms	Groups of respondents from family firms		
	Managers (CEOs)		
	All	Men	Women
Children should be introduced to the firm at an early age	2.57	2.43(1)	3.29(1)
Children's education should be geared towards the business needs	2.94	2.79(2)	3.76(2)
Management successors should be chosen from the family	2.47	2.43	2.65
Parents should retire when children are ready to take over	2.98	2.94	3.18
Sibling rivalry in the business is good for the business	4.32	4.26	4.65
Family members are entitled to different pay arrangements than the rest of the employees	3.64	3.53	4.18
Number of respondents	107	89	18

Source: Own research

Note: (1) $t = -2.938$, $p = 0.004$, (2) $t = -3.208$, $p = 0.002$

statistically significant. These aspects of managerial careers do not have any important gender dimensions. Instead, they seem to be more influenced by their existing roles in the company and in the family.

Looking at the attitudes towards managerial roles of women, male CEOs do not deny but only reluctantly agree that women could be successful CEOs. There is no general opinion that family firms with women in top jobs are more successful, which could be hard to argue, however, women are significantly more in favor of this view.

Level of agreement was measured by several statements on the acting of family firms on a 5-point Likert scale with 1 – completely agree to 5 – completely disagree. The differences were detected by a *t*-test for mean values and the results are presented in the Table 7.

There is a consensus among male and female CEO's that women should not be confined to traditional "female" functional areas such as accounting, HRM, and finance; however, this view is more shared (significantly) by women who do not want to be pushed only into these activities but, they want to have more equal access to all functional areas. Still, stereotypes about their role are quite evident and only a handful of them are in charge of production and R&D areas.

Women usually oppose the view that they should instead care for the family and children. Their husbands are also not expressing interest for this role. More male CEOs informally acknowledge the mind-set that women have fewer ambitions to take managerial positions due to their family roles. There were no significant differences revealed between men and women in the perception of "male" tradition as the key barrier to get a managerial role in family firms, although this tradition is considered quite important by both genders. Respondents do not agree that women minimize their business contribution on the account of doing family chores, although male CEOs are by far more inclined to share this stereotype.

Table 7 Attitudes towards the managerial roles of women

Statements about the characteristics of family firms	Managers		
	All	Men	Women
Women should only occupy “female” areas as accounting, HRM, finance	3.83	3.62	4.89
Women could be successful CEOs in family firms	1.72	1.87	1.00
Family firms with women in top jobs are more successful	3.05	3.11	2.72
Due to the “male” tradition, women are often prevented to take key roles in family firms	2.61	2.65	2.39
Women do not have ambitions to take managerial jobs since they care for family	3.79	3.67	4.39
Women take better care of the relationships among employees	2.32	2.41	1.89
Women are not enough tough and decisive in business	3.92	3.79	4.56
Women are less risk taking than men	3.15	3.08	3.50
Women can play a very positive informal role in the firm (e.g. in conflict resolution)	2.14	2.17	2.00
Business partners do not take women as seriously as men as CEOs	3.33	3.28	3.56

Source: Own research

The survey confirmed the proposition that women differ in their managerial style in many aspects. Differences are presented in Table 7 and a majority of the differences were statistically significant: (a) they are considered superior in caring for the relationship among employees – however, women are far more convinced about this personal quality; (b) a minor part of respondents consider women as less decisive and tough in business; (c) a number of respondents consider women as less risk taking, however, no significant gender differences were found; (d) women are recognized as playing a very positive informal role, which proves that formal roles, even when assigned, might be less important than informal ones, being a more subtle component of women’s actions. The attitude that business partners might take women CEOs less seriously, is viewed in a neutral way.

7 Ownership Issues and Transition of Business to Next Generation

The ownership structure of family firms is presented by a pattern of the first generation family firms: 96.3 % of ownership (calculated as the non-weighted average) belongs to the family and only 3.7 % would be owned by other people. Men certainly dominate as owners. Interestingly, the attitudes towards the family

Table 8 Attitudes towards some aspects of ownership in family firms

Statements about some aspects of ownership and ownership transition	Managers (CEOs)		
	All N = 107	Men N = 89	Women N = 19
Children should receive some shares when they join the business	3.32	3.16	3.65
Children who do not join the business should not receive shares	3.21	3.28	2.82
Children should receive shares in the business in equal parts	2.69	2.67	2.76
Shares should only be transferred to members of the family	2.58	2.54	2.76
If non-family owners enter the business, they will be greedy	3.43	3.44	3.41
Key employees (also non-family) should become co-owners in the firm	3.30	3.30	3.29

Source: Own research

ownership are highly balanced since there are no statistically significant differences between male and female groups of respondents. Their prevailing views can be presented as follows: (a) ownership should stay in the family, which is consistent with other research findings, e.g., Vadnjak (2008) and Glas (2003); (b) attitudes towards (non)equal shares of children are quite divided, however, no gender differences were assumed, but rather, the issue is more on their activity/role in the firm; and (c) family firms are quite reluctant to open themselves for possible co-ownership and give stake in the company to non-family key employees.

However, the family members do not consider the ownership structure as highly important, since wealth creation and earnings were ranked fifth among reasons for establishing the firm, listed by 19 % of firms. Autonomy was found to be by far the most important, listed by 82 % of firms as one of three possible reasons, followed by achievement, 44 %, dissatisfaction with previous job, 22 %, and creating a job opportunity, 20 %. As evident from Table 8, women are somehow more in favor of equal ownership shares for both men and women if employed in family firms.

8 Gender Based Roles in Family Firms: A Case of Gender Discrimination

Men dominate in occupying the CEO position. This may simply follow from the fact that they were dominating founders that took over the CEO position and women were left with the secondary role. The question asked at this point is how will women feel in their role? Do they perceive it as a case of gender discrimination in the family firm? The level of agreement regarding the characteristics of family firms along certain gender aspects was measured by several statements on a 5-point Likert scale with 1 – completely agree, to 5 – completely disagree. The differences which are presented in the Table 9 were explored by *t*-test for mean values.

While male CEOs admit their role to be very important, women are quite convinced that they leverage “three corners” (usually for households) even in

Table 9 Attitudes about the characteristics of family firms along the gender aspects

Statements about the characteristics of family firms	Managers		
	All	Men	Women
Women hold “three corners” even in family firms	2.78	2.90	2.22
		t = 2.548; p = 0.013	
Women, if employed in family firms should have equal shares	2.31	2.39	1.89
		t = 2.167; p = 0.031	
Women should rather care for the family and children	4.11	3.99	4.72
		t = 3.090; p = 0.003	
Women cannot contribute fully in the firm since they support “three corners” in households	3.60	3.47	4.25
		t = 3.058; p = 0.003	
Even women giving an equal share in the firm do not get a “discount” in family chores	2.67	2.70	2.56
		t = 2.005; p = 0.046	
Women are paid less than men for the equal job	3.88	3.99	3.33
		t = 2.207; p = 0.029	
Women do less demanding, less responsibilities and thus less paid jobs	3.69	3.72	3.56
Women face tougher situations in being promoted than men	3.17	3.26	2.72
		t = 2.269; p = 0.023	

Source: Own research

family firms – this view follows the fact that they have to handle different issues while men have taken more specified, selective roles.

There seems to be a general understanding that the family/household care is a significant burden on women so they tend to express negative feelings about the fact that they miss enough assistance in doing family chores, particularly when they provide an equal proportion of work in family firm activities. This survey confirmed that the general finding about the asymmetric gender pattern of work – family – leisure activities extend to family businesses as well. Women’s participation in business has not yet been rewarded by the relaxation of their family role.

While there is not general understanding that women are paid less for an equal job, women feel the difference in pay significantly more. This issue should be studied more carefully since it can be proposed that women are paid less, partly due to their less specific job assignments and less definitive responsibilities taken. Women also find that they face tougher situations in receiving promotions. However, they are not considered as doing less demanding or responsible work and no gender specific views were found on this traditional comment trying to argue the reasons for lower salaries.

Although a number of respondents recognize several specific features of female managerial styles, the differences are not considered as a disadvantage that may prevent women from achieving top positions in family firms. They would rather propose that women play a complementary role in bringing some “softness” to the tough male managerial styles. The female attitudes towards equal ownership shares prove that they do not perceive the current dominant male ownership as just and there is room to raise their satisfaction with the role in family firms.

It is evident that women in family firms perceive their situation in a significantly more critical way than the male CEOs. Large differences were revealed in views of women that have different positions in family firms. These differences are probably partly due to their different experiences related to their roles and partly due to different characteristics of women belonging to different groups. The views of male CEOs may reflect some traditional concepts about women and male CEOs tend to neglect the meaning of formally equal treatment of women to enhance their satisfaction and motivation. While not arguing intensively, women do perceive their share in management, ownership and rewards as inherently unjust and they find their double role in the family and firm as consistently more demanding in time and energy spent from the role of the spouses. Slovenian women are not inclined to talk about their deprivation, but these perceptions are shared. Some recommendations to change this situation would include: (a) enhancing the support for women in their family/household role through a number of services provided, but also promoting the role of men as fathers and partners in sharing different chores; (b) taking care for more fair ownership share of women; (c) defining the duties/obligations of women in the firm more concisely, also related to the reward and promotion systems; (d) promoting women education and training in functional areas that are important for the business activity, beyond the economic/business education.

To check for the urgency of changes, we asked women in the survey to indicate whether their position in business and family should change in order to feel equal to men, on a 5-point Likert scale with 1 (completely disagree) to 5 (completely agree). Evidently, no radical demands were found. Key women mostly desire to be listened to more carefully in discussions and decision-making, both by family and other company staff and the family burden should be shared more equally between partners. Some other literature suggests (Sharma 2004) that family firms neglect the education of female members. However, women hardly demand pay increases, and even shun from more benefits and they do not demand larger shares in ownership.

9 Conclusions and Implications

Considering the number of family firms in Slovenia, more women are taking part in accumulated entrepreneurial potential in these firms than starting their own businesses. Working with family members and avoiding the stress and uncertainty by leaving the leadership role to their male partners seems more attractive to women than facing business challenges as sole owners. On the other hand, while the informal role of women in boards and managerial ranks is often recognized, such a role is more pronounced in family firms. In the later, women are exercising their influence on the decision-making process in the office and during family time. This advantage of interlocking family and business supports our first proposition since the formal role of women in family firms does not reach beyond the role of women in non-family businesses. Therefore, the first proposition stating that

“women usually do not act as CEOs in family firms but dominate in second-level managerial positions” can be regarded as supported.

Considering that female family members share the second-rank managerial roles in a large share of family businesses where men dominate as CEOs, their share in ownership certainly understates their role in running the family business. However, women do not seem to oppose the existing situation, and often consider their informal influence as powerful enough to provide them personal satisfaction. They also do not opt for higher salaries and benefits, although this aspect may become important with the reform of the health and pension systems which would relocate the access to services, increasingly towards the voluntary involvement of beneficiaries. Women deny these financial aspects as important and this denial is a good cause not to push for the changes. All this is supported to the second proposition implying that “women are modestly represented in the ownership structure of family businesses and consider this issue to be fairly unimportant” which can be also regarded as supported.

The “feminine” style of women in family firms is very important for creating good internal relationships, the overall climate in business, employees’ satisfaction and morale. This aspect is likely to positively contribute to the financial performance of family firms but it has the value in itself for the well-being of employees even if not materialized in improved balance sheets. This women’s contribution is often benevolently recognized but not adequately rewarded. Again, women are quite patient in their wishes to get social recognition and the recognition of their family members but they do not intensely pursue their demand. Thus, it can be concluded that data from the study confirms the third proposition which suggests that women often possess different views on transitional issues when compared to men. Interestingly, this confirmation comes from predominately female respondents which may be interpreted as, women being more aware of their feminine influenced managerial roles.

Women, when becoming CEOs, would introduce a number of changes in the management style where they would add their softer feminine approaches as a new quality to the existing style. This assumption is very relativistic since the research has indicated that female CEOs behave unlike other female family members involved in the firm. It can be discussed that women in family firms need to be really tough and superior to their male siblings in order to get to the top position. The process of their elevation to the CEO position can neutralize part of their femininity and softness and performing the duties of CEOs seem to develop experiences that harden their approach. Taking into account all mentioned findings, the proposition for stating that “women in family firms would exercise a different, ‘feminine’ style of management due to the differences in their values, personal traits and experience” can be neither confirmed nor rejected.

The issue of discrimination is somewhat controversial. Women consider their role in the family business very differently from male CEOs, which indicates a lack of discussion of these issues. It can be assumed that women are frustrated by the existing formal structure of family firms. However, they seem reluctant to discuss these issues in the family and they are not radical in demanding the changes. The

feminist movement has never had deep roots in Slovenia and the radicalism has mostly been calmed by the legislation that formally supports the (full) gender equality, but the mechanisms to ensure this equality are not devised. Thus, the fifth proposition suggesting that “while there are differences in the gender roles and rewards in family firms, this situation is not perceived by both genders as an intriguing case of discrimination that would demand an immediate action” can be confirmed in the first part where it suggests that there are difference in gender roles and rewards. However, in the second part, the data cannot be interpreted in the confirmatory manner.

For the purpose of managing small family firms and also consulting to them, it should be clear that women’s role in the family business is often underestimated. Women not only play a traditional supportive and invisible role but can also contribute to a different role, more towards a people oriented managerial style when their feminine style of tackling business issues is applied as an alternative to the more traditionally viewed masculine approach. In a diagnosis process of consulting projects, women although not holding leadership positions, may be invaluable sources of information and, complementary opinions. In conflict resolution programs, women can play enormous positive roles in lowering the temperature which has risen mostly among men.

There are many opportunities for further research in the field. Researchers should be encouraged to use more sophisticated analytical approaches; however, they should provide larger samples in order to arrive at reliable assessments. A more multi-disciplinary approach is recommended because the complex family and partnership relationship combined with pressures of daily business activities demands much broader research skills and knowledge than is usually available and provided by business science researchers.

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Corporate Entrepreneurship in Family Firms: The Case of Turkey

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1 Introduction

Enterprises are economic and social establishments producing goods or services in which an investment decision is created. Various methods of making this investment are studied so as to make profits, to meet the needs of society and to ensure its continuity by creating a project and by gathering the production factors to achieve this project. Around 80 % of the enterprises in the world including 40 % of the world's largest 500 enterprises (Baraz 2006) and 90–95 % of the enterprises in Turkey are made up from family owned companies. For the growth and internationalization of emerging economies, family-owned businesses are important factors (Alpay et al. 2008; Barton and Wong 2006; Yeung 2005; Kim et al. 2004; Gallo and Pont 1996). Indeed, “firms that are not controlled by families are not the rule in the world, rather an exception” (Muntean 2008, p. 4). Although family firms constitute a very common and widespread organizational context, they have not yet been addressed adequately by institutional theories (Melin and Nordqvist 2007). Institutional theory argues that the firms get similar instead of different due to coercive, mimetic and normative isomorphism (DiMaggio and Powell 1983), and family firms are not the exception. In this sense, institutional theory offers explanations for certain organizational phenomenas like distinctive forms, processes, strategies, outlooks and competencies in family firms (Leaptrott 2005).

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Institutional theory is also an appropriate framework to understand how and why institutional practices are introduced or changed in family businesses (Parada et al. 2010).

The institutionalization process forces family firms to be competitive and entrepreneurial unlike traditional founder-centered family firms; desiring to build a lasting legacy becoming more conservative in their decisions due to high risk of profit failure (Morris 1998). In this sense corporate entrepreneurship is seen as critical to family firms' survival, profitability, and growth (Kellermanns and Eddleston 2006).

We outline a research model that incorporates the notions of institutionalization and corporate entrepreneurship. Although there has been some research about institutionalization and corporate entrepreneurship in Western literature, due to different forces in the institutionalization process, each country has its own organizing principles that differ significantly from orthodox Western practice (Biggart and Hamilton 1992). Most of the studies about institutionalization and corporate entrepreneurship are produced in Southeast Asia like China or Taiwan within the scope of nonwestern countries (Tsang 2002; Lee et al. 2003; Carney and Gedajlovic 2002). There are only few studies conducted in Turkey, not only as an emerging economy but also as a Muslim country carrying out different beliefs. In this paper, we develop the idea of institutionalism and corporate entrepreneurship interaction among family firms in Turkey. Therefore, this paper seeks to expand the theoretical understanding of how institutionalization of family firms is expected to affect corporate entrepreneurship as a means of formalization, autonomy, professionalization, transparency and consistency. We evaluated corporate entrepreneurship from risk taking, proactivity and innovativeness perspectives of the firm (Zahra 1991).

This paper describes the Turkish case by studying 244 family firms located in the province of Ankara. The average firm sample consisted of SME's, hiring 25–99 employees. The study demonstrates that the Turkish family firms' autonomy positively influences all the dimensions of corporate entrepreneurship (risk taking, proactivity and innovativeness). Transparency dimension has an impact on risk taking and proactivity. On the other hand formalization affects innovativeness dimension positively whereas it has a negative effect on risk taking and proactivity.

2 Family Firms and Business Context in Turkey

As Chrisman, Chua and Sharma (2005) point out that the definition of the family firms are still open to debate. "Family owned companies are enterprises controlled by the members of just one family in which profit distribution is under the family's control" (Günver 2002, p. 31). Astrachan, Klein and Smyrnios (2002) suggest that a family business should be determined by how family involvement is used to influence the business whereas Phan and Butler (2008) emphasize familial ties about family businesses. International differences in institutional, cultural and

economic contexts suggest that assuming a generic definition of family firms across societies will be a mistake (Carney 2005). Although different definitions emerge in the literature, according to an accepted approach, for a company to be called a “Family Owned Company” it is necessary that the family members get together in activities of the enterprise (Tagiuri and Davis 1992). Existence of family members is not sufficient for being called a family business. However two aspects are emphasized. One is that for a company to be considered a family business the entrepreneur must ensure the family’s living and must assure the family’s future. The second aspect is that if there is only one entrepreneur in a company, then it is not a family-owned company but rather a single-boss company. The last definition emanating from this definition is that it is a company where the head of the family or the person responsible for the survival of the family stays at the head of the company (Chua et al. 1999). The desire to provide a better future for the family defines the family business’s vision. In the framework of such vision and within the context of the determined goals, it is important that the family is open to changes in its strategies.

Among the reasons for establishing family-owned businesses are creating opportunities for their children, perpetuating the family inheritance, holding the family together, enabling financial independence and creating asset-protection for one’s own retirement and personal plans (Özkaya and Şengül 2006). According to Deloitte Family Businesses Research (2010) in Turkey, family businesses serve successfully to ensure a financial future through income generation to provide a chance to control their own faith and career opportunities for the family members.

Despite the consensus about the importance of family firms in the Turkish economy, statistics about family firms and SMEs are inadequate. According to The Turkish Statistical Institute, 60.1 % of exports, 42.1 % of imports had been assumed by SMEs in 2010. Research conducted by the Ankara Chamber of Industry shows that of all firms, 90 % percent are in the family business category in Turkey (Ateş 2005). Among the SMEs, 82 % of the firms are in the service and commerce industry whereas 13 % are in the manufacturing industry (TOBB 2011).

Turkish family firms are carrying out their activities in an unstable economy and their organizational activities are expected to differ considerably from those found in developed economies (Wright et al. 2005). Family businesses face political, cultural and economic obstacles in Turkey (Kozan et al. 2006). “Since its early days, but mainly starting in the 1930s the Turkish state has been the founder and manager of many medium and large size companies in several key industries and in banking” (Yurtoğlu 2000, p. 195). In the 1980s the previous state strategy reflecting import-substitution policies changed in favor of encouraging an export oriented private sector (Richards and Waterbury 1990). On the other hand, because of the liberalization process during post-1980s, “Islam has become a crucial factor not only in social and political life” (Buğra 2002, p. 189) but also in economic activities as well. “During this period Turkish business enterprises, no matter how big and diversified they are, largely remain as family firms” (Buğra 1994, p. 67).

Managers in Turkish businesses are perceived as the founder-owners, emphasizing an autocratic leadership style (Marcoulides et al. 1998). The hierarchy serves the main mechanism of control and coordination in most Turkish companies

(Tatoglu et al. 2008). Also Özcan (1995) argues that the networks among Turkish small firms are governed by traditional values, sectarian affiliations, family and social environment, rather than long-term business partnerships.

The fact that Turkey has recently begun accession talks with the EU further underscores the critical importance of institutionalization processes (Alpay et al. 2008, p. 436). Regional differences still serve as an important problem for SMEs in terms of institutionalism. In Turkey, institutionalism levels are higher in developed regions, rather than underdeveloped or developing industrial regions. Another study points out that inadequate institutionalism (75.8 %) is one of the major problems among SMEs in the industrially underdeveloped Nevşehir region (Özgener 2003). Although no comparative research has been done among developed and underdeveloped regions about family firms and institutionalism, different studies shed light on regional differences. A study conducted in İstanbul, the most industrialized province of Turkey, shows that among family business managers 15 % of the respondents are not eager to delegate authority (Karabulut 2008). Özgener's (2003) study, on the other hand, shows that among family business managers, the lack of willingness to delegate authority increases to 62 % in an underdeveloped region.

Although institutionalism is assessed as a crucial process for developing the family firm, in a research Yazıcıoğlu and Koç (2009) found that the non-family firms in Ankara are much more successful than the family firms in terms of institutionalism. In their research, all constructs related to institutionalism such as professionalism, having a firm constitution, formalization, authority delegation, democratic management perspective and decision-making processes, were poorer in family firms. Another study focused on SMEs in the textile sector, shows that some 68.8 % of the firms don't have any members outside the founder family on the board of directors, except for legal requirements, and 15.6 % of the firms have just one member on the board of directors outside the family (Karabulut 2008). Özkaya and Şengül (2006) argue that the age and education level of the director does not change the negative view toward employing professional managers in SMEs.

3 Institutionalization

Institutionalization means creating organizational stability, legitimacy and predictability, in order to provide resources and to adapt from a determined or loosely organized company with tight technical acts and structures to an organized, determined and socially integrated corporate environment. It is designed to interiorize this and to make it reach the same perception level in workers and managers, in different conditions and contexts. It is also the automatic application of settlements and behaviors (Apaydın 2008; Selznick 1996; Scott 1987). Institutionalization is one of the fundamental approaches within the study of organizational concepts. It contributes to the understanding of organizational transition and, institutional theory builds up its fundamentals.

Institutionalizations ensure that resources in the environment are widely used by enterprises (Alayoğlu 2003). This influences the managerial performance in a positive way. Various mechanisms used by institutional pressures forcing enterprises to institutionalize have a long lasting and comprehensive influence on managerial performance. Because these institutions possess the funds needed by enterprises, the enterprises make efforts to obtain these funds by achieving the institutions' expectations in order to realize the enterprise's goals. With institutionalization, enterprises become more compatible with their environment and harmony with the environment increases performance (Scott 1987).

The institutionalization concept is perceived distinctively by different people in society. Usually, institutionalization in enterprises is used to express the process of institutionalization of enterprises having organizational and administrative insufficiency. However, the reason why enterprises cannot institutionalize is not just a lack of organizational and administrative structure. In enterprises where institutionalization exists, there is a system where workers execute their work exactly, know their rights and responsibilities and where the enterprise can profit the most from their skills. It is the fact that workers and enterprises benefit from this system and develop themselves thanks to the presence of institutionalization.

Institutionalization can be defined as "the process of a company acquiring rules, standards and procedures instead of people having their own ways and methods of working and by this means having a different and distinctive identity from other companies" (Karpuzoğlu 2002, p. 18). Institutionalization is an ongoing process whereby new norms, values, and structures become incorporated within the framework of existing patterns of norms, values, and structures (Kimberly 1979). Stability and predictability among social relationships are ensured within this process. Institutionalization becomes apparent in the context of formal organizations, where a frequent problem is adapting to rapid environmental changes.

An important point to be emphasized is the thought that the company needs to be institutionalized from the organizational point of view. Especially in family owned businesses where work and family relationships are combined and influence each other to an important extent, what we really need to understand from institutionalization is making both "company" and "family relations" have a systematic structure within the context of actual conditions. Institutionalization processes include creation of a formal structure, emergence of informal norms, development of impersonal/objective procedures, administrative rituals, ideologies, legalization and focus on legitimization (Alpay et al. 2008).

By the institutionalization of a company it is meant that the firm becomes a "system" as mentioned above. By the institutionalization of a family owned business, one should understand that the enterprise's property does not belong just to people working actively in the enterprise. It is also necessary to determine pertinent criteria so that people fulfill the enterprise's economic activities and through everyone's work, the enterprise's management and production gets prepared (Ak 2008). As a result, it is necessary that firms reach a structure based on a professional management style that would ensure this.

Competitive pressures, the shortening of production cycles and the acceleration of product development processes have led many firms to new quests and a partnership model named as corporate entrepreneurship has emerged as a company development approach. It has been stated that corporate entrepreneurship will make enterprises more dynamic and competitive and that there will be an important increase in organizational performance (Goodale et al. 2010; Antoncic and Hisrich 2004; Goosen et al. 2002).

Although the institutionalization process of an organization is driven predominantly by the immediate institutional environment, firms within the same environment differ from one another in terms of their proclivity to take on distinctive patterns. These pressures may stem from legitimacy concerns about Western values (Alpay et al. 2008). The operationalization of the institutionalization construct in this study focuses on formalization, autonomy, professionalism, transparency and consistency.

Institutionalism construct refers to *formalization* as a means of emphasis on rules, procedures, and control when carrying out organizational activities (Hatun and Pettigrew 2004). Craig and Moores (2006) define formalization as the degree to which the firm is departmentalized and human capital grouped into working units. Formalization is frequently measured by the presence of manuals, job descriptions, procedures, and mechanisms of control (Corwin 1972; Damanpour 1991). Often, social structure of the family may be used as a form of social control instead of formal structure in family firms. Likewise, family's or the owners' vision and values may affect the organizations' formal structure (Sorenson et al. 2008). Formalization of the business relationships that separates the family from the firm may occur in two ways. With the delineation of the authority, performance and expectations can be related to market based other measurable objectives. In the second method, the family head completely removes the "family" from the business by using labor and capital resources exclusively from the market rather than from the family (James 1999).

An important point about the formalization of family firms is that formalization cannot be good for the family business all the time (James 1999), because the implicit relationships of families provide important advantages to the operation of the business. The key is identifying the circumstances and business conditions that are well-suited to the use of implicit, familial contractual relationships. If, however, a formalization of the business structure is provided, uniform "separation" of the family from the business in those aspects of the business that run more effectively by formal contractual elements has to be achieved.

Family firms are more reliant on informal controls than non-family firms (Daily and Dollinger 1992), but as Covin (1994) points out, lack of formalization is found to be the major problem of family firms for competitive advantage. "The formalization of the family business is an inevitable result of growth" (Leon-Guerrero et al. 1998, p. 110). On one hand family identity, family trust, personal ties, and other elements that make up familial relationships support competitiveness, on the other hand formal relationships provide more effective means of linking workers within the firm, even when the workers are family members

(James 1999). However, with the need of external finance resources, firms have to take care of the needs of institutional investors starting to challenge these practices and structures through being more transparent and holding executives more accountable (Jacoby 2007).

Transparency, from the point of view of the worker, increases his/her trust of the establishment for which he/she works (Dando and Swift 2003). In business life, trust is an important factor which makes workers perform more devotedly and therefore influences the institutional performance. Transparency and trust within an organization serve as a warranty for the subsistence of the organization in the business competitive environment (Jepperson 1991). Transparency enhances corporate entrepreneurship, given that it favors knowledge sharing for opportunity recognition and for overcoming the problems related to its exploitation. Transparency aids employees to better scan for opportunities that increase company value, making the whole organization more adaptive (Miller 1983).

Although Fan and Wong (2002) put forth that financial reporting is less transparent in East Asia than in the United States, some attempts of transparency have taken place in Turkey in recent years. Especially firms trading in the Istanbul stock exchange face pressures for transparency not only from global investors, but also from the Capital Markets Board. In order to achieve transparency as a necessity to integrate and gain legitimacy in a global system, especially for SMEs, international financing reporting standards for SMEs have been translated to Turkish in July 2009 and were published in an official journal on November 2010. Another practice regarding transparency besides a new Turkish Trade law which will come into force by July 2012 is stemming from Basel 2 requirements. Principally, the law which is based on transparency and auditing is sensitive to the governance in enterprises and informing the public, accurately. According to new Turkish trade law, all stock corporations have to form internet sites and have to declare their balance sheets, financial statements, annual board of directors reports, meeting announcements, every expenditure paid for CEOs and board of director members like travel, hotel, etc. (Kökbulut 2011). Another research made among certified public accountants in Erzurum shows 64 % percent of respondents agree that transparency is a key construct for institutionalism (Bozdemir 2012).

Consistency, which is one of the most important dimensions of institutionalization, is the harmony between management strategy and behavior and it is a factor that influences performance a great deal (Hartline et al. 2000). Basic values should be formed for consistency and the workers of the business should share these values that will create identity feelings and clear expectations. To achieve this, the management style and applications should be distinctive and clear. The managers' decisions and actions should be harmonious as well (Apaydın 2008). Consistency is related to behavioral dimensions such as: (a) modesty, (b) deference to authorities, (c) sense of responsibility in general behavior, (d) wider, strategic outlook consistent with higher policies, (e) reassuring public position (Farashahi and Hafsi 2009).

Knowledge follows a path-dependent way: what is already known shapes what can be learned in the future because of the effect that new information and new

capabilities have on other elements of the culture of the firm (Weeks and Galunic 2003). In this sense, the consistency of the management strategy and the behavior of the firm will allow subordinates to take active action about corporate entrepreneurship as a competitive advantage of the firm. On the other hand, consistency of the firm's strategy and its environment cannot be assumed, but must be explained as an accomplishment (Weeks and Galunic 2003). Thus, corporate entrepreneurship is considered as a factor that provides firms the support to challenge threats and catch the opportunities.

Professionalization, which we can express as the increase of professionals among the workers in the business, enables the business to better understand and evaluate the events around it. As a result, it can react much more quickly to changes in the environment (Ruekert et al. 1985). Although the professionalism construct may refer to different points in organization literature, among family firms, it means hiring full-time, non-family employees, particularly with the delegation of managerial authority (Stewart and Hitt 2012). On the other hand professionalism requires better performance ratings and control systems within the organization. Professionalizing human resource management practices in the family firm requires consideration of factors that transform against shorter term or stock-based incentives: the firm's noneconomic goals to longer time horizons, and the desire to maintain control for the generations. For professionalism among family firms, control and autonomy are the key issues while family firms give importance to harmony among family members and enjoy private benefits of control (Stewart and Hitt 2012).

Thus professionalism is a multidimensional construct that leads to *autonomy* as well. According to Goldberg and Wooldridge (1993) self-confidence and management autonomy are characteristics of effective successors among the family firms. According to Fama and Jensen (1985) combined ownership and control may lead to choosing exchange profits for other profits or moral gains to profitability, therefore family businesses may be undervalued by the market.

4 Corporate Entrepreneurship

Compelling circumstances and rapid change result in even the most successful companies needing to continuously regenerate in order to preserve their competitive advantage. Corporate entrepreneurship is the entire set of tendencies and behaviors aimed at innovativeness, proactivity and active competitiveness, with the purpose of increasing the enterprises' power and achieving sustainable growth, by taking risks to create new opportunities (Miller 1983; Covin and Slevin 1990; Zahra 1993; Lumpkin and Dess 1996). There is not a consensus reached about the dimensions of corporate entrepreneurship. Guth and Ginsberg (1990) define corporate entrepreneurship consisting of two dimensions: innovations for business creation and venturing and renewing; whereas Zahra and Covin (1995) define the logic of CE under risk taking, innovation, and aggressive competitive. In this study, corporate entrepreneurship has been evaluated in three dimensions: Risk Taking, Proactivity and Innovativeness.

Risk taking, implies the willingness to make large and courageous use of resources which have a reasonable chance of costly failure (Baird and Thomas 1985; Miller and Friesen 1978). *Proactivity* is related to taking the initiative, anticipating and carrying out new opportunities and an inclination to shape the environment, rather than purely react to it passively (Entrialgo et al. 2000; Covin and Slevin 1991). *Innovativeness* (of products and services) means the creation of new products and services (Schollhammer 1982; Burgelman 1984; Covin and Slevin 1991; Zahra 1993; Damanpour 1996; Knight 1997; Tushman and Anderson 1997; Antoncic and Hisrich 2003). Innovation is a crucial source of competitive advantage and the essence of entrepreneurial activity (Li et al. 2009; Kuratko 2009).

The entrepreneur not only builds up the family owned business, he also takes the first steps towards setting a given culture in the enterprise. The entrepreneur transfers to the managers and the rest of the enterprise what he/she wants and what should be cared about. According to Schein (1995) the managers and other workers in the enterprise should take into consideration what the entrepreneur cares about, what are the rewards and status the entrepreneur gives to others, what are the entrepreneur's criteria for recruitment, selection, promotion, retirement and laying off; how the entrepreneur reacts to critical events and crises and how he/she manages the enterprise. This situation leads to the formation of a culture in the enterprise and the entrepreneur becomes the most important member of the family owned business.

All family owned businesses are closely concerned with the subject of institution-nalization, and yet usually family owned businesses are established as SMEs (Small and Medium Enterprises). However, in time, because of factors like competition and developments in the markets these enterprises find themselves in, the enterprises have to be more systematic and reasonable. For these behaviors family owned businesses might have to accept some rules; not only from the enterprise system point of view, but also from the family system point of view and they might have to apply them in a correct way. Moreover, they may start to take into account that the people in the enterprise are not family members but enterprise workers (Baykal 2002).

The purpose of this study is to expose the relationship between institutionalization and corporate entrepreneurship in Turkish family owned enterprises. The question to be answered is whether there is a positive relation between institutionalization and corporate entrepreneurship or not. In this framework the model of our research is in Fig. 1, and the hypotheses are shown below.

Hypothesis 1: There is a positive statistical relationship between formalization, autonomy, professionalization, transparency, consistency and risk taking.

Hypothesis 2: There is a positive statistical relationship between formalization, autonomy, professionalization, transparency, consistency and proactivity.

Hypothesis 3: There is a positive statistical relationship between formalization, autonomy, professionalization, transparency, consistency and innovativeness.

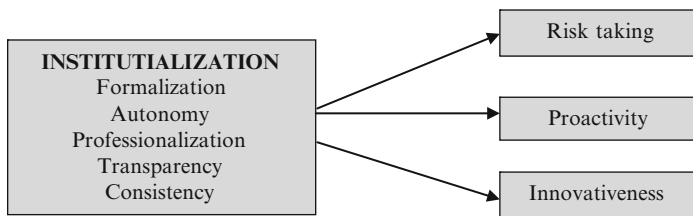


Fig. 1 Model of the research (Source: Authors)

5 Material and Methods

5.1 Sample

The sample of firms that participated in the study included 300 firms located in the province of Ankara and with the status of family owned enterprises. The average firm in the sample had 25–99 full time equivalent employees and was 11–25 years old and operated in the manufacturing (40.1 %), services (32.6 %) and trade (27.3 %) sectors. In this framework 300 employees, who are in managing positions, were involved in the research by the method of random sampling. After surveys that were incomplete or careless were taken out, analyses were made with the remaining 244 usable data series. Of the participants 102 (41.8 %) in the research were women; 142 (58.2 %) men. Participants were between the ages of 19 and 52 (Mean: 35.36, S.D.: 7.707). Of the participants 63.1 % were university graduates and have been working for 6.2 years on average in their establishment (Min: 1 year, Max: 17 years, S.D.: 4.251).

5.2 Questionnaires

A survey form made up of three parts was used in the research. In the first part, there were questions relating to the demographic characteristics of the participants; in the second part there were questions about institutionalization; and in the third there were questions about corporate entrepreneurship. There were 28 questions in total about institutionalization which were adapted from the work of Apaydın (2008); they included five dimensions which were: Formalization (4 questions), Autonomy (4 questions), Professionalization (6 questions), Transparency (3 questions) and Consistency (11 questions). The authors reported reliability coefficients of .86, .81, .87, .77, and .91 respectively. The questions about corporate entrepreneurship were taken from the study of Alpkın, Ergün, Bulut and Yılmaz (2005). They included three dimensions that were: Risk Taking (6 questions), Proactivity (3 questions) and Innovativeness (6 questions). The authors reported reliability coefficients of .71, .65 and .67 respectively. Control variables were also developed. Respondents checked appropriate boxes for the age and size of their organization.

5.3 Analyses

Data were analyzed by using the SPSS statistical analysis software. The hypotheses were tested with an analysis of correlations and multiple regression analyses. First of all, reliability analyses were performed for the scales used in the work. Results related to reliability are in Table 1. According to this, reliability levels for the variables used in this work are very high, ranging between 0.8177 and 0.9468.

In order to see the relationships between the variables, correlation and regression analyses were performed in the study. The Pearson correlation was used for finding the degree of relationship between variables. According to the correlation analysis (Table 2) there is a meaningful and positive relation between all the variables at $p < 0.01$ level.

Before the hypotheses were tested, it was necessary to note the generally moderate to high intercorrelations among the context and process variables. Based on the correlation results, variance inflation factors (VIF) were examined to determine the extent to which multicollinearity might have posed a problem for the subsequent analyses. Values of VIF ranged from a low of 1.27 to a high of 4.86 and were well below the threshold value of 10 where multicollinearity becomes problematic (Neter et al. 1996).

The correlation analysis results give some general information about the relationship between the dimensions of institutionalization and corporate entrepreneurship. Regression is a model for investigating each independent variable's contribution in predicting dependent variables. It also shows the correlation of independent variable's contribution in explicating variance of dependent variables. Multiple regression analysis was used to assess the effect of the institutionalization on corporate entrepreneurship. There was no significant relationship between the demographic characteristics (firm age and number of employees) of responding firms and corporate entrepreneurship.

According to Table 3, the dimensions of institutionalization influence the dimensions of corporate entrepreneurship. The coefficients of determination (R^2) of the models were 0.341, 0.481 and 0.57 respectively. This shows that the independent variables have 34.1 %, 48.1 % and 57 % of their total variation in the dependent variables. The autonomy dimension of institutionalization positively affects all three dimensions of corporate entrepreneurship: risk taking ($\beta = .329$, $p < 0.05$), proactivity ($\beta = .260$, $p < 0.05$) and innovativeness ($\beta = .302$, $p < 0.01$). Transparency affects risk taking ($\beta = .210$, $p < 0.01$) and proactivity ($\beta = .250$, $p < 0.01$) in a positive way; professionalism and consistency affect proactivity ($\beta = .270$, $p < 0.01$; $\beta = .149$, $p < 0.05$) in a positive way; and while formalization affects the risk taking and proactivity dimensions of corporate entrepreneurship negatively, it has a meaningful and positive influence on innovativeness only ($\beta = -.289$, $p < 0.05$). In short, hypothesis 1, 2, and 3 are partially accepted by the Table 3.

Table 1 Mean, standard deviation and reliabilities of variables

Variables	Mean	S.D.	Cronbach α
Formalization (FORM)	3.7025	.58206	.9468
Autonomy (AUTO)	3.8716	.68453	.9029
Professionalization (PROF)	4.0929	.71452	.8952
Transparency (TRAN)	4.6588	.67482	.8177
Consistency (CONS)	4.3658	.74891	.9298
Risk taking (RISK)	4.2189	.68671	.8435
Proactivity (PROA)	4.1954	.69461	.8214
Innovativeness (INNO)	4.2455	.60626	.9236

Source: Own research

Table 2 Correlations between the variables

	RISK	PROA	INNO	FORM	OUTO	PROF	TRAN	CONS
RISK	1							
PROA	.721(**)	1						
INNO	.533(**)	.724(**)	1					
FORM	.481(**)	.502(**)	.703(**)	1				
AUTO	.555(**)	.619(**)	.725(**)	.811(**)	1			
PROF	.520(**)	.652(**)	.670(**)	.695(**)	.830(**)	1		
TRAN	.507(**)	.595(**)	.574(**)	.662(**)	.640(**)	.684(**)	1	
CONS	.505(**)	.590(**)	.595(**)	.681(**)	.719(**)	.724(**)	.674(**)	1

Source: Own research

**Correlation is significant at the 0.01 level (2-tailed)

Table 3 Regression of institutionalization and corporate entrepreneurship

	Risk taking			Proactivity			Innovativeness		
	Beta	t	Sig.	Beta	T	Sig.	Beta	t	Sig.
(Constant)		5.712	.000		2.915	.004		1.362	.175
FORM	-.037	-3.390	.697	-.166	-1.965	.051	.289	3.764	.000
AUTO	.329	2.830	.005	.260	2.521	.012	.302	3.208	.002
PROF	.041	.395	.693	.270	2.965	.003	.155	1.866	.063
TRAN	.210	2.652	.009	.254	3.606	.000	.068	1.057	.292
CONS	.122	1.443	.150	.149	1.983	.049	.024	.345	.730
	Adj ^R ²: .341			Adj ^R ²: .482			Adj ^R ²: .570		
	F:26.153			F:46.204			F:65.349		

Source: Own research

6 Results and Discussion

The purpose of this study is to expose the relationship between the institutionalization indicators of the enterprises and their corporate entrepreneurship. In this framework, analyses were performed on the data obtained from 244 participants working in family owned businesses operating in the province of Ankara. Fostering corporate entrepreneurship demands a better informed approach to management including decentralization of authority, participation in decision making,

cooperation, avoidance of bureaucracy and encouragement of risk taking and creativity (Luchsinger and Bagby 1987).

This study contributes to the literature on corporate entrepreneurship by documenting institutionalization factors that should be recognized in promoting entrepreneurial activities within an organization. The five factors that were identified (formalization, autonomy, professionalization, transparency and consistency) represent a parsimonious description of the internal organizational factors that influence organizational behavior to foster entrepreneurial activity within established companies.

One of the most important findings obtained from this work is that autonomy positively influences all the dimensions of corporate entrepreneurship. Centralization in enterprises is one of the most important limitations to new ideas. In contrast, giving support to workers and giving them autonomy will bring about new ideas (Miller 1983; Pinchot and Pellman 1999; Kreitner 2001). Fairlie (2002) states that autonomy is one of the basic factors for innovativeness, risk taking and proactivity. Similarly, in the management literature several authors have pointed out the role of autonomy in entrepreneurial activities (Van Gelderen and Jansen 2006; Schein 1990; Feldman and Bolino 2000; Utsch et al. 1999). It has been found that low levels of centralization are correlated with corporate entrepreneurship, meaning that high involvement of employees in decision-making makes companies more entrepreneurial (Barringer and Bluedorn 1999).

Transparency, which is expressed as the transfer of information to the right people inside and outside the establishment, is another factor of institutionalization which influences the entrepreneurship dimensions of risk taking and proactivity on Table 3. Due to local and global legitimacy concerns, along with legal requirements, transparency becomes necessary for family firms.

Another reason for transparency effecting risk taking and proactivity may be stemming from structural properties of the family firm. Naldi, Nordqvist, Sjöberg, and Wiklund (2006) argues that risk taking is an important dimension of entrepreneurial behavior in family firms but that family firms tend to take less risk than do non-family firms. Family firms which have a strategy for institutionalism may also want to gain the competitive advantage of financial resources outside the family which leads to transparency and risk taking as a consequence. This seems to pose an interesting paradox of risk taking in family firms: increased formalization and external monitoring may lead to a risk taking behavior that leads to better outcomes in terms of financial performance, but at the same time, this formalization and external monitoring may repress the entrepreneurial activities that give rise to these opportunities and risky projects to begin with (Naldi et al. 2006).

Consistent with results of Naldi et al. (2006) our results show that consistency dimension of institutionalism supports proactive behaviors. Our results also supports Chen and Hambrick's (1995, p. 457) statements that "a firm should be both proactive and responsive in its environment in terms of technology and innovation, competition, customers, and so forth". Proactiveness refers to how a firm relates to market opportunities in the process of new entry. It does so by seizing initiative and acting opportunistically in order to "shape the environment," that is,

to influence trends and, perhaps, even create demand (Lumpkin and Dess 1996, p. 147). So, the consistency dimension of institutionalism yields firms' human resources to be proactive for the challenges in and outside of the firm. On the other hand, consistency of the firm's practices requires the exercise of autonomy by strong leaders, unfettered teams or creative individuals who are disengaged from organizational constraints to take risk (Lumpkin and Dess 1996, p. 140).

Formalization is the attachment of actions to specified rules by separating them from individual initiatives. Therefore, it makes it possible for the workers to know what to do and how to do it and the business reaches a steady structure (Stagenborg 1988; Straw et al. 1981). With formalization, coordination is increased, the use of control systems is activated and as a result of this, with the decrease of clashes, performance is positively affected (Frazier 1999).

Our findings show that formalization affects the innovativeness dimension of entrepreneurship only in a positive way, and that it affects risk taking and proactivity negatively. Contrary to the results of Craig and Moores (2006), formalization affecting the innovativeness dimension of entrepreneurship in a positive way may be due to market challenges through innovation and the firms' ability to answer these necessities. Innovation yielding new products, where scale effects are not yet in force, and/or niche markets with customized products, where scale effects do not appear (Nooteboom 1994) requires financial resources that yield outer control of banks or other financial institutions. So that the formalization degree of the family firm may provide firm financial resources from the government institutions like KOSGEB (Republic of Turkey Small and Medium Enterprises Development Organization), and the development bank of Turkey as well.

Empirical support for the negative relationship between formalization and corporate entrepreneurship was found by Zahra (1991). Along with the results of Cooper and Dunkelberg (1986) our results showing a negative relationship between risk taking and formalization may be due to managers obtaining their position by promotion or inheritance generally are not required to be innovative or to assume a substantial degree of personal risk. Although as the environment becomes more complex, the organization requires more formal and systematic control systems, family firms face different problems at different development stages. Developmental stages of the family firms are not considered in this study. However, our findings imply an important act of balancing, since the informality, flexibility, and entrepreneurial orientation that characterize risk taking in family firms can be damaged by increased formalization (Naldi et al. 2006).

One reason that formalization may affect risk taking in a negative way may be because risk taking dimensions occur from the point of individuals rather than firms. This can cause another "problem with measuring risk, namely that a risk-averse individual, or one who prefers to study an opportunity thoroughly before embarking on it, may not advocate risk avoidance by the whole firm" (Lumpkin and Dess 1996, p. 145).

In professionalized firms, entrepreneurs must share authority with subordinates who have to be motivated to implement the firm's strategy. Entrepreneurs must also institute control systems to ensure that the behaviors of these managers are

consistent with the achievement of the firms' goals (Chua et al. 2009). As Gomez-Mejia, Nunez-Nickel and Gutierrez (2001) point out sibling rivalry, generational envy, non-merit-based compensation, and 'irrational' strategic decisions can destroy performance in family businesses (Gomez-Mejia et al. 2001). The results obtained from our research shows a positive relationship between professionalization and proactivity.

In conclusion, the dimensions of institutionalization do not fully support the corporate entrepreneurship. So, in order to have the ability to gain a competitive advantage, the companies should improve its abilities and structures. Especially, they should pay abundant attention to components such as autonomy and transparency in order to implement good ideas (innovativeness), risk taking, and proactivity.

Although our study doesn't differentiate the ownership structure unlike Miller, Le Breton, Miller and Lester's (2011) study, it sheds light into the institutionalism dimensions and corporate entrepreneurship interaction. This study has some limitations, like all other studies. First, our data were collected with a self-reporting instrument. The variables included in this study represented intra-individual constructs; that is, the constructs represented phenomena that are assumed to arise within the mind (i.e., perceptions of institutionalization and corporate entrepreneurship dimensions). Self-reporting methods, therefore, may be the only way to validly measure these constructs. Despite these limitations, the results of this study will significantly contribute a better understanding about the characteristics of the institutionalization of family firms in Turkey and in successful corporate entrepreneurship, which will lead to future long-term success. The findings of this study demonstrate that institutionalization makes a difference in corporate entrepreneurship, particularly in terms of its strong direct effects.

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Immigrants' Entrepreneurship in Greece at Times of Crisis: Ambivalent Paths and the Persistence of Institutional Barriers

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1 Introduction

The entrepreneurship of immigrants in Greece is a relatively recent phenomenon, and as such so far has attracted limited academic interest. Arguably, it has expanded quite rapidly over the past two decades, and has been, partly at least, tied to the dynamics of immigrants' settlement and incorporation and the formation of ethnic communities (Labrianidis and Hatziprokopiou 2010). Even more, the phenomenon has been more intense and particularly visible in the Greek capital, where the spread of migrant businesses gradually forms an organic part of the city landscape and the everyday experience of the urban, even in areas not characterized by large concentrations.

The deepening crisis shaking the Greek economy and society since 2009, and the austerity policies applied under the country's joint supervision by the IMF, the European Union (EU) and the European Central Bank (ECB), obviously impact on both the market environment and the institutional framework in ways that affect immigrants and natives alike. The crisis transforms radically the circumstances and the context in which the entrepreneurial activity of migrants took shape during the past two decades, as well as the public debates surrounding it. From earlier press references detecting the emergence of a "Chinatown" in Athens, or celebrating the capital's "new colorful market",¹ relevant news reports now mourn for the outmigration of Chinese entrepreneurs,² while the image of closed shops is not uncommon in areas of high immigrant presence. Moreover, the context of the crisis

¹ E.g. *Lifo magazine* of 07-02-2008 (Lifo 2008) and *Kathimerini* newspaper of 05-04-2008 (Onisenko 2008), respectively.

² E.g. newspaper *To Vima* of 26-02-2012 (Tratsa 2012).

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has negatively affected the public discourse on “immigration”, with xenophobic or overtly racist views dominating the agenda and influencing relevant policies, including biased perceptions linking immigrants’ businesses to the underground economy and the “degradation” of specific neighborhoods in central Athens.

It is therefore important, as well as timely, to attempt an assessment of how the phenomenon has evolved in the preceding years and what are the challenges of the present. The experience of post-war immigration countries in northern Europe suggests that self-employment and business-ownership among immigrants grew in the twilight of a different crisis, following the oil-shocks of the 1970s. It is uncertain at the moment whether this development will find a historical parallel in the contemporary Greek case. This chapter draws from ongoing fieldwork research in Athens in order to analyse the performance, problems and prospects of small businesses run by immigrants in Athens, at the time of the crisis.

The chapter is structured in three main sections. In the first section, we give a short introduction of key issues in the literature on ethnic/migrant entrepreneurship, and an overview of the phenomenon in Greece over the past decade, situated within the specificities of the Greek economy and of immigrants’ labour market integration. The second section discusses the context and methodology of our study, which focuses specifically on central Athens and is based on a comparative account of small businesses run by both immigrants and native Greeks, the profile of whom is briefly outlined. The third section underlines the persisting institutional barriers and shortfalls of Greek migratory policy, which put an additional burden on immigrant businesses at a time of severe market difficulties and liquidity problems, hampering not only immigrants’ entrepreneurship but their social incorporation at large. The chapter closes with a conclusion summarising key arguments and drawing some policy implications.

2 Theoretical Framework and the Case of Greece

2.1 The Literature on Ethnic Entrepreneurship

In reviewing the literature on ethnic/migrant entrepreneurship about a decade ago, Kloosterman and Rath (2003) counted more than 1,700 publications. The various approaches found in this vast and mostly empirical knowledge-base may be classified into two main “families”. One focuses on the characteristics of migrants or ethnic groups and the resources they have, i.e. what, broadly speaking, could from an economic standpoint be described as the supply side. The other takes into account the wider socio-economic environment and the opportunities and constraints it may entail, covering the side of demand.

In the first strand of approaches, one encounters perspectives accounting for the ethno-cultural characteristics of immigrant communities (e.g., Barrett et al. 1996; Basu and Altinay 2002). Echoing Max Weber’s work on the importance of protestant ethics in capitalist development (Weber 1989), the contribution of E. Bonacich

(1973) on “middleman minorities” has been pioneering in the study of historical diaspora entrepreneurial communities (Jews, Chinese, Greeks, Armenians), which thrived on the basis of hard work and ethno-cultural ties. More recent contributions, however, moved away from such emphasis on “culture”, which came often to be reduced to a rather essentialist category supposing some kind of business predisposition of specific ethnic groups, and focused instead on the collective resources of immigrant communities, especially social networks and the ability to use them as social capital (e.g. Portes 1995). In this light, family and ethnicity become competitive advantages for immigrant entrepreneurs, providing market information and startup capital, as well as a pool of labor, etc. (Ram and Jones 1998; Smallbone et al. 2005). Finally, perspectives inspired by neoclassical economics stress on individual resources, primarily human capital (education and skills, as well as past experience, etc.) of immigrants involved in business activity (e.g. Bates and Dunham 1993).

The second group of approaches, on the other hand, includes perspectives that consider the factors leading (some) immigrants towards entrepreneurial activity (Kloosterman and Rath 2001). Part of these focuses on the “opportunity structures” that shape demand for products and services targeting either specific ethnic communities or a wider clientele, as well as on the socio-economic and institutional framework that determines immigrants' access to business activity (Aldrich and Waldinger 1990; Ram 1997). In respect to this later, emphasis is also given to the negative factors driving migrants to a disadvantaged position in the labor market (informal work, unemployment or underemployment, poor pay and harsh working conditions, racism and discrimination, etc.). Under this view, entrepreneurship emerges as an option out of necessity and for a good part constitutes no more than a survival strategy (Phizacklea and Ram 1995; Ward and Jenkins 1984; Bommers and Kolb 2004). Nevertheless, even if responding to social disadvantage, immigrants' steps towards entrepreneurship may also be seen as a proactive strategy that values autonomy, economic independence and control over their lives (Valenzuela 2001).

Since the early 1990s, there have been efforts towards integrated analytical frameworks that account for both “supply” and “demand”. One such contribution proposed an “interactive model” looking at both the characteristics and resources of migrant groups and at “opportunities structures” (Aldrich and Waldinger 1990; Waldinger et al. 1990). Another, building on the “middleman minorities” approach, proposed the “ethnic economy” as a field of analysis, that is the entire economic activity developed among a specific ethnic group, including entrepreneurs, self-employed and paid employees in coethnic' enterprises (Light et al. 1994; Light and Gold 2000). Research on “ethnic enclaves” takes a similar view on the entire economic activity within a specific ethnic group, but grounds this on specific urban locales also characterised by a concentration of immigrant residences; ethnic enclaves may also be a hub of community life and often serve as corridors of social mobility (Wilson and Portes 1980; Zhou 1992, 2004). Lastly, the so-called “mixed embeddedness” model, suggests that immigrants are embedded in both social (ethnic and family) networks, and wider socio-economic structures and

political-institutional environments, whether at local, regional, national or transnational level (Rath 2000; Kloosterman and Rath 2001, 2003).

Conventional wisdom may assume that the undertaking of entrepreneurial activity by migrants does not strictly fit mainstream definitions of entrepreneurship, which entail the dimensions of innovation and risk. Yet, a review of the literature uncovers elements of both, albeit in peculiar ways (Aldrich and Waldinger 1990). The dimension of innovation, for instance, may be evident in the ability of immigrant entrepreneurs to effectively mobilize individual resources (e.g. human capital) and especially collective ones on the basis of ethnic and family ties (Smallbone et al. 2005), and to size opportunities provided within or outside their own ethnic communities (Kloosterman and Rath 2003). The dimension of risk is obvious, e.g. in respect to entrepreneurship as a proactive strategy of immigrants in response to their difficult circumstances in an otherwise exclusionary labour market and/or an unfamiliar and sometimes hostile environment (Valenzuela 2001), but also in the likelihood to engage in informal activities, i.e. basically legal activities which however bypass regulatory frameworks in order to survive on modest financial resources and in often saturated markets (Kloosterman et al. 1999; Ram et al. 2003). In that sense, immigrants' entrepreneurship may be seen not simply as a positive step aiming at improving their own and their families' position, but even as an active strategy towards economic integration which may impact on their ethnic communities in various ways.

Before closing this section, it is important to highlight the significance of history and context.³ For the most part, the literature on ethnic/migrant entrepreneurship derives from the historical experience of North America; it is in the American context where the prevailing approaches have been originally developed (e.g. Volery 2007). Especially in the US context, generally conducive to entrepreneurship, immigrants' involvement in self-employment and business activity could be seen as steps of successive generations towards upward social mobility, assimilation and some degree of fulfillment of the American dream. European research has developed since the 1980s, following a substantial growth of independent economic activity among immigrants. This certainly came as migratory processes in the "traditional" host countries matured, with settlement, family unification and the establishment of migrant communities. But it was not unrelated to the aftermath of the 1970s oil shocks, when, with deindustrialization and economic restructuring, industrial jobs previously performed *en-mass* by migrant labor in post-war decades disappeared leaving many unemployed (Waldinger et al. 1990), while a new entrepreneurial climate gradually came to favour the expansion of micro-enterprises. Our study on immigrants' entrepreneurship in Greece at times of crisis

³ Inevitably incomplete, this brief literature review has not touched upon critical perspectives in the literature on ethnic/migrant entrepreneurship and has left a number of issues outside the scope of this chapter, such as the question of class (and class resources), the spatial dimension (and how immigrant businesses are shaped by urban contexts or in turn decisively transform them), aspects such as business finance and strategies of breaking out, the diversity and diversification of activities.

is therefore inevitably inspired by the European experience of crisis in the 1970s, which decisively determined the history of immigrants' move to self-employment. Is such a shift possible in the contemporary Greek context? In order to respond to this question, our research posed a more tangible one: how is the current economic downturn actually affecting existing immigrants' businesses in the country? Before however discussing some of our findings in that respect, it is first necessary to give a brief overview of the peculiarities of the Greek economy and labour market, and the respective place of immigrant labor and entrepreneurial activity in the years before the crisis: this is the topic of the next section.

2.2 Immigrant's Entrepreneurship and the Labour Market in Greece

Greece may be part of the "developed world" in terms of GDP per capita, but its economy is characterised by considerable structural problems, which have been at the heart of domestic factors that made the country vulnerable to the crisis. Among these, a rather oversized agriculture (Damianos et al. 1998), and a limited (and shrinking) manufacturing sector, with mostly "traditional" industries marked by low "structural competitiveness" (Ioakimoglou and Efstathopoulos 2001). In addition, the Greek productive structure has long been based on a plethora of small and medium-scale enterprises (SMEs), often family owned and family run, and on high rates of self-employment. While, especially since the 1980s, part of the private sector, including both SMEs and larger firms, based their activities on the availability of state and EU funds, they did not, in their majority, invest in innovation and technology, but rather chose to compete by squeezing labor costs, generating an increased demand for cheap and flexible work. Moreover, pervasive clientelism has often resulted in privileged state-economy relations (Lyberaki 2000), while a large underground economy, estimated at between 30 % and 45 % of the GDP (Fakiolas 1999: ft. 4), reduces significantly the state budget. At the same time, administrative bureaucracy and disorganisation has resulted in particularly thin supporting institutional structures and services, with a serious welfare deficit partly counterbalanced by vertical and family bonds (Lyberaki 2000). Such conditions seriously affect the framework for entrepreneurial activity, dominated by rigid, time-consuming and costly procedures that were recently addressed with a 2010 Law, with nevertheless limited impact to date (Arapis 2011).

Table 1, based on Labour Force Survey statistics, clearly shows limited shares of self-employment and business-ownership among foreign nationals residing in Greece. The relatively limited involvement of immigrants in independent economic activity should be understood in the context briefed above, particularly in respect to the structural factors that shaped the demand for migrant labor in the Greek economy in recent decades, and determined immigrants' labor market integration. Indeed, immigrants' employment in the past two decades responded largely to the needs

Table 1 Employed labour force, by position in employment, 2011

Country of nationality	Greece	'Developed world' ^a	Albania	Other
Persons in employment	3,815,740	16,688	189,618	172,384
Employers	8.6	7.7	2.5	1.1
Self-employed	24.6	15.5	6.4	8.4
Assistants in family businesses	5.9	8.6	1.2	1.9
Employees	60.9	68.1	90.0	88.6

Source: Greek Statistical Authority (EL.STAT.), Labour Force Survey, 2011, 1st trimester, supplied to the authors upon request, authors' elaboration

^aEU-15, EEA, Cyprus & Malta, North America, Oceania & Japan

of SMEs, self-employed individuals and private households, mostly in manual and low-skilled positions unattractive to the indigenous labor force due to high qualifications and rising labour market aspirations, at a time – back in the 1990s - of increased living standards and prospects (e.g. Hatziprokopiou 2006). The high seasonality of some of these activities (such as agriculture, tourism, and construction) and the difficulties to regulate others (e.g. domestic service, cleaning and care), combined with a “tradition” in informal arrangements (Vaiou and Hadjimichalis 1997) and considerably late and inadequate state interventions to regularise immigrants' residence and work, have resulted in high rates of informal employment among immigrants and exploitation in the labour market (Hatziprokopiou 2006). In this context, the data outlined in Table 1 confirm the persisting disproportionately high shares of immigrants in paid employment, alongside disproportionately high rates of indigenous Greek who are employers and self-employed, reversing thus the typical pattern observed in north European countries, where entrepreneurship among migrants is widespread (Cavounidis 2006). The Table 1 is also telling in that a small section of the foreign labour force, i.e. those originating from advanced capitalist countries, are far more involved in entrepreneurship as compared to “immigrants”. What could not be shown, considering the methodological deficiencies of Labour Force Surveys and the limitations of nationality-based statistics, is that numerically small immigrant groups such as the Chinese, Nigerians, or Bangladeshis have high rates of self-employment and business-ownership, and that it is impossible to account for those immigrants who have acquired Greek citizenship – even if citizenship acquisition has been limited for third country nationals apart from those proving Greek origins.

Nevertheless, considering the history of immigration to Greece, which as a massive phenomenon dates back to the early 1990s, and the highly restrictive policies which left the vast majority of immigrants without any opportunity to regularise their status until 1998, it could be argued that the development of immigrant entrepreneurship has been rather rapid. It is therefore more appropriate to trace immigrant entrepreneurship beyond official data, in the limited studies available to date. Research on immigrants' economic integration in the first half of the 2000s has identified early movements into self-employment and entrepreneurial activity (Labrianidis and Lyberaki 2005; Lyberaki and Maroukis 2005; Hatziprokopiou 2006). A first generation of qualitative studies had then seen entrepreneurship mostly as survival strategy, because of immigrants' unfavorable position in the labor market

(Lazaridis and Koumandraki 2003), but stressing also the importance of autonomy in the context of family strategies to make a living and improve conditions for the second generation (Serderakis et al. 2003; Liapi 2006), or self realisation and fulfillment by actively sizing opportunities related to cultural consumption (Petronoti 2008). A second generation of studies, based on larger research samples, gave more detailed accounts focusing on the goals and motivations of migrants, the role of social networks, business strategies and activities (Halkias et al. 2007; Piperopoulos and Ikonomidou 2007; Labrianidis and Hatziprokopiou 2008, 2010; Piperopoulos 2010; van Helsuum 2010; Polyzou 2011; Liargovas and Skandalis 2012), as well as on the individual profile of immigrant entrepreneurs and the resources available in terms of human or financial capital (Lianos and Psiridou 2006; Piperopoulos and Ikonomidou 2007; Labrianidis and Hatziprokopiou 2008). Alongside these, there has been some special interest in the institutional framework, including e.g. measures to promote entrepreneurship and specific programs to support entrepreneurship among refugees (Mestheneos 2000; Hatziprokopiou 2008; van Heelsuum 2010).

The emerging diversity of immigrants' independent economic activities led towards attempts to theorise and provide typologies of migrant entrepreneurship, by relating empirical evidence to relevant debates in the literature (Mavromatis 2006; Labrianidis and Hatziprokopiou 2008, 2010; Piperopoulos 2010). Moreover, a number of studies have thus taken a spatial perspective, looking at the interplay between immigrants' entrepreneurial activity, residential geographies and/or everyday life in specific urban locales (Mavromatis 2006; Labrianidis and Hatziprokopiou 2008, 2010; van Helsuum 2010; Polyzou 2011; Balampanidis and Polyzou 2012). At the same time, actual developments on the ground call for a consideration of the links between entrepreneurship and immigrants' economic incorporation, as well as to broader processes of social change in Greece. Following Labrianidis and Hatziprokopiou (2010, pp. 211–212), for instance, (some) immigrants involved in entrepreneurial activity appear to act “as mainstream entrepreneurs” by reproducing economic practices that “remain widespread among Greeks”. Moreover, settlement and incorporation suggest the formation of immigrant ethnic communities, generating a demand for special products or services, and thus both a social *milieu* and market niche for the emergence of ethnic economies (Mavromatis 2006). Of course, not every type of activity or entrepreneurial migrant community would fit strictly either of the above explanations. A major exception concerns Chinese migrant entrepreneurs, mostly involved in the clothing trade, who seem to move along China's globalizing economy Labrianidis and Hatziprokopiou (2010, p. 213) and act as “middleman minorities” (Mavromatis 2006) for Chinese export industries targeting the general clientele (Polyzou 2011).

Obviously, the conjuncture of the crisis and austerity in the country alters radically the context in which the phenomenon takes shape and unfolds. Even if it may have been a survival option for many, the spread of entrepreneurship among migrants has been indeed related to a gradual improvement of their socio-economic status—either as self-employed converging with dominant employment patterns, or as consumers of ethnic products or services (Labrianidis and Hatziprokopiou 2010).

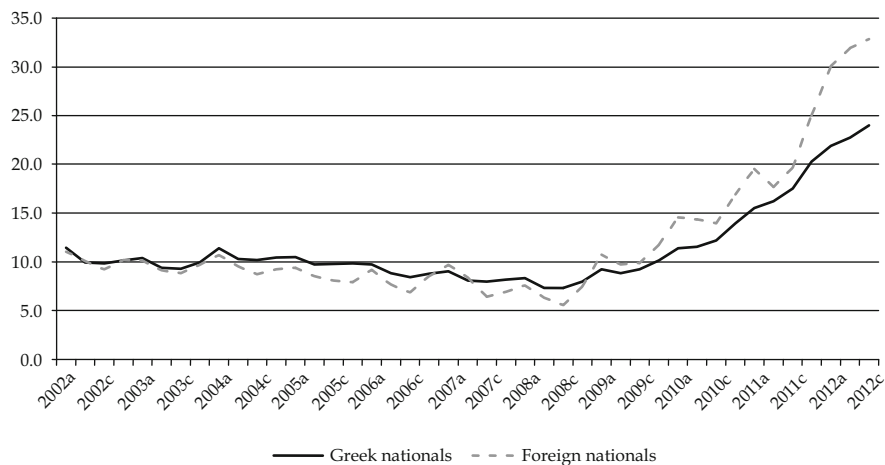


Fig. 1 Unemployment rates in Greece, 2002–2012 (Source: Greek Statistical Authority (EL.STAT.), Labour Force Surveys, 2002–2012, by trimester, supplied to the authors upon request, own elaboration)

This picture may now be well reversed. Indicative of the increasing hardship in recent years is that, for the first time since 2009, the unemployment of immigrants exceeds the rising rates among natives, as illustrated in Fig. 1. Even more, the structural qualities of unemployment have shifted: while in the past two decades unemployment concerned largely young educated people, it now affects increasingly those in low-skilled and manual positions, and industries such as construction where migrant labour has been overrepresented.

Nevertheless, a look into statistics indicative of self-employment and business ownership does not seem to confirm already a retreat of immigrants from independent economic activity. On the contrary, as illustrated on Table 2, showing data on foreign nationals insured with OAKE (the country's social security fund for freelancers), between 2010 and 2011 there has been both numerical and proportional growth of immigrants registered with the fund, while the number of Greeks has been reduced. Looking at the annual growth rates of specific groups one may observe that, at a time of massive business shut-downs, immigrants from countries such as Bangladesh, Pakistan, Egypt, or the new EU member-states (especially Romania and Bulgaria) are moving towards self-employment and business set-ups. Could this indicate a response to the increasingly harshening conditions in the labour market, i.e. immigrants moving to independent economic activity as paid employment becomes scarcer? Or could this suggest a continuation of trends that have been in place before the crisis and relate to the dynamics of immigrants' incorporation and settlement at large? This remains unclear at the moment, and so are the chances of this trend to be sustained in the near future, considering the worsening market conditions and the austerity policies in place, both of which seriously make it difficult specifically for small businesses, as the majority of immigrant enterprises are. Although it is rather early to make any judgement in

Table 2 Foreign nationals insured with OAEE, selected nationalities, 2010–2011

	2010		2011		2010–2011
	N	%	N	%	% change
Total	831,238	100.0	811,714	100.0	–2.3
Foreign nationals	24,598	3.0	25,759	3.2	4.7
‘Developed World’ ^a	7,377	30.0	7,652	29.7	3.7
EU enlargement 2004/2007 ^b	3,627	14.7	3,845	14.9	6.0
Other foreign nationals	13,594	55.3	14,262	55.4	4.9
<i>Albania</i>	7,132	29.0	7,304	28.4	2.4
<i>China</i>	670	2.7	674	2.6	0.6
<i>Pakistan</i>	537	2.2	607	2.4	13.0
<i>Syria</i>	534	2.2	560	2.2	4.9
<i>Ukraine</i>	507	2.1	503	2.0	–0.8
<i>Russia</i>	468	1.9	495	1.9	5.8
<i>Turkey</i>	462	1.9	464	1.8	0.4
<i>Egypt</i>	409	1.7	449	1.7	9.8
<i>Bangladesh</i>	321	1.3	372	1.4	15.9
<i>Other</i>	2,554	10.4	2,834	11.0	11.0

Source: OAEE statistics, supplied to the authors upon request, own elaboration

^aEU-15, EEA, Cyprus & Malta, North America, Oceania & Japan

^bExcluding Cyprus & Malta

that respect, our research attempts to shed light to some of the major difficulties faced by immigrant entrepreneurs at present.

3 The Study: Immigrant Entrepreneurs in Central Athens

3.1 *The Research Context: Athens' Multiple Crisis, Small Businesses and Migrants*

Even more pronounced is the entrepreneurial activity of immigrants in Athens, and this may have two sides of interpretation. On the one hand, Greater Athens concentrates the majority of Greece's immigrants: nearly half of the migrant population lived in Attica at the time of the 2001 Census (the latest available detailed datasource on immigrants' geographical distribution), more than one third in Athens Municipality alone (e.g. Labrianidis and Hatziprokopiou 2008: Table 1). On the other hand, the Athenian productive base and labour market remain the most dynamic in the country, even amidst the years of the crisis. This latter is illustrated on Table 3, presenting data of business-owners and co-owners registered with the Athens Chamber of Commerce and Industry, the largest Chamber in Greece, for the last 5 years. One may clearly observe that the number of individual members has been growing, even if the annual growth rate has lately dropped. It is worth mentioning that the number of non-Greeks rose from 4,073 in

Table 3 Foreign nationals at the Athens Chamber of Commerce & Industry, selected nationalities, 2008–2012

	Annual growth rates				2012	
	2008–2009	2009–2010	2010–2011	2011–2012	N	%
Total	4.6	4.6	4.2	2.5	171,203	100.0
Foreign nationals	5.6	5.1	3.9	2.3	13,246	7.7
North America, Oceania & Japan	3.4	1.8	0.8	1.0	884	6.7
EU-15 & EEA	5.8	3.1	4.9	1.3	5,333	40.3
Cyprus	4.2	3.4	2.3	1.8	1,968	14.9
EU enlargement 2004/2007	11.1	11.3	15.8	5.2	586	4.4
Other foreign nationals	5.9	8.6	2.7	3.8	4,475	33.8
<i>Albania</i>	7.7	10.1	8.2	3.9	948	7.2
<i>Turkey</i>	4.8	3.2	4.4	3.3	413	3.1
<i>China</i>	5.1	1.9	3.0	2.5	286	2.2
<i>Syria</i>	13.0	−9.9	2.3	1.7	179	1.4
<i>Egypt</i>	3.7	2.8	3.4	2.0	153	1.2
<i>Russia</i>	9.8	10.9	13.4	4.7	133	1.0
<i>Pakistan</i>	8.6	10.9	10.7	4.8	130	1.0
<i>Other</i>	7.1	5.2	6.4	3.4	4,030	16.9

Source: ACCI statistics, supplied to the authors upon request, own elaboration

2006 (van Heelsum 2010: Table 18) to 13,246 by the summer of 2012. Moreover, the growth rates in the last 5 years have been exceptionally high for specific groups, especially nationals of new EU member states, primarily Bulgaria, Romania and Poland, as well as Albanians and Pakistanis.

The former dimension requires some further attention to the dynamics of immigrants' settlement. The suburbanisation of the capital's population over the past three decades or so, especially of middle and upper-middle strata, has resulted in declining rents and in a housing gap that was subsequently filled by immigrants and their families, as suggested by a number of urban researchers studying Athens in recent years (Maloutas 2004; Kandylis and Kavoulakos 2008; Arapoglou et al. 2009). According to the same researchers, the "traditional" social mix of Athens' residential space in post-war times, characterised by low levels of residential segregation and high rates of home-ownership, has been replaced by a socio-ethnic mix marked by severe inequalities. Far from emerging "ghettos", however, and despite relative concentrations of specific groups in specific districts, the areas most affected by such population shifts are neither dominated by any single immigrant group, nor migrant presence overall constitutes a residential majority. Still, Athens' new residential socio-economic structures and inequality patterns seem to feed conflict and competition over the space of the city, which in the last few years involves open racist mobilisation against immigrants (Arapoglou et al. 2009; Kandylis and Kavoulakos 2011).

On the other hand, the aforementioned "dynamism" of Athens is bound to the overall centralised structure of the Greek economy, and is extremely fragile at the time of the crisis particularly regarding SMEs. In fact, the typical Greek family

SME at the historic centre of Athens is under multiple pressures related to a range of economic, social and ethno-cultural changes, which preceded the global financial crisis of 2008, while it has lost its earlier position as a privileged interlocutor vis-à-vis the State (Tsigganou 2009). In respect to the latter, a study by Tsigganou (2009) recorded the “complaints” of central Athens SMEs against the state not simply in terms of its inadequacy in providing motives and support, but also about its role in hampering entrepreneurialism through bureaucracy, high taxation and high social security contributions. In respect to the former, part of the pressures on SMEs in Athens relate to a reconfiguration of the relationship between the local and the supra-local in respect to competition and commercial activity in the Athenian space, particularly regarding the move of a great deal of commercial activity from the city-centre to the periphery and from small scale activities to large chains, superstores and malls (Tsigganou 2009; Roinioti 2009; Hadjimichalis 2011). This has not been irrelevant to the exodus of residents from central Athens (Maloutas 2004; Arapoglou et al. 2009), but is also related to the planning deficit in respect to public interest and a shift of state intervention towards supporting the strategies of large private capital, reflecting global trends of urban economic development (Hadjimichalis 2011). Even at the eve of the crisis, Greek SMEs in central Athens appeared to one-sidedly perceive the alleged inaction of the state as deliberately facilitating an organised plan of downgrading the city-centre, one that includes the concentration of immigrants and their economic activities, who are seen both as competitors and as a threat related to a rise in criminality and insecurity in the area (Tsigganou 2009; Roinioti 2009; Hainas 2009; Lambraki 2009).

To some extent, following more or less the shifting residential patterns of the population, the entrepreneurial space occupied by immigrants in central Athens was previously devalorised and left vacant of former uses, as their Greek owners shut down, retired or moved out. Obviously, this is not an analogy applying in similar ways to every type of activity, group or area. So, for instance, entrepreneurship and self-employment among Albanian immigrants often do not display any “ethnic” characteristics and tend to assimilate both spatially and entrepreneurially in the urban economy following the wider residential dispersal and assimilation of the Albanian migrant population across the city (Mavromatis 2006). On the other hand, part of downtown Athens (around Omonoia square) forms an extremely diverse multiethnic commercial space, where a wide range of ethnic ventures owned by, and serving, immigrants from various origins coexist next to long-established Greek-owned stores, and many have a similarly supra-local character attracting customers from across the city (Mavromatis 2006; van Heelsum 2010). At the same time, the concentration of Chinese-owned businesses in the district of Metaxourgeio induces multiple dynamics at the local level that give way to the formation of a peculiar ethnic enclave, which may be centred on Chinese commercial activities in clothing wholesale and retail targeting the broader clientele, but involves a lively local ethnic Chinese community and various stores covering its specialized demand (Polyzou 2011). Lastly, in neighbourhood of Kypseli, greatly affected by depopulation and immigrant settlement and characterized by social and ethnic mix as well as by a mix of spatial uses, one may encounter a multiplicity of

small shops and business serving primarily the everyday needs of local residents, whether natives or of immigrant origin (Balabanidis and Polyzou 2012).

The above only sketch a summary of major trends in order to describe the context of our study in both space and time. Our research is inevitably situated within a double set of dynamics. On the one hand, the multiple and complex processes of migration and immigrants' settlement in Greece and especially Athens over the past two decades. On the other, the wider trends of economic, social and spatial change in Athens, which take an extremely problematic turn in the conjuncture of the crisis, which goes beyond market conditions as such. We next provide an overview of our project and methodology, and outline some key results by comparing the characteristics of immigrant entrepreneurs and their businesses to those of their Greek counterparts.

3.2 Research Methodology, Profile and Main Features of Migrant Enterprises

The empirical results hereby discussed derive from a wider study entitled "*Emerging ethnic economies at times of crisis: socio-economic and spatial dimensions of immigrant entrepreneurship in Athens*", funded by the Hellenic Observatory at the London School of Economics and Political Science (UK). The project, which is ongoing, aims at capturing the trends, patterns and dimensions of immigrants' involvement in entrepreneurship at a time of economic crisis in Greece, and at exploring the emergence of ethnic economies in Athens and the ways these are becoming grounded in the everyday local experiences of three central Athenian neighbourhoods, namely Kypseli, Ambelokipoi and Metaxourgeio. It is based on both desktop and fieldwork research and combines quantitative and qualitative methods. Desktop research entailed a review of the literature as well as background empirical material and official statistics from various sources. Fieldwork research involves two stages. The first phase took place in June 2012 and was exploratory, based on ethnographic mapping of ethnic businesses at the three neighbourhoods under investigation. During the second, extensive phase, which started in September 2012, we have been conducting an exhaustive survey of street-level shops and business in selected streets of each neighbourhood, aiming at collecting basic quantifiable data but also including open questions providing qualitative information. Our target is a sample of at least 120 questionnaires, 60 with immigrant entrepreneurs and 60 with neighboring native Greek businesses, spread equally across the three neighbourhoods. These are to be supplemented with 15 in-depth interviews with migrant entrepreneurs, five in each neighbourhood.

In this chapter, we present results from a preliminary sample of 100 street-level businesses, 50 run by immigrants and 50 by native Greeks. This sample was purpose-built, in the sense that we have conducted the survey in specific streets of

the three neighborhoods, selected on the basis of some visible concentration of immigrant shops and businesses. But, at the same time, it has been random as far as the selected streets are concerned, since we distributed our questionnaire door-to-door to *all* shops and businesses locally, achieving an average response rate between 60 % and 70 % among open and operating ventures. The rationale of our comparative framework is to explore commonalities and differences between immigrant and Greek small businesses at the local level, in terms of business history, activities, clientele, strategies, problems and prospects at the time of the crisis. For the purposes of this chapter, we have left out of our analysis the socio-spatial dimension of our study. Instead, we chose to focus on the responses related to the impact of the crisis and on the major problems affecting the performance of the businesses. Among these, we specifically analyse institutional barriers, because – together with market conditions - these appear to affect both natives and immigrants. The latter are expectedly much more vulnerable to state bureaucracy and the deficiencies of administration, and face specific issues related to their migratory status which not only affect them at a personal level, but also seriously hamper their business' performance. Before moving on to this, however, it is first necessary to offer a descriptive account of the businesses and their owners.

Table 4 summarises the demographic profile of entrepreneurs. Both sections of the sample include an equal number of male and female entrepreneurs, with the number of men doubling that of women. Immigrant owners are on average younger than their Greek counterparts: four out of five are between 31 and 60 years old, while nearly two out of five Greeks are over 50. This obviously reflects both the age structures of immigrants and natives in general, but also the more established patterns of Greek business-owners, who have either been born in Athens (54 %) or have moved there decades ago (46 %, nearly two thirds of them before 1980). By contrast, more than half of migrant entrepreneurs had arrived in Greece during the 1990s, while another 20 % in the 2000s, while the average period of living in Greece is about 14 years. The vast majority (70 % or more) are family people with children, which is not unrelated to the family-character of the businesses, both as means to generate an income for the entire family, and as collective ventures involving the work of family members. Eight immigrant entrepreneurs are or were married to a Greek, which as we will see later on facilitates access to a special migratory status that allows the overcoming of institutional limitations. In terms of their origins, most immigrant entrepreneurs come from five main countries - Egypt (9), Albania (7), Pakistan (7), Iraq (6) and China (5) – while the rest originate from a variety of other east European, African and Asian countries.

Table 5 outlines the educational profile and employment background of respondents. Clearly immigrant entrepreneurs tend to be better educated than their neighboring Greek business-owners. This may suggest that educated immigrants are more likely to be involved in independent economic activity, underlining the importance of human capital. However, of those who declared the specialism of their qualifications (18 in each group) it appears that native Greeks tend to be involved in business activities related to their education (12 out of 18), which is the case for only two of the migrants, suggesting that the deskilling

Table 4 Demographic profile of the sample (N)

Age and family status		Migrant		Native	
		Male	Female	Male	Female
<i>Age</i>	21–30	3	2	2	0
	31–40	12	5	11	1
	41–50	14	4	13	2
	51–60	6	1	3	6
	>60	0	0	6	3
	<i>Missing data</i>	2	1	2	1
<i>Family status</i>	Single	5	1	9	1
	Married to a Greek	2	2	25	10
	Married to a coethnic	25	4	0	0
	Married to someone of a different nationality	3	0	0	2
	Divorced/widowed (former spouse Greek)	1	1	3	0
	Divorced/widowed (former spouse coethnic)	1	5	0	0
	Have children	28	10	25	10
	Subtotal	37	13	37	13
	Total	50		50	

Source: Fieldwork research

Table 5 Educational qualifications and professional background (N)

		Migrant	Native
<i>Education</i>	Primary	3	6
	3-years secondary	5	6
	6-years secondary	17	16
	Technical/professional secondary	3	5
	Technical/professional post-secondary	5	6
	University/polytechnic	14	9
	<i>Missing data</i>	3	2
	<i>Past employment</i>	Paid employee, same or similar activity	11
Paid employee, different activity		18	11
Own business, same or similar activity		9	14
Own business, different activity		6	5
Pupil or student		3	6
Unemployed		1	3
<i>Missing data</i>		2	3

Source: Fieldwork research

observed in the jobs migrants usually perform in paid employment applies also to their entrepreneurial ventures. Nevertheless, two out of five seem to built on the experience acquired either (mostly) by having worked in a similar job as paid employees, or by running a similar enterprise in the past – while another six build on their entrepreneurial experience even if in some different activity. The majority though (36 %) used to perform paid work to their current business.

Moving now to the ventures themselves, these are almost exclusively registered as single-owner enterprises (for 92 % of the migrants and 90 % of natives). Among

these however, six immigrants had a partner informally: the pattern encountered is that the business is managed by a respondent, but registered in the name of a family member with a more stable legal status, usually the spouse. We also came across two cases of businesses registered in the name of a native Greek although actually run by our migrant respondents. Both of these examples, albeit exceptional cases, are definitely indicative of the ways through which immigrant entrepreneurs practically cope with the institutional obstacles they are faced with. On the other hand, the majority of the businesses in the survey do not formally employ personell: this was the case for 21 immigrants' businesses but only 13 of the Greek-owned ones, and in most cases concerned just one registered employee. Half of the employees working for Greeks and six of those working for immigrants are members of the owners' immediate family, while immigrant entrepreneurs are more likely to employ other migrants, usually coethnics. About half of both groups of entrepreneurs are in practice assisted by the informal work provided by unregistered employees, who are in their majority also family members. Clearly, both native and migrant small business-owners rely heavily on family-based social networks, which include informal work, but this is more pronounced in the case of natives while immigrants are also based on the labour of coethnics.

The average number of years in business for immigrant entrepreneurs is 5.9 years, substantially lower than the life of Greek-owned businesses, which were on average active for 15.8 years. In fact, the vast majority of immigrant businesses were set from 2000 onwards, 18 of them since 2009 and only two before the year 2000, while 30 % of the Greek businesses started in the 1970s and 1980s, another 22 % in the 1990s, and just one out of five was set up since 2009. This clearly reflects both the more established character of Greek SMEs in central Athens, and the recent move of immigrants towards entrepreneurial activity. Correlating the life-span of business life and the age of the owners, we could suggest that a good share of Greek-owned businesses are ageing alongside their ageing owners, while immigrant entrepreneurs are relatively younger with few years in business.

In terms of their activities, more than half of the businesses owned by immigrant and over two thirds of Greek-owned ones are involved in commerce. Figure 2 displays the main business activities for the two groups. Clearly a more or less equal spread of both Greek and immigrant entrepreneurs are involved in small-scale local retail, including convenience stores and kiosks, foodstores and groceries, hairdressers and beauty services, etc. In the case of immigrants, the local character of their activities is often accompanied by an ethnic one, since they target the migrant clientele of the area in which they operate: this may vary from e.g. foodstores selling products from the countries of origin, as well as specialised services such as internet and call centres – an activity exclusively encountered among immigrant entrepreneurs only. Immigrants appear also to be more involved in coffee-shops and restaurants, which are also local in character and often function as local community husband meeting places for people from the same group. On the other hand, typical local stores offering furniture and home equipment, or home-maintenance material and related services (electricians, plumbing, colours, etc.), though not absent among immigrants, are far more common among Greeks.

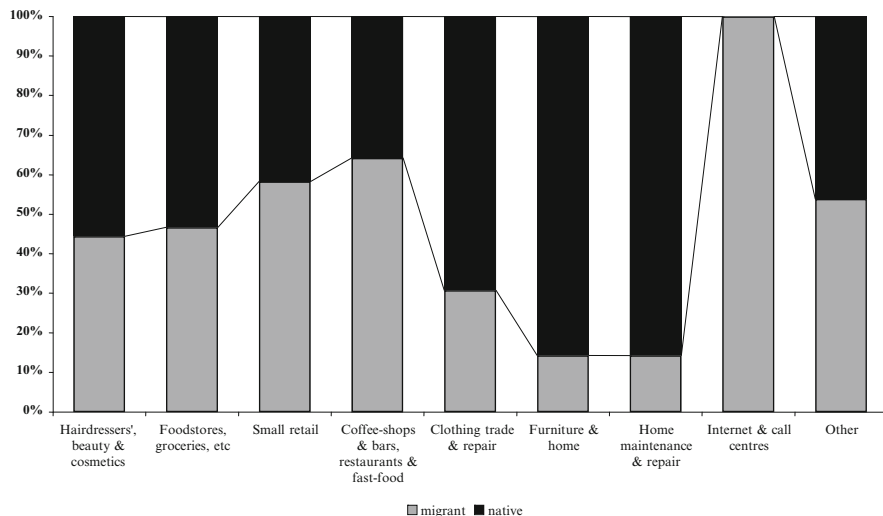


Fig. 2 Types of business activities (Source: Fieldwork research)

Clothing stores were also more common among Greeks, though specifically in the area of Metaxourgeio we should acknowledge significant language barriers that has not allowed us interviewing Chinese wholesale traders. Lastly, we should underline that some 13 immigrant-owned business perform multiple activities accompanying their main one, which is the case for only two among the native-owned businesses: for example, offering money transfer services or internet facilities, alongside their mainly retail activity.

In sum, more than half (27) of immigrant businesses offer either “ethnic products”, in some cases alongside products targeting the wider clientele, or services addressed to an “ethnic clientele”. In both cases, the customer base is primarily local, and this applies to for the Greek-owned businesses. The majority of both (about 80 %), however, operated in rather saturated local markets in which they have to compete with local stores and businesses offering similar products or services. When asked to provide more details of how owners perceive their customers’ preference, they came up with a series of responses which are summarised on Table 6 (note that the question allowed for multiple responses). The local base of their clientele is clear for both groups, as is the specialty of their products: in the latter case, migrants referred mostly to their “ethnic” products, while Greeks emphasised the quality of their stock. Although important for both groups, immigrant stressed their cheap prices as a key reason attracting both their immigrant and native Greek customers. On the other hand, Greek businesses are more established, as we have seen, and thus the owners have “loyal” customers, with whom they maintain personal relationships over the years, including past local residents who have moved out to the suburbs. The most significant differentiation perhaps is the flexible working hours on which immigrant businesses commonly operate, often involving not just long working days but also opening at weekends,

Table 6 Reasons for customers preference (% , multiple responses)

Multiple responses	Migrants (%)	Natives (%)
Cheaper products/services	44.0	38.8
Rare or quality products/services	38.0	42.9
Customers are friends/acquaintances or they drop in to socialise	28.0	36.7
Customers are local residents	40.0	42.9
Flexible working hours	44.0	12.2
Something else	14.0	34.7

Source: Fieldwork research

something which some Greek neighbouring businesses complaint about, in terms of unfair competition and limited administrative controls. This once again brings institutional and regulatory aspects to the fore, which we analyse in the next section.

4 The Crisis and the Persistence of Institutional Barriers

In response to our question on the business performance over the last year or so, the vast majority (88 %) of all entrepreneurs talked about an increasingly difficult situation. Notably, however, more than half (58 %) of native Greeks described the situation as extremely difficult, involving considerable drops in their income, which was the case for 38 % of immigrants. As our qualitative material also reveals, this may not suggest that Greek-owned SMEs actually suffer more from the crisis, but rather that they have lost a far wider share of their past profitability, while immigrant businesses were often marginally surviving. The difficulties are so severe for some of our respondents, that some 12.8 % of the migrants and 10.4 % of Greeks seriously considered to shut their business down, another 6 % and 10 % respectively had fired formally-working employees, while some 8.5 % and 6.3 % respectively were not able to pay for their basic social security contributions to OAEE for a period of more than 2 months.

When asked specifically about the problems and difficulties encountered at present, some 74 % of the migrants and 66 % of native entrepreneurs referred to overall drops in consumption, either because their customer base has been reduced or because they simply spend less. For migrants in particular, their “ethnic” clientele is not just impoverished, due to unemployment or income reduction, but also – obviously as a side effect of these – because they migrate either back to countries of origin, or even elsewhere in Europe: this we have been told by entrepreneurs originating from a variety of countries, in some cases triggered mostly by pull factors for return (e.g. Egyptians, or Iraqi Kurds), in others chiefly by push factors from Greece (e.g. Albanians, or Chinese). Another 34 % and 64 % respectively of migrant and native entrepreneurs referred to the general liquidity problems and market downturn, ranging from the banks’ reluctance in providing business loans, to the overall chain effect of the collapse of the construction industry, or to the fact that customers now ask widely for credit while suppliers demand to be paid in cash.

Apart from these clearly economic in character problems, some 66 % of the migrants and 58 % of Greeks mentioned problems related to state policies, public administration and regulatory mechanisms, including high taxation, high social security contributions, and to a lesser extent bureaucracy. Bureaucracy in particular may not have score high in our survey itself, but was omnipresent in the discussions we have held on the field and in our in-depth interviews with immigrants, especially regarding past experiences of entrepreneurs from both groups, for example as far as business start up and licencing was concerned. For migrant entrepreneurs in particular, it was not widely mentioned as a problem related to the function and performance of the business as such, but came up the major problem they have to deal with at a personal level in sorting out their migratory status. This puts an additional burden on immigrants, and affects the business indirectly, alongside the purely financial impact of the crisis. In the next few paragraphs we briefly outline the stories of three of participants, one in each of the three neighbourhoods of our study, in order to highlight different aspects of the way the institutional framework of migratory policy affects both personal/family livelihoods and business performance amidst the crisis.

Case Study A

Carolina is a 40 years old single mother from Romania. She first worked in Crete in hotels and restaurants during the summer season, returning back to her parents' place for the winter, and managed to buy an apartment in Romania. In 1999, she decided to move to Athens to look for more stable work.

She worked for about 10 years in a pizza chain, but worsening relationships with her managers (resulting in several moves around different branches across the city) led her to the decision to begin something of her own, which she could possibly inherit to her son, currently a technical high school pupil. In 2009 she started a minimarket, which she financed through a bank loan of 20,000 (buying-off the business alone costed her 15,000 euros).

Although she mentioned serious problems in sorting out her documents, in travelling back and forth and in bringing her son over in the past, these have been solved since 2007, when Romania became an EU member-state. Carolina acknowledged that her decision to start up her own business depended crucially on the fact that she had become an EU citizen, both in terms of the paperwork and in terms of the ability to receive a bank loan.

Her business was going smoothly in the first couple of years, but there has been a considerable drop in sales lately («I only sell cigarettes now», she said). In trying to cope with her significantly reduced income and her family and business expenses, including the loan, Carolina works informally from 21:00 to 01:00 as a dishwasher in a local souvlaki fast-food owned by an Albanian for 15 €.

Case Study B

Artan arrived in Greece in 1994, after completing his studies as a veterinarian in Tirana, Albania. He first headed to Crete, where his brother already lived and where they were latter joined by other relatives. He worked initially in

construction and latter as a taylor in Athens. He is married, with two children studying in a prestigious private school with financial support covering their fees.

In 2006, after having worked for several years in a clothing manufacture and learned well the trade, he decided to be his own boss and start up a business. He became a taylor, fixing clothes and providing laundry services on his own, sometimes with the (informal) help of his wife.

Having been on successive 2-year residence permits for paid employment, he was eligible for a special permit for Independent Economic Activity and submitted an application. He received a negative response a year latter, justified on the grounds that he was not employing any personell. In the meantime, he was not allowed to be formally employed in any other job. He subsequently submitted a second application, but an amendment to the Law now requested a deposit of 60,000 euros in a bank account as start-up capital, which he strove to collect through relatives and friends. About 3 years latter, in 2009, his application was also rejected and he decided to bring the case to justice. Court procedures are still ongoing, and in the meantime he holds a renewable certificate stating that his case is being processed, which grants him a status of temporary legality but does not allow him to travel to Albania and renders his business semi-legal. Artan is worried about this situation, even more because his business is going well despite the crisis:

You need to work and they don't let you, I pay my OAEE [contributions] for 7 years now, and still does not have a residence permit!

Moreover, he complained specifically about mal advice and corruption among public servants in his local municipal department, who had explicitly asked for a bribe to handle his permit – which he knows is not the case in other municipal branches:

Here state officers do not respect the law, like the law is not the same for everyone, you pay 10,000 euros and you get your permit immediately! It does not cost too much at the end of the day, because you end up loosing more money with a delay of 3–4 years! It's not much compared to what I lost and still need to pay to lawyers!...

Case Study C

Usama arrived in Greece in 1982 at the age of 18, after graduating from high school in Sudan. He first settled in the island of Skyros, where he worked for years before moving to Athens in 1999. He is married to a Sudanese lady and have two children, a high school pupil and a polytechnic student.

He started a laundrette in soon after moving to Athens, which back then used to work well. When the Immigration Law changed in 2005, providing special permits for Independent Economic Activity, he applied and got this type of permit on the basis of his business activity. However, in 2007 he had a serious car accident leaving him with a permanent disability which does not allow him to be standing for long hours, as the laundry business required. He therefore closed down the laundrette and started up an internet and call centre, offering

also computer and mobile accessories and repair services. He soon discovered that his permit was tied to the laundry activity and that the Law had not foreseen the possibility of activity change.

Usama has since then entered a Kafkaian situation of constant fight with the bureaucracy. He described us his successive visits from immigration services to the Municipal business licencing department, to tax authorities and social security branches, all asking him to provide a series of documents on his old and new business, his residence and legal status, his tax and social security record, and his health condition, only to move back again to the start. In 2009, he thought he could bypass this by applying for a 10-years residence permit instead, but was lacking about 2 weeks of proven legal residence in Athens and could not make use of his years in the island; in the meanwhile his semi-legal status does not classify him for completing this application. Complaining also about xenophobia and desinformation at the municipal immigration department, he then decided to bring the case to justice, but without an outcome to date, and in the meantime holds a certificate stating that his case is being processed.

The crisis made things worse, as the business is not going well. For the last year or so, Usama has not been able to pay his rent and bills for both the business and his family apartment, neither for his social security contributions. In our interview, he was desperate about being forced to operate illegally and expressed the will to leave Greece for good.

The cases examined here clearly show different layers of how the institutional factor affects immigrant entrepreneurs and their businesses, and of how this intersect with the financial and market conditions at the time of the crisis. All cases are typical of small businesses that are closely tied to their owners and form part of their families projects and strategies for generating income – a model which resembles that of equivalent Greek-owned SMEs in the very same areas where this ones are located. The experience of Usama reveals that the bureaucratic Leviathan that characterises the Greek administration at large may turn really nasty for immigrants, even if they had been living and working in the country legally for a long time. Worsening market conditions in the last few years, render living impossible and force some towards informality as a survival option. Similar, though not as desperate, is the experience of Artan. In his case, however, the crisis has not affected severely the business to date, leading him to consider the possibility of bribe in order to proceed with his documents as part of a cost-benefit calculation for the sake of his own legal status as well as the performance of his business. Moreover, the deficiencies of the Greek public sector in both cases have been highlighted from the top level of «high» policy, to the grounded level of individual officers who do not appear to know the Law or bypass it by deliberately misinforming immigrants on the basis of xenophobic prejudice and sometimes benefit from their institutional vulnerability through practices of corruption. By contrast, Carolina's example stands exceptional as indicative of the multiple benefits a secure legal status may have in a migrant's dealings with the bureaucracy and legal framework. In order to keep her businesses running, however, amidst severe drops in sales due to the crisis,

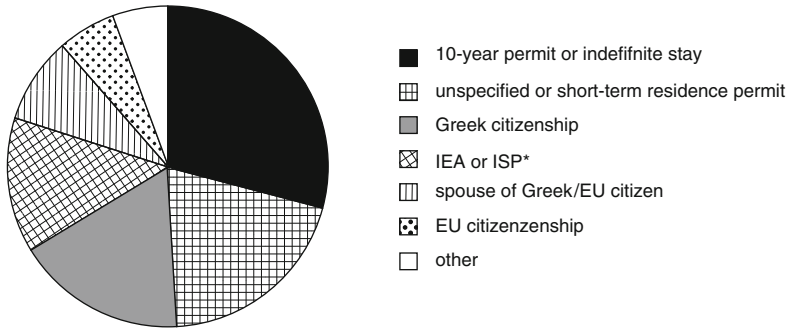


Fig. 3 Legal status of immigrant entrepreneurs in Athens (Source: Fieldwork research)

she retreats to the informal economy, overworking part of her free time also as an «investment» for the future of her son.

Returning back to our survey results, a closer look on the legal status of immigrant entrepreneurs, illustrated on Fig. 3, is revealing of the wider picture regarding the impact of the institutional factor. Ten of our respondents did not specify the type of residence permit they were holding, and one response is entirely missing. Another ten were on a 10-year residence permit, though one was awaiting result on his application, holding a temporary certificate. Four had a permit for indefinite stay. Nine were granted Greek citizenship (in most cases recently), and three are citizens of new EU member states (Bulgaria and Romania). Three are spouses of Greeks and one of a Romanian citizen. One holds the special identity card issued to ethnic Greeks from Albania, while two have the status of a refugee. Only three were holders of a permit for Independent Economic Activity or Independent Services or Projects, and another three were only holding the aforementioned certificates stating their cases are being processed.

Clearly, even considering the information we missed, the majority of immigrant entrepreneurs are subject to a secure and long term or even permanent status: from Greek and EU citizenship and indefinite stay, to 10-years permits. This obviously suggests that the likelihood of businesses start ups is also related to migratory status, and that state policy may or may not indirectly facilitate entrepreneurial activity among immigrants, depending on the degree and conditions of access it provides to a secure and stable migratory status. One should expect that, since the Law acknowledges the possibility of migrants to be involved in independent economic activity, and provides for a special residence permit applying to this category for migrants, things should be easier for those who may wish and are able to make this step. The examples stemming from the life stories of our interviewees as outlined above offer little support to this argument. In fact, Law 3386 of 2005 and its more recent amendments, maintain both the problematic clauses experienced by our interviewees: in order to be issued a permit for Independent Economic Activity (IEA), the applicant should hold a minimum capital of at least 60,000 euros in a bank account (article 24, paragraph 1a); while the permit is valid for 2 years and

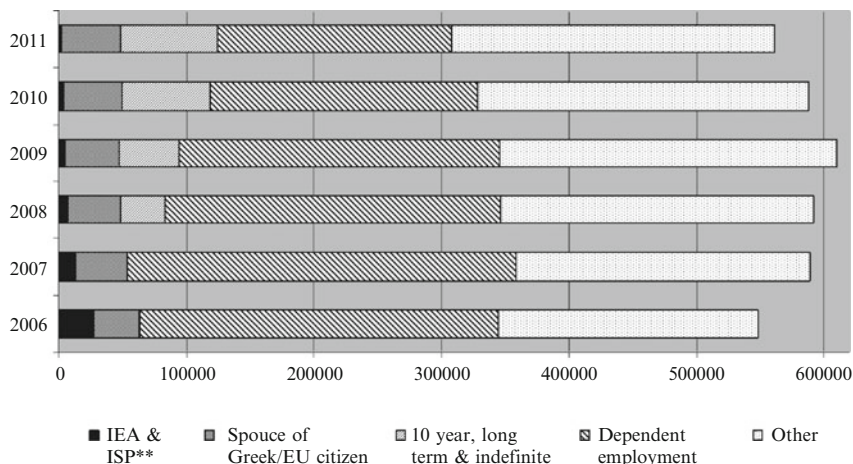


Fig. 4 Valid residence permits*, by type, 2006–2011 (Source: Ministry of Interior, Data on residence permits, by type, 2006–2011) *Excluding EU-27 citizens for all years, **IEA = Residence permit for Independent Economic Activity, ISP = Residence permit for Independent Services or Projects

may be renewed for another 2 years based, among other conditions, on the maintenance of the same activity for which it was originally granted (article 25, paragraph 3a). The Law came to address a real need, but had not provided for the long-term status, which may be necessary for entrepreneurs, nor had it foreseen a situation like the one imposed by the crisis, which would makes the 60,000 euros requirement an impossible criterion, while remains irrationally blind to the possibility of activity change. Expectedly then, looking at the overall data on residence permits across Greece, illustrated in Fig. 4, the shares of 2-year permits issued for IEA or Independent Services or Projects (ISP, applying to self-employed or free-lancers) have been declining over the past 6 years, while those suggesting some more stable, long-term or permanent status have been considerably increasing. It is in these categories, as well as in the recent citizenship acquisitions, that one should now look for migrant entrepreneurs in Greece, as our study revealed, since those supposedly designed for them are not simply difficult for immigrants to get in the context of the crisis, but may put them in additional unnecessary trouble as in the cases described in this section.

5 Conclusion

Based on a review of empirical literature and of up-to-date statistics, and drawing mostly from ongoing fieldwork research in Athens that involves a combination of qualitative and quantitative methods, this chapter attempted to sketch the emerging picture in respect to immigrant entrepreneurship in Greece at the time of a

deepening financial crisis and harshening austerity policies under the country's joint IMF-EU-ECB supervision. The research is situated within the theoretical debate on ethnic entrepreneurship in the literature, particularly regarding the historical experience of economic crisis in Europe following the 1970s oil-shocks, during which many migrants shifted from waged work to independent economic activities in response to structural changes in the productive and employment base and rising unemployment in the sectors they were traditionally employed in the post-war era. Building on this, our study posed the question whether immigrants in contemporary Greece may follow in great numbers similar pathways to entrepreneurship and self-employment to overcome shrinking opportunities in the labour market.

Our review of empirical literature and official statistics revealed a rapid rise of migrant entrepreneurship in recent years, even since the 2009 when the crisis first hit the country's economy, and that this growth of immigrant businesses is even more pronounced in Athens, the urban economy and space of which have been undergoing multiple processes of change over the past decades. Following earlier arguments in the literature on immigrants' entrepreneurship in Greece, we also locate the phenomenon within a dual set of dynamics: on the one hand, the complex trends of migration and immigrants' settlement and incorporation in Greece and Athens; on the other, the wider processes of economic, social and spatial change in Athens. These latter take a problematic turn in the context of the crisis, which goes beyond worsening market conditions and relate also to the alleged downgrading of parts of the central Athenian space, or to open racist mobilisation against immigrants. We have chosen to focus on the institutional factors affecting immigrant entrepreneurs and their businesses.

Our empirical findings to date confirm the recent emergence of ethnic economies on the urban space of Athens, but suggest that these have been rather based on trends preceding the crisis. Our preliminary analysis of results maintained a comparative frame between immigrant-owned shops and businesses in the three neighbourhoods of our study, and their local Greek counterparts. This comparison allowed us to observe a number of differences in the profile of both businesses and entrepreneurs: e.g. the ageing of Greek business owners as compared to immigrant entrepreneurs, and the resulting more established character of their businesses, the higher educational profile of the migrants, contrasted to the greater relevance of qualifications to business activity in the case of Greeks, the ethnic character of most immigrant businesses, etc. At the same time, however, it brought to the fore a number of commonalities, such as the family character of the majority of ventures and the importance of informal family labour and support, the primarily local scope of most, or the similar ways in which e.g. drops in consumption and liquidity problems amidst the crisis may hamper the performance of both. It also highlighted aspects of the role of the state and of the institutional and regulatory framework, such as high taxation, high social security contributions and state bureaucracy.

These, alongside austerity measures that were repeatedly mentioned especially by our Greek interlocutors, seem to be common for both categories of entrepreneurs even if in varying ways. Reducing bureaucratic pressures by simplifying procedures

for start ups, licencing, etc. and fostering incentives for SMEs through lowering taxes and social security, have been suggested by many during the fieldwork and sound as rational claims against the State. The latter, however, applying austerity packages characterised by a blend of cutting costs and generating income, and without any proof to date of steps away from the rigidness and polynomy of the institutional framework, appears to have an overarching presence haunting the performance of SMEs owned by immigrants and locals alike. At the same time, however, the state appears to abandon its regulatory role, e.g. by applying controls and maintaining standards of fair business practice and competition.

Immigrants in particular are far more vulnerable to both governmental policies and the bureaucracy of public administration, due to the very condition of being subjects to a fragmented, shortsighted and largely contradictory legal framework. The stories of our immigrant interviewees are indicative of bureaucratic corridors under the spectre of xenophobia; the state is omnipresent in determining their lives, while it remains absent from any positive measure facilitating integration in the long run. Migratory status remains a basic but necessary step towards the incorporation of immigrants, and a minimum condition for the economic performance of those among them who decide to engage in entrepreneurial activity at a time of crisis.

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Entrepreneurialism and Sport Leadership: Some Lessons for the Balkans

Robert C. Schneider

1 Introduction

Entrepreneurship is a risk assuming process in which something of value is created and produced. The origin of the term entrepreneur can be found in the French term “entreprendre”, which means to undertake ([Entrepreneur n.d.](#)). An entrepreneur must commit to the financial risk that is inherent in the undertaking of an entrepreneurial endeavor. Sport organizational leaders who aspire to lead entrepreneurially are no exception, as they must share in an assumption of risk.

Entrepreneurialism, from a broad perspective, can advance society and improve the lives of its people. Experienced business persons including political leaders, economists, and educators believe that fostering a robust entrepreneurial culture will maximize individual and collective economic and social success on a local, national, and global scale (National Content Standards for Entrepreneurship Education [NCSEE], 2004). Entrepreneurial outcomes contribute to the betterment of society in the form of new products and jobs (Goldhirsh 1985). Thomas Edison took his interest in electricity and helped change the way people live. Henry Ford took his love of engines and “horseless carriages” and helped change the way people travel. Amelia Earhart took her desire to pilot aircraft and changed the way people view gender roles. Bill Gates (Hornett 2010) and Steve Jobs (Isaacson 2011) took their talent in electronics and helped change the way we work. As a microcosm of society, entrepreneurialism within sport, has and can continue to positively impact the sporting community.

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2 Taking Advantage of Entrepreneurial Opportunities

In the United States, sport has become big business. The financial well being of the National Collegiate Athletic Association (NCAA), leagues, athletic departments, and teams affiliated with sport in the U.S. are reliant on entrepreneurialism for the generation of revenue required to operate. Opportunities to generate revenue through entrepreneurial endeavors must be recognized by sport leaders.

2.1 Opportunities

Opportunities for entrepreneurialism in sport are many. Sport leaders must be opportunistic both in their creation of original endeavors and in the business environment under which the original idea is launched. Upon the identification of entrepreneurial opportunities, risk must be assumed in an attempt to convert ideas into real outcomes (Bulent et al. 2011). Entrepreneurs are quick to recognize conditions that are suitable for first creating an innovative idea and then launching it into a business model that ultimately succeeds in the generation of revenue.

2.2 Revenue

Sport leaders who are entrepreneurial, embrace the various potentials of sport that have a proven record of offering revenue streams (Cooper and Weight 2011). Entrepreneurial abilities of the sport leader must be utilized to help generate necessary revenue to support the sport enterprise. Without entrepreneurship, which is the most important part of business, economic development cannot flourish (Bulent et al. 2011). From commissioners of national governing bodies, to leagues, to athletic directors, to coaches, and others affiliated with the sporting community, creative opportunities to generate revenue are plentiful for the entrepreneurial minded sport leader. Often opportunities by the best entrepreneurs are local (Hornett 2010).

In 2002 the athletic director at Duke University put in a request to volunteer athletic department employee Sue Harnett to develop new revenue generation strategies (Villano 2011). After some thought, Harnett, who was also a former women's basketball player, recognized an opportunity to make money from the athletic department's many sport photos that had been archived over the years. After compiling images onto a data base for an on-line store, Harnett named the company "Replay" and publicly sold everything from framed prints, to giant decals, to mugs and t-shirts, all of which incorporated photos from Duke University athletic events. The Duke athletic department earned a licensing fee for each photo related item sold. Observant of Replay's near immediate success, other universities quickly entered into business with it, making Replay a multimillion dollar business (Villano 2011).

Blending innovative thinking with an awareness of available opportunities can be financially beneficial to sport organizations. Opportunities, in the form of financial incentives, are readily available in return for building “green” sports facilities. For renewable environmentally friendly building efforts, government legislation offers grants and reimbursements in addition to a variety of tax incentives and deductions. The entrepreneurially minded sport leader quickly recognizes the benefits cited by Porteshawer (2009) that can come with green financial incentives: improvement of infrastructures, creation of new jobs, and saving the sport organization money that can be used for ticket, advertising, endorsements, broadcast, and concessions revenues.

The many business opportunities available are recognized by those with the creative instincts innate to entrepreneurs. With entrepreneurship, which is initiated by the recognition of money making opportunities, comes economic prosperity and the prospect for growth and improvement of sport organizations.

3 Individual and Organizational Entrepreneurship

Entrepreneurship can be divided into two types: (a) individual entrepreneurship, and (b) organizational entrepreneurship. Individuals, and organizations, according to Miller (1983), can both behave entrepreneurially. While some entrepreneurial traits are somewhat specific to the individual or organization, others are shared among both individuals and organizations.

3.1 Individual Entrepreneurship

If the goal is to enhance organizational entrepreneurship, individual entrepreneurship must play an essential role. Driven strongly by the individual entrepreneurial trait of innovation, organizational entrepreneurship comes about from the entrepreneurial innovative tendencies of employees in sport organizations.

To achieve the overall goals of an organization, there must be a connection between the professional ambitions of the individual and the organization. Entrepreneurial success of the organization depends on staffing the organization with individuals who are entrepreneurially minded. Organizational productivity and its subsequent success, however, can diminish if individual entrepreneurialism is disconnected from organizational goals.

Also dependent on individuals is entrepreneurship *within* an organization, which according to Behnoosh (2012), is a growing field and consists of new businesses venturing within an existing organization. Intrapreneurship, that supports overall sport organization goals, makes for healthy organizational growth and is dependent on the individuals employed at the organization.

3.1.1 Instilling Individual Entrepreneurialism at an Early Age

Life experiences, upbringing, and the background of a highly successful entrepreneur, irrespective of the business domain can shed light on individual traits supportive of entrepreneurialism that can be useful in fostering organizational entrepreneurialism in sport. Virgin Group founder and U.K. billionaire entrepreneur, Richard Branson's background exemplifies how one's environment, including family and friends, can influence and support individual entrepreneurialism. Branson's parents, siblings, and extended family, according to Branson in his autobiography, were highly influential to his entrepreneurial talent, as they trusted, supported, challenged and especially reinforced his creativity (Shavinina 2006). Branson's parents loved, trusted, and supported him and treated him as their equal along with his other siblings. Branson's parents excelled and their lack of money resulted in creative approaches to making money. His early exposure to challenges, rule breaking, love of adventure, work ethic, selflessness, teamwork, fostering independent thought, and a "change the world attitude," were also present during Branson's upbringing (Shavinina). Today, Richard Branson encourages entrepreneurial thought in his businesses through an informal bottom up strategy that reflects an employee driven management style.

3.1.2 Traits of Individual Entrepreneurs

Successful individual entrepreneurs do not give up easily. They carry unshakable self-confidence and thrive on problem solving while fully conceptualizing and resolving problems quickly. Physically, they are resilient and when ill, which is a rarity, hold true to their strong work ethic by continuing to pursue their entrepreneurial endeavors. Ideas come frequently and quickly to entrepreneurs. Entrepreneurs learn how to think for themselves (Goldhirsh 1985). Highly driven and unaware of what most would perceive to be stress, entrepreneurs convince others to support their ideas. According to the NCSEE (2004) entrepreneurs are not "born" but "become" through life experiences.

Former high school, college, professional, and Olympic basketball champion Earvin "Magic" Johnson illustrates such entrepreneurial traits. Johnson, through his urban upbringing and years of basketball successes, gained experiences that he was able to apply to the creation of new businesses in urban neighborhoods. Throughout 85 cities he operates hundreds of businesses including but not limited to gyms, Starbucks coffee shops, Burger King, and movie theaters (Knowledge@Wharton 2010). The businesses are located primarily in urban areas, not dissimilar to the area in which Johnson spent his childhood, which based on his own living experiences, provides him with insights helpful in developing businesses that meet the needs of urban consumers.

3.2 *Organizational Entrepreneurship*

Successful organizational performance is dependent on employees who aspire to achieve and who embrace individualism (Bhuiyan et al. 2010). Much like innovation, however, from an organizational standpoint, the need for achievement and/or individualism may not support organizational productivity. If an employee's need for individual achievement is strong there might be a lack of congruence with the organization's goals. If an employee prioritizes individual goals over organizational goals, organizational productivity, most likely, will be hindered.

Consider an approach to entrepreneurialism that offers creative strategies to offering incentives or bonuses to athletic directors. Care must be taken to ensure that cash incentives support the overall goals of the organizations. In an article by Brady (2011) concerns were raised regarding the provision of athletic directors with cash incentives based on the success of teams. Although the creation of athletic directors' cash incentives may reinforce winning, efforts must be made to ensure that such incentives also support the overall athletic department goals of fostering an ethically and educationally strong athletic department.

3.2.1 *Traits Supportive of Organizational Entrepreneurship*

Many entrepreneurial traits are inherently associated with entrepreneurialism and must be present if success is to be achieved in pursuit of an entrepreneurial endeavor. In addition to general entrepreneurial traits shared by individual entrepreneurs and organizational entrepreneurs, traits more specific to organizational entrepreneurship are required of sport leaders.

If organizational entrepreneurship is to be successful, the sport leader must ensure that all entrepreneurial traits are available to the organization whether held by individuals and/or the actual leader. The following entrepreneurial traits are necessary for entrepreneurial success in the sport industry: communication, interpersonal, financial management, marketing management, and business foundations (Borgese 2010). In addition to innovation and risk taking, successful entrepreneurship also calls for analytical thinking (Dubey and Ghai 2010), practical intelligence, creative abilities and business talent (Shavinina 2006), ideas, determination, and the ability to strategize (Mukherji et al. 2009).

Dimensions of entrepreneurial orientations of businesses not only include innovativeness but also include proactiveness, and risk taking (Ferreira et al. 2011). In an organization, entrepreneurial leaders normally assume the majority of risk when compared to entrepreneurial employees who also assume risk even though the degree of risk is less (Mukherji et al. 2009). As entrepreneurs, coaches and other employees of sport organizations, usually also assume a level of risk but it is the sport leader who generally assumes most of the risk. If an entrepreneurial endeavor is not effective it is the sport leader who ultimately must answer to the

failure and is held more accountable than employees; thus, in most cases, the burden or risk falls predominately on the shoulders of the sport leader.

3.2.2 Management Skills Supportive of Organizational Entrepreneurship

Management skills are a necessity of sport leaders, and as entrepreneurs the sport leader's management skills must be appropriate for entrepreneurial endeavors. Entrepreneurial management skills will adequately prepare leaders of sport to manage from an entrepreneurial orientation regardless of the various types and levels of sport organizations (Borgese 2010).

Entrepreneurs are more likely to prosper in loosely structured organizations managed by leaders who support employee innovation rather than those who command adherence to a protocol. Authoritarian management styles are incongruent with entrepreneurialism, as individual entrepreneurs/employees do not want someone imposing authority over them. To achieve entrepreneurial success, sport leaders must encourage and support new ideas. Employees who work for entrepreneurial leaders must be given opportunities to exercise creative freedoms (NCSEE 2004). Successful entrepreneurs understand business and value personnel who contribute to the success of entrepreneurial organizations.

Creativity, as pointed out by Hornett (2010), is necessary for the entrepreneurial leader to maintain an entrepreneurial orientation by developing a work environment that supports the creative abilities of employees. Creativity comes in all sizes, from all backgrounds and from a full spectrum of ages (Pitta et al. 2008), which supports the thinking that sport leaders can foster creativity in all employees. An athletic director might want a head coach to create a style of play for his team that attracts large amounts of fans. Or a marketing director may want to draw out the creative talents of a sport marketer to develop more innovative ways to package game tickets. Regardless of the type of creativity, each employee has creative abilities that can be drawn out by skillful sport leaders.

The selection of the leader of a sport organization will affect the entrepreneurial orientation of it. Although, Bhuian et al. (2010) found that organizational performance is more strongly and directly impacted by entrepreneurial orientation than managerial traits, one would be ill informed to think that a sport leader's affinity for entrepreneurialism does not orient a business toward entrepreneurialism. Further orienting a business toward entrepreneurialism are its creative employees. Without creative employees, organizations will not achieve entrepreneurial outcomes. Weight (2009) found that as employees increase in age, education, and years employed in the organization, entrepreneurialism is enhanced.

A former assistant swim coach at the University of Maryland, Mark Murray, currently manages swim clubs in Northern Virginia with a management style that reinforces entrepreneurial thinking on the part of his employees. Murray claimed that over the years, his swim clubs have prospered, in part, because of the innovation and creativity of his employees (M. Murray, personal communication, August 12, 2012). In 2010 as a result of the creative thinking of one of his

employees, Murray assumed a more flexible approach to the instruction of swimmers in his club. Originally, Murray focused exclusively on teaching basic skill principles, but based on the innovative thinking of one of his employees, developed an approach that also caters to more advanced swimmers in need of skill refinement. As a result of Murray's receptivity to the entrepreneurial talent of an employee, his business has grown considerably because of its ability to attract a broader demographic of talent ranges.

4 Innovation in Sport Organizations

Innovation, as a fundamental trait of entrepreneurialism, is necessary for both individual and organizational entrepreneurialism. Organizational growth, improvement, and the overall performance of various business aspects can be influenced by innovation (Dubey and Ghai 2010). Organizations that do not innovate may fall behind those that do. Innovative ideas that will generate profit for the sport organization are necessary if the organization is to prosper.

A key challenge in innovation is arriving at the profit generating product, resulting from the innovation, without completely disrupting the process already in place. The NCAA, which generates between 70 % and 90 % of its revenue from the men's Division I basketball tournament, has a history of expanding the tournament. However, in the face of expansion and from the perspective of protecting the already financially lucrative tournament, care must be taken to ensure current revenues will be maintained. Most recently the tournament expanded from 65 to 68 teams with an anticipated growth in revenue. The last significant expansion of the tournament took place in 1985 and was from 53 to 64 teams (Wieberg and Hiestand 2010).

If organizational innovative efforts initiated by sport leaders are not supported by members of the organization, innovation can be disruptive to the organization. Often, successful innovation results in change, which is frequently resisted by employees. Entrepreneurialism must be balanced with the history and traditions of the sport organization.

In 2007 when Rich Rodriguez was hired as the head coach of the University of Michigan's football program he quickly implemented changes that contradicted the program's storied traditions. Consequently, Rodriguez was criticized throughout his 3 year tenure for not understanding the traditions of college football's once highly successful program (Kartje 2011). Although some of the changes were viewed as innovative, Rodriguez lost the support of influential alumni who valued the traditions. Over the course of Coach Rodriguez's employment as Michigan's head coach, the team posted a 15–22 record, which was the worst over any 3 year period in the history of Michigan football. After only 3 years Rodriguez was fired. Caution must be taken when replacing history and tradition with innovation.

5 Innovative Social Media

Social media also offers an array of innovations useful for sport organizations. Innovative social media marketing strategies that can be used to market internal stakeholders of sport organizations include: Facebook, Twitter, Youtube, blogs, text messaging, Podcasts, and LinkedIn (Judson et al. 2011) all of which can profoundly influence communities, athletic participants, and students, ultimately resulting in increased revenues. Traditionally, sport participants and others directly connected to the sport organization, such as employees, have not been considered primary consumers of marketing campaigns; however, given advances in communication technology, innovation must be embraced in an effort to help lead to the development of effective marketing strategies of sport organizations (Judson et al. 2011). Intercollegiate athletics branding has traditionally focused on external stakeholders, i.e., fans from the college and community, yet have overlooked internal stakeholders, i.e., employees and players, groups for which major companies hold a real interest. In fact internal constituents, including players, employees, and coaches, who “live” the brand can be key promoters of the brand to external constituents. Innovation as an essential element of entrepreneurialism supports revenue generating endeavors.

6 Revenue Generation for Sport Organizations

An end goal of entrepreneurialism is to create endeavors that successfully generate revenue. The entrepreneurial sport leader who continually strives to build indispensable relationships with donors, athletic department administrators, prominent figures, and alumni for promotional, fundraising, and public perception helps provide program security through revenue generation (Weight 2009). Entrepreneurial skills are used by sport leaders to meet the goal of revenue generation, which in turn, supports the financial security of the sport organization. In an article that focused on the entity of sport in higher education as a business, Suggs (2000) acknowledged that the commissioners of two of the most highly influential sport conferences in the United States, the Big 10, and SEC, have assumed the necessary role of “entrepreneur” in the sense that their job requires the generation of revenue.

7 Entrepreneurial Coaches

In addition to commissioners of sport leagues, the financial well being of sport programs can also be strengthened by employees, i.e., coaches of sport organizations who embrace entrepreneurialism as part of their own approach to leadership. Former New York Knick’s head coach Mike D’Antoni’s strategic use of

guard Jeremy Lin demonstrated D'Antoni's entrepreneurial approach to leadership as a coach. Lin's 2.6 points per game and poor 38.9 % shooting success rate during his rookie year, led to his release by the Golden State Warriors and then the Houston Rockets. The following year Lin was signed by the Knicks. Nearing the end of the 2011–2012 season, D'Antoni recognized Lin's potential and assumed the risk of inserting Lin into the starting lineup (Beck 2012). Lin responded with high scoring and sensational play that became front page sports news throughout the world for weeks. Essential to being an entrepreneur is overcoming a fear of failure (Warren-Gash 2012), a trait exhibited by Coach D'Antoni when he assumed the risk of dramatically increasing the playing time of Lin, who based on past NBA performance statistics could not be considered a legitimate NBA player, let alone a starter. D'Antoni's entrepreneurialism was supported by his willingness to put aside any fear of failure allowing for the success of Jeremy Lin, which supported the success of the Knicks organization, if only temporary.

Monies generated by head coaches help sport leaders in their efforts to maintain a financially healthy sport organization. The financial pressure looming over sport leaders and the real threat of financial insolvency of the organization is a constant threat that supports entrepreneurialism on not only the part of head coaches but also assistant coaches. Simply stated, entrepreneurial strategies are necessary to generate revenue to meet the organization's financial needs. Coaches, as primary employees of sport organizations, can drive the organization's orientation (Weight 2009). Head coaches, who reinforce an entrepreneurial orientation often foster strong positive relationships with the administration, donors, and the community, as they fundraise for and promote their program, all of which support the financial well being of the organization.

In short, Weight (2009) claimed that entrepreneurial efforts by those affiliated with a sport organization help protect the financial security of sport programs within the organization. Entrepreneurial efforts should not be limited only to sport leadership. President of Sports Management Resources, Donna Lopiano reinforced the argument that fundraising efforts of an athletic department should expand beyond the development staff and the athletic director. The athletic director is responsible for creating a fundraising culture among the organizational employees, including head coaches (Lopiano 2009).

For maximum entrepreneurial impact on a sport organization, the sport leader, through human capital, can enhance the overall entrepreneurial efforts of the organization. Entrepreneurial human capital is a major determinant of not only business growth but also business survival (Mengistae 2006). That said, sport organizations, in the interest of prosperity, should expect employees to be capable entrepreneurs, head coaches included. The late legendary NBA Boston Celtics' head coach Red Auerbach was of such an entrepreneurial mind set. Auerbach's innovative approaches to professional basketball included an emphasis on defense, which he supported by acquiring defensive standout Bill Russell in 1956. The sixth man role was another Auerbach creation established during his 1956–1966 coaching tenure for the Boston Celtics that included nine championships (Nance 2006). Today, defensive excellence and an effective sixth man are common

ingredients for a team's success. Sport leaders must identify and generate new sources of revenue through planning, communicating, and networking that is supported by utilizing human capital to complete work related tasks (Whisenant and Pedersen 2002).

8 Commercialism

As discussed previously, entrepreneurialism, as a mechanism to generate revenue, takes place throughout sport organizations. Creative minds that arrive at ideas to generate revenue for intercollegiate sport are in constant demand. As a means to generate revenue, sport organization entrepreneurialism often takes place in the form of creative marketing (Judson et al. 2011). The marketing of college sports' programs, although financially effective, has also made for a commercialized environment of intercollegiate athletics.

Former executive director of the NCAA, Myles Brand (as cited in Wieberg and Berkowitz 2009) was a strong advocate of seeking new ways to generate revenue, especially through commercialization. Television broadcasting rights are intimately tied to college sports (Malec 2007). In addition to television contracts, the commercialization of sport includes venue signage, licensing of merchandise, and corporate sponsorships (Schneider 2010), which were all products of entrepreneurial efforts during their inception. Possibly the most creative and financially impacting entrepreneurial endeavor has been the intercollegiate post-season basketball tournament known as March Madness.

In April of 2010 the NCAA announced their agreement to a \$10.8 billion contract with Columbia Broadcasting System (CBS) Sports, and Turner Broadcasting beginning in 2011 through 2024 (NCAA 2010a). Men's basketball recently increased the post-season tournament field from 65 to 68, which will generate additional revenue through commercial broadcasts. Football's attempt to increase revenue with longer schedules allowing for more televised games may not be considered creative or innovative and thus not entrepreneurially based but the ongoing discussions to develop a format for a national championship tournament certainly meets the components of entrepreneurialism. Eleven major corporate partners are posted on the NCAA website (NCAA 2010b), establishing a trend that universities and athletic departments, likely, will continue to follow.

Commissioners of intercollegiate leagues are also keenly aware of the ongoing need to generate revenue (Suggs 2000). Intercollegiate athletic conferences benefit from entrepreneurial branding approaches, which help them deliver and strengthen the athletic conference brand promise to players, quite possibly in the form of digital media (Judson et al. 2011).

The social media command center launched by graduate students at the University of Oregon has served their athletic department well in terms of supporting its brand. It will allow the University of Oregon to react to fans in real time through all major social media platforms, whether it is answering inquires, commenting on and

sharing fan posts, or joining in group discussions. The athletic department's openness to innovation has allowed this social media command center to become reality, which was proposed by two graduate students at the University of Oregon (Jameison 2012). Entrepreneurialism, including but not limited to advances in and the use of social media has helped create a commercialized atmosphere of intercollegiate sports at major universities in the United States.

Sport entrepreneurs have also commercialized athletic department public spaces on university campuses. Such commercialized outlets include program advertisements, electronic message board endorsements, public address system announcements, camera visible signage in the form of billboards, website banners, goalpost pads, basketball bench chair backs, hockey dasher boards, and back-lit concourse signs (King and Slaughter 2004). Gate receipts, concessions, sponsorships (Coakley 2004), and stadium rights (Malec 2007) also are revenue generators that were ideas conceived by entrepreneurial sport leaders of intercollegiate athletic departments. Moreover, entrepreneurial efforts also help subsidize athletics in the form of advances in multi-media right's deals, donations, ticket receipts, and student fees (Berkowitz and Upton 2011).

Highly innovative and directly reflective of entrepreneurialism was the "mortgage model" recently launched by the University of California, Berkeley that provided fans with the opportunity to purchase arena seats, much like they would purchase real estate (Clark 2009). The plan allows fans to own seats indefinitely and pay for them with a down payment and fixed amount per month over the life of a typical mortgage term, i.e., 30 years, that includes an administrative fee that is analogous to an interest rate. The owner of the seat can sell it, just like a house; and in the event the team relocates, the ownership of the equivalent of that seat transfers to the new facility. The mortgage model called for 3,000 designated seats to be sold, resulting in \$270 million dollars to go toward the financing of their new stadium (Clark 2009).

9 Combining Organizational Entrepreneurialism with a Strategic Business Model

If the overall interest of organizational performance is to be met, organizational entrepreneurialism must be combined with a strategic business management model. Entrepreneurs often attempt to drive success through their vision and passion, but it is their business model that ultimately makes or breaks their success (Quentier 2010). The organization must commit to an entrepreneurial strategy if individual entrepreneurs within the organization are to fully utilize their entrepreneurial abilities (Ferreira et al. 2011). The performance of an organization is dependent on the overall entrepreneurial orientation of the organization and in particular, strategic capabilities within a business model (Mukherji et al. 2009).

Gaining the International Olympic Committee (IOC) endorsement to host the Olympic Games requires an entrepreneurial mind-set from bidding countries because the IOC is attracted to original proposals that will inspire a global audience. However, large sporting events and the cities that host the games rarely make money (Worstell 2012). Financial losses to host cities of the Olympics can linger long after the games, resulting in a long term negative effect on the economic integrity of the host city. A realistic forecast of cost benefit analysis to host cities should be done to ensure that the creative idea generation aspect of entrepreneurialism is supported by a realistic approach to business.

Strategic capabilities are essential if resources for an organization are to be obtained, which are necessary for organizational and entrepreneurial success (Mukherji et al. 2009). More specifically, from a business perspective, Quentier (2010) pointed out the necessity of the following for successful entrepreneurialism to take place within organizations: the essentiality of a business plan, solid network of advisors, entrepreneurial minded employees, understanding of capital resources, knowledge of organizational benchmarks in relation to competitors' benchmarks, and the ability to differentiate from competition. From a strategic standpoint, entrepreneurs must integrate their creativity into the business world if tangible results are to be realized.

Former Major League Baseball pitching great and current ESPN baseball commentator Curt Schilling recently filed personal bankruptcy as a result of the failings of his "38 Studios" video game company. Although Schilling cites derogatory statements by Rhode Island governor Lincoln Chaffee as negatively affecting his 39 Studios business, he also did not accurately anticipate the business side of video games. According to Goodnough (2012) there are many moving parts within the video game industry and given the fast paced nature of change that takes place, companies that do not anticipate the changes can burn through cash quickly, which is what happened in Schilling's case.

Specifically, people and technical skills are business related skills that must be applied to the creative idea. One could also argue that entrepreneurialism is grounded in idea generation and that personal, managerial, and technical skills can be attained through the acquisition of skill specific personnel. Chegini and Khoshtinat (2011) suggested that the personal, technical, and managerial skills of employees can be learned through workshops, yet if an entrepreneurial environment is to exist within an organization, the hiring of persons with entrepreneurial skills, must be a point of emphasis.

During the early 1970s famed surfer Fred Hemmings demonstrated the ability to combine necessary business practices with his vision to launch a professional surfing tour from Hawaii. Hemmings' full understanding of entrepreneurialism qualified him to see his professional surfing tour idea through by applying sound business practices to it. He began by reaching out to corporate sponsorship and broadcasters. The result was Hemming's production of the Smirnoff World Pro-Am Surfing Championships, which was followed up with the Pipeline Masters surf completion in 1971, which continues today as the longest standing surf contest in the world (Mead 2010).

First and foremost, entrepreneurialism is dependent on the innovation, creativity, and opportunism that drive and support idea generation. Secondly, and nearly as important, the conversion of ideas into an economically feasible business model requires personal, managerial, and technical skills. Research support can assist in idea development. When followed by the marketing of an idea, positive revenues can result, making for a successful entrepreneurial endeavor.

10 Conclusion

Overall, entrepreneurialism can improve the lives of persons throughout society including those affiliated with sport organizations. Entrepreneurial efforts help support the financial well being of sport organizations, and can provide happiness to those affiliated with sport including sport participants, coaches, support personnel, and the sporting community. When blending creativity, innovation, and opportunism with sound business practices, an environment is established that is conducive to the generation of revenue.

Revenue generation, often through commercialism related efforts, is an outcome of entrepreneurialism as it relates to sport organizations. An NCAA presidential task force in 2006 reported that from an intercollegiate athletics standpoint, it is incumbent upon universities to develop revenues from as many sources as possible, including those that may be categorized as “commercial” sources, i.e., corporate sponsorship opportunities including the sale of broadcast rights, logo licensing, and other fundraising ventures that provide significant revenue to support college athletics and, in turn, increases the number and quality of athletics participation opportunities for young men and women (Presidential Task Force 2006).

According to former NCAA executive director Myles Brand, an increase in campus morale and community building were positive outcomes for universities resulting from NCAA revenue generation (Brand 2009). Further supporting the importance of entrepreneurialism in the form of the commercialism of college sports was Duderstadt (2003) who spoke of the difficulties presidents face if they do not acknowledge the publics’ demand for high quality entertainment from university sports.

Sport leaders who practice entrepreneurialism play a real role in enhancing the happiness of the sporting community affiliated with sport organizations including professional, intercollegiate and various forms of amateur sport. Sport leaders as entrepreneurs not only help ensure the financial well being of sport organizations but also its overall happiness.

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Part III
Support and Development

The State of Entrepreneurship in the Balkans: Evidence from Selected Countries

Veland Ramadani and Léo-Paul Dana

1 Introduction

Opportunities for entrepreneurship and constraints as well, are often a function the environment. Enterprise does not take place in a vacuum, but rather involves interactions among members of society. Herbig and McCarty noted, “culture is a primary determinant of innovation but is strongly moderated by the structural aspects of a society (1995, p. 62).” Huntington (1993, 1996) showed that globalisation has neither standardised societies, nor produced a homogeneous world culture. Comparing different cultures in Eastern Europe, Jerschina and Górniak (1997), suggested that people from some cultures have a different achievement orientation and a higher *n* ach (McClelland 1961), than people from others.

Around the world, different styles of entrepreneurship have evolved, reflecting a variety of macro-economic, political, socio-cultural and technological characteristics. In North America, for example, mainstream entrepreneurs thrive independently in a prosperous environment that features economic and political stability, while fostering innovation. There are, however, subgroups of people there, such as the Eskimos in Alaska, who do not value the “independent” nature of business ownership; influenced by the characteristics of their own culture, they exhibit a less individualistic form of entrepreneurship (Dana 1995). In Japan, business also occurs along less independent lines, as the make-up of society encourages entrepreneurs to work for larger firms, rather than to compete with them (Dana 1998b). In advanced industrial societies, there are few barriers to entrepreneurs wishing to set up and manage

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formal businesses; elsewhere, external forces are quite different and have, as a result, prompted individuals to pursue alternate forms of entrepreneurship.

Transitional economies provide a particularly fascinating backdrop for the development of entrepreneurship. In the words of Birzulis, “MBA courses teach their pupils that business is a dicey, dynamic world where anything can happen. But no amount of seminars and lectures can prepare the budding entrepreneur for the surprises awaiting them in the post-communist environment (2002, p. 20).”

In transitional economies, two principal schools of thought have given rise to two streams of public policy. One approach is that reform must take place gradually, at a cautious pace, in order to avoid side-effects. In contrast, the big bang approach prescribes the closure of money-losing state-owned industries and proclaims immediate transition to capitalism.

China (Dana 1999c, d) and Vietnam are examples of countries that have implemented models of gradual transition, tolerating private enterprise as a complement to the centrally planned state sector, but not as a replacement (Dana 1994a, b, 1999b, 2002, 2007). Krufit and Sofrova (1997) emphasised the gradualism. In China, the government allows some entrepreneurs to function outside the planned sector, while other aspects of the economy remain under state control; the rich literature includes Beamish (1993), Chau (1995), Chow and Tsang (1995), Dana (1994c, d, 1998a, 1999a, 2002, 2007), Dandridge and Flynn (1988), Fan et al. (1996), Lombardo (1995), McMillan and Naughton (1992), Overholt (1993), Peng (2000), Shirk (1993), Siu and Kirby (1995), and Wei (2001). Similarly, Vietnam introduced some free enterprise policies without rejecting socialism, as discussed by Dana (1994a, b), Litvack and Rondinelli (1999), Peng (2000), Ronnås (1996), and Tan and Lim (1993); the result is gradual transition involving a complementarity between state firms operating under a system of centralisation, and the small business sector operating independently. Cuba has also clung onto its socialist policies, while tolerating some forms of entrepreneurship (Dana 1996c).

In contrast to the gradual approach of transition, several countries opted for the expedient liberalization of prices and privatisation of state firms, with the expectation that this would lead to rapid transition to a healthy market-oriented economy in which entrepreneurs would usher in capitalism. The conviction, here, is that although private ownership is not a sufficient condition to ensure the efficient operation of a market economy, it is a prerequisite. Variants of this model have been adopted in some countries of Africa (Dana 1996b; Gray and Allison 1997), and Central Asia (Dana 1997, 2000a, 2002), as well as in Eastern Europe (Arendarski et al. 1994; Dana 2010; Sachs 1993), and in Russia ((Boycko et al. 1995; Hisrich and Gratchev 1993). It should be emphasised, however, that the rate of new venture formation may be slower than the rate of unemployment generated during privatisation (Thomas 1993). Engholm (1994) noted a relationship between the pace of reform and the potential for rising unemployment; experience has shown that an economy cannot be instantly transformed without social problems.

Much has been written about privatisation and about how its pace affects unemployment (Bolton and Roland 1992; Estrin 1994a, b; Frydman et al. 1993; Hughes and Hare 1992; Ivy 1996; Murrell 1993; Seibert 1992; Simoneti 1993;

Wilson 1992). Where privatisation has taken place rapidly, many have been pushed to self-employment (Meager 1992). Where privatisation and downsizing of state-owned enterprises causes mass unemployment, there is often a mismatch between market demand and skills available in the workforce. The workforce needs retraining in skills that are in demand. Certain skills, that are not deemed necessary in the West, can be very useful in a post-communist economy, including almost all the Balkans countries.

While privatisation gave rise to opportunities, unemployment was allowed to surge and as a reaction to this, some people were pushed to become self-employed; this was due to the lack of alternatives. In other instances, individuals became rent-collecting capitalists by chance, simply because restitution laws restored property to them. Others simply tried to profit from arbitrage, as described by Hayek (1948); by being alert to opportunities, it was possible to identify them (Kirzner 1973, 1979, 1982, 1985). None of these were Schumpeterian (1912) innovators causing disequilibrium.

For those who opted to exercise outside the formal sector, the parallel market provided opportunities; activities could be informal, internal or even covert. In some countries, liberalization allowed entrepreneurs to shift their unofficial pre-transition activities into the formal sector.

The Czech Republic and Hungary appear to have been particularly aggressive in their pursuit of market-driven philosophies, supporting earlier findings (Carroll and Green 1995; Geib and Pfaff 1999; Moskowitz and Rabino 2001). The German Democratic Republic, Estonia and Hungary privatised by means of agencies; most countries did otherwise. To improve access to finance for small firms, some countries established public guarantee funds.

Estonia, Latvia and Lithuania took very significant actions in reducing taxes; Lithuania introduced a 13 % tax rate for micro-enterprises. Slovenia attracted foreign investment by providing a neutral tax base. In contrast, Slovakia assessed relatively high tax rates but offered preferential treatment to some investors; this model appears to have had less success than the former.

2 Formal Systems of Enterprise: Firm-Type and Bazaar

Readers are likely to be most familiar with the firm-type sector, an economic institution that involves a mode of commercial activity such that industry and trade take place primarily within a set of impersonally defined institutions. In this sector of the economy, the decision space is occupied by product attributes; the buyer and seller are secondary, if not trivial, to the transaction decision as the interaction between the buyer and the product is deemed more important than that between the buyer and the seller (Dana 2010). It is assumed that profit-maximising transactions will occur based on rational decision-making, rather than the nature of personal relationships. The focus is on impersonal considerations, as described in Weber's (1924) thesis. Competition takes place between sellers, who engage in segmentation, in order to partition the market into like-groups of predictable

consumers. Prices are tagged, reflecting market forces. While Western marketing principles (Gronroos 1989) apply to this sector, market-orientation is linked to the maturity of the industrialisation process.

In contrast, the bazaar is a social and cultural system, a way of life and a general mode of commercial activity, in which interpersonal relationships are central to recruitment, retention, promotion, and purchasing decisions and nepotism often takes priority over merit (Dana 2000b). The price and the level of service quality reflect the relationship between the buyer and the seller. In this scenario, consumers do not necessarily seek the lowest price or the best quality (Dana 2010). An individual gives business to another with whom a relationship has been established, to ensure that this person will reciprocate. Reciprocal preferential treatment reduces transaction costs. The multiplicity of small-scale transactions, in the bazaar, results in a fractionalization of risks and therefore of profit margins; the complex balance of credit relationships is carefully managed, as described by Geertz (1963).

Prices in the bazaar are negotiated, as opposed to being specified by the seller. In contrast to the firm-type sector, in which the primary competitive stress is between sellers, the sliding price system of the bazaar results in the primary competitive stress being between buyer and seller (Parsons and Smelzer 1956). The lack of information results in an imperfect market and with few exceptions, such as basic food staples, retail prices are not indicated; rather, these are determined by negotiations. The customer tests price levels informally, before bargaining begins. It is often the buyer who proposes a price, which is eventually raised. As discussed by Geertz, the “relatively high percentage of wholesale transactions (i.e., transactions in which goods are bought with the express intention to resell them) means that in most cases both buyer and seller are professional traders and the contest is one between experts (1963, p. 33).” Once a mutually satisfactory transaction has taken place, the establishment of a long-term relationship makes future purchases more pleasurable, and profitable. As noted by Webster (1992), building long-term relationships can be viewed as a social and economic process. Unlike Western relationship marketing, which is customer-centred, whereby a seller seeks long-term business relationships with clients (Evans and Laskin 1994; Zineldin 1998), the focus in the bazaar is on the relationship itself. In the bazaar, *both* the buyer and the seller seek a personal relationship. Firms in the bazaar are not perceived as rivals of one another. There is minimal – if any – brand differentiation among merchants. Table 1 compares features of the firm-type sector with those of the traditional bazaar.

3 Parallel Systems of Enterprise: Informal, Internal and Covert

Under central planning, the lack of a legal market economy led to permanent shortages. Survival strategies often involved the emergence of entrepreneurs in the parallel economy, where inefficient regulations could be circumvented. According to Grossman (1977), this underground activity increased the overall efficiency of resource allocation under central planning. The problem is that a mindset evolved, equating efficiency with the evasion of regulation.

Table 1 Contrasting sectors of the formal economy

	The firm-type sector	The bazaar
Focus	Product and impersonal transaction	Personal relationships
Segmentation	By target market – demographic, geographic, etc.	By producer and the type of good being sold
Prices	Indicated by the vendor, with the view of covering expenses, making a desired profit and providing the desired image for the product	Negotiated, often starting off from an unreasonable price, either unusually high from the vendor’s side or low from the buyer’s side
Competition	An activity that takes place among sellers, competing for clients	Tension between buyer and seller competing to influence price

While recent years have been characterized by economic and regulatory reform, change in mindset has not kept up with changes in regulatory framework (North 1990). Since these have not been evolving at the same pace, new problems have become associated with transition. As a consequence of their experience under central planning, many people equated entrepreneurship with the avoidance of communist law. When new regulations were introduced to usher in market economics, people continued to circumvent business law. As noted by Feige and Ott (1999), during transition, evasion and non-compliance with new rules renders them ineffective. Thus, where economic reform has been faster than the ability of people to adapt, inertia has delayed actual transition. Štulhofer (1999) used the term “*cultura inertia*” to describe a collectivist legacy that has survived from the past. Especially among the elderly, there is still a distrust of the state, of banks and of legal institutions. Conditions in transitional economies thus make the parallel sector very popular, avoiding all forms of taxation. In transitional economies that lack developed market institutions, it is common to have a high proportion of underground activities. This is no surprise, considering the low initial role of legitimate private enterprise, coupled with a high degree of liberalization, and hindered by the lack of macro-stability in the absence of a sufficiently developed legal framework.

The size of the parallel economy and the level of corruption vary greatly across Eastern Europe. Johnson et al. (1997) estimated that the unofficial economy was 15 % in Poland, compared with 50 % in Russia and the Ukraine. Johnson et al. (2000) reported that Russia and the Ukraine had higher levels of unofficial business and corruption than was visible in Poland, Romania and Slovakia. Johnson et al. (2000) reported that 90 % of their Russian and Ukrainian respondents said it was normal to pay bribes, while in Slovakia only 40 % said the same; in Poland and Romania, the percentage was 20 %. As illustrated in Table 2, forms of entrepreneurship in the parallel economy may be informal; internal; or covert.

Informal economic activity can take the form of an impromptu stall or itinerant vending. Unrecorded cash sales circumvent taxation as well as regulation. The law is often bent, but authorities generally tolerate the sector. A relevant discussion from Dana (1992) is presented concisely by Chamard and Christie (1996). Johnson et al. (1998) discuss discretion in the sector.

Internal subsistence activity is often necessary, as a means to adapt to rapid reform. Whereas McClelland defined the word “entrepreneur” as an individual who

Table 2 Entrepreneurship in the parallel economy

Sector	Exchange	Focus	Examples
Informal	Legal transaction	Informality	Street vending, unrecorded sales
Internal	No transaction	Subsistence	Subsistence agriculture, hunting, fishing
Covert	Illegal transaction	Illegal cash	Prostitution, drug dealing

has “some control over the means of production and produces more than he can consume in order to sell (or exchange) it (1961, p. 65),” internal subsistence activity refers to that which is consumed internally rather than sold. Thus, this category of economic activity is described as internal, because it does not involve an external exchange; no business transaction takes place. Wealth is created, but nothing is sold for profit; that which is created is consumed or saved for personal use.

Internal subsistence activity includes subsistence agriculture, and subsistence fishing. Both are legal, but involve no market transaction external to the producer. While internal economic activity exists – as an activity of choice – even amid the most advanced and industrialised backdrop, for some people in transitional economies, this is the only strategy for survival. In Moldova, for example, where prices have escalated while pensions have not, retired professionals have been growing food that they otherwise could not afford. While internal economic activity exists, as an activity of choice, even amid the most advanced and industrialised backdrop (Dana 1995), for some people in transitional economies, this is the only strategy for survival.

Covert economic activity involves business transactions, which are illegal, and therefore conducted in a covert way, in order to avoid punitive measures from law-enforcing authorities (Haskell and Yablonsky 1974; Henry 1978). Since the liberalization of the marketplace has facilitated organised crime, many entrepreneurs have set up businesses that sell children into the sex trade. This is a growing issue in Eastern Europe, as young women are being enticed into prostitution, as a means to a “better future.” While Cantillon (1755) referred to self-employed prostitutes as entrepreneurs, today’s covert activities include large-scale trans-national trafficking of human beings. Officials estimate that each year, 100,000 people become enslaved prostitutes against their will. In Moldova, observers report that 400,000 women have been sold into prostitution since the country’s independence. Ethnic Albanian entrepreneurs in Kosovo, Macedonia and Serbia are using the flesh trade to finance their ‘nationalist movements’. In Macedonia, Ljube Boshkovski, the former Minister for Interior Affairs publicly announced that police are on the payroll lists of covert smugglers (Dana 2010).

4 The New Systems of Enterprise

Entrepreneurship, during the twentieth century, took place within the context of the firm-type economy. In this context, businesses claim to treat clients as equals. It is assumed that profit-maximising transactions occur based on rational decision making, rather than on the nature of personal relationships between entrepreneurs

and consumers. The focus is on impersonal transactions. The decision space is occupied by product attributes and by services attached to them, backed by formal warranties. Consequently, the relationship between the buyer and the individual salesman is secondary, if not trivial, to the transaction decision. The interaction between the buyer and the product (and/or service) is deemed to be more important than that between the buyer and the seller. Competition takes place among sellers. Geographic location is often a competitive advantage. Selling prices are dictated by producers or sellers, if not by government regulation.

In the twenty-first century, we observe a significantly different set of norms. No longer are all people created equal. A frequent traveller on Air Canada can earn 'Super Elite' status, entitling this individual to differential treatment, preferential seating, special promotions, discounts and a personal concierge service. Even more striking, this preferred customer can also benefit from preferential treatment on other members of Star Alliance – a global alliance of firms which were formerly competitors. This relationship leads to increased brand awareness, and brand loyalty, although differentiation is less evident than ever before. Airline seats are sold as a commodity, yet brand loyalty prevails. The transaction decision is less concerned with product attributes, and more focused on relationships and preferential treatment. There appears to be less competition among sellers, as formerly rival firms co-operate in global alliances. The unit of interest is no longer the firm but the multi-polar network, in which relationships are important. Interestingly, this reality is shared with the bazaar-type economy – a social and cultural system, a way of life and a general mode of commercial activity such that most of the flow of commerce is centred on relationships rather than on impersonal transactions. There are infinite opportunities for small-scale speculation. Space, time, production and sales must be well managed, and personal relations must be managed. Together, buyer and seller negotiate prices. A sliding price system results in a price within the prevailing limits. Price can vary greatly, depending on the relationship between buyer and seller. Thus, interaction tends to take place between the buyer and the seller, rather than between the buyer and the product.

Goods and services are being increasingly treated as commodities, with virtually no distinction between the features offered by different producers. The focus has shifted away from the features of the product, to the relationship between buyer and seller. Looking again at the airline industry, we note that not long ago, advertising by Delta Airlines emphasised the use of four-engine aircraft, while United differentiated itself through the use of turbo-props and French-built Caravelles with two aft-mounted engines. Today, the fleets of different airlines vary less than they did in the past. Almost every airline has Airbuses and Boeings, and passengers are less informed about details. Likewise, there is little difference between the mobile phone built by one manufacturer and that built by another.

Another characteristic of the New Economy is that the Web has become a hub for transactions between consumers and suppliers, which are clustered together, reducing the time involved for comparative shopping. Often, it is the buyer who suggests a starting price – as is the case in the bazaar. Even in what was formerly a very regulated sector, makeusanoffer.com invited customers to state how much they are willing to pay for transportation.

The Web allows entrepreneurs to globalise without the need to have several offices. Internationalisation is decentralised. The Web also allows distributors like amazon.com to avoid high costs of inventory. In Japan, Rakuten launched a very successful concept, allowing vendors to sell produce very rapidly, through its site www.rakuten.co.jp. This operates in a fashion very similar to that of the bazaar.

Indeed, attributes of the New Economy share much in common with the bazaar-type economy. In this economic system, the focus is not on impersonal transactions, but rather on relationships. The multiplicity of related small-scale transactions yields an extensive fractionalisation of risks and of profit margins. Like the bazaar, the New Economy provides infinite short-term opportunities for small-scale speculation. Space, time, production and sales must be well managed, and personal relationships must be managed delicately.

Once again status, relationships and alliances have become important. As was the case in the bazaar, buyers and sellers negotiate prices. A sliding price system results in a price within the prevailing limits. Price can vary greatly, depending on the relationship between buyer and seller. Thus, interaction tends to take place between the buyer and the seller, rather than between the buyer and the product. Sounds familiar? Are we heading back to the future? Perhaps we can learn about the future by better understanding the past.

5 Country Summaries¹

5.1 Albania

Albania covers 11,101 square miles, bordering the Adriatic Sea, Kosovo, Macedonia, Greece, and Montenegro. Albanians are divided into two dialect groups; Gheg is prevalent in the north and Tosk, the official dialect, in the south. After several decades of centralised planning, and a policy of isolationism, Albania adopted the so called *Perseritje* Model (Dana 1996a) of transition. The nation was soon described by the Bretton Woods institutions as being among the most successful transforming countries of Eastern Europe. The *Perseritje* Model of transition has increased the scope for small business, while introducing liberal reforms. In 1992, huge prairie fields of the Albanian agricultural system were privatized. By 1994, there were 420,000 self-employed farmers, with private holdings averaging 1.4 ha. Since 1995, the sale and purchase of agricultural land has been permitted. In 1996, 60 % of the population depended on agriculture. Today, over half of Albania's GDP is derived from agricultural activities, a sector employing about half of the working population, directly (on the farm), or indirectly at the markets.

¹ These are based on Dana 2010.

In addition to using their own property, farmers also graze their animals along the roadside. It is common, for example, in 40 °C heat, to see a Muslim woman, her head covered, walking her sheep on a rope. Cows, goats and sheep are raised not only for their meat, but also for their milk, cheese and wool. The hides are also an economically important by-product. Poultry is common, not only among farmers; even urbanites often have a few chickens and a rooster by their home. Honey is harvested, and a Riesling wine is locally produced. Agricultural produce includes barley, beans, corn, figs, grapes, honey, lemons, oats, olives, pomegranates, rice, rye, tobacco, tomatoes, and watermelons.

Since the privatisation of farmland, Albanian farmers are obtaining intrinsic job satisfaction, previously non-existent. This appears to be motivating them considerably. In contrast to the constant shortages experienced during communist rule, local agricultural products are now plentiful. At the indoor market stalls of Durres, it is possible to purchase a variety of produce, including fresh cantaloupe, eggs, garlic, green peppers, okra, potatoes and watermelon. Peaches are available, either canned or fresh. It is also possible to buy tomatoes, which are grown in local greenhouses. Local and imported wheat is available in abundance. The food shortages of recent years seem to have been forgotten.

A new problem, however, is that the division of farms into privatized plots has eliminated economies of scale. On many farms, oxen have replaced tractors to plough. Donkeys are used for transport. Privatisation has created incentives that did not exist under communist rule, but at the same time, the redistribution of land to small-scale farmers has resulted in a return to less mechanization. Albania has privatized over 500 small and medium enterprises, and new ventures been sprouting. Yet, few enterprises are substantial, and many of the new firms are subsistence enterprises.

It used to be that everybody in Albania was guaranteed a job. Officially, there was no unemployment, and there were no beggars. Today, there are both. When state-owned factories were rationalized, workers were laid off. The solution for many has been to create a subsistence-level micro-enterprise. Some sell newspapers in the streets as newsies did in America at the turn of the last century. Others exchange dollars in the streets, in a corner of a local post office, or on a bench by the seafront. In major cities, independent banana dealers are numerous. Each has a minuscule inventory.

In Durres, a man sells packages of Camel cigarettes, which he carries around town in a duffel bag. Another, in Tirana, sits down with a cardboard box that serves as an impromptu stall; he sells chocolate bars imported from Greece. In other words, micro-enterprise is widespread, but not innovative entrepreneurship in the Schumpeterian (1912) sense. Doder wrote, “for entrepreneurs, freedom equals goods from Greece, where they swap livestock for electronics and appliances (1996, p. 71).”

The Women’s Center, in Tirana, conducted a study in 1998, with the participation of 606 women-led firms, 85 potential women entrepreneurs, and 100 defunct enterprises. Almost 80 % of the women were over 29 years, but fewer than 40 % had a bank account; only 8 % obtained bank credit. Respondents stated that they

would like access to financial support to expand business operations, as well as technical assistance in accounting, administration and planning.

The government's attitude, during the 1999 Kosovo Crisis, launched a new image of Albania; since N.A.T.O. used Albania as a supply base, the international community welcomed Albania as a partner.

Albania's growth-oriented reform program, based on free market economic principles, law and order, is being implemented with the co-operation of the International Monetary Fund. In March 2000, Albania approached the international donor community in Brussels, with plans to modernise the port at Durres.

Tirana, a quiet town during the author's (Dana's) first visit in 1994, is now bustling with fashionable shoppers, eager to display their newly-acquired spending power. Rising disposable incomes have boosted consumer demand. As well, the service sector – underdeveloped until the 1990s – has boomed.

A concern, however, is the growth of the covert sector in Albania. An important industry has been the smuggling of Albanian citizens into Italy. Although as many as 35,000 Albanians are sent back to Albania in any 1 year, the authorities do not send back minors, and so impoverished families pay to have their children smuggled to the West, with the hope of facing a better future.

5.2 *Bosnia and Herzegovina*

Bosnia and Herzegovina is 19,781 square miles, bordering Croatia, Serbia and Montenegro. Here, 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 structures of new ventures make these dynamic.

Entrepreneurs interviewed by the authors suggested that the state is not doing as much as other countries, to promote entrepreneurship. In fact, much entrepreneurship promotion is organised by and paid for by external sources.

A women's action group, operating as VIDRA, is a non-governmental organisation in the Banja Luka region. Since 1997, VIDRA has been promoting entrepreneurship among women. The group includes 30 women who assist others to start businesses.

During 2002, the United Nations Development Program (U.N.D.P.), made possible a Youth Enterprise Program, in the Brcko District. This is focused on encouraging entrepreneurship among people who are between the ages of 18 and 30. Three components have provided:

- Training;
- Business mentoring and advisory services; and
- Micro credit finance.

The training and business advisory services are free of charge. The mentoring and financing operate on a cost recovery basis.

In December 2002, the Canadian Center for Entrepreneurship and Development co-hosted a 10-day entrepreneur-training course for women to become entrepreneurship trainers. The Swiss Development Corporation contributed funding. A second component was organised to train trainers in 2003, initiated by a multi-donor initiative managed by the Small and Medium Enterprise Department of the World Bank Group and the International Finance Corporation. CARE International is also supporting self-employment and job creation by small and medium enterprises, through financial assistance.

While multi-nationals were hesitant to invest in a country lacking privatisation laws and a commercial code, entrepreneurs identified a variety of opportunities in Bosnia and Herzegovina, and this is most visible in the Bosnian Federation. However, entrepreneurship is largely limited to reconstruction and small-scale retail trade.

To get around expensive bank loans and the lack of private investment, local entrepreneurs have been obtaining capital from foreign sources, including a U.S. government loan fund and a venture capital loan fund launched jointly by Austrian investors and the European Bank for Reconstruction and Development. Arab entrepreneurs have also been investing, but very selectively; according to Catholic and Christian-Orthodox respondents, Arabs have been financing only Muslim entrepreneurs, to create a greater solidarity among followers of Islam.

It is not difficult to launch a new venture in Bosnia and Herzegovina. However, start-up fees exceed the cash reserves of many would-be entrepreneurs, and there is little start-up assistance. Furthermore, survival is a challenge. Interviewees expressed to the authors that the government does little to support small business. Taxes were cited as crippling enterprises, which would otherwise be economically viable. Until 1997, an entrepreneur was required to pay to the government 140 % of total wages paid to employees; a typical wage, at the time, was 26,000 Bosnian dinars monthly, the equivalent of 260 German marks. Effectively, this meant that the entrepreneur's cost of creating jobs was more than doubled. Although the tax was reduced to 86 % of wages paid, taxes are still collected on a weekly basis, and this is perceived as a burden on the time of owner-managers.

Another factor, which interviewees described as crushing entrepreneurial spirit, is the deficient infrastructure. Although Bosnia and Herzegovina is legally divided into two entities, it operates as if it were three countries, each with a separate (but inadequate) banking, electricity, telephone, and transportation system.

In August 1994, the Narodna Banka (Peoples' Bank) issued Bosnian dinars, but these were not accepted as a national currency. Even within the Bosnian Federation, entrepreneurs in the self-proclaimed "Croat-Republic of Herzeg-Bosnia" have dealt in Croatian kuna.

Although the Dayton Agreement did not recognise the self-proclaimed state of Bosnian-Croats within the Bosnian Federation, the situation here took time to stabilize. Croats in this region suggested that since it was acceptable to divide Bosnia and Herzegovina into two components, then they wished to have a third entity (independent from the Bosnian Federation) to represent the interests of Bosnian Croats. Hence, they propose a Swiss-style canton-type confederation

consisting of the Bosnian Federation, the Croat-Republic of Herzeg-Bosna, and Republika Srpska. To complicate matters, there has been a general distrust between Croats in Croatia and Bosnian-Croats in the Bosnian Federation.

There is less entrepreneurial activity in Republika Srpska than in the Bosnian Federation. According to unpublished records at the Economics Institute of Republika Srpska, 1.3 million people live here, and almost one fourth are refugees. Communist-era policies have perpetuated a non-entrepreneurial frame of mind in this part of Bosnia and Herzegovina. During the 1990s, unemployment in Republika Srpska exceeded 60 %, while typical wages were the equivalent of \$20, monthly.

New venture creation in Republika Srpska is stifled by political elites who have privatized formerly state-owned firms, and created barriers-to-entry in order to deter competition. Unlike the situation in the Bosnian Federation where there is light at the end of the tunnel, the economic forecast is grim in Republika Srpska. Individuals stand outside gutted factories, and try to sell inexpensive local cigarettes in recycled Marlboro packages. Nevertheless, there are some areas with a strong entrepreneurial spirit, such as the municipality of Laktaši, near Banja Luka.

It used to be that the rich farmlands of this region provided food for the rest of Bosnia and Herzegovina and for Croatia. However, much fertile land has become idle, as the economy is too poor to provide a local market. Weeds have taken root in fields that once yielded cabbage, corn and green pepper. Pomegranates hang from trees near abandoned homes that are scarred with bullet holes.

Today, the *Srpska Seljackska Partija* (Serb Peasants Party) is a lonely supporter of agricultural development. Industrial production is a fraction of its pre-war figure. There is almost no trade between Republika Srpska (which uses unconvertible Bosnian-Serb-dinars) and the Bosnian Federation (where Bosnian dinars were pegged at the rate of 1 Bosnian dinar to one German *pfennig*). Republika Srpska remains cut off from its traditional markets, and new markets are unlikely as long as Republika Srpska retains its image of political pariah. Serbia, its only friend, is too impoverished to help.

The boundary between the Bosnian Federation and Republika Srpska was intended to be similar to the boundaries within former Yugoslavia; this is equivalent to a state-line in the United States. Yet, Republika Srpska, acting as a separate country, treats the boundary as an actual partition with different currencies and policies on both sides. Pale, a community in Republika Srpska, is about 10 miles from Sarajevo, and according to Dayton, both are in the same country; yet a phone call would have to pass through Serbia. Economically, this does not make sense. Most entrepreneurs interviewed by the authors agreed that the small business sector and the national economy of Bosnia and Herzegovina would prosper the most if both constituents (the Bosnian Federation and Republika Srpska) were to function as one economic unit. A unified banking system, for example, would be desirable. Yet, until recently, entrepreneurs in Republika Srpska preferred to deal in Yugoslav dinars rather than in Bosnian dinars; nowadays, the convertible mark has gained acceptance.

Another issue is that almost like Pakistan before the independence of Bangladesh, Republika Srpska is in turn divided into two geographic regions, both Bosnian-Serb areas. Although the Posavina corridor, around Brcko, physically connects both these Serb-controlled entities, each has its own economic leaning. While the eastern strip maintains economic ties with Serbia, entrepreneurs in the Banja Luka region express a greater affinity toward the economy of Croatia. This affinity is supported by the fact that many people from the northwest part of Bosnia were formerly employed in Croatia and Slovenia, currently important trading partners.

Meanwhile, the *Koalicija Demokratski Patriotski Blok RS* (Democratic Patriotic Block of Republika Srpska), which was established in Banja Luka during 1996, supports strong ties with Montenegro as well as Serbia. Also based in Banja Luka are the *Srpska Radikalna Stranka* (Radical Party of the Serb Republic), which demands unification of Republika Srpska with Serbia, and *Narodna Stranka RS* (the Peoples' Party of Republika Srpska), which supports this idea. This could lead to a political as well as economic split within Republika Srpska. Few entrepreneurs are willing to undertake risks in such an environment of uncertainty.

So far, foreign aid has been Bosnia's largest source of capital. The United States Agency for International Development (U.S.A.I.D.), made available \$70 million to entrepreneurs. Entrepreneurs have been making money by restoring basic services, using donated funds. What will happen when the physical infrastructure is restored, or when donations run out? In future, it would be preferable for a self-sustaining private sector to lead the country to value-adding prosperity.

Much entrepreneurship in Bosnia and Herzegovina is short-term in scope, with the hope of making money quickly. Most entrepreneurs surveyed by the authors had not even prepared a business plan. Furthermore, their focus is on themselves rather than on the customer or on market needs. Can this be sustainable? A pre-requisite to sustainability is a transformation of the dependence-context economy. One means to attract capital investment, in the long term, is through tax incentives along with the establishment of a stable and integrated banking infrastructure and legal system; then, multinationals will be in a position to sub-contract to local entrepreneurs.

The *Stranka Privrednog Prosperiteta BiH* (Party of Economic Prosperity of Bosnia and Herzegovina), composed mainly of businessmen from Sarajevo, from Tuzla and Zenica, suggests that only economic ties can re-integrate Bosnia and Herzegovina. In April 1997, Republika Srpska agreed to have a customs union with what remained of Yugoslavia, namely Montenegro and Serbia. However, the 1999 war in Serbia, over Kosovo, further disrupted value-adding entrepreneurship in the region.

Serbs have been trading with Bosniaks, at the Trznica-Virginia market open-air bazaar in Memici, between Tuzla and Zvornik; items include cigarettes, fabrics, hardware apparatus, household items and shoes. This same phenomenon became strong in the Arizona marketplace, in Brcko. It would nice to see more trade that is inter-ethnic. Given the low wage structure in Bosnia and Herzegovina, there is tremendous potential in light manufacturing, especially with the technical and financial assistance of foreign partners. Some municipalities, including Vitez and

Zepce, have supported new ventures, while the dominance of the trade sector is still strong.

5.3 Croatia

Croatia covers 21,829 square miles, bordering the Adriatic Sea, Bosnia and Herzegovina, Hungary, Serbia, Montenegro, and Slovenia. Following a referendum that endorsed secession from Yugoslavia, Croatia declared its independence on June 25, 1991. This prompted civil war, and led to a period of substantial impoverishment. Until 1993, inflation and high taxes contributed to growth of the unofficial economy; the reduction of taxes, in 1994, prompted a shift from the parallel sector to the firm-type economy. Privatisation was concluded faster in Croatia than elsewhere among the former Yugoslav republics. However, as discussed by Glas, Drnovšek, and Mirtic (2000), Croatia's privatisation model enabled a few Croats to take over important firms, without the needed resources and managerial knowledge; this was referred to, by the Strategic Planning Office, as "tycoon" based privatisation.

The promotion of entrepreneurship was intensified in recent years. In 1997, the state granted a concession for the establishment of a free zone at Osijek. Two phases were planned within the eastern industrial sector of the City of Osijek. The first is at the western portion of the "Tranzit" River Port and MIO complex; the second, twice the area of the former, is at Saponia, Niveta, and Osijek-Klisa Airport. The retail sector, in Osijek, has since flourished. In November 2001, the Strategic Planning Office, in Zagreb, included extensive support to entrepreneurship, as a developmental priority of the republic. The government announced favourable conditions for craftsmen, as well as the establishment of technological incubators, and a system of financial stimulation, to encourage small and medium entrepreneurship.

Croatia's Law on Small Business Development Encouragement was accepted in 2002, as prepared by the Ministry for Crafts, Small and Medium Enterprises. The Department of Entrepreneurship Promotion, at this ministry, has been headed by former television commentator and journalist, Dragica Karaic. She has been defining long-term measures aimed at encouraging the activities of craftsmen, co-operatives and small firms. With the assistance of the Dutch government, an operational model has been developed, to train advisors and to promote entrepreneurs. A credit line was established for small and medium enterprises in international business. Yet, some entrepreneurs say that not enough is being done. Glas et al. (2000), showed that entrepreneurs in Croatia demand tax incentives, as well as better access to premises and infrastructure.

Recognising the fact that there were administrative barriers to foreign investment, the Ministry of Economy decided to organise workshops (the first one in June 2001) to remove existing barriers. Also, a Real Estate Fund was planned, to facilitate the allocation of land for lease by foreign investors.

In November 2001, the Strategic Planning Office announced that the Ministry of Economy was about to establish a “one-stop-shop,” to provide necessary information to potential investors, and to protect Croatia from investments that would be contrary to the national interest.

Generally, Croatia is open to foreign entrepreneurs. As foreign enterprises seek local partners, consultants, subcontractors, and suppliers, this translates into new opportunities for Croatian entrepreneurs.

Biljan and Lovric (1995) noted that from 1991 to 1994 the number of small firms in Croatia increased by 211 %, while the number of large firms decreased by almost two fifths. More recently, small business (representing 44 % of total employment in Croatia) was the only sector of the national economy to record positive results as well as increased employment. This suggests the success of entrepreneurship; however, entrepreneurs reported to the authors that they perceived corruption to be a very big problem, and that law avoidance is the “most intelligent means by which to cope with authorities.” In addition, taxes are problematic and some interviewees told the authors that they admired entrepreneurs who evaded taxes. Further investigation prompted interviewees to explain that the privatisation process involved nepotism, as sales reflected political loyalty.

Entrepreneurs, in Croatia, also complained to the authors about government regulations, and about the lack of access to finance. Likewise, Glas et al. (2000), found that finance is a problem in Croatia. That same study found that the general opinion of entrepreneurship is higher in Slovenia than in Croatia; however, the study points out that than when compared with those in Slovenia, Croatian municipalities display more support for entrepreneurs, perhaps finding it the only real force to exercise an economic change.

Finally, a trait particular to many small firms in the coastal regions of Croatia is the fact that they experience a strong seasonal variation in sales. Turnover is very high during summer months and much lower in the winter.

Martin and Grbac (1998) suggested that small firms in Croatia appeared to be making more progress toward a free market economy than was the case with large companies. However, Franičević (1999) noted the problems of the parallel economy in Croatia. Entrepreneurs sometimes avoid the formal sector, because of regulation and high taxation. More entrepreneurship-based employment would be desirable.

Croatia has huge resources available in tourism, a sector in which small and medium enterprises could become the key to improved service quality. Small-scale home-based entrepreneurs already provide seasonal facilities for tourists.

Viducić and Brcić (2001) recommended the franchise option as a means toward development of the formal sector, in Croatia. “The overall business operation of the average Croatian entrepreneur can only benefit from the capital commitments franchisers bring (Viducić and Brcić 2001, p. 221).”

The Faculty of Economics, in Zagreb, appears to be very strong in corporate topics, with emphasis on large firms. Perhaps more focus on entrepreneurship could be helpful, across Croatian universities.

5.4 Macedonia

Macedonia covers 9,928 square miles, bordering Albania, Kosovo, Serbia, Bulgaria and Greece. During an embargo against this newly independent state, some entrepreneurs opted for the covert sector and made fortunes by smuggling. Other Macedonians went abroad where they acquired entrepreneurial skills pertinent to legitimate business; upon their return home, they became quite successful, in the firm-type sector. This suggests that encouraging more Macedonians to sojourn abroad may increase legitimate entrepreneurship in Macedonia.

Enterprises in Republic of Macedonia are classified conform the European Commission Recommendations 2003/361/EC, which have been incorporated in the Law of Trading Companies of 2004. Under the law in question, section 470, enterprises (traders) are classified as micro, small, medium and large, according to these criteria: the number of employees, annual turnover and value of assets.²

Micro-trader is called the one that between 2 years, or in the first year of the operation has accomplished the first criteria or at least one of the first or the second criteria, from the listed criteria below:

- The average number of employees, according to working hours is less than ten workers;
- The gross-revenue earned from the dealer not to exceed 50,000 euro in counter to denars³;
- At most 80 % of the gross-revenue realized from a customer/consumer or by persons who are associated with this client; and
- Micro-enterprise owners are more than two natural persons.

Small trader is call the one that between 2 years, or in the first year of the operation has accomplished the first criteria or at least one of the first or the second, from the listed criteria below:

- The average number of the employees, according to the working hours to be 50 employees;
- The gross-revenue earned from the dealer not to exceed 2,000,000 euro in counter to denars;
- The average value of total assets (active) is less than 2 million euros in counter to denars.

Medium trader is called the one that between 2 years, or in the first year of operation has accomplished the first criteria and at least one of the first or the second criteria, from the listed criteria below:

- The average number of employees, according to the working hours to be 250 workers;

² Official Gazette of R. Macedonia, 2004.

³ 1€ = 61.5 denars in 2012.

- The gross-revenue earned from the dealer not to exceed 10,000,000 euros in counter to denars;
- The average value of total assets (active) is less than 11 million euros in counter to denars.

From what was marked above we can conclude that Republic of Macedonia has accepted the European Union criteria for enterprise classification, usually adjusted according to economic conditions in the country. Only the number of the employees is the same as those of the European countries.

The total number of registered companies in Republic of Macedonia is in permanent growth, so in 2000 we had 123.072 registered companies, in 2001 – 123.696, in 2002 – 149.386, in 2003 – 158.091, in 2004 – 172.297, and in 2005 there were 175.557 registered companies.⁴ But we should mention that there is difference between active and registered companies. *Registered company* is the one that has accomplished the legal duties for the company's registration, for example: enrolment in the trial, taking the number of record and tax, opening a bank account, etc., while *active companies* are those companies which carry out any activity within its powers and duties, thus realize revenue, make employment, make different payments and submit annual final accounts at the Department of Public Revenues. But only a small number of registered companies are active (Ramadani 2011). As for example, in 2004 the number of registered companies was 172,297, while 29 % of them were active, in 2005 from 175,557 registered companies, 44,424 were active companies, and in 2006 the number of these companies was 43,785. In 2008 the total number of active companies was 63,193, of which 63,004 were micro-companies, small and medium, or 99.7 %, ⁵ and in 2009 the total number of active companies was 70.710, of which 70,506 were micro-companies, small and medium, or 99.71 %.⁶

In 1997, the state established its National Enterprise Promotion Agency, a trading company with the mission to support the development of small and medium enterprises. However, its success was very limited, as it failed to obtain support from various institutions and ministries.

In December 2002, the Ministry of Economy stated that despite the consensus on the importance of entrepreneurship and the development of small and medium enterprises, insufficient efforts had been made to promote the sector. Consequently, the Ministry introduced its Program of Measures and Activities for Entrepreneurship Promotion and Creation of Competitiveness of the Small and Medium Enterprises in the Republic of Macedonia.

Citing the fact that the National Enterprise Promotion Agency failed to obtain support from various institutions and ministries, the Ministry proposed the establishment of an Entrepreneurship Support Coordinative Council, consisting of

⁴ Report of Statistical Office of R. of Macedonia, 2006.

⁵ Report of Statistical Office of R. of Macedonia, 2009.

⁶ Report of Statistical Office of R. of Macedonia, 2010.

representatives from a variety of relevant ministries, agencies, banks and trade unions. The Ministry also suggested that a central Entrepreneurship Agency would be more effective than was the National Enterprise Promotion Agency. The new program involves financial and other support. It focuses on four areas:

- The creation of institutional infrastructure for the promotion of entrepreneurship;
- The establishment of an economic environment favourable for the start-ups of new ventures;
- Entrepreneurship promotion; and
- Financial support.

Under central planning, Macedonians were told what to do. They did what was expected, and nobody starved. Workers were often apathetic, product quality was often low, and service was usually poor; however, everyone had a job. Free enterprise was a step in the right direction, but for many Macedonians it was a leap for which they were unprepared. Still, workers are often apathetic, product quality is quite low, and service is usually poor. The big difference is that not everyone has a job anymore.

A simpler path to accumulate capital is by working abroad. For those who work abroad (in Austria, Germany, Kuwait, Sweden or Switzerland, for instance), a return to Macedonia from sojourning allows splurging on overpriced consumer items, as well as the possibility of investing in new ventures. In fact, these are the Macedonians who tend to have both the capital and the willingness to invest in Macedonia. Those with incomes from these savings are willing to pay high prices in Macedonia. For most who do not sojourn, freedom from Yugoslavia is also freedom from a job, and consequently a shortage of money. The result has been a new two-class society, and the gap is growing.

Currently, much self-employment in Macedonia takes place in the agricultural sector. Principal produce includes citrus fruit, corn, cotton, millet, mulberry leaves, opium poppy (for pharmaceuticals), rice, sesame, tobacco and a variety of vegetables. The raising of livestock is also widespread. Even in the capital city, Skopje, there are goats grazing by the river and poultry feeding freely. Just outside the city limits, peasants try to sell watermelons and other produce along the highway, but prices are high. Yet, producers are reluctant to reduce prices because their expenses are high; since horse-drawn carts have been banned from major urban centres, farmers have been paying dearly for the use of public transportation.

Meanwhile, cows are strolling across the major motorway linking Skopje and Ohrid Airport. In the fancy resort town of Struga, peasants wash laundry in the river, while goats graze outside the central bus station. Suddenly, a stray donkey blocks traffic. Inside the Struga bus terminal hangs a photo of Marshal Tito. Although he was a Croat who ruled Macedonia from Serbia, his portrait is common in Macedonia. Life under Tito may have been difficult, but for many it was better then, than it is now.

Perhaps most noticeable are the infrastructure deficiencies that impede entrepreneurship. Before the Yugoslav civil war, there used to be regular train service

from Greece, across Macedonia to Belgrade and beyond. Within Macedonia, there was frequent rail service between Gevgelija, Skopje, Veles, and the Serbian border. In recent years, rail service has deteriorated noticeably.

Local governments in Macedonia are responsible by law, for a variety of services, including water supply; sewage; construction/maintenance of streets/bridges/public cemeteries; garbage collection; fire protection; and local public transport. In this sense, municipalities have a decisive influence upon the choice of service providers. A serious problem, here, is that nepotism is as common as bidding by tender. Procedures continue to follow the old schemes, ignoring the need for more efficient management. Furthermore, any reform is slowed down due to mandatory membership of each local government in a bureaucratic organisation known as the "Macedonian Association of Municipalities and the City of Skopje."

After years of socialist conditioning, it should not be expected that people could transform themselves into capitalists without a painful adjustment period. It is understandable that employees were apathetic under socialism. Even now, clerks and shopkeepers still lack consumer orientation. Buying an item or service is still perceived as a privilege. Tellers conduct themselves as if they have the right to short-change customers. Consumers would almost certainly prefer establishments with less hostile attitudes.

Macedonians who sojourn abroad bring back entrepreneurial skills; however, sojourners are relatively few and both entrepreneurial and managerial skills are generally lacking in Macedonia. There is also a lack of marketing expertise. Under the socialist regime, demand for goods was higher than supply, and since prices were heavily subsidized, and competition lacking, marketing and advertising were not very necessary. Now that the system has changed, it will be useful for the Macedonians to acquire the skills necessary in a post-socialist society.

On the technological side, Macedonia does not appear to be in a rush to improve its levels of automation. Cabbage heads are harvested one by one and manually placed on a donkey-drawn cart, as was done centuries ago. Hay-carts are pulled by horses. In the town of Gostivar, horse-drawn carriages contribute to rush hour traffic jams. On inter-city buses, rubbish bins consist of baskets tied to seats with coat hangers. In shops, weighing of produce is approximate, and in the absence of cash registers or calculating devices, prices are quite subjective.

With the exception of those who have sojourned abroad, Macedonians generally do not have the capital or the skills to set up new ventures. Many are waiting for direction.

As noted by the Ministry of Economy in 2002, the promotion of entrepreneurship has been less than adequate. Those who have lived abroad often become successful entrepreneurs, but these represent a minority of Macedonians. Therefore, it could be beneficial to establish large-scale work abroad/sojourn programs in Macedonia, as have been organised by Israeli organisations in Romania. Encouraging more Macedonians to sojourn abroad could thus enable more individuals to accumulate a working capital, and more importantly to experience a free enterprise market-oriented economy. This may facilitate the acquisition of the skills necessary in a small business. Also, a service-orientation might be adopted.

As well, it might be useful to create a program such as to encourage joint ventures or partnerships with foreigners who have experience running a small business in an open economy. This may facilitate the learning curve involved in becoming an entrepreneur.

A few Macedonians developed a taste for free enterprise, usually while working abroad, as well as capital from such employment abroad. However, to date this wealth has contributed to higher prices. Future research might include empirical studies of Macedonia sojourners, their duration of work abroad, values adopted from host societies and their propensity for self-employment. As well, further research might compare individuals who have worked in some countries, with others who have worked elsewhere. Finally, it could be useful to research the causal variables influencing people to leave Macedonia, work abroad and return to set up new ventures; this might make it easier to encourage more entrepreneurship in this slowly emerging economy.

5.5 *Serbia*

Serbia has taken recent steps toward the fostering of a healthy entrepreneurship sector. In 2002, the Serbian Law on Private Entrepreneurs was amended, as was the federal Enterprise Law.

Among the current priorities of the Republic of Serbia are economic recovery and development, by means of a strong private sector, with entrepreneurs and small and medium enterprises, creating a majority of new jobs. The strategic plan for the period 2003–2008 calls for the creation of an environment favourable to entrepreneurs and to small and medium enterprises. Specifically, steps have been taken to:

- Remove administrative and legal obstacles to entrepreneurship;
- Establish institutions to assist the development of the small and medium enterprise sector; and
- Assist with problems of small and medium enterprises, pertaining to financing.

The body in charge of economic policy for the development of small and medium enterprises is the Ministry of Economy and Privatization. This ministry has two sectors; one is for the development of small and medium enterprises and the other for private entrepreneurship. Among the goals, of the ministry, is the creation of conditions for faster development of an internationally competitive, export-oriented small and medium enterprise sector.

The primary player, in implementing the strategy for the development of small and medium enterprises and entrepreneurship during the period from 2003 to 2008, is the Agency for the Development of Small and Medium Enterprises and Entrepreneurship, in Belgrade. Founded in 2001, the mission of this agency is to aid, advise, assist, and protect the development and interests of the small and medium enterprise sector, in:

- The invigoration of the regional economic development and change of the economic structure;
- Solving unemployment problems more efficiently;
- Substitution of import and intensifying competitiveness of small and medium enterprises;
- Stimulating various forms of co-operation with big enterprises;
- Introducing modern technologies and enhancing innovations; and
- Utilising business premises and equipment more economically.

Other participants, in the strategy for the development of small and medium enterprises and entrepreneurship during the period from 2003 to 2008, include: the Ministry of Agriculture and Waterpower Engineering; the Ministry of Economic Relations with Foreign Countries; the Ministry of Education & Sport; the Ministry of Finance and Economy; the Ministry of Labor & Employment; the Ministry of Science, Technology & Development; the Ministry of State Administration and Local Self-Government; and the Ministry of Trade, Tourism and Services. Working together, the goals are to (Dana 2000c; Dana et al. 1999, 2000):

- Develop the small and medium enterprise and entrepreneurship sector in agricultural processing, e-commerce, manufacturing and tourism;
- Strengthen the competitiveness of the sector through the development of management, quality, innovations, and technology;
- Transfer new skills by strengthening ties between research, education and the business sector; and
- Increase symbiosis between small firms and large ones, as discussed by Dana et al. (2008).

5.6 Montenegro

Changes to the federal Enterprise Law, in 2002, simplified the registration procedure of new ventures, at that time across the Serbia and Montenegro Union. Simultaneously, the Republic of Montenegro embarked on a mass privatisation scheme, involving the mass distribution of vouchers. The Act of Modifications of and Supplements to the Act of Privatization of the Economy provided every Montenegrin of age with two vouchers. This accelerated the pace of privatisation and stimulated development. In 2003, more than half of the state-owned capital in Montenegro was privatized; more than 90 % of firms had been privatized, or were about to be. At the time of writing, in 2003, some 350,000 Montenegrin citizens held the shares of companies or privatisation funds.

One of the institutions that support entrepreneurship, in Montenegro, is the Center for Entrepreneurship and Economic Development, the first consulting centre established in Montenegro. This centre has been one of the key supporters of entrepreneurship and small and medium enterprise development. Through its network of offices, it assists start-ups as well as existing firms.

Another important player is the Montenegro Business Alliance (MBA), an association of domestic and foreign business and entrepreneurs. The MBA is the leading voice of business in Montenegro, articulating the benefits of a private competitive market system. With the co-operation of the Center for Entrepreneurship and Economic Development, the MBA launched a program called Business-to-Business (B2B), to promote free trade and to establish new links and renew old links among the former constituents of Yugoslavia.

5.7 Slovenia

Located between the Alps and the Adriatic Sea, Slovenia covers 7,827 square miles. The country borders Austria, Croatia, Hungary, Italy and the Gulf of Trieste. Slovenia was the wealthiest of Yugoslavia's constituent republics. A vanguard of reform, Slovenia declared its independence on June 25, 1991. Article 11 of the constitution makes Hungarian and Italian official languages along with Slovene, within a limited geographic area; Article 64 grants special rights to Hungarian and Italian communities in Slovenia. This country ranks among the most successful transitional economies; Glas et al. (2000) noted that Slovenia had the highest per capita GDP of all Eastern Europe.

Although Slovenia now has a relatively strong infrastructure, a well-trained labour force, low corporate taxes, and a relatively stable currency, Slovenia's macro-economic environment was traditionally not very conducive to entrepreneurship. Inhibitors included the limited access to capital, the shortage of special skills, and the lack of incentives. Rebernik (2003) estimated that there were about 58,000 nascent and new entrepreneurs in Slovenia in 2002. In Slovenia, today, 99 % of firms are small and medium enterprises. Rebernik et al. (2003), further distinguished among micro-enterprises with no employees, those with nine or fewer employees, small enterprises with between 10 and 49 employees, and medium firms with between 50 and 249 employees. That study found that micro-enterprises represented 94 % of firms in Slovenia, providing 28 % of the nation's jobs; only 0.3 % of all enterprises in Slovenia had 250 or more employees. The authors pointed out that most enterprises in the local market are owner-managed, financially weak, and lack bargaining power.

Examining business ethics, Glas (1997) found that, although ethical standards in Slovenia were relatively low, entrepreneurs cared more about their customers than did managers. Glas and Petrin (1998) found that entrepreneurs in Slovenia lacked high level of formal education; perhaps for this reason, entrepreneurship, here, tends not to be very innovative or high-tech in nature. Furthermore, most firms in this country lack a strong growth orientation.

Nevertheless, it is noteworthy that high-tech skills do exist in Slovenia. In July 2002, Canada's Bombardier Aerospace selected Slovenia as the first location in Europe to be authorised to carry out major modernisation and other modifications to

the Canadair series of regional jets; this includes the 50-seat CRJ 100, the 70-seat CRJ 700, and the newer 86-seat CRJ 900.

Among the Slovenian entrepreneurs interviewed, while preparing this chapter, a re-occurring concern was that fact that growth was limited or “very difficult” because the small domestic market effectively limited growth within Slovenia. While a small national market may impede growth within the country, this could lead to opportunities abroad. Glas et al. (1999) observed that the internationalization of Slovenian enterprises follows a stage model, (as described by Johanson and Wiedersheim-Paul 1975); they noted that the export performance of small businesses depends on the location of a firm relative to international boundaries. Rebernik (2003) pointed out that 18 % of Slovenian entrepreneurs expect to export more than half of their production.

Slovenia still has a significant black market. Its size is estimated to be one fifth of GDP, according to the Ministry of the Economy. Glas (1998) suggested that entrepreneurship in Slovenia had a long way ahead to catch with the developed market economies of the Western Europe. This was confirmed by the findings of the Global Entrepreneurship Monitor (GEM) study, in which Slovenia participated for the first time in 2002. The government has an important role in enabling this process to run smoothly by providing appropriate support to entrepreneurs.

It is currently the government’s policy to support the clustering of small and medium enterprises at the national level, in order to develop increasingly sophisticated products, and to improve local and international competitiveness. Through a voucher system, the government is providing soft support to new venture start-ups. In particular, the state is supporting technology-oriented entrepreneurs. However, a problem facing entrepreneurs in Slovenia is the lack of venture capital. Although banks are many, first-time entrepreneurs have limited access to capital.

The Anti-bureaucracy Program is progressing slowly. Rebernik et al., reported: “The majority of time is wasted in order to take out various licenses and permissions. We cannot be content with the fact that Slovenian enterprises have to be involved in six procedures when recruiting their first employee, and four procedures when recruiting a subsequent employee (2003, p. viii).” In the future, less paperwork would be appreciated. As well, co-operation with large firms could be very beneficial to small ones (Dana 2000c; Dana et al. 1999, 2000) and this appears to be lacking in Slovenia, although sub-contracting has been taking place, as has franchising.

Slovenians may be described as forward-looking people. Wagstyl (2002) reported that of Slovenia’s two million people in December 2002, 31.1 % were Internet users (compared with 3.1 % in Turkey, 3.6 % in Romania; 13.7 % in Spain; 21.8 % in Spain; and 33.6 % in the United Kingdom).

Slovenians can be very successful entrepreneurs. Kmecl described the lifestyle of Slovenians as combining Germanic discipline, Bohemianism, Slavic melancholy and “the Balkan zest for life (1993, p. 14).” With the appropriate mix of incentives, entrepreneurship can gain substantial importance in Slovenia.

5.8 *Bulgaria*

Bulgaria is 42,855 square miles, bordering the Black Sea, Republic of Macedonia, Greece, Romania, Serbia and Turkey. Medieval Bulgaria was an important economic power and the nation has great potential, although it has its share of challenges. Bulgaria was the first nation in the region to adopt a new constitution (on July 12, 1991), but the leap to democracy was not equaled by economic reform; instead, the state continued subsidizing inefficient state firms. Privatisation finally took place following a model similar to that implemented in the Czech Republic and in Poland. Today, networks and long-term business relationships are central to entrepreneurship in Bulgaria.

Since the early 1990s, the Government Reform Program has seen the development of small and medium enterprises as crucial. The Union of Private Economic Enterprises, a non-profit organisation with several thousand members from the business community, lobbied for the post-communist government to look at entrepreneurship as the fast lane to recovery. The Bulgarian Investment Fund, an affiliate of the First Private Bank, provided venture capital to young enterprises, but the First Private Bank – created by the same group of entrepreneurs who established the Union of Private Economic Enterprises – collapsed with its 650 employees working in over 70 branches.

Further to Decree 110, of June 13, 1991, unemployed persons were encouraged to propose a business plan, for consideration, in order to receive seed capital. Since then, a variety of schemes have come and gone. In 1997, a Pilot Loan Guarantee Scheme was created, to assist women requesting loans for the start-up of micro-enterprises.

In 1999, an incubator project was launched in Vidin. This was funded by the United States Agency for International Development (U.S.A.I.D.) and managed by the United Nations Development Plan (U.N.D.P.). With the Bulgarian Ministry of Labor and Social Policy, the U.N.D.P. also launched a joint micro-enterprise project that targeted unemployed people; activities included entrepreneurship promotion and local support of micro-enterprise, along with facilitated access to credit. In 2001, the European Union funded a project for the accelerated growth of the Bulgarian small and medium enterprise sector.

Today, a state institution, namely the Agency for Small and Medium Enterprises (A.S.M.E.) is a major player promoting entrepreneurship in Bulgaria. At the ministerial level, the A.S.M.E. has been encouraging the reduction of bureaucratic hurdles and restrictions that impede entrepreneurship. At the firm level, the agency has developed a statute of a guarantee fund, to assist entrepreneurs seeking finance. As well, a training program has been organised.

It may be said that free trade agreements are also facilitating entrepreneurship. Bulgaria joined the World Trade Organization on December 1, 1996. Since January 1, 1998, Bulgaria's industrial exports have entered the European Union with no duties. In July 1998, Bulgaria became a member of the Central European Free Trade Agreement. A free trade agreement between Bulgaria and Turkey came into

force on January 1, 1999. Another, with the Former Yugoslav Republic of Macedonia came into effect on January 1, 2000. Free trade agreements with Croatia, Estonia and Israel became effective on January 1, 2002. Free trade with Lithuania came into effect on March 1, 2002, and with Latvia on April 1, 2003.

In 2003, a corporate tax rate of 23.5 % served as a positive force, in the promotion of new ventures in Bulgaria. Manufacturers located in regions of high unemployment were granted corporate tax exemptions for 5 years, as of January 1, 2003. For individual taxpayers, the highest tax rate was dropped to 29 %.

Since the 1990s, small and medium enterprises have been playing an important role in the national economy, formerly dominated by the large-scaled state-owned enterprises. However, Bulgarian entrepreneurship still suffers from the limited availability of venture capital, a relatively poor banking infrastructure, and difficulty in obtaining loans. Usually, substantial collateral is necessary, often greater than the value of the loan; this may involve jewellery as well as hard currency. There have been times during which the cost of debt has been high; Bulgarian banks have charged a spread of up to 18 % between their cost of capital and their lending rate, and interest rates have exceeded 60 %, before receding to the 10 % range. Most new ventures depend on private savings from an informal network. With annual salaries of state employees being so low, few Bulgarians manage to accumulate much capital legally. Some talk of winning a lottery.

According to the Agency for Small and Medium Enterprises, in Sofia, 99 % of all firms in Bulgaria are small and medium enterprises. Agency sources suggest that 92 % are micro-enterprises, many with very little capital; some depend on public transport. While the rail system serves major towns, it bypasses most mountain villages. In some case, certain people travel by donkey or mule-drawn cart.

Bulgaria also has its share of entrepreneurs who operate in the covert sector. Grigoris Lazos, professor of sociology at Pateion University, was quoted as saying: “Any bar owner or group of bar owners in Greece can send someone up to southern Bulgaria to buy women for cash. The cost of a girl in that area is \$1,000, or, if you negotiate, you might be able to get two for \$1,000. Best to try on a Monday for cheap prices, because most trafficking happens at the weekends, Mondays are slow, so you can get the leftovers (Cockburn 2003, p. 10.)”

Under communist rule, the state intervened to encourage urbanization and industrialisation, creating jobs in state-run factories; although production was inefficient and quality was poor, centralised planning ensured there was a captive market. With the collapse of the Soviet bloc, Bulgaria lost its principal trading partner. Urban entrepreneurship has since been decreed to be the cure-all. Yet, a variety of obstacles plague the sector, while bakeries, dairies, grocery stores and woodwork plants in rural areas have been ignored. Farmers have been given land, but they lack equipment; government policy should address this in the immediate future, in order to avoid uncontrolled urbanization.

Full membership in the European Union is expected in 2007. Meanwhile, an increase in transparency in decision-making, coupled with a reduction in administrative requirements will likely contribute to the success of entrepreneurship in Bulgaria.

5.9 Romania

Romania covers an area of 91,699 square miles, bordering the Black Sea, Bulgaria, Hungary, Moldova, Serbia, and the Ukraine; not surprisingly, the Romanians call themselves Latins in a sea of Slavs. Romania was the first Eastern European country to mount a successful revolt against communism, as a 1989 demonstration in Timișoara ignited the revolution that ended communist dictatorship in Romania. Yet, a model of gradual transition led to slow reform for this country, which entered the path to a market economy with great structural distortions in terms of concentration on heavy industry. While entrepreneurs in Romania complain of over-regulation, bureaucracy, non-tariff barriers, and high taxation, the United States Trade Representative estimates that half of Romania's GDP emanates from the informal sector.

Directly coordinated by the prime-minister, the National Agency for Small and Medium Enterprises took over the responsibility of small and medium enterprise development, from the Council of Reform. The mandate given to this national agency was:

- To elaborate and propose programs to stimulate new venture start-ups and the development of small and medium enterprises;
- To endorse programs for small and medium enterprise development;
- To design studies to analyze the legal, institutional and economic framework for small and medium enterprises;
- To co-operate with government departments and with other administrative bodies, and coordinate the development and implementation of small and medium enterprise development programs;
- To design small and medium enterprise development programs, in co-operation with chambers of industry and commerce, and with other organisations whose aim is to support the development of small and medium enterprises;
- To gather information about the small and medium enterprise sector, and to provide it to interested parties;
- To make recommendations regarding the state financing of programs to stimulate new venture creation and to develop existing small and medium enterprises;
- To prepare the annual report regarding the efficiency of the policies and the small and medium enterprise development programs;
- To propose by October 1 of each year, governmental programs for the year to come;
- To co-operate with international institutions, ensuring the coordination of the technical and financial assistance offered to Romania for stimulating the small and medium enterprise sector; and
- To represent the Government of Romania, in international organisations, in order to elaborate small and medium enterprise policies and programs.

In its first few years of existence, the National Agency for Small and Medium Enterprises focused much of its efforts on improving the legal environment for

entrepreneurship. In 1998, it was decided to finance marketing activities of small and medium enterprises, in order to increase exports. In 1999, guaranteed funds were established, in accordance with the regional development law. The agency coordinates and gives financial support to the Permanent Secretariat of the Balkan Center for Co-operation among small and medium enterprises. This provides a link with Albania, Armenia, Azerbaijan, Bulgaria, Greece, Moldova, Romania, Russia, Turkey and the Ukraine.

Thanks to a program initiated by the Romanian Development Agency, small-scale entrepreneurs can receive credits amounting to 50 % of the interest of the National Bank of Romania (*Banca Națională a României*), provided that their activities are in construction, industry, research, services, or tourism. This has made possible the creation of thousands of jobs. With the participation of the Bank for Small Industry and Free Enterprise (*Banca pentru Mică Industrie și Liberă Inițiativă, MINDBANK*) and the commercial bank Ion Tiriac (*Banca Comercială Ion Tiriac*), employers may receive a credit of up to 50 million lei. The reimbursement period is 3 years.

Since Decree Law N° 96 was passed, in March 1990, wholly owned foreign investments have been permitted in Romania. Foreign investment is governed by Company Law N° 31 of 1990, and by Foreign Investment Law N° 35 of 1991. Subsidiaries are governed by Law N° 105 of 1992.

While the National Agency for Small and Medium Enterprises caters to local entrepreneurs, the Romanian Development Agency serves as a first stop for foreign parties considering investment in Romania. The mandate of this development agency is to attract international investment. Its services include the provision of economic data, and details of investment opportunities, to interested parties. This agency identifies local partners, provides advisory services to potential investors, and support to foreign entrepreneurs operating in Romania. All foreign enterprises are required to register with the Romanian Development Agency.

Decree Law N° 54 authorised the establishment of small businesses in February 1990. Small and medium enterprises are defined, by the National Agency for Small and Medium Enterprises of Romania, as firms with fewer than 250 employees. In 2003, such enterprises represented over 99 % of total active firms in this country; over 97 % of these are privately held.

There are definite advantages to operating a small or medium enterprise in Romania. Since January 1, 1995, Romania has been distinguishing between “small taxpayers” and “big taxpayers.” A Romanian legal person, with no more than 299 employees, and whose annual turnover does not exceed a specified amount, can be treated as a small taxpayer.

Most members of the Chamber of Commerce and Industry of Romania are small and medium enterprises, and the Chamber has long lobbied for the state to serve small and medium enterprise interests. Since 2000, the Chamber has organised conferences, seminars and workshops, providing information on how to launch a new venture, how to develop a business, and how to internationalize it.

In January 2001, the Government of Romania established a Ministry for Small and Medium Enterprises and Co-operatives, with policies and strategies designed

upon consultations with the Chamber of Commerce and Industry of Romania. The ministry's key function is to elaborate a national strategy for small and medium firms. Twice each year, the ministry presents the government an action on removing regulatory hurdles.

The Basic Law on Small and Medium Enterprises (Law N° 133), passed in February 2001, calls for the creation of a favourable environment for the establishment and development of small and medium enterprises, and regulates the fostering of small and medium enterprises, including family associations. Its Article 2 defines the "entrepreneur" as "an authorised natural or legal person which, individually or in association with other authorised natural or legal persons, organises a company, that will be further called enterprise in order to develop commercial facts and deeds, according to the provision of Article 3." Article 3 then defines an "enterprise" as "any kind of an economic activity organisation, with autonomous patrimony and authorised by the actual laws to make deeds and actions of commerce in order to obtain a profit from producing goods or services, and from selling them on the market, in competitive conditions." Article 4 defines micro-enterprises as having nine or fewer employees, small enterprises as having between 10 and 49 employees, and medium firms as having between 50 and 249 employees.

Law N° 133 facilitates the establishment of small and medium enterprises and guarantees their access to public services and to assets belonging to commercial companies with state share capital. Authorities are thus obliged to offer support to small and medium enterprises to facilitate their access to communications, energy, transportation, and utilities. This law also grants small and medium enterprises priority in leasing, and pre-emptive rights to purchase assets offered for sale in their vicinity. In addition, this law allows small and medium enterprises to benefit from information services, assistance, consultancy, research and technological innovation in finance, banking, management and marketing, in order to develop business activities. As well, small and medium enterprises are entitled to professional management training. This law also provides financial, fiscal and banking incentives for small and medium enterprises. Only firms with an annual turnover not exceeding 8 million euros are entitled to benefit from the provisions of this law.

There are numerous financial support programs for small and medium enterprises in Romania. The Micro-credit Program gives loans of up to 5,000 euros, for a period of up to 3 years. Larger loans are provided by the European Union, and by the governments of Germany and the United States.

Transition, in Romania, was designed as a two-phase process, starting with decentralisation, and followed by sufficient investment and restructuring to allow for privatisation with minimal job losses. Central to the Romanian model of transition has been a commitment to gradualism. This was based on the belief that a phased approach to price liberalization was needed to protect consumers, and that jobs could be best protected by means of gradual reform. Efforts were thus focused on controlling inflation, and limiting the displacement of labour and related social costs. As a result, while other transitional economies faced the shock of significant unemployment during the early phases of transition, that in Romania came more gradually. Likewise, price controls were justified by the desire to

minimize social costs. It was decided that a slow decrease in state intervention would be the best way to assure the supply of raw materials to industry, and essential goods to the people.

Agriculture was privatised, recreating a class of smallholding farmers and shepherds. The small enterprise sector was largely privatized, as the state sold or leased firms in the retail and service sectors. Prices were allowed to rise gradually. Foreign trade was liberalised, and Law N° 84 established free trade zones. A voucher system was introduced by Law N° 58 of 1991, and pursuant to the Law for Acceleration of Privatization (Law N° 55), a mass privatisation program was launched, in June 1995. An Office for Consumers Protection has been set up. All this suggests a large step toward a Western-style market economy. However, it should be noted that although the legal framework for a market economy was rapidly established, its implementation moved ahead slowly.

A challenge for the state will be to develop an environment conducive to the sustainable growth of entrepreneurship in Romania. This includes the reduction of corruption. In regions of Romania that were formerly under Ottoman rule (Moldavia and Wallachia), the “baksheesh” culture has survived; a move away from bribes will certainly help entrepreneurship in the future.

Also of importance to the future of Romania are the management of cultural diversity, and the fostering of harmony among ethnic groups within this country. Romanians in Romania have established networks with Romanians outside the country. As well, Hungarian-speaking Romanians appear keen to do business with firms in Hungary. Such networking may develop into significant trade, in the future.

6 Toward the Future

Although the West has provided much funding to transitional economies, and infrastructure has been greatly improved in recent years, complaints are often heard about the problems arising from transition. Outsiders often fail to realize that transition to a market economy requires more than funding and infrastructure. In the words of Behrman and Rondinelli, “*Although financing is important, it is not the most critical bottleneck to private enterprise development (1999, p. 11).*” In fact, transition also involves mindset. Business takes place between people, and the interaction between the parties does not take place in a vacuum, but rather it is part of a social system.

Whether or not transition is taking place gradually or rapidly, alongside political reform or in its absence, the mindset of people often holds on to perceptions of former times. Consequently, in order to gain an understanding of the behaviour of entrepreneurs and of the nature of their enterprises, one must first become familiar with a variety of explanatory variables, including culture, historical experience, and government policy. Transition is a function of all of these causal variables.

Policy-makers, educators and managers should keep in mind that the success of a policy or program or strategy in the West does not guarantee equal success elsewhere. For this reason, it is crucial to avoid trans-locating these from one environment to a different one. The move to a market economy – transition – is process-driven, and this necessitates the understanding of people and their culture. Entrepreneurship cannot and will not gain the same level of acceptability in different cultures, nor should reform take place at an even pace.

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Support Programs for the Development of SMEs in Time of Crises: Some Analysis from Albania

Arbër Demeti and Tefta Demeti

1 SMEs Development in Albania

During year 2011 it is achieved an economic growth of 3.0 % toward GDP. SME sector contributed in more than 73 % of GDP and more than 71 % in employment. The number of active enterprises till the end of year 2011 (INSTAT 2012a), reached 106,503, which indicated an increase of 8.3 % comparing to 2010. The active enterprises in Albania from 2005 to 2011 are increased by about 69 %. In Table 1 are shown active enterprises by the year.

During year 2011 the birth rate of new enterprises hit 11.8 % decreasing by 4.2 % compared to 16 % that was in 2010. There were 12,905 new enterprises registered during 2011 (Fig. 1). Prefecture of Vlore had the highest rate, 14.3 %, while the lowest one was in prefecture of Dibra, 8 %.

Approximately 71 % of new enterprises carry out their activities in the prefecture of Tirana, Durrës, Vlora and Fier and 65 % of active enterprises have been created during 2006–2011 (Fig. 2)

Referring to their structure active enterprises for 2011 are classified: Microenterprises (one to nine employees) count for 95 % of the total active enterprises, small enterprises (10–49 employees) count for 3.9 %, medium enterprises (50–249 employees) count for 0.9 % only 0.2 % of the total number are large enterprises with more than 250 employees (Fig. 3).

Referring to the spread by economic sector the active enterprises are classified: Trade 43.8 %, hotels and restaurants 16.1 %, other services 14.1 %, transport and communication 10.2 %, industry 9.8 %, construction 4.3 %, agriculture and fishing

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Table 1 The active enterprises in Albania by the year

Year	2005	2006	2007	2008	2009	2010 ^a	2011
<i>No. of active enterprises</i>	62,162	73,672	80,077	94,533	94,953	103,038	106,503

Source: INSTAT 2012c

^aData for the year 2005–2010 are revised by the census of non-agriculture economic enterprises 2010

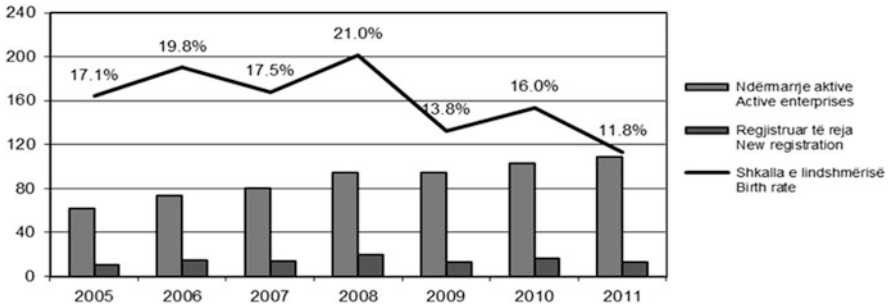


Fig. 1 Active enterprises, new registration, birth rate, during years (Source: INSTAT 2012a)

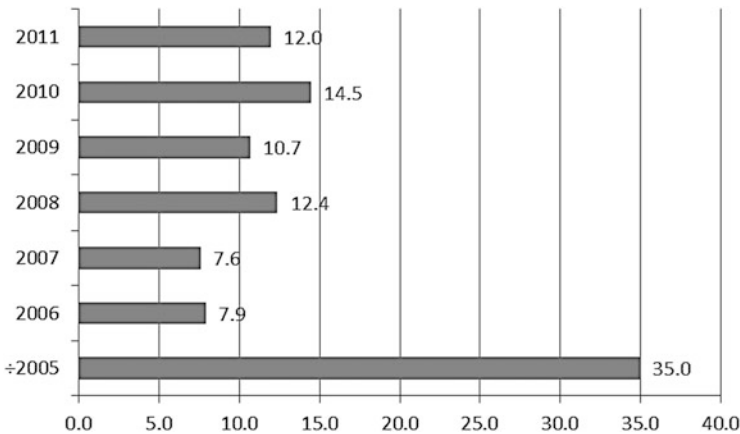


Fig. 2 Active enterprises by years of creation in % (Source: INSTAT 2012a)

1.8 % (Fig. 4). Predominant in number are trade and hotels, coffee-bar restaurants activities with 60 %. Such domination of service provider enterprises is noticed all over the country. Approximately 62.7 % of the enterprises have only self-employed staff. Eighty-one percentage of enterprises are registered as physical person and only 19 % are registered as a juridical person (INSTAT 2012c). About 50 % of active enterprises in Albania operate in Tirana and Durres.

The number of exporting enterprises count for 1.8 % of the total number of active enterprises in the country. Their exports for 2011 amounted 1.37 milliard euro increasing with 21.9 % as compared to the previous year. Foreign and joint venture enterprises in Albania count for 2.1 % of the total number of active

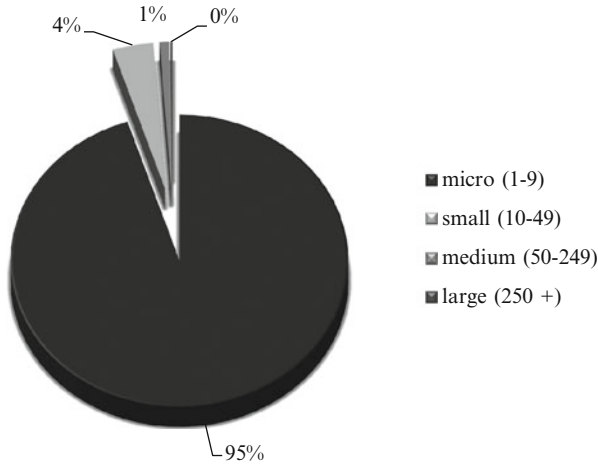


Fig. 3 The structure of SME in 2011 (Source: INSTAT 2012a)

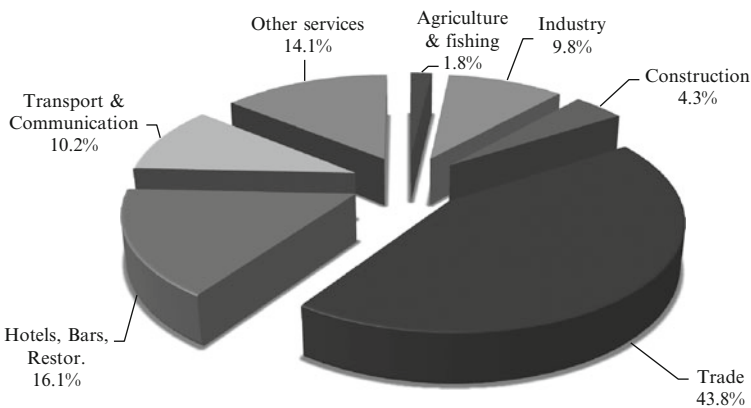


Fig. 4 The spread of SME according to the sector 2011 (Source: INSTAT 2012a)

enterprises in the country. Foreign investments for 2011 amounted to 741 million euros with a decline of 10.8 % compared to the previous year. However they have increased three times as compared to year 2006.

The contribution of SME (INSTAT 2012b), presented in Table 2, is 84 % of employment in private non agriculture sector, 46.8 % in export and 65.6 % in value added. The contribution according to the size of enterprises is: Micro firms contributed by 46.2 % in employment in private non agriculture sector, 7.7 % in export and 24.6 % in value added. Small enterprise contributed by 20.2 % in employment, 15.4 % in export and 24.7 % in value added. The medium enterprises contributed by 17.6 % in employment, 23.7 % in export and 14.3 % in value added.

SME's turnover for 2010 (INSTAT 2012b) has increased by 8.9 % compared to the previous year. The turnover for producers of goods have increased by 8 % while for providers of services have increased by 9.5 % compared to 2009.

Table 2 The contribution of SMEs during 2010

	Size of enterprises			
	Micro (1–9)	Small (10–49)	Medium (50–249)	Large (250+)
<i>% of employment</i>	46.2 %	20.2 %	17.6 %	16.0 %
<i>Value added</i>	24.6 %	24.7 %	14.3 %	36.4 %
<i>Export</i>	7.7 %	15.4 %	23.7 %	53.2 %

Source: INSTAT [2012b](#)

The number of active enterprises in production of goods in 2010 (INSTAT [2012b](#)) has increased by 4.5 % compared to 2009. Meanwhile the total number of employees in 2010 has increased by 7.1 % compared to the previous year (increase by 4.2 % in the production of goods and by 9.5 % in services). On the other hand investments have decreased by 8.4 % as compared to 2009.

Finally, producers of goods make up 16 % of total number of enterprises, 37 % of total turnover, 59 % of investments and 44 % employees. Alternatively providers of services make up 84 % of total number of enterprises, 63 % of total turnover, 41 % of investments and 56 % employees. The average turnover per employee in 2010 has increased by 1.7 % as compared 2009. The value added in 2010 (INSTAT [2012b](#)) was 1.8 % higher as compared to 2009.

2 Doing Business in Albania

According to Doing Business 2012 report, in ease of doing business, Albania is ranked 82 out of 183 from 86 that it was in 2009 and 135 in 2008 (Table 3).

Several reforms on reduction of administrative barriers in business have been undertaken to improve the business climate in Albania.

2.1 Starting a Business

When entrepreneurs draw up a business plan and try to get under way, the first hurdles they face are the procedures required to incorporate and register the new firm before they can legally operate. It is assumed that all information is readily available to the entrepreneur, that there has been no prior contact with officials and that all government and nongovernment entities involved in the process function without corruption.

It requires five procedures, takes 5 days, and costs 29 % GNI per capita to start a new business in Albania. Albania is ranked 61st out of 183 for Starting a Business (World Bank [2011](#)) recording a significant improvement as compared to DB 2008 where it was ranked 130th, but deteriorating as compared to year 2011 (ranked 56th).

The process of the reformation of business registration (NRC): (i) convert the registration process by a mixed process (judicial and administrative) in an entirely

Table 3 Rank of doing business in Albania by years

Doing business, Albania	Doing business 2012	Doing business 2011	Doing business 2010	Doing business 2009	Doing business 2008	Doing business 2007	Doing business 2006
Ease of doing business	82/183	77/183	82	86	135	120	117
Starting a business	61	56	46	67	130	121	108
Dealing with construction permits	183	176	173	170	160	161	131
Employing workers	–	–	105	108	109	113	127
Registering property	118	126	70	62	56	76	66
Getting credit	24	21	15	12	61	48	41
Protecting investors	16	15	15	14	168	162	136
Paying taxes	152	150	138	143	125	125	132
Trading across borders	76	76	66	77	73	101	100
Enforcing contracts	85	88	91	88	88	99	113
Closing a business	64	62	183	181	181	89	73
Getting electricity	154	154					

Source: World Bank 2008, 2009, 2010, 2011

administrative process, (ii) registration in a single day, with a single step, closer to the beneficiaries and electronic, (iii) increase transparency, impartiality and simplicity in registration (iv) immediate registration for trade, fiscal, social and health insurance and work effect with a single step (v) simplification of requirements and documentation necessary for registration of businesses, (vi) Reduction of registration costs, eliminate contacts with administrative employees and thus reduce corruption (vii) provision of services at national level also being extended at the local government structures, (viii) full compliance of standards of registration process with the European directives.

National Register Center (NRC) is functioning as a one stop shop since September 2007. Business registration within 1 day, at NRC, with a minimal cost of 100 all (0.81 EUR). This has brought the reduction of time registration of a business to 1 day from 28 days that is was in 2007 in the Court.

The accomplished reforms during 2007 and 2008 have made that the number of steps to start a business in Albania to be reduced from ten to five steps. So, there are reduced five steps to start a business as below stated:

- (a) Companies use an identification number which is given by NRC when at the moment of registration and at the same time the same identification number is

Table 4 The procedures to start a business in Albania

Steps	Procedures	Duration
1	Search for a unique company name	1 day
2	Notarize the incorporation documents	1 day
3	Request at NRC	1 day
4	Paying taxes	1 day
5	Make a company seal	1 day

Source: World Bank 2011

Table 5 Starting a business in Albania by years

Starting business	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012
Ranking	130	68	46	45	61
Procedures (number)	10	6	5	5	5
Time (days)	36	8	5	5	5
Cost (% of income per capita)	21 %	26 %	17 %	16.82 %	29 %
Min. capital (% of income per capita)	34 %	32 %	0 %	0 %	0 %

Source: World Bank 2008, 2009, 2010, 2011

generated in the tax office, social insurance office and in labor office. This has brought to the reduction of four steps for starting a business;

- (b) With the Law No. 9897, dated 10.04.2008 “On a change on Law No. 9640, dated 09.11.2006”, it is amended the law on chamber of commerce and industry omitting the obligation of the companies to register nearby CCI. Such registration is voluntary. This has brought to the reduction of one more step for starting a business.

Regarding the procedures that are followed for business registration, in accordance with DB 2012 data are showing in Table 4.

It is actually required only 5 days to open a new business compared to 36 days in the 2008, which is also connected with the reduction of costs to open a business (Refer to Table 5 for detailed information).

2.2 Dealing with Construction Permits

To measure such regulation, Doing Business focuses on the construction sector. Construction companies are under constant pressure from government to comply with inspections, with licensing and safety regulations, from customers to be quick and cost-effective.

According to Doing Business 2012 there was no practice for dealing construction permits in Albania and is ranked 183 overall for Dealing with construction permits, while in 2011 it ranked 176, being the last comparing to the western Balkans countries. It requires 24 procedures, takes 331 days, and costs 381.3 % GNI per capita to build a warehouse in Albania (World Bank 2011).

During 2007–2010, regulatory reforms in the field of licenses were focused in sectorial improvements, which brought a drastic elimination of the huge number of licenses and permissions, concretely: There are taken off 64 licenses, are converted in self-declarations 21 licenses, are converted in auction 12 licenses and the others are decentralized.

National Licensing Center (NLC) is functioning as one stop shop since June 9, 2009. It operates on the bases of the new law on licenses, authorisation and permits Nr. 10081, dated 23.02.2009. It serves as a one stop shop for licensing and permits that were previously obtained at various ministries. It operates according the principle silent is consent. For the group I and II licenses are given by NLC itself within 2–4 days. For licenses of group III, which are sent to ministries in line, the time of giving a license is 10–30 days. NLC offers quick and transparent services to businesses interested in obtaining a license and/or permit. There are opened eight service windows in Tirana and also nine service windows in other cities. NLC didn't include the construction permits which delivered by local government.

2.3 Getting Electricity

Getting electricity is a new indicator that is inserted in Doing Business (DB) 2012. Access to reliable and affordable electricity is vital for businesses. To counter weak electricity supply, many firms in developing economies have to rely on self-supply, often at a prohibitively high cost. Whether electricity is reliably available or not, the first step for a customer is always to gain access by obtaining a connection. According to Doing Business 2012 Albania is ranked 154 overall for getting electricity, it takes six procedures, 177 days, and cost 585.6.

2.4 Registering Property

Ensuring formal property rights is fundamental. Effective administration of land is part of that. If formal property transfer is too costly or complicated, formal titles might go informal again. Albania is ranked 118 overall for Registering Property, with improvement from last year that were in place 126. According to DB 2012 it takes six procedures, 33 days, and costs 11.9 % of property value to register the property in Albania. In DB 2007 Albania is ranked 76 thus making some progress in 2011 with six positions. In 2007 in Albania it is needed seven procedures, 47 days and cost 3.6 % of property value.

2.5 *Getting Credit*

In Doing Business 2012 Albania is ranked 24 overall for Getting Credit while the survey of DB for 2007 does not present any information regarding getting credit in Albania. Albania is ranked the first among Western Balkan countries for 2011. Last year Albania was ranked 21.

Since 2005 all the commercial banks in Albanian are private. Private sector credit (Bank of Albania 2012) up to the first half of 2012 reached 40.7 % of GDP, with an increase of 1.3 percentage points compared with the same period previous year, while with a significant growth comparing to the 14.9 % of GDP in 2005. The annual growth rate of private sector credit has continued to slowdown to almost 7 % (10.4 % at the end of 2011) reflecting the deepening of the negative output gap and also the more prudential lending policy of the banking system. Credit granted by non-banking financial institutions even showing slightly increase continued to be low. Microcredit portfolio of these institutions by June 2012 is: 3.4 % of total financial system assets and 5 % of total credit granted by financial system. According to sectors distribution of credit, banks have financed mostly the service sector supported by more optimistic development in this sector, especially in trade. However during the first half of 2012 has been experienced higher contribution of credit to industry sector in comparable to the end of 2011.

2.6 *Protecting Investors*

Stronger investor protections matter for the ability of companies to raise the capital needed to grow, innovate, diversify and compete. Even here Albania in DB 2012 is ranked 16 overall for protecting investors being also the first compared to the Western Balkan countries. In DB 2012 the Investor Protection index is 7.3 while in DB 2007 it was only 2.7. Albania was ranked in the 15th place last year (World Bank 2011).

Reforms in the field of legislation of companies has come as a result of reforms in the field of trade legislation, drafted and approved by Law no. 9901, dated 14.04.2008 “On Company Law”, which provides a contemporary, simple, clear and updated legal framework for companies. The legislation is fully compatible (does not conflict) with the provisions of primary and secondary sources of the *acquis communautaire* and complies fully with all the principles ensuing from those provisions.

Through the Law Nr. 10316, dated 16.09.2010 “On some additions to the Law Nr. 7764, date 02.11.1993 ‘On Foreign Investments’” the government has made some very important changes to the award of a special state protection certain categories of foreign investors, that in the process of investing encounter problems with property titles, from claims on property titles by third parties. The special state

Table 6 Paying tax in Albania

	DB 2012	DB 2011	DB 2010	DB 2009	DB 2008	DB 2007	DB 2006
Time (hours)	371	360	244	240	240	240	244
Payments number	44	44	44	44	44	44	44
Tot. tax rate (% profit)	38.5	40.6	44.9	57.3	57.3	46.8	50.5

Source: World Bank [2006](#), [2007](#), [2008](#), [2009](#), [2010](#), [2011](#)

protection is provided for the foreign investments in public infrastructure, tourism, energy or agriculture on a real estate and when expected investment worth more than 10 million euro.

2.7 *Paying Taxes*

Taxes are essential to provide public amenities, infrastructure and services which are crucial for a properly functioning economy. Albania has done steps backward regarding paying taxes (see Table 6). It is ranked 152 overall for Paying Taxes according to Doing Business 2012 while in DB 2007 it was positioned 125. Albania is ranked the last one among Western Balkans countries.

Fiscal policy is always more and more influencing in creating an encoring and supportive environment of domestic and foreign enterprise. Significant reduction of the tax burden on income from work: currently the total measure of the tax-contribution on gross salary for social insurance and health is 27.9 % of the gross monthly salary, down from 41.9 % in 2000.

2.8 *Trading Across Borders*

Making trade between countries easier is increasingly important for businesses in today's globalized world. Excessive document requirements, burdensome customs procedures, inefficient port operations and inadequate infrastructure all lead to extra costs and delays for exporters and importers. Albania is ranked 76 overall for Trading across Borders. It is not performing well among Balkan countries leaving behind only Croatia. Although, compared to Doing Business 2007 Albania has significantly improved as in 2007 it was ranked 101 overall trading across borders. From DB 2007 to 2012 it is reduced the time and cost for exporting and importing in Albania.

2.9 Enforcing Contracts

Where contract enforcement is efficient, businesses are more likely to engage with new borrowers or customers. Albania is ranked 85 overall for Enforcing Contracts. It is improved compared to the DB 2007 where Albania was ranked 99. Except the cost (% of claim) which from DB 2007 to DB 2012 is 31.8–35.7, the number of procedures and time (in days) has not changed for Albania.

2.10 Closing a Business

A robust bankruptcy system functions as a filter, ensuring the survival of economically efficient companies and reallocating the resources of inefficient ones. Albania is ranked 64 being in closing a business. It has improved from the year 2010 Albania was ranked 183.

Through the operation of NRC it is also reduced the procedures and time for closing a business. During 2010 the number of subjects de-registered is 26 % lower than the previous year. In the Table 7 are shown the business closing by year.

2.10.1 Implementation of Small Business Act

In June 2008 the European Commission adopted the Small Business SBA, a framework policy document, moving from policy guidelines to targeted actions and the Western Balkans are expected to move towards the same policy approach adopted by the EU Member States. The document was endorsed by the European Council in December 2008 (EC 2008). The SBA for Europe aims to refocusing attention on SMEs' needs in EU and national policy making so as to fully unlock the growth and jobs potential of SMEs and make full use of their innovation capacities. SMEs around the Europe face the same type of problems: administrative burden, difficulty to find financing and skilled labour, or to take opportunity of the Single Market. Addressing some of these problems together through a partnership between the EU and the Member States can bring considerable results. The SBA aims to promote entrepreneurship, make legislation SME-friendly and help SMEs to grow. The SBA includes an ambitious set of measures to allow SMEs to fully benefit for the Single Market and expand into international markets by orienting more resources to SMEs' access to finance, R&D and innovation.

A set of ten principles are set to guide the conception and implementation of policies both at EU and Member States level. These principles are essential to bring added value at EU level, create a level playing field for SMEs and improve the legal and administrative environment throughout the EU.

The implementation of SBA principles evaluated by OECD and EC in the SME Policy index 2012 (OECD 2012) report as are presented as follows:

Table 7 De-registration of enterprises according years

	Physical person	Juridical person	Total
<i>Up to August 2012</i>	3,159	138	3,297
2011	3,708	192	3,900
2010	3,597	189	3,786
2009	4,716	440	5,156
2008	3,419	178	3,597

Source: NRC 2012

2.11 Albania SME Policy Index 2012

Albania in 2012 is assessed by score 3.01 (out of 5) slightly below from the region average score by 3.07. Compare with 2009 (OECD 2009) is improved by 0.24 point (2.86 in 2009). The assessment in the ten dimensions is as following (OECD 2012):

1. *Entrepreneurial learning and women entrepreneurship.* This indicator aims to care for future entrepreneurs better, in particular by fostering entrepreneurial interest and talent, particularly among young people and women, and by simplifying the conditions for business transfers. In SME Charter in 2009 Albania is scored 2.25 and according to the SBA evaluation in 2012 Albania is improved scoring 2.46.
2. *Bankruptcy and Second chance.* Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance. The commission will continue to promote a second chance policy by facilitating exchanges of best practice between Member States. Is a new pillar in 2012 and is evaluated with score 3.2.
3. *Design rules according to the 'Think Small First' principle.* Design rules according to the 'Think Small First' principle by taking into account SMEs' characteristics when designing legislation, and simplify the existing regulatory environment. In SME Charter Albania is scored 3.5 maintaining almost the same score in SBA 2012 with 3.55.
4. *Make public administration responsive to SMEs' needs.* Make public administration responsive for SME needs, making life as simple as possible for SMEs, notably by promoting e-government and one-stop-shop solutions. Albania has scored 4.5 to the cheaper and faster start-up in SME Charter in 2009 and scored to 4.6 company registration. E-government was scored 3 in 2009 and has a slight increase to 3.3 to SBA 2012.
5. *State aid and public procurement.* Adapt public policy tools to SME needs: facilitate SMEs' participation in public procurement and better use State Aid possibilities for SMEs. The government should adapt public policy tools to SMEs' needs. They should take use of the Code of Best Practice providing guidance to contracting authorities on how they may apply the EU public procurement framework in a way that facilitates SMEs' participation in public procurements procedures. To address the market failures that SMEs face throughout their lifecycle they should make better use of the possibilities offered by Community State Aid rules to support start ups and provide

incentives for SMEs. Albania scored 2.5 in *successful business models* in SME Charter and improving by scoring 2.8 in SBA evaluation 2012.

6. *Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions.* Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions. The government should facilitate SMEs' access to finance, in particular to risk capital, microcredit and mezzanine finance and develop a legal and business environment supportive to timely payment in commercial transactions. Albania was scored 3.5 in 2009 and faced a decrease to 3.0 points in access to finance in SBA evaluation in 2012.
7. *Help SMEs to benefit more from the opportunities offered by the Single Market.* Help SMEs to benefit more from the opportunities offered by the Single Market. The government should encourage SMEs to benefit more from the opportunities offered by the Single Market, in the particular through improving the governance of and information on Single Market policy, enabling SMEs' interests to be better represented in the development of standards and facilitating SMEs' access to patents and trademarks. Albania scored 2.75 in SME charter in 2009 and is improved by score 3.06 in SBA evaluation 2012, but all sub-indicators are different compare the previous.
8. *Promote the upgrading skills and all forms of innovation.* Promote the upgrading of skills in SMEs and all forms of innovation. The government should promote the upgrading of skills in SMEs and all forms of innovation. They should encourage investment in research by SMEs and their participation in R&D support programs, transnational research, and clustering and active intellectual property management by SMEs. In availability of skills in EU charter Albania scored 2.0 while in SBA 2012 improved with 3.3. The score of this indicator is well below the EU average showing that Albanian SMEs are less likely than the European ones. But there has been an improvement since last year.
9. *SME in a green economy.* Enable SMEs to turn environmental challenges into opportunities. They should provide more information, expertise and financial incentives for full exploitation of the opportunities for new 'green' markets and increased energy efficiency, partly through the implementation of environmental management systems in SMEs. Is a new pillar in 2012 and is evaluated with score 1.86. The performance of the Albania is much lower than the EU average. The share of Albanian SMEs that have taken resource efficiency measures and/or have benefitted from public support measures is considerably lower than the EU average. The share of SMEs offering green products and services is also below the rest of the EU. The share among these "green" businesses whose turnover is more than 50 % from selling green products or services is only 1 % in Albania compared to 22 % for the rest of the EU (EC 2012).
10. *Internationalization of SME.* Encourage and support SMEs to benefit from the growth of markets. The government should support and encourage SMEs to benefit from the growth of markets outside the EU, in particular through

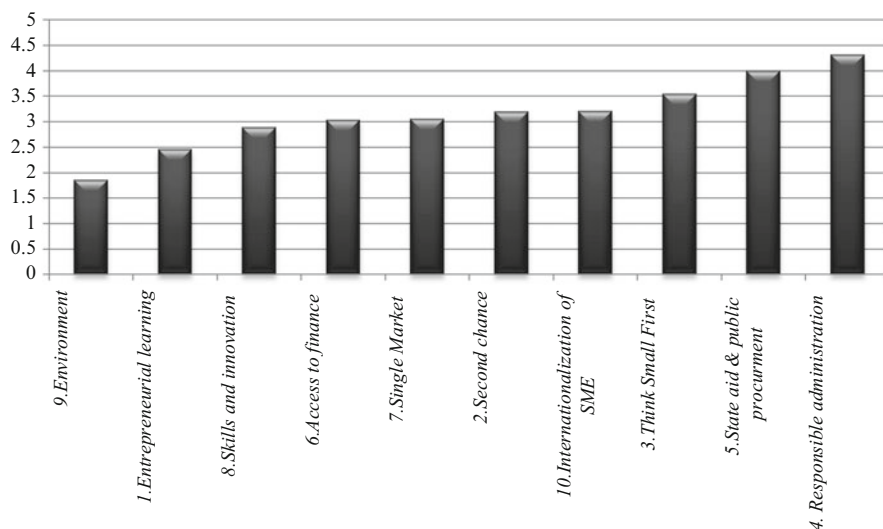


Fig. 5 The score of the SME policy index 2012 for Albania (Source: OECD 2012)

market-specific support and business training activities. The evaluation in 2009 is with score 3 and is improved with score 3.21 in evaluation of SBA 2012. The overall score of the Albania is lower than the average and the performance of the indicators that has not changed from last year, has deteriorated slightly, including costs required to export and import. The overall score of the SME policy index 2012 for Albania according ten dimensions is presented in the Fig. 5 and the less development dimensions are: dimension 9 environment and dimension 1 Entrepreneurial learning.

According the SBA fact sheet 2011 the progress of Albania in the implementation of SBA in four dimension out of ten is given in the Fig. 6.

2.12 SME Policy Index 2012 in the Western Balkan Countries

According SME policy index 2012 progress has been uneven across the region. The Western Balkan economies have recorded 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. They have made marked progress in skills development and export promotion.

The first group, Turkey, Croatia and Serbia are scoring above the regional average in most dimensions. They are characterized by an advanced degree of policy convergence with EU SME policy practices and standards.

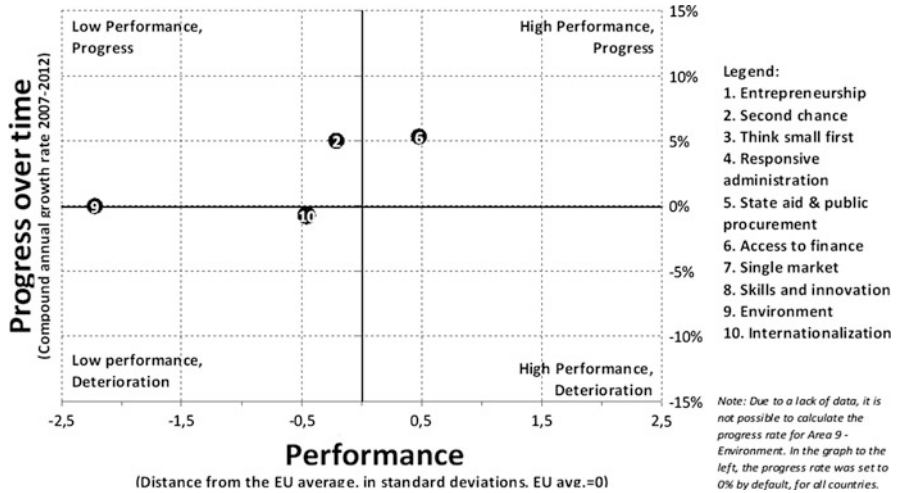


Fig. 6 Albanian SME performance according the years 2007–2012 (Source: EC 2012)

The second group, Albania, the Former Yugoslav Republic of Macedonia and Montenegro are scoring slightly below the region average. They have reached a good level of policy convergence, but the implementation of SME policy has been uneven across policy dimensions. All three economies perform well on the implementation of horizontal policies, particularly in the areas of company registration, regulatory reform and access to finance. Nevertheless, gaps remain in the implementation of targeted policies and innovation-support measures for SMEs which are still at an early stage of development.

The last group, Bosnia and Herzegovina and Kosovo scored below regional average performance in most of the policy dimensions, indicating a limited level of policy convergence and the persistence of significant gaps in policy implementation. Nevertheless, both economies showed some progress since the 2009 report in the policy dimensions of entrepreneurial learning and enterprise skills.

3 Government Measures to Cope with the Impact of the Economic Crises

The positive developments during the hard global economic times of 2009, 2010 and 2011 are mainly attributed to different programmes and policy to support SME and the radical structural, fiscal, administrative and legal reforms undertaken by the Government in the course of the recent years. The pay-off of these reforms and policies coincided with this difficult economic time, smoothing to a considerable extent the negative effects of the global crisis.

- In 2008 and 2009, in order to alleviate the contractionary impact of the global crisis, the fiscal policy was relatively more pro-active.
- Fiscal reforms taken during 2007–2009 have made the tax system in Albania more simple and stimulant for the business development compared to the countries of the region. The distribution of the tax weight equally and less deform, has been an important obvious element of these fiscal reforms.
- In 2009 was ratified by law the right of compensation to later tax obligations and contributions of social health insurance with the amount of VAT to be refunded.
- Extension or credit on time of the repayment of VAT on machinery, equipment and raw materials, which in 2008 was over 12 months depending on the investment cycle and the start of production.
- It is considering further reduction of the fiscal burden for the employer starting from 1 May 2009: further reduction of Social security employers' contribution to the level of 15 % from 30 % in 2008. The reduction of the payment for accidents and illness from 0.5 % of the payments list sum to 0.3 %. The reduction of the payment for the branch of unemployment insurance from 2 % to 0.9 % of the payments list
- The main steps of the tax reform include: the gradual reduction of the rate for the profit tax from 25 % in 2004, 23 % in 2005, 23 % in 2006–2007 and 10 % in 2008 up to now; The change in the system of personal income taxation, from progressive to proportional with the same tax rate as those for corporate income (10 %);
- Tax policy reform has been based on the idea of lowering the tax rate and simultaneously extending the range of tax-payers.
- The Export Credit Guarantee Fund (ECGF). ECGF is part of guarantees that the government issues and the maximum amount of the fund is 200 million ALL, (1.6 million euro) and will be delivered for a period of 6 years 2007–2013. ECGF will cover the banks' requirement toward the mortgage coverage for short term commercial loans. Each guarantee will be used to cover up to 85 % of the credit's amount required and in maximum for 10 million ALL. Each guarantee will be valid for a period up to 1 year. Agency for Investment Development in Albania, AIDA is responsible to manage this fund.
- Cost Sharing Grant Scheme (CSGS). CSGS supports specifically the Small and Medium export Enterprises, to increase their export production and management capacities. The amount is 28 million ALL/years or 200,000 euro/years and will be delivered for a period of 6 years 2007–2013. The maximum Grant amount for one SME is up to 1 million ALL. This Scheme covers only 50 % of approved activities' or project costs.
- Innovation fund. With the total amount 40 million ALL or 290,000 euro for the period 4 years 2011–2014. The maximum Grant amount for one SME is up to 400,000 ALL. This Scheme covers only 30–50 % of approved activities' or project costs.
- Creative fund. With the total amount 47 million ALL or 350,000 euro for the period 5 years 2012–2016. The maximum Grant amount for one SME is up to

500,000 ALL. This Scheme covers only 60–80 % of approved activities' or project costs.

- Finance and credit facilities. The stable macroeconomic and financial environment has created the appropriate conditions for the expansion of credit. Crediting to the economy recorded a slight increase during 2009–2012 although this period is characterized by global financial crisis.
- In order to improve the climate of SME financing during the last years, there are undertaken some measures regarding with credit guarantee schemes.
- Implementation of credit scheme for SMEs from the Italian program. In the framework of the Italian project to support SMEs during the period January 2008- till August 2012 are credited 73 companies with a value of EUR 16.2 million. The financed sectors are agriculture, marble granite processing, shoe manufacturing, meat processing, underground constructions, aluminum products, etc. and with activity in different areas of Albania. Approval of the scheme and implementation of credit guarantee fund for SMEs. In the frame of the Italian project for SMEs, it is prepared the scheme for credit guarantee fund for SMEs. Seeing the difficulties of business start-ups for access to finance from the banks, in the frame of the Italian program to support SMEs, is approved the possibility of providing loans from partner banks of the program to start ups in amounts from 15,000 to 50,000 euro, with interest rate in euro of 5.5 % (lower than market rates). Up to know are financed 10 Start ups projects.
- The European Fund for South-East Europe (EFSE). EFSE is one of the largest creditors of the Albanian micro and small enterprises finance sector. It has offered a total of approximately EUR 40 million of funding to local financial institutions since its start of operations in Albania in 2007. These partner lending institutions have on-lent the funds received from EFSE in the form of more than 8,500 business loans. EFSE's support to the Albanian financial sector does not only include financial investments, but also technical assistance, consulting and training offered to partner lending institutions with the aim of increasing the outreach to its target group.
- EFSE has provided a loan of EUR 20 million to Banka Kombëtare Tregtare (BKT) since 2010. It addresses the lack of long-term credit available to SMEs in Albania. Till the end of June 2012 BKT has approved 23.8 million euro loans to 332 customers and disbursed for about 300 customers 21.2 million euro. The outstanding situation of these credits is 17.9 million euro, in the meantime they have a great repayment performance.

4 Recommendation for Further Development of the SMEs in Albania

Albanian needs to continue the reforms in order to reach the level of other Union European Countries. They ought to improve the SME support policies and also their implementation. Some recommendations in this regard are stated below:

1. Creation of national public education framework for the introduction of entrepreneurship in a lifelong learning strategy
2. Create and/or enhance a SME dedicated portal, with all information related to SMEs
3. The systematic application of RIA
4. Programmes for startups as business plan competition, grant scheme etc.
5. To promote export with new instrument establish or strengthen export insurance and export credit to companies
6. Promotion of new financial instruments such as leasing, venture capital and private equity funds, Business Angle etc.
7. Create business/technological incubators in the main prefectures of the country.
8. Innovation competition. To stimulate an innovation competition to bring together academia and the private sector.
9. Mechanisms to finance business services in support of innovation (e.g. voucher schemes).
10. Improving domestic firms' access to finance to support technological innovation.
11. Strengthening of the institutes for supporting private companies especially micro and small.

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The Pyramid of Entrepreneurship in Romania: Towards New Approach

Liviu Ciucan-Rusu and Zsuzsanna Katalin Szabo

1 Introduction and Background

Eastern European countries, including Romania, cannot take advantage of an initial, natural and challenging model, the nationalized and centralized system of the communist economies having reduced to zero the entrepreneurial capacities of today's adult persons who should be success models for youngsters. According to Smallbone and Welter (2001), the recent history of these countries can't represent an authentic model for the entrepreneurship based on knowledge. Over 40 % of the Eastern European countries' businesses represent: the translation of the already performing activities from the public sector, the identified type of entrepreneurship being a type of 'nomenclature business', with thousands of companies operating in a formal economy, with only one employee, part-time business, without any elements of innovation and value for client, in these companies the bureaucratic structures from the state sector being copied and respected just so (Smallbone and Welter 2001).

Unfortunately, in the Romanian higher education, despite the numerous political initiatives, there is a reduced attention given to the entrepreneurial education and there is no scientific approach of the formative actions at university level. Because of this, in the knowledge based society, specific processes of Romanian entrepreneurship can be carried out appropriately, efficiently and effectively.

Our study intends to investigate the entrepreneurial phenomenon, and is guided by the following hypotheses:

1. Romanian entrepreneurship state reflects the transition to a functional market economy, but there is a need to consolidate the business environment, especially in the case of SMEs.

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2. Romanian business environment is rather instable and the two forces – business people and public decisions makers have to work more in order to implement a strategy able to support sustainable development;
3. We can see an opportunity to expand the understanding of the entrepreneurial phenomenon, combining the “pro – initiative” factors and forces issued from the community, a potential booster for the entrepreneurial culture

Entrepreneurship, the final frontier... Or should we have said the first? (Ciucan-Rusu 2009) A complex phenomenon exhibiting a wide range of theoretical contributions and debates is not supported by a unifying theory. We think that researchers should not stress too much upon defining axioms regarding the entrepreneurship, but to emphasize the multidimensional frame that can explain the success of a person in the business and social area. The entrepreneurial conceptualization reflected in literature has emerged from a diversity of disciplines and perspectives, the word entrepreneur being used in three different constructs: the entrepreneurial individual, the entrepreneurial organization and the entrepreneurial phenomenon. Most of the studies within the field focus on the personal characteristics of an entrepreneurial individual (Timmons 1994; Ciucan-Rusu in (Million 2009)). Although some authors consider the findings inconsistent or inconclusive, after several interviews with founders of different types of organizations, we can affirm that personal characteristics and features are the key factor that contributes to the creation of value from the individual activity, through organizational structure up to economic and social effects. But, we are tempted to affirm that there is another ingredient, “the intrapreneurship community”, a combination of supportive stakeholders involved in the development of the entrepreneurial spirit.

In our demarche we intend to accost an “entrepreneurial approach” rather than a “classical scientific” one, supported by a bottom – up construction, from facts to theoretical inquiries. Because of our scientific background we propose a graphic design (Fig. 1) guided the broader demarche of studying entrepreneurship.

We will try to explain the rationale of the decision we made about the graphic representation, based on the philosophical principle “we are what we do”. We consider that the fundamental of the entrepreneurship relies in cultural aspects (Ciucan-Rusu in Szabo and Szabo 2009). We want to emphasize here the role of education, as a part of the cultural evolution, at personal, organizational and social level (Szabo and Ciucan-Rusu 2009). When talking about the personal level, it is very important to separate two dimensions: on one hand the cultural background of a person that becomes an entrepreneur and on the other hand the aspects that refer to the fact that most of the people must work for and with the entrepreneur, so they have to pay respect to that person. Coming from a new member of EU country, still in transition to the market economy, we think that the cultural socialist or communist heritage combined with the mosaic of the emerging capitalism will affect for long time the pro-entrepreneurial culture. At a social level there is a wide range of representation of the entrepreneurial concept, mostly oriented on the empiric side, providing contrasting examples.

Fig. 1 Graphic representation of “the pyramid of entrepreneurship” (Source: Adapt. Ciucan-Rusu in Fulop 2009)



We consider that the “public or social culture” is based on the way that community reflects the values and determinate the learning process, and it is also the topic that we want to work on, because, in our opinion, externalities or forces, like public policies, fetch the business environment.

2 Business Development in Romania: Facts and Figures

Before trying to draw a map of the Romanian economy we must have a small introduction about the recent heritage after the Second World War. The instauration of the communist regime (approx. 1947–1955) under the control of Moscow, based on the elimination of property owners and intellectuals, is viewed as one of the worst period, when the social and economic situations were very complicate, especially for small farmers. Then, the communist party decided the so called “forced industrialization” (approx. 1960–1975), when big industrial structures were built. There were two facts that make some people being nostalgic about that period: on one hand the openness towards Western countries (USA and Europe) and on the other hand the investment in education, at all levels, higher education and the training for employees being intensively developed. Unfortunately, the 80s were years of dictatorship, and from the economic point of view, years of highly centralization when Nicolae Ceausescu fought for the “total economic independence” of Romania, but with the price of extreme costs cuts and starvation. During all this 40 years entrepreneurship culture was killed, even in the

Table 1 Economic data synthesis about Romania

Economic data	2005	2006	2007	2008	2009	2010	2011 forecast
GDP per head(Euro)	3,676	4,501	5,938	6,501	5,611	5,903	6,400
GDP per head (\$ at PPP)	8,439	9,045	9,927	12,001	11,013	11,203	11,700
Economic growth (% GDP change)	4.1	7.7	6.3	7.3	-7.1	-1.9	1.5
Government consumption (% of GDP)	9.18	11.6	12.3	12.3	12.3	12.9	N/A
Budget balance (% of GDP)	-0.78	-1.65	-2.5	-3.9	-8.3	-7.8	-6.4
Consumer prices (% change per year)	9	6.56	4.84	4.16	5.6	5.9	5.2
Public debt (% of GDP)	28.8	29.1	21.8	13.4	23.9	40.1	40
Labor costs per hour (USD)	2.6	2.9	3.2	3.8	4.2	4.7	N/A
Recorded unemployment (%)	5.9	5.6	4.3	3.9	6.3	9	7.5
Current-account balance (% GDP)	-8.9	-10.6	-13.9	-10	-4.4	-5.5	-6
Foreign-exchange reserves (mUS\$)	26,739	27,231	39,956	39,468	28,300	32,430	N/A

Source: UNDP (n.d.), http://www.undp.ro/profile_romania.php

small cooperative structures. Another phenomenon generated by the “triple quality of people: owners, producers and beneficiaries” was driven by the lack of involvement and responsibility, by corruption and steeling. Under these circumstances, the transition to the market economy (approx. 1990–2000) was very difficult, shaped by many errors that nowadays we can accept as being natural, although they have affected the “business environment”. The last 10 years, under the umbrella of the European integration and facing the globalization, the economy started to settle on a more logical way, in spite of several mistakes made by politicians, somehow justified by the lack of know-how in the field of private and public management.

A proper introduction to the Romanian economic environment is sustained by the main indicators, according to the international standards, regrouped in Table 1.

The confirmation of the EU acceptance for integration of Romania, combined with the new political approach, rather liberal, lead to a constant growth of the GDP until 2008, in accelerate rhythm proven by year/year indexes published by Eurostat or/and National Institute of Statistics Romania (NIS). The variation of GDP for the period 2000–2010 is presented in Fig. 2.

In the Fig. 3 we can see in a comparative analyses of some indicators measured in percentage (of GDP, excepting inflation and unemployment), showing the recent decrease that confirms the downturn – crises and recessions, a little bit delayed in Romania, compared with the major global economies. 2008 was one of the “best performance” years in our recent history, but the government, nor most of business representatives, was not able to see the dawn of global recession, therefore the next

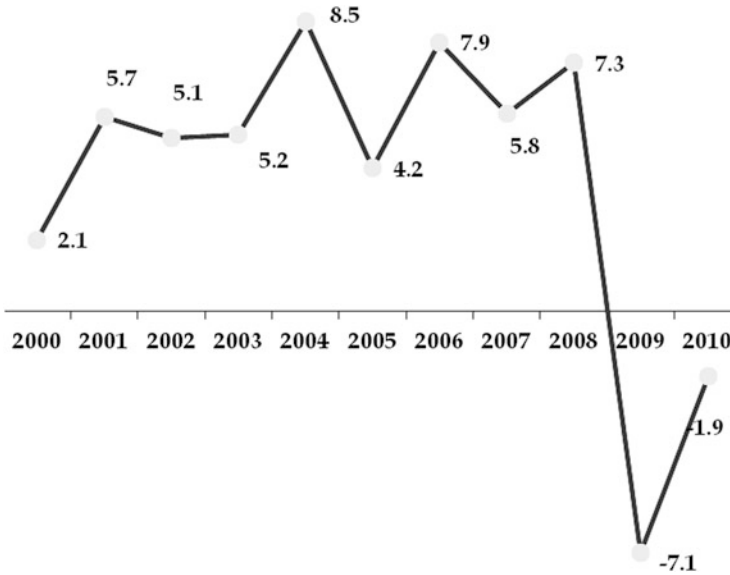


Fig. 2 GDP variation Y/Y-1 (%) (Source: Own research NIS Romania 2011)

2 years Romania plunged into severe recession – unemployment and public debt increased significantly, while inflation and budget balance were rather stable and the government strived to improve the public demand. Despite positive signals, in 2010 recession still persisted in Romania. In 2010 NIS Romania announced the seventh consecutive quarter decline in GDP; social unrest is fighting for survival.

The economic recovery largely depends on the improvements of the SMEs situation, which has been seriously affected by the credit crunch determinate by the crisis. Recession has persisted in Romania and analysts expect growth rates to remain low in the next period (Dumitru 2011). The GDP will not have an increasing tendency neither in 2012 it will achieve the same level as in 2008 (Table 2).

Despite optimistic forecasts on economic development in 2011 from the part of authorities and business environment, the same downward trend continues (Visinescu and Micuda 2011). There are two mentions to be added: although there are no official data, we can observe a decrease of the population (~20 million inhabitants); regarding the currency exchange rates, RON (Romanian New Lei) lost significant points in front of euro (3.34 in 2007 to 4.40 in 2012, meaning more than 30 %) and also in front of USD (2.44 in 2007 to 3.40 in 2012, meaning about 40 %).

Regarding the SMEs sector, started from 1990 the number of has grown significantly over the years (Table 3). This phenomenon means not only an increasing process in their number but also the diversification of their activities. The weight of private sector in GDP was 16.4 % but in 1996 the weight of private sector achieved 55 % (Fig. 8). In the period 1991–1996 the level of FDI was very low, for the whole period, it was around 1 million euro.

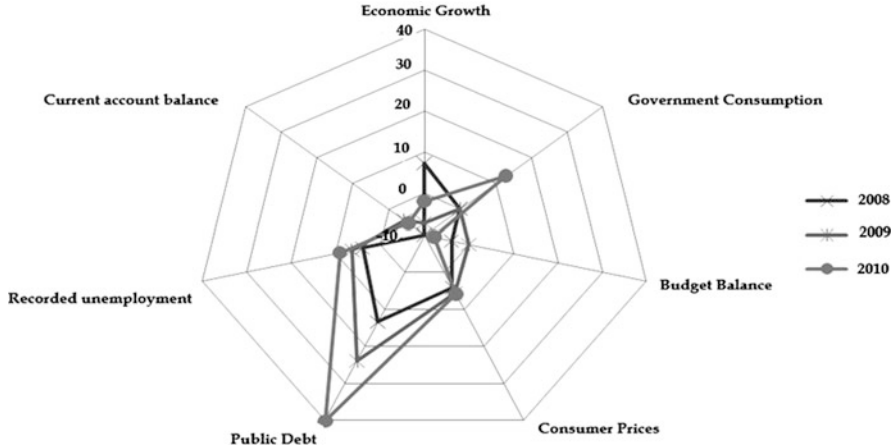


Fig. 3 Comparative image of main indicators (2008–2010) (Source: Own Research)

Table 2 Evolution of the GDP

Year	2007	2008	2009	2010	2011	2012 – fc
GDP (mill euro)	124,728.5	139,765.4	117,457.4	121,941.2	128,171	138,457

Source: Eurostat (2011)

Table 3 Evolution of the SMEs number

Size	2002	2003	2004	2005	2006	2007	2008	2009
Micro	377,499	417,366	358,787	386,561	410,763	431,029	602,711	573,299
Small	30,231	33,856	36,392	39,128	43,419	47,022	495,60	43,724
Medium	7,761	8,147	9,121	9,158	9,322	9,577	9,753	8,435
Total	415,491	459,369	404,300	434,847	463,504	487,628	662,024	625,458

Source: Own research and NIS Romania (2010)

In Romania more than 99 % from all enterprises are micro, small and medium size enterprise. Figures 4, 5 and 6 show the distribution of the active enterprises in 2008 by their sizes and by their fields of activity.

The weight of turnover achieved by active SMEs has an increasing trend as Fig. 7 proves, reaching a barrier of about 60 %, stable enough the last years. In 2007 the weight of turnover achieved by active SMEs by size class had the following structure: medium size enterprises had a contribution of 36 %, the small enterprises 34 % and the micro enterprises 29 %.

The weight of turnover achieved by the whole private sector was 83.9 % in 2004, and 89 % in 2008 and it was estimated 92 % for 2010.

The distribution on economic sectors of the rate of turnover by active SMEs in 2007 was: 67.4 % trade-decrease from 69.2 % in 2006, 20.1 % industry, energy the same as in 2006 (we have to remark that the food manufacturing has the biggest contribution in industry with 18.5 %), the construction increased from 8.7 % in

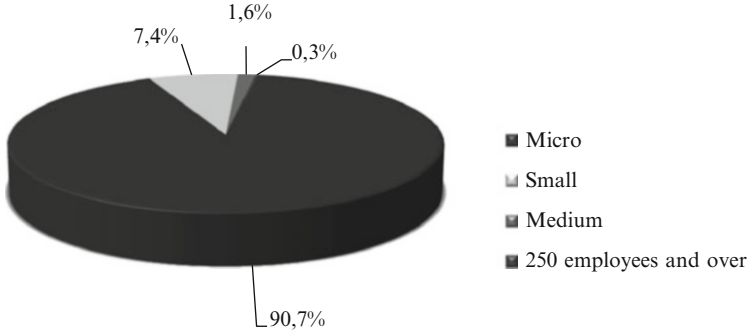


Fig. 4 Structure of active enterprises – 2008 (Source: Own research and NIS Romania 2010)

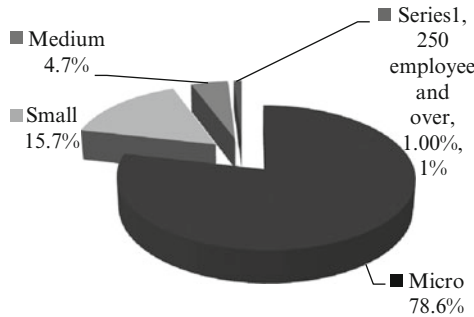


Fig. 5 Trade and services (Source: Own research and NIS Romania 2010)

2006 to 10.4 % in 2007 and the agriculture, forestry and fish breeding had a contribution of 2.1 % which increase from 1.9 % in 2006 (NIS Romania 2011).

The evolution of the weight of employees working for SMEs is presented in Fig. 9. Thus, it is evidence that the role of SMEs, moreover, the role of private sector in Romanian economy is significant and it will consolidate.

The development regions of Romania refer to the regional divisions created in Romania in 1998 in order to better co-ordinate regional development as Romania progressed towards accession to the EU. They correspond to NUTS II, NUTS I-level divisions in European Union member states. Romania’s development regions do not actually have an administrative status and do not have a legislative or executive council or government. Rather, they serve a function for allocating EU funds for regional development, as well as for collection of regional statistics.

Table 4 presents a general overview about the SME sector, shows the distribution of enterprise number on national level. The comparative analysis on development region level shows the differences, gaps between different regions.

For a better image of the businesses intensity distribution, we propose Fig. 10, the result of own research, representing the number of SMEs per 1,000 inhabitants.

There are important differences between regions: it is natural that the capital Bucharest is the leader. The historical region Transylvania where the data of the

Fig. 6 Industry and constructions (Source: Own research and NIS Romania 2010)

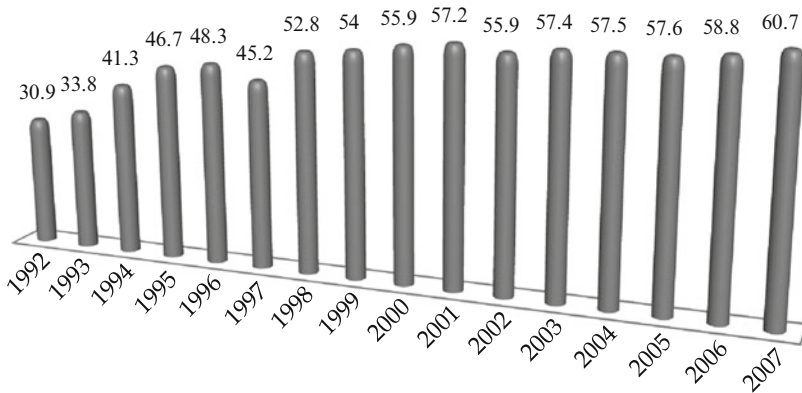
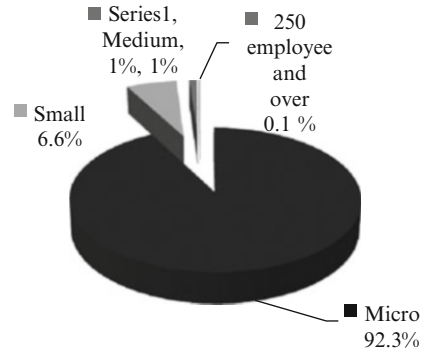


Fig. 7 Weight of turnover achieved by SMEs (% from total) (Source: Own research and NIS Romania 2011)

three regions (Center, West, and North-West) are very similar is followed by far (exception due to the Black Sea Shore) in the chart by “extra-Carpathian” regions, the North-eastern being one of the poorest regions in EU. While this data is correlated with GDP, we have noticed that the level of urbanization and the level of education are one of the main causes for the entrepreneurial intensity.

Figure 11 shows a quite important correlation between the number of SMEs in each region of development and the GDP/capita using data from NIS Romania (2010).

Starting from 2008, the Romanian SMEs confront big difficulties. A survey result, realized by the CNIPMMR, for the period of October 2008 to March 2010 shows that 49.71 % of SMEs reduced their activity, only 7.3 % enlarged their activities and 27.91 % was the percentage of bankruptcy.

In 2009, based on the financial and economic crisis, a fall in absolute figures of the number of SMEs registered in Romania was recorded, for the first time after four years of continual demographic growth. Thus, on 31st December 2009, the number of SMEs registered at the Trade Register was 625,458 enterprises

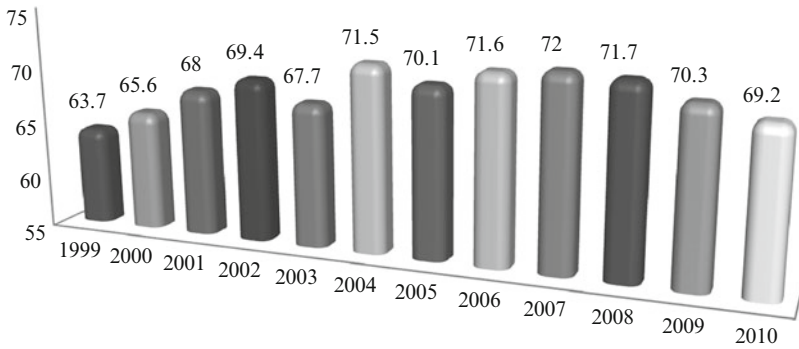


Fig. 8 Weight of private sector in GDP (Source: Own research and NIS Romania 2011)

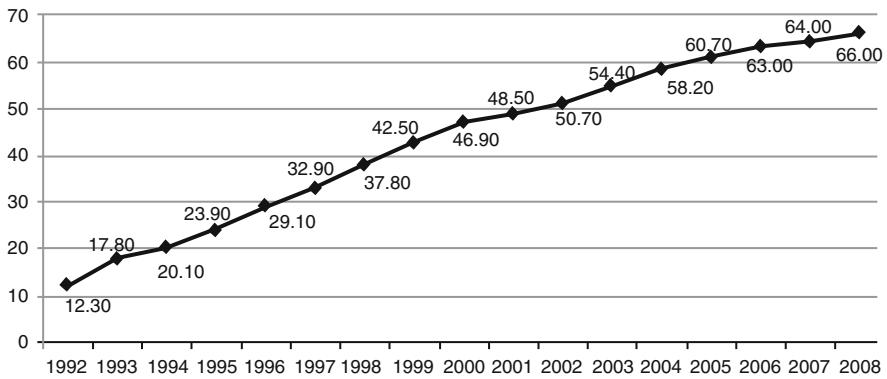


Fig. 9 The evolution of the weight of employees working for SMEs (Source: Own research and NIS Romania 2010)

compared to 662,024 at the same time of the year 2008, the demographic dynamics of total SMEs, recording a decrease by 6.5 % compared to the previous year. However the level of demographic development, in 2009, is superior to the one reached in 2007, fact emphasized by a growth index of 128.7 %. Only 379,627 of the total registered SMEs, at the end of 2009, were active, which accounts for 60.6 %, percentage also reached in 2008. Moreover, we have to underline the fact that despite the very different macroeconomic characteristics of the two consecutive years, 2008 respectively, 2009 characterized by economic recession, the relationship between the number of registered SMEs and the number of the active ones is kept at the same level. The evolution of the SMEs, between 2007 and 2009, presented in the Table 5, highlights a series of peculiar aspects.

The data presented in the Table 5 brings us to the conclusion that, in 2009 – the crisis year, the setup of new SMEs continued in a more reduced dynamics, while exits from the economic environment increased substantially and suddenly, through strike-off and especially through suspended activity. Regarding the impact of the

Table 4 Distribution of active companies by region and by size

Development region	Total	Micro	Small	Medium	Large
Bucharest-Ilfov (B-I)	103,134	91,864	8,745	2,099	426
North-West (N-W)	61,073	53,623	5,913	1,293	244
Center (C)	54,854	47,555	5,619	1,365	315
South-East (S-E)	53,255	46,987	4,856	1,178	234
North-East (N-E)	49,325	43,021	4,950	1,107	247
South-Muntenia (S)	46,234	40,500	4,328	1,136	270
West (W)	41,818	36,223	4,294	1,077	224
South-West Oltenia (S-W)	33,175	29,568	2,756	657	194

Source: Own research and NIS Romania (2010)

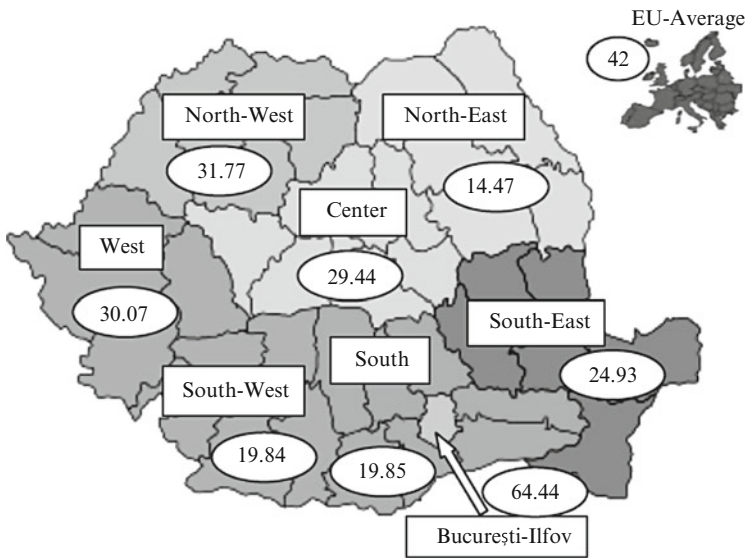


Fig. 10 The Romanian map of business intensity (Source: Ciucan-Rusu & Szabo (n.d.))

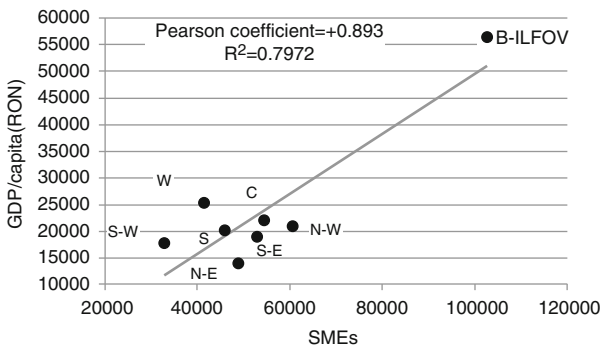


Fig. 11 Business intensity and wealth per regions of development (Source: Own research)

Table 5 The evolution of the small business registration

Period	2007	2008	2009 first semester	2009 second semester	2009 total year	2010
Registered	142,073	140,642	60,979	55,043	116,022	119,048
Cancellation	20,401	17,676	12,037	31,578	43,615	171,146
Suspension	12,012	12,019	71,250	62,112	133,362	66,428

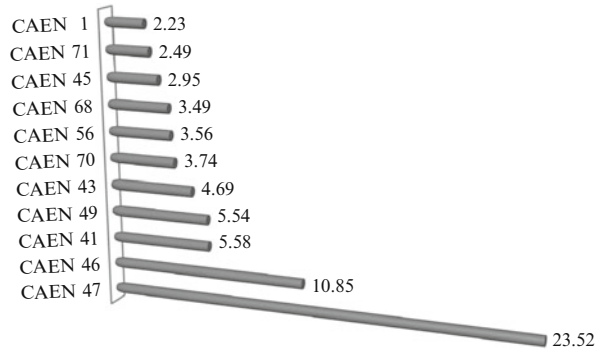
Source: ONRC (2011)

financial crisis on the SMEs: 133,000 SMEs suspended their activity, which represents a growth of over 11 times compared to 2007; 43,600 firms were struck off from Trade Register, which represents a growth of over 2.3 times compared to the number recorded in 2007; The process of setting up new SMEs slowed down, despite the fact that 116,000 new firms were set up; The main form of withdrawal from the market was the suspension of the firm's activity, the number of the suspended companies being three times higher compared to the number of those struck off; The most affected sectors of activity were the real estate intermediation services, constructions, the management and support industry and services, wholesale and retail; The newest legal entities were set up in the sphere of professional, scientific and technical activities.

Thus, in 2009 the decreasing tendency became more accentuated, the activities over ten times more enterprises were suspended than in 2008 in the same period (Barta 2010). In 2009 the total number of cancellation and suspension were higher than the number of the registered one. The "White Charter of SMEs 2010" stresses that in the first half of 2009 over half of SMEs have faced serious problems due to economic crisis and have reduced their activities, 14.8 % have gone bankrupt and only 4.23 % have boosted business. In 2010 more than 183,000 SME have suspended their operations. The main cause of the suspension of activity was considered the introduction of the minimum flat tax. The entrepreneurial index calculated for the first semester of 2010 was -8.5 points which means that the business environment and SME sector deteriorated comparatively with 2009 same period. Outlook for the SME sector in 2011 is not encouraging. In addition it is estimated that the economic situation of SMEs will continue to deteriorate in 2011, restructuring plans and a further market contraction leading to the bankruptcy of many enterprises. The main reasons of this situation are considered to be: political instability (42 %), the international context (29 %), or poor lending policy of banks (23 %). Entrepreneurs are concerned by increased fiscal control actions. The relation with the credit institutions presents another problem for Romanian SMEs. Unfortunately, EU funding for cohesion was not properly managed in order to back-up the economic sector and to help SMEs, so that Romania is placed on the last position among the EU newcomers, with less than 10 % from the available amount contracted.

In Romania the belonging to an industry (*main object or field of activity*) is set in conformity with the Classification of National Economic Activities–CAEN Code (Fig. 12). Therefore, the *Government Decision no. 656/1997* regarding the approval

Fig. 12 The distribution of SMEs according to industry (%) (Source: Own research and NIS Romania 2010)



of the Classification of National Economic Activities¹ as well as the Order of the National Institute of Statistics no. 337 on 20th April 2007 regarding the updating of the Classification of the national Economic Activities – CAEN² were issued and published (Chiriac in Soltes 2009). In 2007, 62 activities were defined. In 2008, the modified CAEN was adopted, thus NACE Code corresponds with the Romanian CAEN cod from 2008. In 2008, 69 % of the total SMEs were concentrated on 11 activities from totally 82, trade, retail, construction and services leading the top.

The level of innovative SMEs (Table 6) and its activities in summary Innovation Index (SII) are incorporated in linkage and entrepreneurship and in the innovators dimensions, with the rank 25 and 23 from 27 EU Members' state. The analysis of the innovative SMEs is in concordance with the Oslo manual (OECD 2005) using the CIS Survey data.

The information source for innovative SMEs is universities only for 4.1 % of them, in the period 2004–2006 respectively for 5.1 % in the period 2006–2008 and research centers for 3.5 % of innovative SMEs in 2004–2006 respectively 3 % in the period 2006–2008. Types of innovations recorded in SMEs are presented in Table 7.

The cooperation is another weakness of the Romanian innovative SMEs, which is pointed out by a composite indicator of linkage and entrepreneurship dimension. In the period 2004–2006 only 17.3 % (1,033 enterprises) respectively 13.8 % (1,378 firms) from 9,986 innovative firms signed cooperation agreements between 2006 and 2008 (Table 8).

The barriers are considered to be: inexistent own funds for innovation, high innovation costs, and the lack of experience. The distribution of innovative SMEs on NUTS 1 level is presented in Table 9.

¹ Published in the Official Journal of Romania no. 301 in 1997;

² Published in the Official Journal of Romania no. 293 on 3 May 2007;

Table 6 Innovative SMEs in Romania

	2002–2004	2004–2006	2006–2008	2008–2010
Innovative enterprises (%)	19.9 %	21.1 %	33.3 %	30.8 %
The number of innovative enterprises	5,136	5,970	9,986	8,116

Source: Own research

Table 7 Types of innovations recorded in SMEs

Innovative SMEs	2002–2004	2004–2006	2006–2008	2008–2010
Technology				
Innovative product	472	525	710	631
innovator	1,203	1,169	1,965	948
Process and product	3,461	4,276	3,073	2,054
innovation				

Source: Own research and NIS Romania (2010)

Table 8 Cooperation and partnership recorded in SMEs

Cooperation 2006–2008	The weight of cooperation	Number of enterprises
National level	12.9 %	177
European level	7.6 %	104
USA	1.4 %	19
China, India	0.8 %	11
Others	0.6 %	8

Source: NIS (2008)

Table 9 Geographical distribution of innovative SMEs

NUTS 1	The weight of innovative firms 2004–2006	The weight of innovative firms 2006–2008
N-V and Center region	20.7 %	29 %
N-E and S-E region	34.7 %	45.9 %
South and București-Ilfov	16.8 %	34.2 %
S-West and V	12.1 %	22.6 %

Source: Own Research and NIS Romania (2008)

3 Romanian Business Environment: Business People Point of View

In order to have a better understanding of the Romanian business model, we would like to propose an introduction using some international comparative analyzes, as Global Competitiveness Index and Doing Business Facilities.

The specialists from World Economic Forum estimate that Romania in the second stage of development, fighting to gain the position “transition between second and third stages”, its performance being one of the lowest compared with other EU countries. Unfortunately, Romanian economy has placed itself on a negative path, the average competitiveness index continuing to plunge during the

Table 10 Romanian economy evolution in the WEF GCR 2010–2012

Year	Rank	Trend from prev. period	Score	Trend – from prev. period	
				Gross	Percentage
2010–2011	67	–	4.16	–	–
2011–2012	77	–10	4.08	–0.08	–2 %
2012–2013	78	–1	4.07	–0.01	–0.25 %

Source: Own research and adapt. WEF (n.d.)

Table 11 Romania in the GLOBAL competitiveness index—derivate indicators

Year indicator	2010–2011			2011–2012			2012–2013		
	Rank	Score	Trend	Rank	Score	Trend	Rank	Score	Trend
Basic requirements	77	4.36	–	89	4.28	–0.08	90	4.22	–0.06
Efficiency enhancers	54	4.18	–	62	4.09	–0.09	64	4.12	+ 0.03
Innovation and sophistication	91	3.24	–	99	3.20	–0.04	106	3.20	0.00

Source: Own research and adapt. WEF (n.d.)

recession years, with negative perspectives for the near future, as indicated in the Table 10.

In the Balkan Region the most recent Romanian ranking is below Turkey (43), Slovenia (56), Bulgaria (62), Montenegro (72), and above Macedonia (80), Croatia (81), Bosnia & Herzegovina (88), Albania (89), Serbia (95) and Greece (96).

Trying to refine the analyze, we can observe that Romania has serious structural problems, while its limits reside in the low indicators of *Basic Requirements* and *Innovation and Sophistication Factors*, the ones that express the background for the business processes development, as we intended to synthesize in the Table 11.

It is obvious that the decline was basically generated by the scoring in the *Basic Requirements* criteria, consecutively negative in both periods of assessment, combined with a serious deterioration in the *Efficiency Enhancers* chapter in the second period. Despite the slight improvement in the last period we can observe that Romanian economy continued to fall in the top, the saddest situation being in the criteria of *Innovation and Sophistication*, where seven positions were lost.

A closer look to the pillars of the main three criteria shows an unbalanced situation, with highs and lows (so called “mioritic trend”, concept borrowed from the cultural perspective), that seems to be one of the patterns which Romania is obliged to correct if it wants to set a solid economic background.

Regarding the *Basic Requirements*, while *Health* and *Primary Education* are pretty stable (excepting the last period), the poor standing of *Institutions* and *Infrastructure* will affect the business environment for a long time. This assumption is supported also by the time needed to improve the *Innovation* and *Business sophistication* scores, but there are some reasons for hope when coming to the *Efficiency Enhancement* chapter. If there is a recommendation to be made we would start with the fact that Education and Training is the key factor and we are pointing at entrepreneurial education based on a cultural change regarding the development of the “entrepreneurial mind”. Another issue – the “critical thinking and attitude” in

Table 12 Romanian ranking in the Doing Business Reports

Easy of	DB 2009 rank	DB 2010 rank	DB 2011 rank	Change in rank 10/09	Change in rank 11/10
Doing business	45	55	56	-10	-1
Starting a business	30	42	44	-12	-2
Dealing with construction permits	87	91	84	-4	7
Employing workers	110	113	-	-3	-
Registering property	112	92	92	10	0
Getting credit	12	15	15	-3	0
Protecting investors	38	41	44	-3	-3
Paying taxes	148	149	151	-1	-2
Trading across borders	43	46	47	-3	-1
Enforcing contracts	30	55	54	-25	1
Closing a business	88	91	102	-3	-11

Source: World Bank (2010, 2011) and Services Market in Romania (2011)

combination with fair *Infrastructure*, simplified procedures and less bureaucracy or corruption in *Institutions*, could contribute to a better business environment, proper to accelerate development.

Unfortunately again for Romania, the Doing Business Report 2011 (Table 12), based on the experts answers, confirms a continuous decline in the ranking, actually a worse conjuncture for the entrepreneurship (World Bank 2010, 2011).

The grade regarding *the cost to start a business* (let's call it "total effort of venture") has lately decreased. Based on the law, the authorization to start can be obtained easily, but to start the activity itself there must be obtained documents and other authorizations for which one must wait up to several months. The time depends on each county council's own regulations. A brief analysis is presented in the annual report of SMEs (Barta 2010). Doing business 2012 Report shows that the evolution worsens and Romania was ranked on the 72 position (World Bank 2010, 2011).

Behind the data are always people, decision makers (both from the private and public sector) that can shift the entire scene of the economy. Therefore, after the previous synthetic approaches, we would like to continue presenting some of the most interesting findings during a study carried out in Romania Central Region of Development within a human resources project conducted by the "Petru Maior" University of Tirgu-Mures, financed by the EU and Romanian Government, acronym ASIC (translation: Successful Entrepreneurship and Competitive SMEs). We have to mention that data was collected for the study in the first semester of the year 2009, when the conjuncture of the Romanian economy deteriorated rapidly under the pressure of the crises and recession, and media published a lot of information, mostly negative about the consequences in society.

Starting with the overall perception about their business evolution (Fig. 13), business people – entrepreneurs and managers – are not very pessimistic about the recent evolution of their company, probably because of the fact that they feel

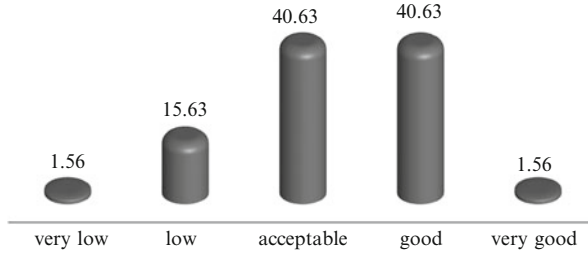


Fig. 13 Own perception about the evolution of the company (Source: Studies and Research for ASIC Project 2010)

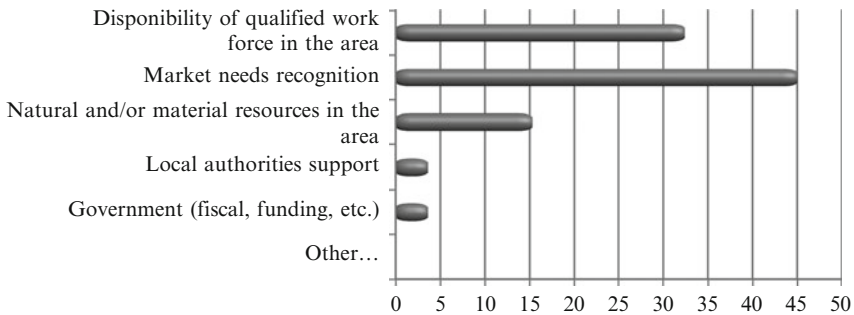


Fig. 14 The main success factors identified by entrepreneurs (Source: Studies and Research for ASIC Project 2010)

responsible about the performance of the business, or, for some of them companies reach a stability from the organizational, financial and marketing points of view.

In the case of factors that assure the success during the lifetime of the company we can easily distinguish two driven causes: the orientation toward the market, the other ingredient being the available qualified work force on the local labor market (Fig. 14).

The essence of the entrepreneurial spirit, the main factor that society should hold on and cherish, is confirmed in the answers of the business people when they were asked about the strategic decision that they would make (Fig. 15). More than two third of the respondents are determined to develop their companies, some of them intend to preserve the actual level of activity, while only 5 % are thinking about a serious change, but nobody to close the business.

The next part of the survey is dedicated to the personality of the entrepreneur, where researchers tried to find features and behaviors that make the small business administrator admired, criticized or envied. The debate on the profile of an entrepreneur always has to rely on reasons and motivations that made that person to undertake a business endeavor. Literature review and our experience made us to limit the number of choices to the most relevant ones.

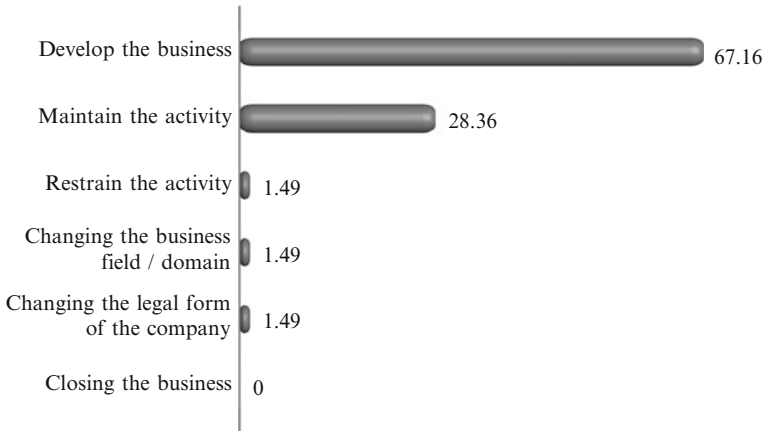


Fig. 15 Strategic decisions envisaged for the near future (Source: Studies and Research for ASIC Project 2010)

Independence and personal fulfillment lead the top, explaining that business people are likely to manage independently their careers, trained to make their own decisions; security was a little surprise for the team of researchers because, usually, the business world cannot assure sure future, but the argument can be supported by the personal capacity of an entrepreneur that makes him/her confident and in control (Fig. 16).

At the dawn of the economic recession, we would have liked to have a confirmation about the reasons that keep entrepreneurs addicted to the business world, and we discovered that it is true: independence is the main ingredient that keeps them turning, the “special triangle” relying also on the personal aspects like professional fulfillment and financial security. Placed in a middle position, profit can be seen as an intermediary tool, while innovation and business development is the “Cinderella” of the reasons to continue (Fig. 17).

Figure 18 expresses the three main findings about behavior aspects that shaped the business life: clear business goal pursued systematically and efficiently; the ability of leadership, based on the capacity of influence people to adhere to initiatives; the native propensity toward finding business opportunities.

Romanian business people admit deficiencies of their business experience; therefore we tried to focus on the main factors that they encountered and rate as possible causes for the lack of success (Fig. 19). In spite of their independence we discovered that business people complain mainly about the lack of a supportive network. One of the causes can reside in the communist heritage, where success was appreciated only in collective manner. The next set of causes, not very far placed, is related to “compromises”, time management and the lack of models, the first and the last in the previous list being probably also under the influence of the colloquial culture before the revolution. An interesting fact is the confirmation of the well

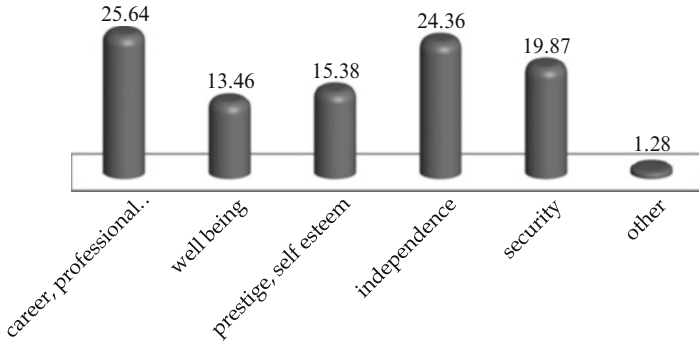


Fig. 16 Personal objectives when decided to enter the business world (Source: Studies and Research for ASIC Project 2010)

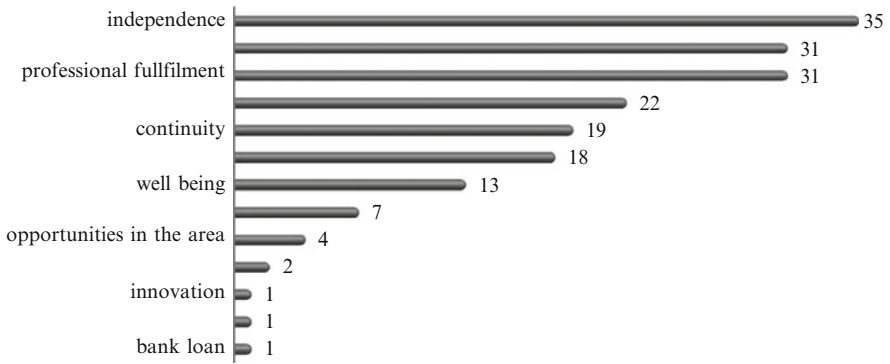


Fig. 17 Reasons to remain in the business world (Source: Studies and Research for ASIC Project 2010)

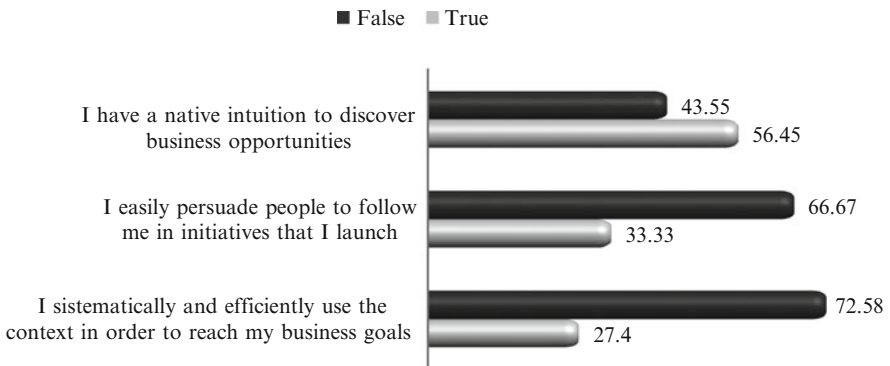


Fig. 18 Personal qualities of respondents (Source: Studies and Research for ASIC Project 2010)

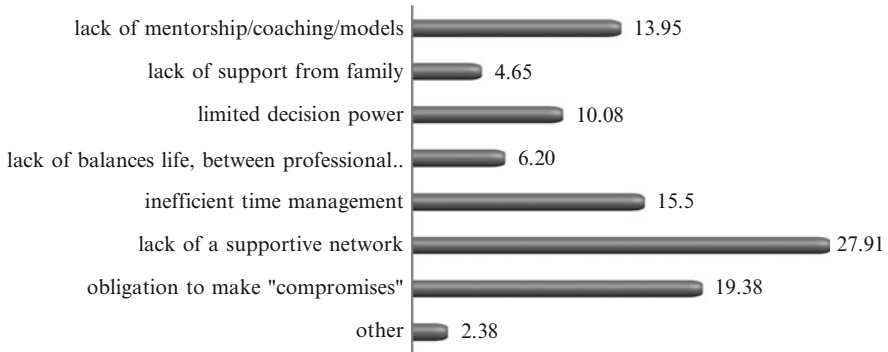


Fig. 19 Main deficiencies in the business life (Source: Studies and Research for ASIC Project 2010)

balanced life, where business and family can combine, part of the explanation consisting of the frequent involvement of the family members in company.

In the area of the supportive factors, want to emphasize the opinion of the business owners about the three aspects: training for a better management of a company; authorities’ attitudes regarding the support for the business; sources of funding for the business (Fig. 20).

Respondents were rather open about training opportunities, topics like business administration and marketing being in the top of preferences. When talking about the way that state and community are involved in the business, their positions change radically, the expression of dissatisfaction touching central, local authorities and also the larger frame of business environment (Figs. 21 and 22)

4 Conclusions and Discussions

Sustainable development is one of the preferred topics in the business area, and lately in the politics approach. Nevertheless, some of the speakers don’t know or ignore the meaning of entrepreneurship. In our opinion entrepreneurship (especially the entrepreneurial spirit) is the main factor that creates value, the core of the welfare. There are different approaches about the entrepreneurship phenomenon, but we consider that the main elements are initiative and action. Therefore, in Romania there is a strong need for changing the patterns in the case of entrepreneurship.

The general picture of the Romanian economy shows a rather unbalanced situation: in spite of the EU integration and the solid evolution of GDP in the period 2004–2008 the economic crises hit causes serious damages, both at macro and microeconomic level. In the first case the main consequence was the increase of public debt, in association with the public consumption. Unfortunately, the funds

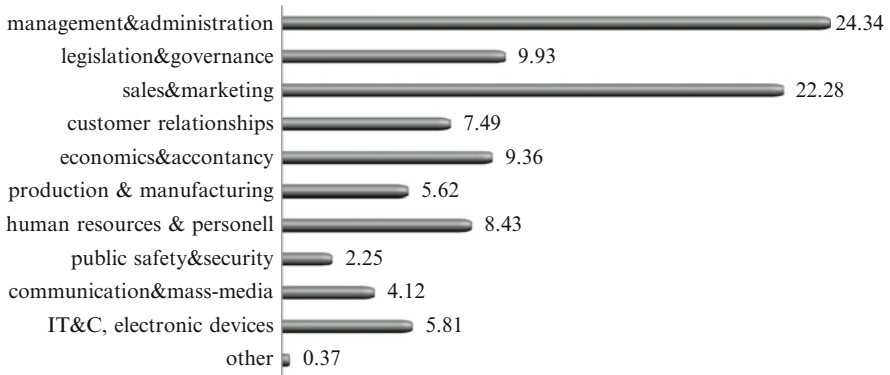


Fig. 20 Area of interest in training (Source: Studies and Research for ASIC Project 2010)

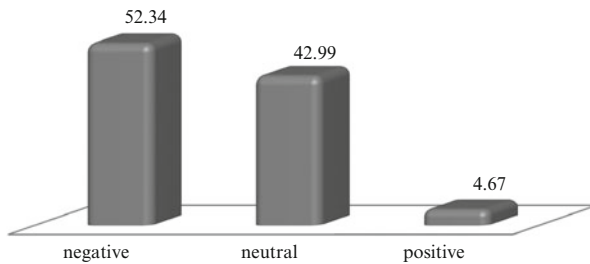


Fig. 21 Assessment of the government attitude toward business (Source: Studies and Research for ASIC Project 2010)

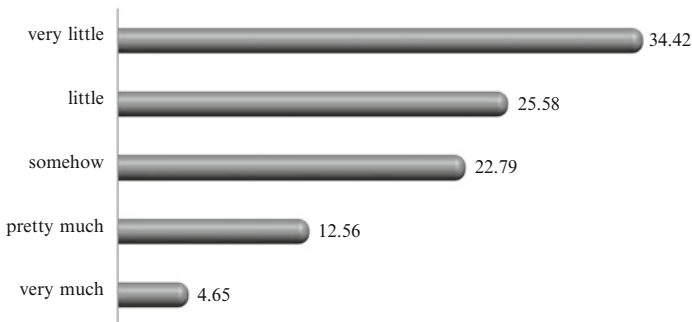


Fig. 22 Assessment regarding the positive influence of local business environment (Source: Studies and Research for ASIC Project 2010)

were used more to cover deficits and less for investment and other measures like augmentation of the VAT and labor cost cut the demand.

Regarding the SMEs sector, it is encouraging to see that the evolution was positive (number, influence in economy: turnover, employees, etc.), but they still are very sensitive and pretty dependent on the public economics policy. The same unbalanced situation was revealed when approaching the regions of development, some of them featuring one of the highest poverty combined with the lowest rate of entrepreneurship density, making the population to lose hope and go abroad for working. We would like to emphasize that the recent evolution show a kind of stability in the SMEs sector, but very fragile, and state and politicians should collaborate more with the business environment to find long term sustainable solutions in order to insure stability and predictability.

When referring to the factors to start-up a business some official studies proved that among the main influences were rated: an appropriate business idea, contact with an appropriate business partner, addressing an unmet social or ecological need. In the case of small businesses, there is a strong need for support, including training for the development of the skills related to work core processes, but also in customer and market orientation, working in cooperative and collaborative work structures, and management aspects of businesses. In Romania, actual and potential entrepreneurs criticize the lack of initiative from the public institution, both at a central and local level. The majority of respondents rates inconsistent the involvement of the local government and also is unhappy about the local business environment.

The extract from several international reports and empiric study confirm that there is a big deal to improve the business environment. Doing business in Romania should be easier, but there is need for a better understanding of the entrepreneurial phenomenon. The sample of business people provided us with some valuable information about their culture, habits and interests: their faith in themselves and their company is sustained by a positive attitude, even if sometimes they are not very specific about some business aspects or they mix things excessively; they count on their independence and are willing to continue the business, exploiting their management skills; they are open about training and financial support opportunities but they are likely to be granted with more consistent support from authorities and find better partnerships in the business community.

The Europe 2020 Strategy was formulated with the aim to help Europe “to come out stronger from the crisis and to turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion”. In this respect, there were formulated three priorities and totally seven flagship initiatives which are considered as a catalyst of each priority theme.

All the flagship initiatives: innovation, education, information society, climate, competitiveness, labor market present challenges for Romania, need short and long term strategies. Policies must encourage the main drivers of innovation, in this respect the quality of the education system must be improved, the enrolment in tertiary education must increase, and the funds for higher education and research must be increased.

On the other hand to strengthen the SME sector, the entrepreneurship must be encouraged. The teaching of entrepreneurship must have in view that there is a

different economic and cultural background between the advanced EU countries and the newcomers, where entrepreneurship and enterprising is still a relatively new phenomenon, where in addition to the Lisbon strategy and the Oslo Agenda, the primary aim is to promote entrepreneurship, assist in the creation of new SMEs and strengthen the private SME sector (Szabó and Szabó 2009). The support of the linkage and entrepreneurship innovation dimension and of the intellectual assets one, as they depend more on qualified human resources, can increase the innovation effects at the level of the firm.

Social inclusion in Europe is a major challenge and the Universities can have a key role here. In this respect it is crucial to build up a university network in order to support a dynamic cultural change across society. Thus suitable local, regional and national strategies are needed in correlation with the local particularities.

In Romania there is no purposely enforced legislation for clusters. Clusters are part of all the national, regional and on sectors' strategies, policies and plans. For clusters are used two terms: – „entities from the innovation and technological transfer infrastructure”-defined in GO 406/2003 and – „clusters” – GO 918 from 19 July 2006. Successful cluster programs are in West region: the automotive industry, agribusiness (USAID), CLOE-City Hall of Timisoara cluster activity (<http://www.clusterforum.org>). The interest of the companies to develop clusters will increase.

The weight of private sector in GDP was 16.4 % but in 1996 the weight of private sector achieved 55 %. The weight of turnover achieved by private sector was 83.9 % in 2004, and 89 % in 2008 which is higher than the turnover achieved by the SME sector. Despite the unfavorable economic framework and the unpredictability which characterized the year 2009, the private sector's contribution to the creation of GDP is kept at the 70.5 % level due to the prompt adjustments made by the private sector in the new context.

All in all, we think that welfare in future Europe is depending on the fact that entrepreneurship is understood and supported, from the individual perspective – as a state of spirit, the creative capacity to pursue an opportunity in order to produce success, to a social general approach – as a protective umbrella for the process of creation and/or development of values, combining commitment and responsibility.

5 Further Area of Interest and Research Goals

Our commitment to the study of entrepreneurship makes us to continue our research and we are determined to refine our approaches on three topics, always using the bottom – up style where empirical findings generates debates on theoretical issues:

- Refine “the map” of Romanian evolution in the field of entrepreneurship and SMEs, compared with major trends in Europe and at a global scale;
- International study about the entrepreneurial features and competencies, and also about the vision of students about the ingredients of business life, in order to

discover trends in their attitudes and values that will affect their future “entrepreneurial activity”;

- Supportive structures, forms and means of action that authorities might use in order to boost entrepreneurship, the significance and commitment of the community to change the patterns of entrepreneurship, models to nurture the best practices;
- Study about the initiatives within the social economy, the balance between public and private, the collaborative and mutualism principles which can improve the respect of the equality of chances, opportunities for the internationalization and the know-how transfer procedures.

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SMEs and Entrepreneurship Development and Institutional Support in Republic of Srpska (Bosnia and Herzegovina)

Saša Petković and Jelena Tešić

1 Introduction

The economy of Bosnia and Herzegovina and the Republic of Srpska (RS) in the last decade, from 2001 to 2010, according to official statistics, has recorded a significant economic growth. Between 2001 and 2010 GDP in the RS has almost tripled, from 1,478,000 € to 4,250,000 €, respectively (Republic of Srpska Institute of Statistics 2011). This growth is due to the growth of the sector of small and medium-sized enterprises (SMEs) that, in the period between 2006 and 2008, has recorded a growth of SMEs of 8.41 %. The growth has continued in 2009. Out of 14,321 companies, only 55 or 0.38 % were large enterprises. However, in 2010, according to APIF¹ data, 9,472 companies have submitted their required financial reports for the year 2009. Comparing this number with the data from 2009, the question is what happened with other companies? Have they ceased to do business or simply have not fulfilled their legal obligation?

At the beginning of 2009 the first negative effects of the global financial crisis spilled over in the real sector of the RS, which were felt in the decline of the number of companies, job cuts, in the reduction the effective demand, problems of liquidity expressed in low levels of debt collection and the inability to pay short-term obligations, difficulties in accessing external financing sources outside the company, as well as problems with solvency. Economies of developed countries have also felt the negative effects of the recession, but did not give up on further and increased institutional support to SME sector. Small enterprises in the European Union are in fact the true giants of the European economy. Micro enterprises (with fewer than ten employees) are dominant in employment in the countries such as

¹ Intermediary Agency for IT and financial services (abbreviated APIF), <http://www.apif.net/index.php/en>

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Italy (47 %), Poland (41 %), while the share of large enterprises in employment in the Great Britain is only 46 % (Glavanits 2007).

Modern capitalist economies are experiencing a change in the nature of production, organization of work processes and the economic structure (Parker 2001). Traditional, production-oriented industries continue their decline, while service-oriented industry grows and changes (Solymossy 2009). During the economic crisis major companies have released a large number of workers. Mass unemployment and growing poverty have forced governments to revise their interest in big business. Until then, business historians have neglected the SMEs in their research, and very little research in this area has actually been done (Scranton 1984; Benson 1983; Blackford 2003). At the same time, scientific studies have confirmed the importance of SMEs to the economy and this has triggered changes in government policies. According to the highly influential study of David Birch from 1979 as stated by Landström (2005) in his paper, SMEs are largely responsible for creating new jobs, and additional studies have emphasized the high level of innovativeness of SMEs. These figures have shocked many, particularly economists, because it was contradictory to their earlier theories of economies of scale. Further studies have shown that the growth of national income is unambiguously connected with high levels of the foundation of new companies and especially the new so-called start-up companies (Stam et al. 2007; Wong et al. 2005).

While big business was still struggling to survive, and the number of workers was still being reduced, governments wanted and needed to stimulate employment growth. SMEs have been branded as a creator of jobs and the entrepreneur has become a new hero of economic policies. For many this has become the era of entrepreneurship. There is a link between self-employment, entrepreneurship and SMEs, and these are inseparable categories between which there is a strong correlation in the same direction (Goey 2004). “*Small enterprises are the backbone of the Western Balkans economies, according to a report on the implementation of the European Charter in the Western Balkans*” (European Commission Directorate General for Enterprise and Industry 2007, p. 3).

The starting research problem in this chapter can be briefly represented with the question whether the existing institutional support for entrepreneurship development and SME sector in the Republic of Srpska is efficient and enough built? Entrepreneurship is considered to be an important mechanism for economic development through employment, innovation and welfare effects (Schumpeter 1934; Acs and Audretsch 1988; Wennekers and Thurik 1999). The dynamics of entrepreneurship can be vastly different depending on institutional context and level of economic development (Acs et al. 2008).

Analyzing institutional arrangements in the Republic of Srpska, Bosnia and Herzegovina and surrounding countries and European Union, and reviewing the literature of positive European practices, the starting hypothesis of this research can be defined as follows: Improvement of entrepreneurial environment and building of entrepreneurial infrastructure through rounding up the process of building of institutions for financial and non-financial support to SMEs, adopting and implementing policies, programs and strategies, will give an additional contribution

to the establishment of efficient doing business and economic structure of the Republic of Srpska in which SMEs have a dominant role and alongside big giants, will be an engine out of the crisis.

Particular emphasis in this research is placed on the search for answers to following question: which are the key external and internal factors of efficient and effective business of SMEs in the Republic of Srpska? We analyzed the answers of entrepreneurs and managers from 87 SMEs in Banja Luka, administrative centre of Republic of Srpska, in the comprehensive research conducted in late 2009 and early 2010. As a result of the research, we constructed a new *Model of Structural Support to SMEs and Entrepreneurship in the Republic of Srpska*, whose establishment, in the long term, would lead to a systematic and efficient development of entrepreneurship, as well as significant economic growth and employment growth.

2 SMEs Environment in Republic of Srpska

Developed countries are paying more attention to the sector SMEs, through increased investing in entrepreneurial infrastructure and providing a better financial support, which brings as a result well-developed real basis of an economy (Audretsch and Thurik 2001). A special effort in promoting SMEs, which are the main source of economic growth and creation of new jobs, is made by the EU, where 67 % of employed people are in SMEs sector and it accounts for more than 58 % of total turnover (Annual Report on EU Small and Medium sized Enterprises 2010/2011 2012). Development of the competitive position of SMEs in the world primarily depends on their leadership position in the local market. Also, investments in the newest technical and technological achievements are necessary preconditions for development of SMEs as well as their internationalization in order to succeed in the global marketplace. Development of competitiveness arises in the period of a stable industry that encourages the country to find its path in the global market with its perfect product (Porter 1990).

SMEs, as Efendioglu states (2001) constitute the core of the European economy as well as the economy of RS. They are also an integral part of the private sector which contributes significantly to the job creation and plays a key role in enhancing the competitiveness on the target markets, including still underdeveloped markets (Stevenson 2010). Small business in Bosnia and Herzegovina, however, has not been the focus of many scholars; yet, it should be because the environment for small business and entrepreneurship is quite unique there, as Dana (1999, p. 107) quoted. Economy of RS is for many years now in so-called transitional phase of restructuring which is still unfinished. One of the main reasons for this is the lack of promotion of private sector; namely of a slow formation, maintenance, and growth of SMEs. In the period from 2001 to 2010 GDP in the RS almost tripled from 1,478,000 € to 4,250,000 € (Republic of Srpska Institute of Statistics 2011). This growth is in a part due to a growth SMEs sector. However, increase in the

number of new companies which was evident in the period from 2006 to 2008 has been stopped in 2009 as well as the number of companies that are actively operating (Republic Agency for SMEs Development 2010). The number of registered enterprises and the number of companies which are regularly submitting its financial reports to the Agency for IT and financial services (APIF 2012) do not match, indicating a mismatch problem of statistical monitoring of SMEs. It was noted in the Report for 2009 that there were 14,321 in RS, of which only 55 companies or 0.38 % were large companies. However, in the same year according to APIF, only 9,531 companies submitted their financial statements. In 2010 year 9,432 companies submitted financial reports and in 2011 the number was 9,463.

Challenges that the private sector in RS face with are obviously pointing to the fact that it is necessary to take measures to remove barriers to growth and development of the private sector. Therefore, it is necessary to build an adequate supportive business environment and missing entrepreneurship infrastructure for development of SMEs sector. Building of an adequate business environment means building of an environment that will keep existing businesses, and that will be attractive to new domestic and foreign investors. Insufficient usage of attractive locations in the RS that could be activated for the establishment of industrial zones, technology parks, business gardens, business incubators, etc. represent the opportunity costs for RS economy. Here we primarily refer on the non-perspective military facilities, industrial facilities that are not privatized and potential business zones on the future map of network of highways in RS. Supportive business environment implies also completeness of institutional support for entrepreneurial development, financial, consulting, and training as well as the institutions of combined support. Supportive business environment should facilitate the operations of firms, from business registration, obtaining various permits, to the fiscal-stimulating policy, quality system insurance and subsidizing export-oriented enterprises.

Unfortunately, this is not the case in Bosnia and Herzegovina, which has even regressed according to the World Bank's Doing Business Report for 2012. In 2010, Bosnia and Herzegovina was ranked at 116th place of 183 countries in the world in terms of overall ease of doing business, while in 2012 this score was even worse as BH was ranked at 125th place (World Bank 2012). According to the same source (ibid 2012), of the Western Balkan countries, Macedonia is the best ranked country at the 22nd place, Montenegro at the 56th, Slovenia at the 53, Croatia at the 80, Albania at the 82nd and Serbia at the 92nd place. Although the Report of the World Bank (2010, 2011, 2012) cannot be considered completely reliable, however, the data obtained by analyzing the reports of individual countries show that in the Western Balkans, Bosnia and Herzegovina has the most unfavorable environment for starting and running a business and entrepreneurial environment that is rather unsupportive.

Theoretical framework linking the entrepreneurship and economic growth is rooted in the new theories of industrial evolution (Audretsch et al. 2006; Jovanovic 2001; Klepper 1996). "While traditional theories suggest that entrepreneurship will retard economic growth, these new theories suggest exactly the opposite – that entrepreneurship will stimulate and generate growth" (European Commission Enterprise Publications 2003, p. 12).

For the assessment of the position of SMEs in RS, it is necessary to analyze the competition which will be met on the European market. In 2010 in the European Union, of 20,839,226 companies in the private non-financial sector, even 99.8 % of them were small and medium-sized enterprises, of which 92.1 % or 19,198,539 were micro enterprises with up to 10 employees, as it is presented in Table 1.

It can be concluded that insufficient promotion of SMEs sector in the RS, its size and structure, which in the relation to the large companies, do not have an adequate infrastructure and access to various and better sources of funding. "Although the SMEs dominate in the most economies, their smaller size puts them in an unfavorable position compared to larger companies. They have less internal resources and less capacity to compete in the global marketplace" (Stevenson 2010, p. 76). Apart from the internal factors that affect the survival and potential growth of SMEs, there are external factors that affect functioning of this sector as well. In internal factors, among others, we can include entrepreneurial resources, managerial skills, technology, expertise and motivation of the employees. External factors include monitoring of the markets in which enterprise conducts its business, rules and procedures, laws, as well as the regulations that encourage commercial and organizational activities of enterprises (White 2008). In the external factors we can also include monetary and fiscal policy, international economic relations, domestic and global competition, suppliers and the most important factor, customers. More significant progress of SME sector could be expected with planning of big developmental projects in the domestic market, which will be run by local SMEs, relying on their acquired knowledge, experience and skills, all in order to attract domestic and foreign capital, thus creating the basis for export orientation and enhancement of competitiveness.

Further studies have shown that the growth of national income is clearly linked to the high level of new business formation, especially the so-called new start-up companies (Stam et al. 2007; Wong et al. 2005). This unfortunately is not the case in RS, where SMEs are under responsibility of the Department for small and medium-sized enterprises, production and informatics within the Ministry of Industry, Energy and Mining. Other countries of Western Balkans and Central and Eastern Europe, with which we can compare and with which we compete in the regional markets, have ministries that are fully committed to the development of entrepreneurship and SMEs. The last such ministry is the Ministry of Entrepreneurship and Crafts established in Croatia in December 2011 with the advent of the new left-oriented government.

Enterprises need to think about the possibilities of introducing the concept of marketing as a business orientation, entrepreneurial orientation and introduction of total quality management system. In the long term period, by establishing such business orientation and entrepreneurial culture in certain enterprise, intangible assets should provide multiple returns on investment and acquisition of superior competitive position. Apart from the internal factors and satisfactory level of demand for the products and services as one of the major external factors, it is essential that SMEs operate in a stimulating environment in terms of institutional capacities directed to SMEs and business sector in general. Legislative, executive

Table 1 Number of enterprises, employment and gross value added in EU/27, 2010 (estimates)

Enterprises	Micro	Small	Medium	SMEs	Large	Total
Number	19,198,539	1,378,401	219,252	20,796,192	43,034	20,839,226
%	92.1 %	6.6 %	1.1 %	99.8 %	0.2 %	100 %
Employment	38,905,519	26,605,166	21,950,107	87,460,792	43,257,098	130,717,890
Number	29.8 %	20.4 %	16.8 %	66.9 %	33.1 %	100 %
Gross value added	1,293,391	1,132,202	1,067,387	3,492,979	2,485,457	5,978,436
EUR (millions)	21.6 %	18.9 %	17.9 %	58.4 %	41.6 %	100 %

Source: Annual Report on EU Small and Medium sized Enterprises 2010/2011 2012, p. 9

Table 2 The Institutions of support of development entrepreneurship and SMEs in RS

Institutions of financial support of SMEs	Institutions for non-financial and the combined support of SMEs
“Angels”investors	Relevant ministries and departments on the local level
Venture capital funds	Credit-guarantee fund (guarantee fund of the republic of Srpska, city and municipal guarantee funds)
Microcredit organizations	Formal and informal educational institution
Specialized and commercial banks	Consultants (agencies and individual experts)
Factoring companies	Chamber commerce
Banja Luka stock exchange	Professional associations
European union funds and support programmes (CIP, FP7, JEREMI)	Incubators, clusters, technology parks, industrial zones
	Public funds or state-owned development banks (the Republic of Srpska investment-development bank)
	Leasing companies
	Development agencies on the local and national level (Agency for development of SMEs of RS, City Development Agency Banja Luka, University of Banja Luka Entrepreneurship Centre, Innovation Centre Banja Luka, etc.)
	Republic’s funds (development and employment, rural development, etc.)

Source: Authors

and judicial powers are all responsible for creation, sustainable functioning and legality of the instruments of entrepreneurial infrastructure. All institutions can be categorized into two main categories, namely:

1. Institutions of financial support of entrepreneurship and small and medium sized enterprises, and
2. Institutions of non-financial and combined support of entrepreneurship and small and medium sized enterprises.

Comparative review of financial and non-financial institutions of support of SMEs sector and entrepreneurship in the RS on the entity and local level is given in Table 2.

Based on the analysis of the entrepreneurial infrastructure in the Republic of Srpska, we can conclude that we don’t have ministry dealing exclusively with SMEs and entrepreneurs, angels-investors, venture capital funds, factoring companies and technology parks. There are some other instruments and institutions of an entrepreneurial infrastructure, but these are generally underdeveloped and unevenly distributed throughout the territory of RS. Educational system at all levels is not reformed in accordance with European trends which imply introduction of entrepreneurship education at all levels of education.

The problems of SMEs in the RS have relatively recently come into the focus of political and economic public. This raising awareness about the role and importance of SMEs has resulted in their better institutional and legal regulating. In this

regard, for the first time, SMEs are regulated by the adoption of the Law on SMEs development support, and other systemic laws². Until then, small and medium enterprises have not been treated individually, or as a subject of special interest of legislators.

3 Definition of SMEs in the Legislation of the Republic of Srpska

Besides ownership and organizational form of the enterprise, very important factor of one enterprise is its size. Economic criteria are exclusively used in order to divide them into small, medium and large because their effectiveness and efficiency and importance in the overall economy are measured by their actual economic effects. The division of the enterprises is important also for macroeconomic policy with the aim of selective policy of business control and favoring certain forms of enterprises. In the case of RS³, SMEs are treated differently as well as in the Federation of BiH. But, at the level of the state we have no mutually neither coherent legal framework for SMEs, nor these regulations are in the line with European law. Moreover, two laws that define SMEs in the Republic of Srpska are based on different criteria, which can be seen in Table 3.

Unfortunately, these legal decisions that define the same subjects, i.e. small and medium enterprises, in different manner in a single legal framework, may cause confusion in the real sector as well as in the academic community. The following Table 4 presents the basic similarities and differences between legislation in the Republic of Srpska, the Federation of BiH and the European Union.

Legislation in the Republic of Srpska and BiH, which defines SMEs, should be harmonized with the European legislation. Comparative analysis of SME sector in the RS has been done by the SMEs Development Agency of RS in 2010 in the form of report for RS Government. The main deficiency of the analysis, what was highlighted in the report, was insufficient institutional framework for statistical monitoring of data on SMEs and non-use of European methodology according to EUROSTAT. Data from multiple sources have been used, mainly provided by the Pension and Insurance Fond of Republic of Srpska (RS Pension Fund), Agency for IT and financial services (APIF) and the Institute of Statistics, which were often at odds with each other.

Official statistics on the situation in the sector of SMEs in 2011 is published in the form of Report of SME Development Agency to the National Assembly of RS, published in 2012. However, in 2011 according to data of Agency for IT and

²These laws are following: Law on Companies, Law on Guarantee Fund, Law on the single register of accounts of companies, Law on Crafts and Entrepreneurial Activities.

³There are two laws that are contradictory because differentiate differently enterprises by their size: Law on SMEs development support and Law on Accounting and Auditing, as can be seen in Table 3.

Table 3 Definition of SMEs in the legislation of the Republic of Srpska

Law on SMEs development support	Law on accounting and auditing
<p>Article 2</p> <p>SMEs are subject which:</p> <ul style="list-style-type: none"> - employ annually on average up to 249 employees - are independent in business; - make annual total sales revenue up to 50.000.000,00 BAM^a, or have a sum of balance of assets up to 43.000.000,00 BAM. <p>Independency in business according to this Law means that other individuals or legal entities which do not fulfill criteria of the paragraph 1 of this Article, individually or collectively, are not owners of the capital and do not participate in decision-making with more than 25 % in SMEs .</p> <p>Independency in business exists even if there is more than 25 % share in decision-making in the cases:</p> <ul style="list-style-type: none"> - if share in ownership or right of decisions in SMEs has investment found or public sector, under condition that its share in capital or right of decisions, individually or collectively, do not exceed 50 %; - if distribution of shares in capital in SMEs can not be determined, so that, based on statement of an enterprise it can be concluded that other individual or legal entities which do not fulfill criteria of paragraph 2 of this Article, individually or collectively, are not owners of more than 25 %; <p>Article 3</p> <p>Differentiating by their size, there are small and medium enterprises.</p> <p>Small enterprise are legal entities which:</p> <ol style="list-style-type: none"> 1. employ annually on average from 10 to 49 employees 2. make total sales revenue up to 10.000.000,00 BAM, or have sum of balance of assets in the amount up to 10.000.000,00 BAM. <p>Within small enterprises, micro enterprises are differentiated, which employ annually on average less than 10 employees.</p> <p>Medium enterprises are legal entities which:</p> <ol style="list-style-type: none"> 1. employ annually on average from 50 to 249 employees, 2. make total sales revenue up to 50.000.000,00 BAM, or have sum of balance of assets in the amount up to 43.000.000,00 BAM. 	<p>Article 5</p> <ol style="list-style-type: none"> (1) Legal entities are classified according to the average number of employees, total annual revenues and value of asset determined on the date of financial statements in the fiscal year. (2) Based on the criteria in Paragraph 1 of this Article, legal entities are classified as small, medium and large. (3) As small legal entities shall be classified those that meet at least two of the following criteria on the date of the financial statements: <ol style="list-style-type: none"> a) the average number of employees is under 50, b) the average value of assets amounts less than 1,000,000 BAM c) the total annual revenue amounts less than 2,000,000 BAM (4) As medium legal entities shall be classified those that meet at least two of the following criteria on the date of the financial statements: <ol style="list-style-type: none"> a) the average number of employees is from 50 to 250, b) the average value of assets amounts from 1,000,000 BAM to 4,000,000 BAM, and c) the total annual revenue amounts from 2,000,000 BAM to 8,000,000 BAM (5) As large legal entities shall be classified those whose amounts are larger than the largest amounts in at least two of criteria of Paragraph 4 of this Article (6) As medium legal entities are considered also those whose amounts are larger than the largest amounts in one criteria of Paragraph 4 of this Article (7) On the date of financial statements authority of the legal entity independently performs classification in accordance with the above criteria and resulting data is used for the following fiscal year. (8) The newly established legal entities are classified on the basis of the financial statements for the current financial year, in proportion to the number of operating months in business, and resulting data is used for the current and next fiscal year. (9) Average value of operating assets is calculated so the amount of net book value of assets on the beginning of the year and at

(continued)

Table 3 (continued)

Law on SMEs development support	Law on accounting and auditing
	the end of the year is divided by two; average number of employees is calculated so that total number of employees at the end of each month, including those employed outside of RS, is divided with the number of months in the accounting period..
	(10) Notice of classification of the legal entity into category of small, medium or large entities, performed in accordance with the provisions of this Law, shall be submitted by the legal entity to the Agency for IT and financial services (APIF) together with the annual financial statements.
	(11) Notwithstanding the provisions of this Law, banks, micro-credit organizations saving-credit cooperatives, insurance companies, leasing companies, management company of investment funds, management company of mandatory or voluntary pension funds, stock exchanges, broker-dealers and other financial institutions, are considered as large legal entities.

Source: Official Gazette of Republic of Srpska 2009, 2011.

^aBAM is the official currency of Bosnia and Herzegovina <http://www.xe.com/currency/bam-bosnian-convertible-marka>

financial services, 9,432 enterprises submitted its required financial statements for 2010, and in 2012, 9,463 enterprises submitted its required financial statements for 2011. Comparing these numbers with 14,871 enterprises that were registered in 2011, raises a question what happened with about 4,800 companies that have not submitted their financial statements to the Agency for IT and financial services.

It is about 36.36 % decrease in the number of enterprises that exist in the real sector in 2011 compared to the official number of registered companies in 2010 (Table 5).

Data in the table indicate the need for introducing a single business registry in the RS. Namely, the numbers of SMEs in the Republic of Srpska do not match each other, depending on the data source. Data on the economic structure of SMEs show relatively unfavorable structure by activities compared to the structure by activity of SMEs in the European Union. This disadvantage is reflected in participation of the majority of SMEs in three to four economic sectors with a dominant share of retail trade and wholesale trade, repair of motor vehicles and items for personal use, while in the European Union there is a proportional share of small and medium size enterprises in all sectors. The largest number of SMEs in the RS is concentrated in the sector of wholesale and retail trade, repair of motor vehicles and items for personal use (6,018 or 42.18 %), manufacturing (2,898 or 20.31 %), real estate and renting (1,168 or 8.19 %) and in traffic, storage and communications (1,091 or 7.65 %). Large enterprises are most concentrated

Table 4 SME definition in European Union, Republic of Srpska and Federation of Bosnia and Herzegovina

Criteria	European union			Republic of Srpska* (according to the law on SMEs development support)			Federation of Bosnia and Herzegovina		
	Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
Number of employees	<10	<50	<250	<9	<49	<249	<10	<50	<250
Income statement	≤2 mill €	≤10 mill €	≤50 mill €	-	≤5 mill €	≤25 mill €	≤200 000 €	≤2 mill €	≤20 mill €
Balance sheet	≤2 mill €	≤10 mill €	≤43 mill €	-	≤5 mill €	≤21.5 mill €	≤200 000 €	≤2 mill €	≤15 mill €
Independency	More than 25 % of capital or rights can not be controlled by the public institutions			Independency in business according to this Law means that other individuals or legal entities, individually or collectively, are not owners of the capital and do not participate in decision-making with more than 25 % in SMEs					

Source: Official Gazette of Republic of Srpska 2009, 2011

Table 5 Number of SMEs in Republic of Srpska 2007–2011

Year	2007	2008	2009	2010	2011
Number of SMEs (SMEs development agency of RS)	12,391	13,433	14,266	14,482	14,871
Number of active SMEs (APIF)	9,250	9,682	9,531	9,432	9,463

Source: Republic Agency for Small and Medium Enterprises 2012, p. 5

in the sectors of manufacturing and production and supply of electricity, gas and water.

However, in the transitional and developing economies, as is the case with Bosnia and Herzegovina, it is necessary to encourage new entrepreneurial ventures, create new business opportunities, increase productivity and hence competitiveness. It is necessary to create innovation and “induce great players” to invest and thereby increase the future potential of the market, all with the aim of raising the ratings and the potential progress of underdeveloped countries (Sobel et al. 2007). Regardless of whether the economy is developed or less developed country, one thing is certain, that the SME sector is important for the healthy and functioning economy (Ovaska and Sobel 2005). Set high standards that create new business philosophy lead to the conclusion that the transitional countries must be ready to accept new terms and business policies, i.e. to compensate each failed entrance on focused foreign market with strengthening position on the local market.

4 Method, Sample, Instruments and Research Results

Between November 2009 and January 2010, two-stage research was conducted for the purpose of drafting a strategy of small and medium-sized enterprises and entrepreneurship in the city of Banja Luka 2010–2015. The goal of this research was determining influential, stimulating and limiting factors, their direction and intensity on the efficient and effective operations of micro, small and medium-sized enterprises in the City of Banja Luka. City Development Agency with a team of experts in the field of entrepreneurship and small business from the Association of Economists of Republic of Srpska “SWOT” was working on drafting the Strategy for the development of small and medium-sized enterprises and entrepreneurship in the City of Banja Luka, 2010–2015.

The research was conducted using the questionnaire with questions that were designed in a way that they reviewed facts and opinions, and the research had characteristics of both quantitative and qualitative research. The questionnaire consisted of a total of 32 questions, and those were closed questions, questions with several possible answers, questions in the form of answers on the Likert scales, with a descriptive assessment of the attitudes of respondents, and several open questions. The general goal of this research was to enable the authors of the project of drafting the Strategy, whose project team leader was the Sasa Petkovic, one of authors of this paper, on the basis of analyzed influential factors, to define the

strategic goals of strategic determination of the City to build a supportive entrepreneurial environment in the next 5 years, as well as the proposal of specific measures of financial and non-financial support to SMEs in Banja Luka. The research was conducted in two stages.

The first stage was so-called pretesting of the questionnaire stage where, using a method of purposely selected sample of SMEs in the sample of ten companies, we tested the clarity of the questionnaire and the quality of received responses. Of the original 47 questions, after the test stage, the questionnaire was reduced to 32 questions, and in November 2009 the implementation of the research began. The process of data collection was done by a team of the RS Association of Economists "SWOT" solely by electronic means, using their own database of business enterprises in the territory of the City of Banja Luka, using a method of random sample. During the period from 10 November 2009 to 15 January 2010 collection of the questionnaires was conducted directly by sending the questionnaires electronically using a method of random sample, with the degree of response of 24.85 %. The sample included 87 companies from Banja Luka. Questionnaires were sent to about 350 addresses. Interviewers managed to collect 87 questionnaires by double sending questionnaires to the same addresses, with the aim of reminding the respondents. Generally, interest of our businessmen for any type of research is really at a very low level, which certainly makes the job of the academic community more difficult.

In this way, representation of sample is provided, and a sample of 87 SMEs ($N = 87$) compared to the statistical weight is 3.75 % (if we take into account the fact that according to the APIF Report, in 2009, only 2,320 enterprises from Banja Luka submitted their financial statements). In the sample, 32 % of enterprises are "older" than 15 years, 29 % were from 10 to 15 years of age, and only 2 % were established in 2009. From the standpoint of the industry structure, the dominant enterprises in the sample were the ones in the field of retail and wholesale, followed by manufacturing, construction and other industries. Economic structure of the city of Banja Luka, corresponds more to the economic structure of EU average, which is a good indicator of growth and development of the SME sector.

Number of SMEs per 1,000 inhabitants in non-financial business sector of the Republic of Srpska in 2008 amounted to 26.1 SMEs per 1,000 inhabitants⁴, in the region of Banja Luka 30.45 SMEs per 1,000 inhabitants (Analysis of the situation in the field of SMEs for 2008, 2009), and in the City of Banja Luka 47.3 SMEs per 1,000 inhabitants, where the European average of 40 SMEs per 1,000 inhabitants was surpassed. The leading EU countries by number of registered SMEs are Czech Republic (83.4 SMEs per 1,000 inhabitants), followed by Portugal (81.43 SMEs per 1,000 inhabitants), Greece (74.46 SMEs per 1,000 inhabitants), Italy (65.43 SMEs per 1,000 inhabitants) and Spain (60.07 SMEs per 1,000 inhabitants) (Development

⁴The number of enterprises per 1,000 inhabitants was calculated according to the European Commission Recommendation of 6 May 2003 (2003/361/EC)

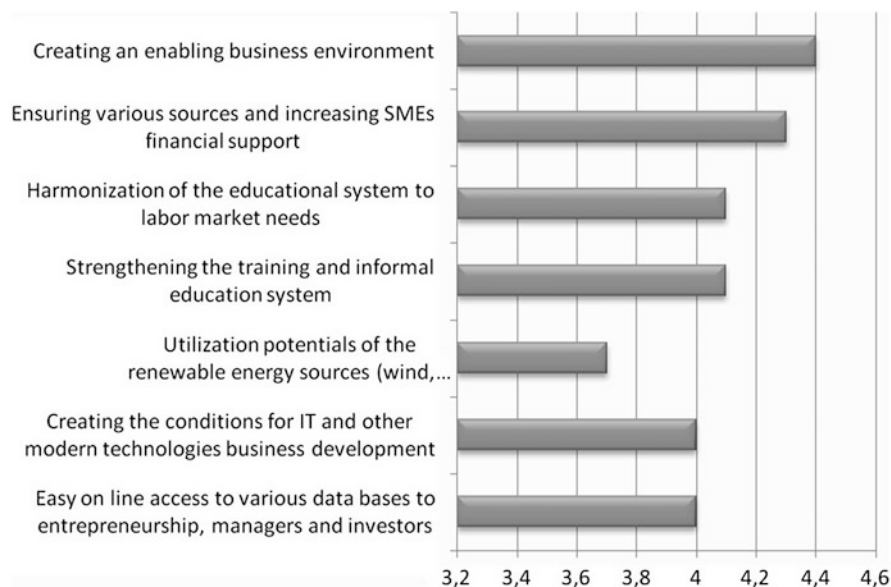


Fig. 1 Attitudes of entrepreneurs from Banja Luka on the priority directions of the development of SMEs in Banja Luka (Source: Authors questionnaire)

Strategy for the SME sector and entrepreneurship in the territory of the City of Banja Luka in the period 2010–2015, 2011).

Given the goal of this research, more attention has been devoted to examining the attitudes of entrepreneurs and managers, rather than on finding cause-effect relationships between the factors of business and total income, and total net profit of the surveyed companies.

Let us return to the goal of this research, which was determining influential, stimulating and limiting factors, their direction and intensity on the efficient and effective operations of micro, small and medium-sized enterprises (SMEs) in the city of Banja Luka. What else have we discovered?

To the question: In your opinion what should be the priority directions in the strategic plan of the development of SMEs in Banja Luka? On the scale from 1 to 5, where 5 marks priority and 1 irrelevant, we got the responses presented in Fig. 1.

Entrepreneurs would primarily like to create a business environment favorable for economic growth and development (weight 4.4), then ensuring and increasing financial support to SMEs (weight 4.3), harmonization of the educational system to labor market needs and strengthening the training and informal education system (both with weights 4.1).

What is significant is the fact that the need for support, both financial and non-financial is evident, and particularly interesting is the interest of entrepreneurs and managers to harmonize the educational system to the needs of enterprises and strengthening the training and informal education system.

Table 6 Limiting factors of SMEs development in Banja Luka

What limits developmental activity in your enterprise? (1 – unimportant, 5 – priority)		
	Responded	Average
The high rate of VAT	67	3.0896
Problems of claims collection	79	4.0759
High rates of taxes and contribution for salaries	74	3.7297
Administrative burdens and complexity of procedures	73	3.6986
The instability and lack of clarity of legislation	70	3.8571
High interest rates of loans	78	4.0513
The costs of energy sources	70	3.5429
Raw materials costs	63	3.2857
Availability of financing sources	70	3.6571
Loss of markets in former Yugoslavia	61	2.6885
Unfair competition	70	3.6857
Foreign competition	63	2.8571
Domestic competition	63	2.8254
Outdated technology	61	2.5246
The quality of products	60	2.9333
Price	63	3.0952
Labor costs	59	3.0000
Outdated products	56	2.9107
Lack of funds for research and development	60	3.2833
Valid N (listwise)	51	

Source: Authors questionnaire

A key part of the research that will partly answer the research problem is related to the research question about obstacles to the development of SMEs. Frequency of the response is summarized in Table 6.

The first problems by priority, with an average score 4.07 and 4.05 were problems of claims collection and high interest rates of loans. These two problems, the problem of claims collection and the problem of reaching the necessary external funds is very important factor that strongly affects the liquidity and solvency of the SMEs in Banja Luka and the Republic of Srpska. Besides the negative effects of the global financial crisis which is evident from the beginning of 2009, inefficient and very expensive judiciary contributed significantly to the first problem. Through the introduction of mediation and the establishment of commercial courts in the Republic of Srpska (the first commercial courts began operating in May 2010) this problem should be less frequent. Further, the instability and lack of clarity of legislation as a very big obstacle for further development of SMEs were assessed with the weight of 3.85. If we compare results across certain studies (Petkovic 2010) and these factors, enterprises do not practice planning (strategic, operational, financial, marketing) in their business operations, so that the uncertainty continues to increase disorientation of the owners and managers of SMEs.

Knowledge to work in conditions of crisis and uncertainty in addition to the natural resourcefulness and intuition must be based on the use of certain forms of

Table 7 Factors of increased competitiveness of SMEs

What needs to be improved in your enterprise in order to be more competitive on the market? (1 – unimportant, 5 – priority)		
	Responded	Average
To improve quality of product/services	70	3.3857
To improve promotion activities	80	3.6250
Get the necessary certificates of the quality	66	2.8788
Professional consultancy assistance in the areas of business and production, e.g. training on specific machine and similar	62	2.6613
Training and education in entrepreneurship	67	3.4925
Training and education in IT	62	3.0484
Training and education in management	69	3.6957
Training and education in project management	64	3.1562
Training and education in finance	65	3.1846
Training and education in sales	70	3.7571
Training and education in marketing	67	3.5970
Training and education in foreign languages	66	3.1970
Associating with companies from my area in order of common market participation	68	3.1912
Assistance from development programmes through grants	78	4.3077
Assistance from development programmes through favorable loans	75	4.3200
Assistance from development programmes through guarantee funds	71	4.2113
Valid N (listwise)	1	

Source: Authors questionnaire

strategic management, which is not applied in our country. High rates of taxes and contributions for salaries (3.72), the administrative burdens and complexity of procedures (3.69) and unfair competition (3.68) are highly ranked barriers to further business development. We would also like to emphasize that the weight of 3.65 evaluated the availability of financing sources as a big problem for SME development in the Republic of Srpska. Finally, with the weight of 3.2 as the limiting factors were assessed the lack of funds for the research and development activities. Thus, the entrepreneurs themselves have noted what they need to improve the competitive position, and which are now the limiting factors in the Republic of Srpska, comparing them with SMEs from the EU. All the factors are external in character. Factors of the external support and internal character, i.e. “inside” the company, according to the respondents, which may affect the further growth and development of SMEs were ranked as follows, as in Table 7.

Entrepreneurs expect assistance from development programs by using favorable loans (4.32), grants (4.30) and guarantee funds (4.21). Thus, there are high expectations in terms of support from government representatives. Few entrepreneurs talked about the need to improve the quality of their products/services (3.38), the need to introduce quality systems (2.87), or the need for professional consultancy assistance (2.66). Therefore, factors of the internal character were rated relatively low. The question for further research is whether the private companies in transition countries should unrealistically expect the full

external help and support from the state for their own development or should they turn to themselves, i.e. to the development of market wanted quality products, innovativity of products or processes, transfer of knowledge, branding, meeting the needs of customers. With respect to the education needs, the greatest need for additional education the entrepreneurs see in the field of sales (3.8), management (3.7) and marketing and promotion activities (3.6).

Absence of statistical significance between the certain variables indirectly confirms the research hypothesis. SMEs do not have an effective system of institutional support to entrepreneurship and SMEs, in the opinion of most respondents:

- Entrepreneurs in Banja Luka do not have available high-quality external resources of financial and non-financial support;
- They are not associated with universities so we cannot talk about the transfer of knowledge and new technologies;
- Most enterprises are not interested in participating in the clusters;
- Entrepreneurs expect assistance from development programs by using favorable loans, grants and guarantee funds.
- Although some entrepreneurs talk about the need to improve the quality of their products/services, the need for the introduction of quality systems and the need for professional consultancy assistance, it is evident the need for education and training in the field of quality and management of SMEs.

Based on analysis of existing legislation, strategies, policies and programs of the support to the development of SMEs and entrepreneurship in the Republic of Srpska, and on an the analysis of the conclusions of the panel discussion on the focus group held in June 2008 and the results of the quantitative research conducted in 2010, we believe that the existing model of institutional support to SMEs in the Republic of Srpska is not adequate, and that the Model of Structural Support to SMEs and Entrepreneurship in the Republic of Srpska, on the example by the cities of the City of Banja Luka, which we suggest can answer to the needs of growth and development of SME sector and changes in qualitative economic structures in Banja Luka and the Republic of Srpska (Fig. 2).

In the proposed *Model of Structural Support to SMEs and Entrepreneurship in the Republic of Srpska*, we propose the reconstruction of ministries in the Government of the Republic of Srpska in accordance with the Constitution of the Republic of Srpska and BiH, taking into account the complexity of the country and political complexity, and territorial compatibility of the Republic of Srpska, geographic area, population, number of regions and relatively simple political arrangement with two levels of government: local and entity. The proposed model of restructuring of ministries was created by the analysis of the model of ministries in Slovenia, Croatia, Serbia and the Czech Republic, where the exceptional institutional attention was given to SMEs. The results are most visible in the Czech Republic, which is the European leader in the number of SMEs per 1,000 inhabitants, a total of 83.4 SMEs per thousand inhabitants (Analysis of the situation in the field of SMEs in the Republic of Srpska 2008, p. 31).

All of the new institutions that should be established are marked in red in the model itself, i.e. they are bold and underlined for easy identification in relation to

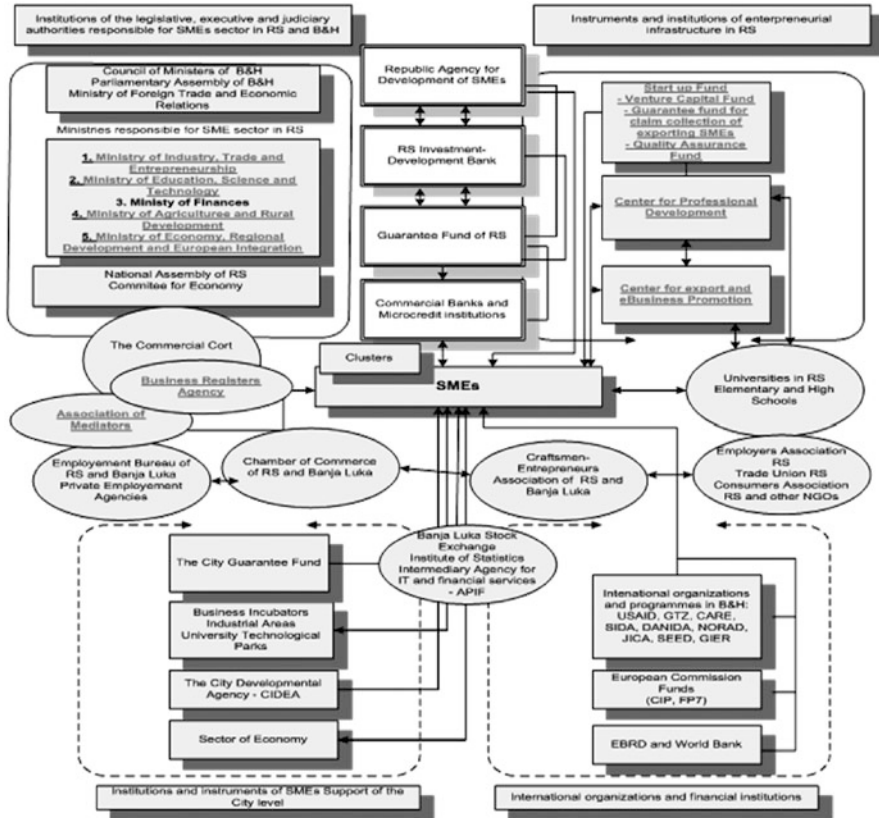


Fig. 2 Model of structural support to SMEs and entrepreneurship in the RS (Source: Authors)

existing institutions. With this regard, in the proposed model, the following ministries would provide direct and indirect support to the development of entrepreneurial environment and SME sectors, namely:

1. Ministry of Industry, Trade and Entrepreneurship.
2. Ministry of Education, Science and Technology.
3. Ministry of Finance.
4. Ministry of Agriculture and Rural Development.
5. Ministry of Economy, Regional Development and European Integration.

Particular emphasis should be placed on strengthening the capacity of the Ministry of Industry, Trade and Entrepreneurship, in case of restructuring the RS Government in the above proposed way. Within the newly established ministry, one part of the ministry that would deal with the entrepreneurship should build its own capacities in a way that in the future it coordinates networking of SME sector and the sector of formal and informal education, local and regional development agencies and entrepreneurs, encourage and assist in the construction of clusters of

SMEs, university and technological parks, business incubators and innovation centers, lobby in the legislature in order to adopt legislation friendly to the development of entrepreneurship and small businesses, involve entrepreneurs in the process of creating new laws and institutional arrangements, help entrepreneurs and clusters in applying for access to European pre-accession funds.

In addition to the RS Guarantee Fund, as the first guarantee pillar of access to loans for newly formed and existing small and medium-sized enterprises, which issued the first guarantees for loans on 08 July 2011, all cities and municipalities need to establish city or municipal guarantee funds, which would constitute the second guarantee pillar for micro and small businesses. Some cities and municipalities already have them, mainly in the northwestern part of the RS, such as Banja Luka, Prijedor, Kozarska Dubica. However, most municipalities have still not established them. The third guarantee pillar should be networks or clusters of small private businesses that would, on the principles of mutual solidarity, guarantee the return of loans from commercial or specialized banks for small and medium-sized enterprises.

The model provides structural support for the establishment of the *Business Registers Agency of the Republic of Srpska* with the aim of quick, cheap and easy business registration. The Agency should provide opening of the web portal for free access to the registry and for online registration of business entities, the electronic cadastre and land registry, documents and forms for public procurement, in the form of “One stop shop”. In accordance with best European practices, business registration process can take up to 7 days, and preferably 48 h. Numerous statistical data on all enterprises would be available at one place, which would be of particular use to the creators of policies, programs and strategies, and scientific workers.

The model proposes the formation of *Start up Fund of the Republic of Srpska* which would consist of the following funds:

- (a) Venture Capital Fund
- (b) Factoring Fund for the purchase of receivables of export enterprises
- (c) Quality Fund

This Fund can be formed within the Investment-Development Bank of the RS, or as an independent legal entity whose founder would be the Republic of Srpska Government.

The purpose of a Venture Capital Fund is to attract “angel” investors and to provide start up capital for promising new companies through the funds of IRB RS. Factoring Fund would participate in co-financing debt collection from the export-oriented enterprises in the Republic of Srpska, which would directly influence the increase in liquidity of SMEs. The objective of the Quality Fund would be to promote the quality culture and assistance in the introduction of various quality systems such as ISO, HACCP, CE mark, etc.

Further encouraging of the establishment of entrepreneurial business incubators, university and technology parks where the future entrepreneurs can get free advice about registration, legal and accounting services and related consulting services, and at relatively low cost start their own business. It is necessary to utilize existing

capacities of the non-privatized industrial enterprises, which do not have the potential for revitalization and ownership transformation and use them to create the above mentioned incubators and parks.

Career Center of the Republic of Srpska would play a role of central training institution for training, additional training and retraining, but also the role of coordinator for the analysis of needs for human resources and labor.

Center for Promotion of Exports and eBusiness would provide support services and subsidies to export-oriented enterprises, and promote the best European practice in eBusiness.

All proposed new institutions for the support to the development of this new structural model should contribute to increasing efficiency and effectiveness of the existing SMEs, accelerate and simplify the creation of new enterprises, enable easy access to information on SMEs and in respect of SMEs to the newly established ministries and institutions, with the aim of systematic surveillance (monitoring) and evaluation of programs, policies and support measures for SMEs.

5 Conclusion

Developed countries, in addition to facing with the global financial crisis, do not give up a systematic search for solutions out of the crisis. In this struggle out of recession, a significant role is played by self-employment and micro, small and medium-sized enterprises. With regard to their basic characteristics, SMEs as flexible, adaptable, relatively inexpensive to establish and close, adjustable to specific market demands, and particularly suited to capture a market niche, with major giants as pillars of the economy should be the generators of economic development. Left on its own without special attention of the state and its institutions, no systematic financial and non-financial support from all sectors, SMEs do not have great chances in the local markets, and especially not in the global market. It is particularly important in transition countries, such as BiH, to continue the positive trend in building institutions that are supporting entrepreneurship and the SME sector. As this research has shown, despite all the positive trends of building entrepreneurial infrastructure in the Republic of Srpska, in the opinion of entrepreneurs and academic community, entrepreneurial infrastructure is still not enough built.

The institutions supporting entrepreneurship and development of the SME sector in the Republic of Srpska do not meet the requirements of entrepreneurs and managers in SMEs. Legislation does not follow the needs of small and in the case of the Republic of Srpska, laws dealing with micro, small and medium-sized enterprises are not harmonized with EU legislation. Larger problem than this discrepancy lies in the internal inconsistency of laws and regulations dealing with SMEs. This is the case with the Law on the Encouragement of the Development of SMEs and the Accounting and Auditing Law, which define SMEs in RS in the diametrically opposite way.

At the RS level, there is no ministry that deals exclusively with entrepreneurs, although in the structure of the RS economy, SMEs dominate with a share of 99.62 % according to data from 2009. Data from the real sector suggest the need for a more serious approach to SMEs. Other ministries in the existing model of the RS Government do not play active role in supporting entrepreneurship. Rather, the SME sector is treated sporadically, and there is a lack of coordinating role of strong ministry that would be solely concerned with SMEs from the real sector.

Given that there is no time to lose, and the negative effects of the global financial crisis are visible, it is necessary in the next 5 years period to get the answers the following questions: How to provide the entrepreneurs in the Republic of Srpska with quality external financial and non-financial support?; how to connect effectively the SME sector with universities so that we can talk about the transfer of knowledge, innovation and new technologies?; how to interest SMEs to join existing or new clusters?; entrepreneurs expect assistance from development programs through favorable loans, grants and guarantee funds. How to continue facilitating access to favorable loans?; although some entrepreneurs talk about the need to improve the quality of their products/services, the need for the introduction of quality systems and the need for professional consultancy assistance in the research, it is evident the need for education and training in the field of quality and management of SMEs. How to build an effective system of formal and informal education of entrepreneurs and managers in SMEs?

Answers to the above questions, arising from the research conducted on a sample of 87 SMEs from Banja Luka, as well as other problems faced by entrepreneurs in the Republic of Srpska due to insufficient development of entrepreneurial infrastructure, in the long-term we can try to solve by implementing the proposed Model of Structural Support to SMEs and Entrepreneurship in the Republic of Srpska. The initial hypothesis of this paper we could check in the future, if the Model is implemented in the Republic of Srpska.

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Venture Capital Initiatives in Macedonia: Current Situation, Barriers and Perspectives

Taki Fiti and Veland Ramadani

1 Introduction

Some evidences show that investing in the equity of companies begun during the Roman Empire (Caselli 2010, p. 3), which mean that the idea of investing capital in risky businesses and seeking sources of capital is not new. Further in the fifteenth century explorers – adventurers to sail around the world looking for a big wealth in exotic locations was needed to find financial resources from someone. Using their connections with the king or queen they came to the appropriate financial means for realization of their goals. It can be stated that the first venture capitalist was the Spanish Queen Isabella, who invested in its well-known entrepreneur Christopher Colombo for various researches and searching for new places (Hill and Power 2001). In the nineteenth century a large number of wealthy individuals and families financially helped researchers of new technologies. Immediately after The World War II, in 1946 was formed the first venture capital fund, American Research Development Corporation, which initially invested in new companies with great growth potential, mainly composed by soldiers returning from the war, and later it invested in other businesses types as well (Ibanez 1989). It is assumed that the term “venture capital”, for the first time is mentioned by Jean Carter Witter in 1939 in an open forum at Convention of Associations of Investment banks of United States of America, and since then venture capital began to be considered as a particular source of financing small and medium enterprises (Kenney 2000). The term “venture capital” derives from the nature and characteristics of investment projects in which the capital is invested. Because the bulk of investment projects are

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characterized by a high degree of risk and the capital invested in them is qualified as “risky.” (Gladstone and Gladstone 2002; Ramadani and Gerguri 2011).

Venture capital is often invested in small enterprises which deal with scientific studies and application of modern technology, in which investments are characterized with a high risk. If they realize a successful penetration in the market, then they will achieve a high level of profitability, in compared with other enterprises. In the seventies as risk investments were considered companies that were engaged in production and development of computers (Ramadani and Gerguri 2011).

As features of small and medium enterprises, which are distinguished by a high degree of investment risk, are: the availability of a strong potential of growth and development, orientation to the rapid growth and great development of the product for a short time period; appearance on the market with completely new products or products that have been modified.

But it should be noted that not all businesses are attractive for investment by venture capitalists. According to many studies in different countries of the world, venture capitalists analyze 100–200 projects before they invest their financial means, and invest only in small number of them (Silver 1985; Van Osnabrugge and Robinson 2000; Benjamin and Margulis 2001; Fiti 2007; Gaston 1989).

At the new era, venture capital marks developments even in some countries in transition, including and Macedonia. Causes for this capital development are different, for example, (1) necessity that investment project with a high degree of risk to be financed in a more flexible way rather than financing through bank loans, which are characterized by fixed costs and fixed date credit returns and (2) development of small and medium enterprises as a source of innovation, new jobs creators and their role in the holistic development of the state.

2 Characteristics and Importance of Venture Capital

Venture capital (VC) represents the financial funds, usually in equity form and know-how management, which are invested by individuals and institutions in small and medium enterprises, which are not listed on the stock exchange and have high growth potential (Ramadani and Gerguri 2011; Cumming and Johan 2009). Cary (1991) defines a venture capital as external capital, usually in equity form, invested in high risk new companies and new technologies, which offer the possibility of gains as a compensation for the high risks involved in such investments. According to Albach et al. (1986), venture capital represents “long-term investment in the form of equity capital, or similar to it, in small and medium enterprises – new and existing, which includes not only financial resources but also managerial advices”(p.166).

Duffner (2003) explain venture capital through seven characteristics: finance of risky ventures, equity capital finance or similar, minority shares, limited time horizon, private intermediary, control and monitoring rights and management support. The explanations of these characteristics are shown in Table 1.

Table 1 Characteristics of venture capital financing

Characteristic	Explanation
Finance of risky ventures	Portfolio companies are small growth companies
Equity capital finance or similar	Renunciation of fixed claims lowers the risk of early bankruptcy
Minority shares	The portfolio company’s character as independent enterprise stays alive
Limited time horizon	The investment is to be drawn out after 5–10 years; the venture capital firms profits from capital gains
Private intermediary	The venture capitalist is a private profit-seeking intermediary between investor and portfolio company
Control and monitoring rights	These ensure that the portfolio company behaves as planned
Management support	Active increase in value by assisting the portfolio companies’ management

Source: Duffner 2003, p. 19

Venture capital can be presented in two basic forms, *business angels*, as informal venture capital funds and *formal venture capital funds*, which will be addressed in the following pages.

Business angels as an informal source of capital, represent important force in the financing and the management support to newly created enterprises. According to Ramadani (2009, p. 250), business angels represent private investors who, during their active work, have gained wealth and experience and are ready to invest in new enterprises in order to help young entrepreneurs and profit simultaneously. Mason and Harrison (2008) define business angels as “individuals, who act alone or in a formal or informal syndicate, who invest their own money directly in an unquoted business in which there is no family connection and who, after making the investment, takes an active involvement in the business” (p. 8).

In literature and practice we can see certain types of business angels. Main division is as follows: active, latent and virgin angels (Mason 2006; Ramadani 2009). *Active angels* are people who have great experience in investment and continue to seek investments permanently. *Latent angels* are passive investors who have experience in investments, but have not invested in the past 3 years. *Virgin angels* are people who want and seek to invest, but have not made their first investment yet. Coveney and Moore (1998) identify three types of business angels: Entrepreneur angels, income seeking angels and wealth maximising angels. The characteristics of these types of business angels are presented in Table 2.

Benjamin and Margulis (2000) identified nine types of business angels: value-added investors, deep-pocket investors, consortium of individual investors, partner investors, family of investors, barter investors, social responsible private investors, unaccredited private investors and manager investors.

The origins of modern formal venture capital is related with the formation of the American Research and Development Corporation (ARDC) in 1946, which was mentioned beforehand, at the initiative of General Georges F. Doriot, who is also known as “the father of the formal venture capital”, together with Ralph Flanders

Table 2 Types of business angel

Characteristic	Entrepreneur angel	Wealth maximising	Income seeking
Total funds invested	590,000 £	131,000 £	35,000 £
No of investments	3.4	2.1	1.5
Personal net worth	74 % > £1 m	43 % > £1 m	35 % > £1 m
Reason for investing	Returns/fun	Returns	Job/income
Average total amount invested	174,000 £	54,000 £	24,000 £
Average initial amount invested	111,000 £	21,000 £	17,000 £
Average number of rounds	2	1.75	1.5
Average number of co-investors	2.3	2.5	3.0
Average size of equity stake taken	38 %	31 %	20 %

Source: Coveney and Moore 1998

and Karl Compton, in order to support investments in the weapon industry, and soldiers returning from World War II to form and lead their own businesses (Ibanez 1989; Berkery 2008; Gompers and Lerner 2000). ARDC, as the first formal venture capital fund, the most successful investment marked in 1957 when it invested \$ 61,400 in Digital Equipment Corporation (DEC), which in its first appearance on the stock exchange in 1968, was valued at \$ 355 million. DEC began with “a table and two people”, while in 1971 numbered 7,000 employees. ARDC Fund continued to invest up until 1971, when the founder George F. Doriot was retired. In 1972, Doriot merged ARDC with another fund – Textron. ARDC had so far invested in more than 150 enterprises. According to the ARDC system, other venture capital funds were formed (Duthel 2008; Bygrave and Timmons 1992).

The formal venture capital represents the capital mobilized by pension funds, insurance companies, corporations, financial institutions, academic institutions, individuals and others from the venture capital firm, which manages the same and invest in small and medium enterprises that are not listed on the stock exchange within a limited period in order to realize a profit for themselves, investors and entrepreneurs.

There are several types of formal venture capital. On the basis of who provides the capital, we can distinguish *state venture capital* (government, is usually the sole investor), *financial venture capital* (investors are banks and other financial institutions), *corporate venture capital* (non-financial corporations are investors) and *venture capital partnership* (partnership between so called institutional investors and venture capital firms).

Formal venture capitalists invest large sums of capital in the enterprise, which are already developed, respectively, have exceeded the risky stages of their life cycle. In this way, formal venture capitalists support only when entrepreneurs are convinced that the business to some extent has proven to be successful, this mostly can be seen through the positive sales figures and profits. They simply are “part” of a particular investment in a period of 3–10 years.

The companies that work with venture capital are divided in independent, captive and semi-captive (EVCA 2007; Sherman 2005; Megginson 2001). *Independent companies* are those which raise capital for investments from other sources

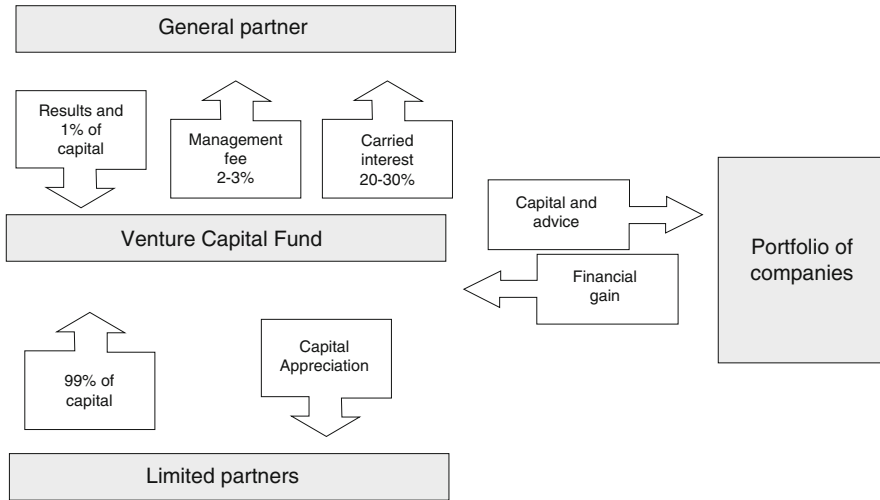


Fig. 1 Venture capital partnership (Source: Smith and Smith 2000, p. 500)

(pension funds, insurance companies, corporations, wealthy individuals and families, etc.) and invest in small and medium enterprises. *Captive companies* are those that raise capital for investment by the parent company, which is the dominant financier of the investment fund, which is created by the company for venture capital. The captive company is a subsidiary or department of a bank, financial institution, insurance company or industrial company. These firms are formed to seek new ideas and projects for investment, which are related to the sector in which the parent company operates. Banks create these firms/sectors to distinguish their commercial activity from the investment one. *Semi-captive companies* are almost the same with the previous, with the difference here that aside the parent company, largely as financiers a third party appears. Venture capital companies, in most cases are structured as partnerships or Limited Liability Company. The partnership structure is presented in Fig. 1.

Venture capital companies for their efforts and investments made are compensated in two ways, through a *management fee* and *carried interest*. Venture capital companies receive annual compensation, known as *management fee*, which amounts to about 2–3 % of the committed and dedicated capital for investment. Management fee usually serves for payment of workers engaged in the investment process, office rent, phone, electricity, travel expenses and marketing costs. Litvak (2009) investigated 37 partnership agreements of 17 companies for venture capital to analyze the ways of determining the forms of management fee. Each form contains two basic elements: (1) base, and (2) part of the base which is paid annually to companies for venture capital. The base can be committed capital, managed capital or some combination of these two. The base and the percentage added to the base can be constant or variable. She noted the following forms of setting the management fee:

- (a) *Flat fee based on a percentage of committed capital* – the fee is a pre-set percentage of committed capital – the total amount that investors have agreed to contribute to the fund;
- (b) *Declining fee based on percentage of committed capital* – the fee is calculated as a percentage of committed capital, but the percentage declines in later years of fund's life;
- (c) *Declining fee based on combination of committed and managed capital* – early-year fees are set as a percent of committed capital, while later-year fees are set as a percent of managed capital;
- (d) *Fee based entirely on managed capital* – the fees are calculated on the basis of managed capital throughout the life of a fund;
- (e) *Absolute dollar amount* – the management fee is set as a flat dollar amount, rather than as a percent of committed capital and this amount declined over time.

Carried interest is around 20 % of profits from investments made. It is distributed to venture capital companies, after the investors (limited partners) have returned their invested means.

Venture capital is particularly important for small businesses. Some advantages of this type of funds should particularly be emphasized, such as:

1. The *amount of funds* that venture capitalists (formal and informal) have invested or intend to invest is quite significant. Just to illustrate, in the U.S. in 1999, formal venture capitalists have invested about \$ 8 billion. This amount was distributed in 1,840 deals, or in average, \$ 4.35 million per deal. In 2000, there were invested \$ 105 billion, followed by a real collapse in the next years, as in 2003 there were invested only \$ 20 billion, which represents only one fifth of the funds invested in 2000. A slight improvement followed afterwards, where in 2007 they invested \$ 31 billion (Erber 2009). Regarding the business angels, there are 300,000–350,000 active business angels in the United States, who invest \$ 30 billion per year in 50,000 deals, while in the United Kingdom there are 20,000–40,000 business angels, who invest £ 0.5–1 billion per year in 3,000–6,000 companies (Mason 2006). If we take into consideration the fact that business angels prefer to remain anonymous, then the above given calculations are underestimated and differ from the real situation. According to Sohl (1999) the ratio between active and potential business angels is 5:1. Besides the large sums of received funds (or planned to be invested) from venture capitalists, a significant advantage of these funds is that the enterprises through this funding source gain permanent own funds that are not required to be returned to investors (venture capitalists), as it is the case with bank loans.
2. Venture capitalists, besides money, invest *time and expertise* (Mason 2006). Notions of time and expertise suggest that venture capitalists have significant entrepreneurial and managerial experience, knowledge and skills, which allows them direct involvement in companies they invest in. They can be involved in different ways: monitoring, advice or performing specific activities. According to a research conducted in the U.S., 27 % of surveyed venture capitalists

responded that they are involved as consultants, 22 % work part-time, 19 % in reading reports, 17 % work full-time and 15 % as a member of the board of directors (Fiti et al. 2007). This means that they spend part of their time in the company in which they have invested. According to many researchers in this field, this feature of venture capitalists (investing time and expertise) contributes to a *lower rate of failure* of companies that received venture capital compared to usual. Thus, the failure rate of companies that receive venture capital is one out of ten (Lachmann 2000).

3. Venture capitalists provide a significant contribution in raising the quality of corporate governance in businesses they are involved in through the mitigation of moral hazard, which is determined by the so-called principal-agent problem. They accomplish this by involving themselves in management and monitoring of firms they invest in, they require production of additional information about the operating performance of firms. Hence, Mishkin (2007) concluded that “venture capital firms have been important in the development of the high-tech sector in the United States, which has resulted in job creation, economic growth, and increased international competitiveness” (p. 194).

3 Venture Capital in Transition Economies: An Overview

Without an appropriate economic, legal and social environment, the development of venture capital is impossible. In other words, every country should create a positive and effective environment that is ready to accept this way of financing, i.e. venture capital and be a catalyst for its growth and development.

Environment that is created in developed countries and is suitable for adoption and development of venture capital, according to Schöfer and Leitinger (2002), is presented in the framework for successful venture capital (Fig. 2), which consists of the following elements: *economic environment* (large market, high growth in sales and profits, strong financial markets and stock exchanges, high yields for investors, supporting infrastructure in services, good economic and technological education of the people, availability of the key production factors on qualitatively high levels); *legal environment* (corporate and tax laws encouraging entrepreneurial activities and the foundation of companies, only few limitations for the founding process of companies, simple, but severe admission and disclosure rules for stock exchange listings, liberalized investment guidelines for institutional investors); *social environment* (attractive climate for researchers, interesting research results and scientific discoveries, intensive cooperation between universities and the economy, preparedness to take risks as entrepreneur and as money investor, social acceptance of failures) and entrepreneurial spirit (cooperation in partnerships instead of the philosophy of “I am the master of my house”, strong orientation on growth instead of “small is beautiful”, preparedness to share risks and profits, courage for being an entrepreneur, creativity, initiative, open-mindedness).

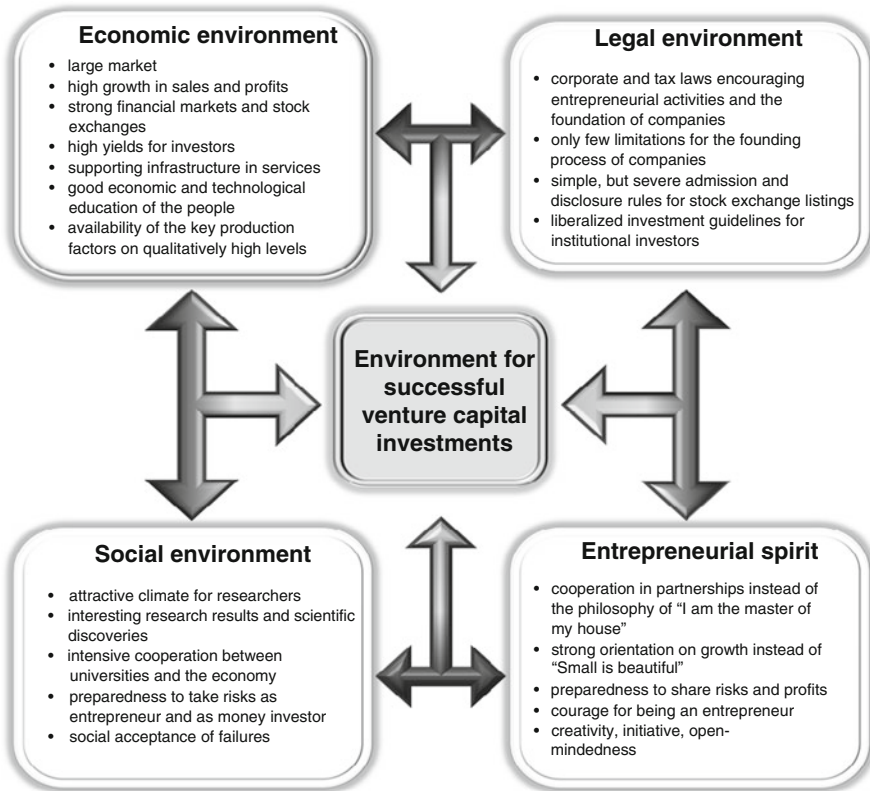


Fig. 2 Framework for venture capital development (Source: Schöfer and Leitinger 2002, p. 10)

Venture capital in developed countries contribute to creation of so-called “success stories” that were a sufficient motive to transition countries to start thinking about this kind of investments. Venture capital, although in much smaller scale, recently became a reality in countries in transition. It is important to note that data on the informal venture capital, i.e. business angels in most transition countries are missing or there are only some uncertain, inaccurate estimates of their representation and modes of action.

According to EBRD (2006), venture capital in transition countries has its beginning in the early 90s transitional years. Then were created the first funds maintained by government agencies, especially foreign, known as Enterprise Funds. These funds were established to assist the process of privatization and restructuring of state enterprises. In the beginning they were supported by the U.S., then from the European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC) and European Investment Bank (EIB). These funds its biggest success noted in 1995–1996, when were established several regional venture capital funds (for example in Russia) and so-called postprivatization funds (for example in Central Europe).

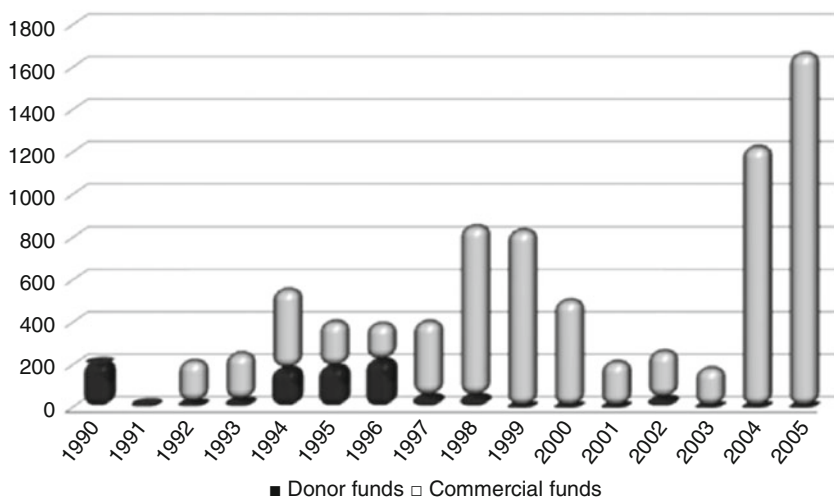


Fig. 3 Venture capital investments by type of funds in transition countries (Source: EBRD 2006, p. 72)

Venture capital funds in transition countries were established as private commercial risk funds (which are similar to formal risk funds organized as partnerships) and donor funds (supported by government and other domestic and foreign institutions).

As Fig. 3 shows, private commercial funds have begun forming in 1992, while donor funds in 1990. The latter, after 1998 almost completely disappeared. Committed and invested capital of these funds has reached its first peak in 1998, followed by their reduction, which is considered as a result of the financial crisis in Russia. In the period 2000–2003 is noted a zigzag movement and starting from 2004, venture capital investments note a constant growth, where in 2005 they amounted to \$ 1.6 billion (EBRD 2006).

Venture capital investments in transition countries, in the sample of 44 high-risk funds, analyzed by the EBRD are oriented as follows: about 30 % in new businesses (in the initial stage), about 50 % in the expansion phase, about 5 % refer to replacement capital and approximately 4 % in buy-out funds. Regarding sectors for investment, 20 % are invested in telecommunication and media, 15 % in manufacturing, 14 % in high-technology, electronics and Internet technology, 6 % in construction company and, 4 % in energy and primary resources etc. (EBRD 2006).

According to data shown in Table 3, we can see that as countries in transition, in which venture capital is most developed, or there are serious efforts to regulate, systematize this type of investment are Poland, Hungary, Czech Republic, Romania and Baltic countries. The most part of venture capital investments in the transition countries went to companies from Czech Republic, Poland and Hungary, which countries joined the EU in the first round. In 2007, due to the significant financing activities in Romania, Bulgaria and the Baltic states, the share of these three countries fell below 50 % in 2007 (Karsai 2008).

Table 3 The top five venture capital investment target countries in the CEE region in 2006–2007 (in percentages)

Year 2006			Year 2007		
Rank	country	% of total	Rank	country	% of total
1.	Hungary	44.10	1.	Poland	22.70
2.	Czech Rep.	21.20	2.	Bulgaria	18.50
3.	Poland	18.20	3.	Hungary	16.40
4.	Romania	6.60	4.	Romania	15.80
5.	Slovenia	2.30	5.	Baltic countries	12.30

Source: Karsai 2008, p. 17

4 The Profile of Venture Capital Investments in Macedonia

4.1 Situation, Initiatives and Legal Framework

Republic of Macedonia, as many other countries in transition, is characterized with traditional, shallow and unbranched financial system and as a result, SMEs have limited access to financing sources needed for their growth and development. Commercial banks and some savings banks represent the dominant segment of the financial system. They possess almost 90 % of total means of Macedonian financial system. The remaining 10 % consists of non-deposit financial institutions such as insurance companies, brokerage houses, investment funds, etc. (NBRM 2011). In the first transitional years, until 1996, SMEs were financed mostly from their own sources of funding (founders' savings and borrowings from family and friends), as well as by so-called user capital, which is characterized by extremely high interest rates (in some cases 20–30 % per month). Commercial banks were almost uninterested in lending funds to SMEs. It was a period of a typical “crowding out” of these companies from accessing bank loans (Bateman et al. 2002). After 1996, as a result of the mobilization of foreign credit lines by the Government, the situation changed and got better in terms of financing small and medium enterprises. These credit lines were provided by the World Bank, International Bank for Reconstruction and Development (IBRD), the European Bank for Reconstruction and Development (EBRD), Phare, IFAD, the British Government (The Know-how Program), the German KfW Bank and other. These credit lines were operationalized through domestic commercial banks, such as: Stopanska Banka, Komercijalna Banka, Tutunska Banka etc. During that period, neither the venture capital was existent, nor its concept, nature or logic of operation was known. The popularization of the concept of venture capital came later, in the late 90s when faculties of economics (firstly State Faculty of Economics and later private faculties of economy) introduced the subject of entrepreneurship in their educational programs. But to this date, knowledge on venture capital is relatively modest, mainly located among younger generations of graduates from economic profile and rarely among entrepreneurs.

Nowadays, venture capital, as an important source of financing is almost completely absent in the Republic of Macedonia. Consequently, our small and medium enterprises are deprived from “one of the most favorable and most quality financing sources for their development” (Fiti 2007, p. 215).

In 2007 the Government launched an initiative to open three venture capital funds (with the participation of state capital) in order to determine is there a willingness of the private sector to invest together with the government in promising, risky investment projects. Some activities around this initiative took place during 2007, but ended unsuccessfully (Ministry of Economy of the Republic of Macedonia, 2008).

In Macedonia there is not a special legal framework for the establishment of venture capital funds. But, the establishment and operation of these funds is regulated under the Law on Investment Funds (from 2000, which suffered amendments in 2007 and 2009), which enables the formation of private funds, whose operation is similar with the operation of venture capital funds. Private funds are established to raising funds through a private offering, which are then invested according to the aims of the fund. According to Article 41 b of the Law on Investment Funds (Official Gazette of Republic of Macedonia 2007): (a) A private fund is established in temporary basis that cannot be shorter than 8 years; (b) The size of the fund is at least 500,000 € converted in denars. Under the fund’s size means a committed capital from all investors during the entire time of existence of the fund; (c) Minimum taken concerted commitment of investment of each investor in the private fund cannot be less than 50,000 € converted in denars which the investor is obliged to pay on a call of the company for managing private funds in accordance with the provisions of the prospectus; (d) The maximum number of private investors in the fund is 20 investors; (e) Private fund is established and managed by a company for managing private funds; (f) To establish a private fund, the company for managing private funds adopts a statute and prospectus of the fund; (g) The private fund can borrow without any limit.

The venture capital market in Macedonia is very poor. Recently the interest for institutional venture capital started to take place. Also, last year the first business angel network was established. The only funds which invest in the form of venture capital and operate in Macedonia are funds established by the U.S. Fund for Small Businesses – SEAF (Small Enterprise Assistance Funds – SEAF). SEAF is a global investment company based in Washington, where its work focuses on providing capital for business development in fast growing markets as well as those who lack traditional sources of capital. These funds are: SEAF Macedonia Small Investment Fund (SIF) and SEAF Fund for South Balkans.¹

SEAF Macedonia was established in 1998. SEAF Macedonia is a small venture capital fund with total capital of \$ 13 million. The founders and investors of SEAF

¹ Data on realized investments of SEAF and their specifics were obtained through questionnaire with companies and interview with Mr. Martin Stosic – Investment analyst in SEAF, carried out by the authors.

Macedonia are: The European Bank for Reconstruction and Development (EBRD) – which has invested \$ 4 million, the International Finance Corporation (IFC) – 2.5 million \$, the German Investment Company (DEG) – 2.5 million \$ and The U.S. government’s Agency for International Development (USAID) – \$ 4 million. The mission of SEAF Macedonia is making wise investments in small and medium businesses.

Small Investment Fund (SIF) was established in July 2007 and until now has made three investment in Macedonia, such as: Oktober (company for producing toilet paper), INet (system integrator and distributor of various products of information and communication technology) and Urban Invest (the largest producer of concrete paving elements and mosaic products).

SEAF Fund for South Balkans was established in 2006. The headquarters of the fund is in Belgrade, Serbia. This is a regional fund and operates in Serbia, Montenegro and Macedonia. SEAF Fund for South Balkans has not invested in any company in Macedonia. Currently is preparing three investments in our small and medium enterprises, but because the principle of “business secret” the names of companies and amounts of investments were not disclosed.

I2BAN is the first business angel network that is established in Macedonia. This network was established on May 2011 as a part of USAID Competitiveness Project. I2BAN aims towards: (a) Bringing together the most renowned and prominent business-people in Macedonia and connect them with the best investment opportunities in start-up businesses; (b) Building new venture investment culture in Macedonia by creating more financial sources for start-up companies. The vision of I2BAN is to become the leading angel network, investor club and seed investment platform in Macedonia for innovative startup companies (www.i2ban.mk). I2BAN already has ten members – business angels and dozens of proposals for business that are currently being evaluated.

4.2 The Characteristics of Venture Capital Investments

To describe the characteristics of institutional venture capital investments in Macedonia we have used the data of SEAF Fund investments. So, the characteristics of institutional venture capital investments can be summarized as follows:

- (a) *Preferred sectors.* Information obtained from our research related to SEAF funds investments say that they mostly are focused in the sector of production (42.86 %), followed by trade sector (28.57 %), media (21.43 %) and internet traffic (7.14 %).
- (b) *Invested amounts and preferred development fase of the company.* In terms of invested amounts, for the most part, respectively 35.71 %, they moved within 100,001–500,000 \$. The most part of the investments were made in the early stage of development of enterprises, in 78.57 % of total investments. Only one

Table 4 Investment criteria of SEAF Macedonia

Factor	Percentage	No. of firms
Entrepreneur/management team	100.00	14
Solid history of the operation of the company	78.57	11
The development phase of the company	42.86	6
Product innovation	42.86	6
Technical innovation	35.71	5

Source: Own research

Table 5 Types of support offered by SEAF Macedonia

Type of support	No. of firms
Regular management support	14
Financial consulting	14
Marketing consulting	14
Recruitment and personnel development	5
Assistance in legal matters	11
Access to other sources of funding	11
Organization development	6
Product development	8
Entrance to the international market	5
Other	1

Source: Own research

investment is made in seed phase, while none in the start-up phase of development. In the late stage are made 14.29 % of the investments.

- (c) *Investment criterias and factors.* Key factors which attracted SEAF to invest in these companies were: Entrepreneur/management team of the company, solid history of the operation of the company, the development phase of the company, product innovation and technical innovation. They are presented in Table 4.
- (d) *Ownership share.* In enterprises where SEAF invested his funds, the percentage of the share of ownership that was taken from SEAF, in 42.86 % of cases are moving from 20 % to 40 % (the share of ownership does not exceed 49 %, with the exception of On.Net, where SEAF had taken 64 % of ownership).
- (e) *Provided services.* Investments in these companies are carried out in combination with management training and technical support in order to improve their business performance and achieve their development goals. The fund actively supports its portfolio companies in implementing appropriate improvements in the techniques and practices of management, particularly those related to financial control, cost accounting, quality control and marketing (Table 5).
- (f) *Exit strategies.* SEAF used these strategy to exit from its investments: management buy out (42.86 %), exit through strategic partner (14.29 %), selling to third party (14.29 %) and others (28.56 %). Until now, only from three investments SEAF has not exited yet.

- (g) *Results from the investments.* According to SEAF, from previous investments made, in terms of success, they are categorized as follows: 42.86 % moderately successful, 28.56 % very successful, 14.29 % slightly successful and 14.29 % finished with failure (realized loss).
- (h) *Portfolio of companies.* SEAF Macedonia has invested in 14 enterprises in Macedonia: Login Systems (authorized distributor of the largest IT companies in the world, such as Microsoft, Cisco Systems, Hewlett-Packard, Navision Solution Center and provider of solutions and services from business-information sphere in Macedonia and the region), Fonko (dealing with air conditioning, but produce and wine and men's shirts), Mako Market (one of the leading suppliers of consumer goods in Macedonia to the most wholesalers and retail enterprises in Macedonia as Vero, Tinex, Skopje Pazar, Tediko and others), Gica (production of animal feed), Tinex (one of the leading supermarket chains), Krug (publisher of one of the most sold daily newspaper "Dnevnik"), On.net (one of the most popular ISP in Macedonia), Pilko (the largest Macedonian producer of fresh chicken), Datapons (one of the leading printing houses in the country), Medium Export (one of the largest exporters of red pepper and lamb meat), Nasto (producer of dairy products, the most famous cheese like "Gauda" and "Ajdamer"), Magnolia (children's apparel manufacturer) Ivoprom (production of spices) and Planet Press (publisher of the journal "Tea Moderna", "Tin shema" and "Tea krstozbor"). SEAF no longer invest in Macedonia.

Considering the presented information we can conclude that SEAF funds did not have a significant impact on the financing of small and medium enterprises. In fact, very few companies in Macedonia were able to use venture capital as a source of funding, respectively only 17 companies of about 70,000 active companies. However, the role of SEAF funds is immense because they laid the foundation of the functioning of venture capital in our country.

4.3 Barriers to Venture Capital Investments

Previously presented data and information confirm that venture capital in Macedonia is not developed yet. Barriers to the development of venture capital in Macedonia, and in transition countries in general, are: poor investment climate that reigns in these countries, which is reflected through unprotected property rights, underdeveloped capital markets (stock markets), a small number of domestic and foreign investors for higher risk investments, untrained and inexperienced management, corruption, poor regulation, bureaucratic and administrative barriers, unfavorable tax treatment for this type of investment, etc.

Although Macedonia significantly improved the general investment climate in recent years, as Doing Business in its 2011 Report ranked it 38th out of 183 countries (IBRD/World Bank 2011), however, in certain segments that make up

Table 6 Corruption widespread in Macedonia and the region

Type of corruption Country/year	Bribe tax		Kickback tax		Bribery frequency	
	2002	2005	2002	2005	2002	2005
Macedonia	0.79	0.62	2.91	1.83	22.70	25.28
Bulgaria	1.95	1.58	2.51	3.32	32.79	15.70
Croatia	0.64	0.76	0.89	0.69	12.86	11.27
Albania	3.31	1.80	6.00	6.15	36.37	46.11
Bosnia and Herzegovina	0.95	0.39	1.19	0.51	22.42	9.63
Romania	2.57	0.81	2.11	0.67	36.74	22.56
Serbia and Montenegro	1.52	0.67	1.84	1.36	15.88	33.20

Source: EBRD 2005, p. 13

the overall investment climate, major changes are needed. There are things that have improved or are improving, as well as things that mark significant slowdown.

Regarding the key segments that make up the investment climate, the situation in our country is as follows:

- (a) *Ownership rights.* Good protection of property rights, effective execution of contracts and the law is directly related to fostering and development of the venture capital investments. The protection of property rights remains to be a real challenge for Macedonia. According to International Property Rights Index 2011, from 129 analyzed countries, Macedonia is on 87th place, a position which shows that in our country property rights are not strongly protected (Jackson 2011). But despite the progress, the judicial system is still inefficient and subject to political influence.
- (b) *Corruption.* According to a report of the EBRD (2005), although in Macedonia (and transition countries in general) there was a certain reduction of corruption in its three basic forms of existence: *bribe tax*, as a percentage of total sales of enterprises, *kickback tax*, as a percentage of the value of contracts in the form of additional and unofficial payments to ensure receipt of contracts and *bribery frequency*, as percentage of respondents who said they accepted to pay bribes in customs, tax administration etc., it still presents a problem. A comparison between Macedonia and the countries in region is shown in Table 6. According to the 2009 Global Corruption Barometer Report of Transparency International, on the question “which sectors/institutions are most affected by corruption”, the answers were as follow: 50 % of respondents said that it is the judiciary, 23 % said it is the public administration and 11 % pointed at the political parties (Riaño et al. 2009). Therefore, it is necessary for state institutions to undertake more concrete and stringent measures in this direction, that would result in cutting lengthy court procedures, simplifying complicated procedures for obtaining various permits, facilitating the introduction and transfer of new technologies, consistently protecting intellectual property etc. This can increase the rate of entry of new small and medium enterprises and enterprises with high growth potential, as well as the interest of potential investors to invest money, expertise and time.

- (c) *Administrative and bureaucratic obstacles.* Long administrative and bureaucratic procedures represent a serious obstacle of doing business. Many studies noted high correlation between the administrative and bureaucratic procedures (expressed by the number of necessary procedures and required days for starting a new business) and corruption – the more procedures, the more opportunities for corruption. Regarding this issue, the Republic of Macedonia marks a significant improvement. The introduction of the so-called one-stop system in 2006 contributed significantly to shortening the procedures and time to start a new business. In the first months of 2006 were registered 5,400 new businesses (EBRD 2006). The time needed for registration of new enterprises was cut from 48 to 4 days, while the number of procedures has been shortened to only 4. These improvements contributed as the Doing Business Report 2011 ranked Macedonia in the fifth place out of 183 analyzed countries in terms of this issue. But, when it comes to the question of closing a business, Macedonia is ranked 116th place, because this activity takes 2.9 years (IBRD/World Bank 2011).
- (d) *Tax policy.* The Republic of Macedonia introduced the flat tax in 2007, which reduced the tax burden on enterprises. Income tax paid by businesses firstly decreased from 15 % to 12 %, while in the beginning of 2008 it decreased to 10 %. The existing three marginal tax rates for personal income tax (15 %, 18 % and 24 %) were replaced with one rate – 10 %. But, there is no special relief for venture capital investment as in the practice of developed countries, where venture capital represents a significant source of financing small businesses.
- (e) *State regulation.* Considering this issue, it is necessary to strengthen the independence of regulatory bodies, thus ensuring fair and predictable regulation of the domains of market failure (public goods, asymmetric information, externalities, the existence of monopolies, unequal distribution of income, etc.) and deregulation, removal of numerous administrative and bureaucratic obstacles that impede faster growth of businesses respectively. According to Schwab and Sala-i-Martin (2009), Republic of Macedonia is in the 83th place, out of 133 analyzed countries with a score of 3.7 (1–7, where 1 is the worst, while 7 is the best rating).
- (f) *Infrastructure.* Infrastructure as a general input of economic activity has a significant impact on costs for business. This applies to large-scale infrastructure such as roads, railways, airports, energy, telecommunications, etc. According to the Report of the World Economic Forum, Republic of Macedonia is in the 88th place (out of 133 countries analyzed) in terms of quality of infrastructure. Separately, in terms of the quality of roads, it is in the 87th place, quality of rail in the 71st place, quality of electricity supply in the 79th place, the quality of telecommunications in the 58th place. The worst position is related to airports, as Macedonia takes the 123rd place (Schwab and Sala-i-Martin 2009).

In order to encourage venture capital investments, Republic of Macedonia should provide a favorable, friendly investment climate which means good protection of property rights, effective execution of contracts, rule of law, qualitative and

non arbitrary regulation, stable and predictable government policy, fight against corruption, elimination of administrative and bureaucratic barriers, favorable tax policy provisions for this type of investment, opportunities for broad absorption power of the market, etc.

5 Measures for Venture Capital Development in Macedonia

Measures that were undertaken in developed countries and those in transition countries were different. As a measure that was mostly exploited in the some analyzed countries (USA, UK, Sweden, Australia, Poland, Hungary, Slovakia, Russia) was the establishment of state funds of venture capital – from which after a certain period, sufficient to encourage private investors, the state retreated and they were transformed into a private commercial venture capital funds. Significant role in the development of venture capital have played the European Bank for Reconstruction and Development (EBRD) and International Finance Corporation (IFC), which initiated the formation of many venture capital funds and networks of business angels. In certain states to encourage investment by venture capital have been introduced and numerous tax incentives by the state, particularly in income tax.

Considering the experiences of countries in which venture capital is present and developed as a source of financing for small and medium enterprises, we suggest the following measures which should be taken to promote the role and importance of venture capital in the Republic of Macedonia:

- (a) *Raising awareness about the benefits of venture capital for small and medium enterprises.* Considering that in Macedonia venture capital is not enough known concept, it is needed to organize seminars, workshops, conferences, etc., introducing the curricular content in the programs of faculties of economics and business administration, publication of professional and scientific papers, where in the explicit way will be explained all the good and bad sides arising from this method of financing.
- (b) *Increasing the number of investment opportunities.* This can be achieved with the development of entrepreneurship and small business in the country, i.e. by creating more business incubators, business centers, science parks and so on, where we could develop and present interesting business ideas. We should consider that venture capitalists prefer to invest in interesting entrepreneurial businesses with high growth potential.
- (c) *Establishment of state funds for venture capital.* Starting from the experiences of countries in transition in which has been developed this way of financing, the first venture capital funds/companies should be established by the government itself, which may appear as a single investor (which is not very desirable), or in cooperation with international institutions and agencies such as the

European Bank for Reconstruction and Development (EBRD), International financial corporation (IFC), the American Aid Agency (USAID) and others, which confirmed that they are willing to invest risk capital (for example, they supported the establishment of SEAF funds). The government should firstly encourage the process and then retreat it.

- (d) *Foundation of a hybrid venture capital funds.* Besides the formation of pure state funds, good practice is the formation of so-called hybrid funds, where despite the government, as investors may appear institutional and private investors, such as corporations, banks, pension funds and wealthy individuals. This measure was successfully implemented in Hungary (Karsai and Gabor 2005).
- (e) *Establishment of networks of business angels.* Networks of business angels can be formed with government (central or local) and private initiative. These networks will provide connectivity to prospective investors with entrepreneurs, which can have a good business idea but have lack of funds.
- (f) *Providing a supportive fiscal policy.* Almost all countries in which venture capital operates and is quite developed, as an incentive to include institutions and wealthy people in this type of investment is tax relief or full exemption from the government. Our country applies a flat tax, which is 10 %, but there is not special incentives for venture capital investments. As a good measure to encourage venture capital investments could be if the potential investors in the year in which they invest to be completely exempt from income and profit tax, while the profit tax be reduced to 50 % in first 3 years from the moment when the investment is made.
- (g) *Further development of the stock exchange market.* Venture capitalists invest in companies that are not listed on the stock exchange. In the meantime, these companies are growing, becoming known to the market, and to the additional funds coming through the stock market. Venture capitalists are willing to sell their shares of ownership, in these companies. If there is no effective stock market and they can not sell their shares to gain profits from investing, they would not be willing to invest in new businesses. In this context, is very important the establishment and development of the OTC market (over the counter market), which is characterized by much more liberal entry conditions for enterprises, which would enable the listing of successful small and medium enterprises. These are practices of developed countries such as USA, Great Britain, France, Sweden and others. It should also be offered a special service that would pick up buying and selling share prices from various dealers that would be presented to potential investors. Then, investors will complete the transaction through special computer software, without the help of a broker. For example, NASDAQ, Reuters, Telerate and Bloomberg work on these principles (Petkovski 2004).
- (h) *Reduction or elimination of investment restrictions of pension funds in risky deals.* According to the Law on Mandatory Fully Funded Pension Insurance,

pension funds are not allowed to make investments that are typical for venture capital. Under Article 108 of this law, the assets of pension funds can not be invested in stocks, bonds and other securities which are not listed on official stock market or are publicly traded, instruments that can not legally be available, material goods which are rarely traded on organized markets and whose assessment is uncertain except in securities which are issued based on mortgage and indirect investment through investment funds. Under the same law, Article 106 and 107, pension funds can invest: maximum 30 % of the assets of pension funds in securities issued by foreign governments and central banks of EU countries and OECD countries; maximum 80 % of the assets of pension funds in securities guaranteed by the Government or the National Bank of the Republic of Macedonia; maximum 60 % of the assets of pension funds in bank deposits, certificates of deposit, commercial bills, bonds and securities based on mortgage of domestic banks; maximum 40 % of the assets of pension funds in bonds and commercial bills of domestic corporations other than banks; maximum 30 % of the assets of pension funds in shares of domestic corporations and maximum 5 % of the assets of pension funds in share documents and stocks of Macedonian investment funds(Official Gazette of Republic of Macedonia 2009). But pension funds in our country are not quite developed and have no practical experience in investing in the stock market or small businesses. They also lack managerial staff to do this kind of investments. Hence, the implementation of this measure is too risky. It could be implemented in the future, in a further phase of development of venture capital.

- (i) *Training of talented students from different fields about the functioning modes of venture capital.* The students who have shown excellent results during their studies, from various fields, government and other institutions and organizations may provide scholarships for training and further formation outside the country, specifically in those countries that are characterized by a developed venture capital, such as United States, Great Britain, Ireland, Sweden, France and others. Once they complete their training, they will return to the country with the obtained experiences and knowledge related to the functioning of venture capital.
- (j) *Support and promotion of venture capital from other sources of funding.* Commercial banks, savings and other various funds should promote and support the venture capital, as a specific and particularly important source of capital because they give great help in the creation of new enterprises. These enterprises, once they stand on “healthy legs” in the subsequent phases of development will require funding from these sources in the form of loans, allowing the realization of income in the form of interest payments, commissions, etc. Also, commercial banks and other financial institutions can establish a separate department/sector for venture capital, where interesting businesses will be financed, and where they will gain additional profits and other benefits.

6 Conclusion

Considering the number of venture capital funds operating in Macedonia, number of investments and the portfolio of companies, which have used venture capital to finance their development, we can conclude that this type of capital in our country is not developed yet. The only venture capital funds are those established by the U.S. Fund for Small Businesses, known as SEAF (Small Enterprise Assistance Funds). SEAF is a global investment company based in Washington, where his work focuses on providing capital for business development in fast growing markets as well as those who lack traditional sources of capital. These funds are: SEAF Macedonia, Small Investment Fund (SIF) and SEAF Fund for South Balkans.

Barriers for the development of venture capital in our country, and in countries in transition in general, mainly are related to: underdeveloped capital markets (stock markets), a small number of domestic and foreign investors, higher risk for investment, untrained and inexperienced management, corruption, bad regulation, unfavorable tax treatment for this type of investment, bureaucratic and administrative obstacles and so on. Measures of initiation and development of venture capital that were undertaken in developed countries and those in countries in transition were different.

As a measure that was most exploited, particularly in countries in transition was the establishment of state funds of venture capital, from which after a certain period, the state retreated and they were transformed into a private commercial venture capital funds. So the first venture capital funds/companies should be established by the Government of the Republic of Macedonia, which may appear as a single investor or in cooperation with international institutions and agencies such as the European Bank for Reconstruction and Development (EBRD), International financial Corporation (IFC), the American Aid Agency (USAID) and others. Besides the formation of pure state funds, good practice is the formation of so-called hybrid funds, where despite the government, as investors may appear institutional and private investors, such as corporations, banks, pension funds and wealthy individuals. This measure was successfully implemented in Hungary as a country in transition. Almost in all countries where venture capital operates and is quite developed as an incentive to include institutions and wealthy people in this type of investment is tax relief or full exempt from the government. Besides these, other measures that should be taken to promote the role and importance of venture capital in the Republic of Macedonia and the development of it, we suggest the following: to continue improving the general business climate, raising awareness about the benefits of venture capital for small and medium enterprises, increasing a number of investment opportunities by creating a greater number of business incubators, business centers and so on, forming networks of business angels, further development of the Macedonian Stock Securities and establishing and development of the OTC market (over the counter market), allowing pension funds to invest in risky deals, training of talented students from various areas about the operation of venture capital, promotion and support of venture capital from other sources of funding.

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The Use of ICT in the Decision Making Process: The Case of Macedonian Entrepreneurial Businesses

Shqipe Gërguri-Rashiti, Hyrije Abazi-Alili, and Zamir Dika

1 Introduction

The rapid technological development and the growing use of information communication technology (ICT) in business organizations have become the centre of attention in past few years. A bulk of literature has been published on the need of renewing and adjusting the information technology function in business organisations (Guillemette and Pare 2012), the application of ICT in different industries (Francalanci and Galal 1998; Devaraj and Kohli 2000; Rivard 2000), different types of business organizations (Blili and Raymond 1993; Heintze and Bretschneider 2000) and in different areas of business management (Ellram and Zsidisin 2002; Devaraj and Kohli 2003; Croom 2006). Strategic management, precisely decision making process, being an important area of business management, has also been researched to investigate the influence of ICT in different industries, with particular emphasis on strategic decision making. The majority of such studies were conducted in developed countries like UK and USA (Andersen 2001, 2005). On the other hand, in developing countries the link between ICT and strategic management specifically the role of ICT in the strategic decision making (SDM) process is a very new subject of research. More recent studies highlight the need of frequently adapting and aligning their competitive strategies and information systems to compete in a highly dynamic marketplace, and employ high-level measures of the strategic fit of a firm's overall IS portfolio and the impact of fit on business performance (Mclaren et al. 2011). The present study investigates the use

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of ICT and their impact on the strategic decision making in three industries (manufacturing, trade and services) of a developing economy such as Macedonia.

The belief that technology is a source of competitive advantage is so widely accepted in the management and economics literature that it has become axiomatic. Morone (1989) considered technological innovation as the main force behind industrial development and productivity growth. For Porter (1983), it is a “source of change” in market and can be one of the factors behind the demise of dominant firms that were causing lack of competition in the industry. However, it is critically important to have a clear definition of technology before understanding the relationship between organizations and technology (Hassan 2006). A famous definition of technology was given by Galbraith (1967) who defined technology as “the systematic application of scientific or other organized knowledge to practical tasks” (Galbraith 1967, p. 23). In the current study, particular emphasis has been given on the notion that technology is neither mere knowledge nor just application but a combination of both. As put by Dutta, Lopez-Carlos and Mia (2006), technology is both software and hardware: it is the know-how of the scientific knowledge that can be used to solve practical problem as well as the tools and artefacts developed from that knowledge which can be used to achieve those solutions.

The use of technology in the business organization and market has been increased a lot since the last decade. Now, the creation and successful commercialization of technology, is among a company’s most potentially viable strategies (Hedelin and Allwood 2002; Shim and Siegel 2005). Nevertheless, it can succeed with the synergy of skilled management that (re)defines the company’s goals and competencies and through a good strategic planning process (Fletcher 1999). Utilization of information technology for gaining strategic advantage over competitors should be the focus of organizational strategic planning to survive in the rapidly evolving world of e-business (Shim and Siegel 2005).

2 ICT and Strategic Decision Making: Empirical Evidence

There is a vast of literature that investigates the role of technology in business processes. The core issue of this chapter is the elaboration of the utilization of technological advancements in SDM process along with scholarly suggestions and practical examples of different organisations and businesses. It encompasses the main issues related to the strategic management, decision making process, information utilization and benefits of information technology in SDM. Moving ahead, the chapter discusses the respective Macedonian markets and their business environment, along with the current enhancements and requirements of integrating ICT into major and small business to help in strategic decision making process. This part starts with a formal discussion of technology and business, and their successful integration; which can be used to benefit businesses and industries.

2.1 Integration of Technology in Business Environments

Technology, in business environments, is often seen as a vital necessity these days (Rivard 2000). Any business which defies technological advancements and innovation seems to be awkward, not only to its clients but also to business partners and dealers associated with it. However, in today's running environment, technology has impacted and integrated with almost all the small and large organisations and industries, to some extent (Francalanci and Galal 1998; Devaraj and Kohli 2000; Rivard 2000). Apart from them, businesses which intend to solely rely over technological innovations and advancements seek easiest possible ways to achieve their goals. This can be specifically explained in a manner that, with surrounding environment transforming gradually, they face some basic hurdles in their way of integrating technology as an umbilical organ of their process and functions. The integration of business, with technology is mostly done with an intention to reduce operational costs, increase efficiency of results, increase effective communication development, effective promotion, and progression towards development (Olalla 2000). In this process of integration, different organisations and businesses face various difficulties and hurdles, which are to be eliminated or ruled out with the help of effective planning and processes re-engineering (Ashrafi and Baghdadi 2008).

2.1.1 Technology as a Factor of Change

Technological change is the rate at which new knowledge is put into physical forms and diffused for use in the economy as a result of improved organisational performances. Major technological advances, such as the steam engine or microprocessors are known as general purpose technology as they have broad applications and productivity-enhancing effects in a number of different sectors. As a result, general purpose technologies induce dramatic economic changes by creating innovation that rejuvenates existing sectors and, in the process, create new industries and services. A historical example is the steam engine, while the Internet is a more recent example. The Dot-Com bubble notwithstanding, the Internet has fundamentally changed the way business transactions take place, creating efficiencies and productivity growth for existing firms as well as new opportunities for entrepreneurs (Feldman 2004). Technology development or introduction, itself, can become a catalyst of change in any organisation inclined towards integrating information technology in its processes and functions. According to Gibson (1997), any organisation which is changing its course of perception and processes, does so in order to achieve all or any one of these objectives:

1. To bring efficiency to overall business
2. To become leader in the industry through effective operations
3. To re-arrange the assembly and structure of operations
4. To bring economical and financial benefits
5. To rule out the competitors in industry
6. To increase company's reputation as a strong market component.

With its unique features, effective implementation of information technology systems and operations can make any organisation to achieve these goals. Not only this, technological advancements can eliminate some redundant processes which belong to traditional business processes, for instance, reporting more than once to the coordinator or manager, acknowledging the respective departments after the completion of a procedure, etc. Although, in a more general manner, if the matter of technological integration in businesses can be viewed with the Gibson (1997) proposal; it does really satisfy the advantages of integration. Explaining it; according to Gibson (1997), the first objective should be to bring efficiency to overall business. This is a very wide assertion, which seems to be satisfying the entire objective of technology integration. This has also been mentioned in Small Business Organisation's archives (2010), with technology termed as an 'enabler' of overall business efficiency. The second objective defined by Gibson (1997) deals with the effectiveness of operations and leadership in the respective industry; this has also been confirmed by Santa, Ferrer, Bretherton and Hyland (2009), that as technology increases the speed of operational procedures, the organisational processes complete at a more pace, entertaining customers and consumers with more feasibility and speed, resulting in an increased market value and name. Third objective is a specific one, objectifying the re-arrangement of assembly and structure of operations. According to Fernald and Ramnath (2004), technology itself drives the changes in the way of doing operations (organisational processes assembly), since the integration process requires a lot of restructuring and rearrangements, and these are unavoidable. In other words, the objective of restructuring and rearrangements of operations specified by Gibson (1997) is self-fulfilled with the integration of technological advancements. Similarly, the fourth objective specified by Gibson (1997) talks about bringing economic and financial benefits to the organisation. This can be viewed with a slightly different perspective i.e. through a sufficient investment made in the incorporation of technology, financial benefits can be achieved (Fernald and Ramnath 2004). Fifth objective is often completed indirectly, i.e. ruling out the competitors in the industry. Since every organisation should be working towards increasing its productivity and operational effectiveness rather than with an objective of ruling out competitors in the business. This, however, is done indirectly; according to Czerniawska and Potter (1998), effective implementation of technology within business procedures gives the business an advantage of being fast paced in the respective industry, a race which often never ends. Consequently, the last objective specified by Gibson (1997) states that technology should also be implemented with an objective of increasing company's or organisation's reputation as a strong player in the industry, which understands its processes and functions in such a manner that it can mould them in any form to extract desired results and outcomes.

2.1.2 ICT Business Tools for Managers

In order for managers to have an active role by using IT in their process of decision making they must have that fundamental knowledge of the IT tools. However, this

does not imply that those non-technical managers need to be specialist in each IT tool. It has to do with getting familiar with those tools and methods that can be used in the process of decision making. There are some IT applications such as:

- (a) **Decision Support Systems (DSS)** – applications are systems and subsystems that help managers make decisions based on data that is gathered from a wide range of sources. DSS applications are not single information resources, such as a database or a program that graphically represents sales figures, but the combination of integrated resources working together (Daft 2010). This type of system collects and analyses the data in order to present it in a way that can be interpreted by managers in order for them to make decisions.
- (b) **Enterprise resource planning (ERP)** – system is a set of integrated business applications, or modules, that carry out common business functions such as general ledger accounting, accounts payable, accounts receivable, material requirements planning, order management, inventory control, and human resources management (Brown et al. 2012). This kind of system also allows for real-time information to be shared among, manufacturers, customers, suppliers and other business partners. The major benefits of an ERP system are in terms of better information for strategic and operational decision making and planning, and greater efficiency, profitability, and growth.
- (c) **Customer relationship management (CRM)** – is a business tool that organizes, automates and synchronises business processes, mainly those dealing with sales, however they also incorporate activities regarding marketing, customer service and technical support. The main benefits deriving from CRM application are: quality and efficiency, decrease in overall costs, decision support, enterprise ability, customer attentions, and increase profitability.
- (d) **Intranet** – is a network operating within an organization that employs the TCP/IP protocol, the same protocol used on the Internet. However, compared to internet, intranet is not accessible from outside the organization; it is up to the organization to decide whether or not people within the organization have access to the Internet. An intranet presents some incredible advantages to the organization since they serve a variety of important uses within organizations. In many organizations, the intranet serves as a valuable communication tool between the organization and its employees and between employees as well as a repository of organizational information (Brown et al. 2012)
- (e) **E-commerce** – is commerce, but accelerated and enhanced by ICT, in particular the Internet. It enables customers, consumers and companies to form powerful new relationship which helps them to electronically exchange goods and services with no barriers of time or distance.

Although technology integration in business has many advantages and objectives specified by different researchers, but as for the scope of this particular study, it is needed to be mentioned at this stage that technological ‘advancements’ lead to an increased overall productivity, a benefit that any conventional business organisation can never achieve through manual and traditional methods of operations and procedures in Fig. 1, the impact of using IT on the business benefits are showed.

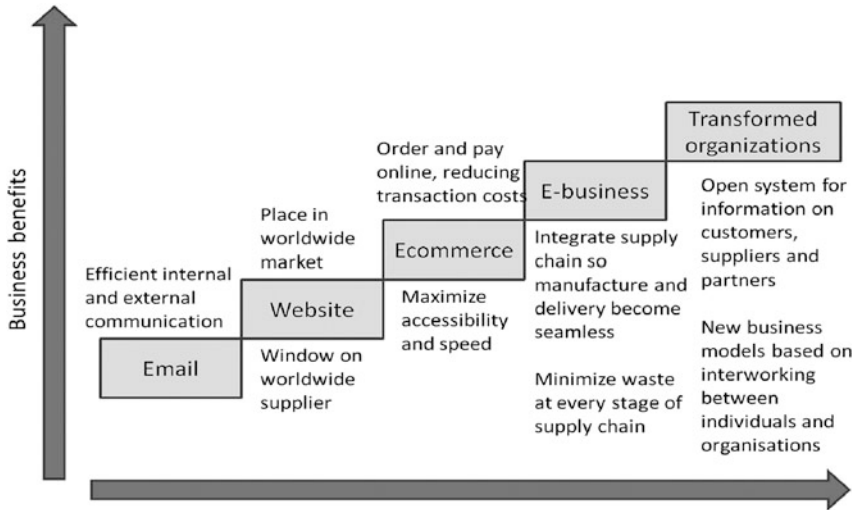


Fig. 1 Impact on using ICT on business benefits (Source: Sobhani 2008)

2.2 Decision Making and Problem Solving

Problem has been defined by many as the gap between the present undesirable situation and the future desirable situation (Agre 1982; Van Gundy 1988; Nolan 1989; Tallman and Gray 1990; Hicks 2004). Problem solving is, therefore, seen as the process of bridging this gap. It is being defined as the process of “moving toward a goal when the path to that goal is uncertain” (Martinez 1998, p. 605). The process of problem solving presented in Fig. 2 involves four phases: the recognition of problem, the evaluation of possible solution, the selection of most appropriate solution and the evaluation of the outcome (Tallman and Gray 1990).

The process involves a number of decisions and it seems very similar to the process of decision making. Huitt (1992) is of the opinion that decision making and problem solving are similar process as evident from their interchangeable use in the literature. Tallman and Gray (1990), however, found that problem solving and decision making, despite similarity in their process, are two differences processes with different scope and limits and the two terms cannot be used interchangeably. He cited the example of decisions regarding marriage which may or may not involve problem-solving depending on the presence or absence of obstacles to marriage but definitely involves a process of decision making. Thus all problem solving processes involves decision making but all decision making process not necessarily involves problem solving.

Hicks (2004) recognised the difference between the process of problem solving and decision making. In his opinion, all non-trivial decisions are either choice-making decisions or problem-solving decisions. However, he claimed that majority of the decisions involve some form of problem solving and the interchangeable use

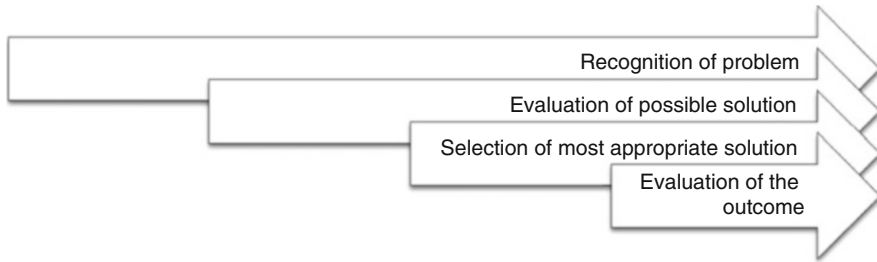


Fig. 2 The process of problem solving (Source: Tallman and Gray 1990)

of these two terms in the literature is acceptable if the decisions are particularly aimed at solving problems. However, this interchangeable use of problem solving and decision making in the literature has resulted in blurring the difference between the two terms and the misconception of the wide scope of decision making. Problem solving is one of the important goals of decision making but is not the only goal.

Problem solving decisions has long been recognised as key to the success of organisation (Caruth et al. 2009). Several models have been developed by the scholars to help managers make problem solving decision for example. Huitt (1992) found that the models of problem solving have four common phases: input phase in which problem or present situation is perceived and analysed; processing phase in which the possible alternatives are evaluated and one of the alternatives is selected as solution; output phase in which the selected solutions is planned and implemented and finally, a review phase in which the outcome of solution's implementation is evaluated and modified. However, Caruth, Caruth and Humphreys (2009), after critically reviewing these models, concluded that most of the recently developed models are too complex to be utilised by the managers and highlighted the need to develop practical models of problem initiated decision making that can offer much in the way of managerial utility.

2.3 Information and Strategic Decision Making

There is a bulk of literature describing the importance and role of information in strategic decision making process (e.g., Leidner and Elam 1995; Dawson 1996; Hedelin and Allwood 2002; Frishammar 2003; Calvasina et al. 2006). Business activities and decisions operating in an information environment are becoming increasingly complex as a result of the growing volumes and sources of potential relevant information for certain business activities and multiplying technologies which can be used for accessing and handling data and information. The role of information communication technologies (ICT) is about filtering and directing important information flows and providing consistent and flexible support. According to Kumar et al. (2007, pp. 1–2), “every case of decision making for a

problem situation tests the existing support mechanisms and provides valuable information for future situations, thus creating new knowledge and experience for participants involved, and in the case of right decision increasing confidence in future actions”.

Scholars view information gathering as imperative to strategic decision making whether the decision is problem initiated or not. The purpose of information gathering is to remove uncertainties (Frishammar 2003). Uncertainty can hinder the process of decision making particularly strategic decision making – because of its long-term and broad implications in an organisation. Managers, therefore, need to gather information related to their decision in order to predict the outcome of their decisions.

Information can be of many types. However, the main division of information with regard to strategic decision making is soft versus hard information and internal versus external information. Soft information is unquantifiable form of information which is characterised as broad, general and subjective (Frishammar 2003). On the other hand, hard information include the financial, statistical and factual data that is quantifiable and can be processed though different analytical techniques (Frishammar 2003). Frishammar (2003) conducted a multiple case study on four organisations and found that organisation used a combination of hard and soft information in strategic decision making. He further noted that soft information is used in the initial phases of decision making while hard information dominates the latter phases. He, therefore, concluded that soft information served as the basis for the verification of hard information. Dawson (1996), however believe that hard information is usually given precedence over soft information in strategic decision making. This is evident from the findings of Frishammar (2003) too. Three of the four organisations are found to given more importance to hard data. However, the mangers acknowledged that decision making cannot be based on hard data alone and the role of intuition, cognition and preferences cannot be neglected in Strategic Decision Making process.

Internal information refers to the information located inside the organisation while external information is the information gathered through external environment. Initially, Strategic Decision Making was seen as associated with external information only. Managers often make strategic decisions on the basis of scanning of external environment. However, in the past decade, scholars started to emphasize on the importance of internal information for strategic decision making. Walters, Jiang and Klen (2003) conducted a survey of several CEOs of small manufacturing firms to compare the importance given to internal and external information by these CEOs. It was found that both form of information are perceived by the CEOs as equally important. However, their study was limited to the CEOs of small firms and in the larger firms where gathering and management of internal information is relatively difficult, the situation may not be similar.

Whether the information is soft or hard and external or internal, the reliability and relevance of the information is the main concern in Strategic Decision Making (Jagdev et al. 2004). The information, particularly soft information, can be subject to people’s partiality (Dawson 1996). False information can led to false decision.

Because strategic decisions have long term impact on the entire organisation and cannot be replaced easily, managers cannot take the risk of making strategic decisions on the available information without verification. However, Dawson (1996) found that the information varies in the degree to which it is subject to verification.

In the today's highly diversified environment, information within and outside the organisation has become highly complex. The load of information has also increased with the technological advancement and the growing size and diversity of organisations (Leidner and Elam 1995; Iansiti 1998). With this growing load and complexity of information, it has become critically important to have timely access to relevant and reliable information during decision making process. Verification of collected information has become a problem with the growing size and complexity which can only be solved through the development of better technology for gathering and accessing soft and hard as well as internal and external information for strategic decision making. The ability to see into the future and anticipate the second and third order consequences of decisions no more requires the evaluation of past experience and the understanding of current scenario through environmental scanning is critically important for strategic decision making.

2.4 ICT and Strategic Decision Making

As discussed above, the collection and verification of information and its timely access to decision makers is the key requirement of successful strategic decision making. However, decision making in the today's dynamic and rapidly evolving world has become major challenge for organisations (Leidner and Elam 1995; Iansiti 1998). ICT has been found to strengthen the decision structure of organisations by gathering idiosyncratic information and by enhancing the capabilities of information's processing (Andersen 2001; Hedelin and Allwood 2002). Scholars have reported significant impact of information technology on the SDM process. The cost of collecting and analysing data needed for decision making is found to get reduced by the use of information technology (Greengard 1998; Clemons et al. 1993). Furthermore, it is found to enhance communication which can in turn facilitate management's involvement and participation in strategic decision making (Andersen 2001; Gallupe et al. 1992). For Brown and Ross (1996) the two importance functions of ICT with regard to strategic decision making are to facilitate cross-functional strategic decision making through sharing of information across functions and divisions and to help organisation in acting more globally (as cited in Hedelin and Allwood 2002).

A study conducted by Kumar, Selvam, Meenakshi, Kanthi, Suseela and Kumar (2007) concludes that the role of ICT in decision making has drawn different opinions – from “minor” to “vital”. The majority of responders have agreed that this role very much depends upon the nature of the problem. Several responses

indicated the importance of both the ICT-supported information sources and analytical tools. Other responses worth noting here are:

- ICT helps reducing uncertainty;
- ICT can transform decision data volumes into manageable levels;
- ICT has a potential to boost confidence and insure from fatal decision mistakes;
- The rigid structure of IS in operation is a counterproductive factor in providing decision support;
- ICT is vital, but can hurt even more than help.

Communication of problem and decision through ICT application is an important area of research on the impact of ICT on SDM. Andersen (2001) conducted a study on the effect of information technology for the purpose of enhancing organisation communication capabilities – both internal and external. He conducted the survey of 360 sales executives representing the business entities of two distinct industrial groups: one representing more dynamic and complex environment and the second representing less dynamic and complex environment. The findings produced by his study showed that the complexity and dynamism of the environment has strong association with the impact of information technology – in less dynamic environment the use of information technology for internal communication (intranet) is found to have positive association with innovation whereas in high dynamic environment the use of intranet combined with autonomous decision making have positive association with organisation profitability (or productivity where applicable) and sales growth. Similarly, in less complex and dynamic environment, use of information technology to enhance external communication (internet) is found to improve profitability and innovation when combined with participatory decision making whereas in highly complex and dynamic environment, same combination is found to improve innovation only.

The implementation of ICT application has been reported to effect SDM performance in the past (Davis 1984; Huber 1990; Molloy and Schwenk 1995). Molloy and Schwenk (1995) conducted a multiple case study on the organisations where ICT applications have been implemented. Though they use the term “use of information technology”, they did not examine the extent to which the implemented technologies were being used by the managers of these companies and their findings was limited to the implementation of information systems instead of their actual use. They found that these computer assisted information processing and communication technology enhance identification of rapid and accurate identification of problems and the use of ICT application for information storage improve accurate, comprehensive and timely availability of information during strategic decision making. However, the use of ICT application can only enhance the speed of decision making process and can produce no impact on the quality of the decisions.

Instead, the quality of decision making in an organisations – i.e. its comprehensiveness – determines the rationality of the integration of an information system for strategic planning. Segars, Grover and Teng (1998) developed a framework for rational adaptation of strategic planning information system. In the framework they include a number of factors that can lead to the development of a formalised and

structured system of strategic planning. One such factor was the comprehensiveness of strategic decision making. They held that the more comprehensive strategic decisions are the more structured will be the strategic planning system. Despite the positive impact of this comprehensiveness on strategic planning, there are certain issues associated with it. Smith et al. (1988) found that comprehensive decision making requires more and frequent involvement of decision makers with the bottom-level actives. In addition, such decision making is not possible without the timely access of reliable and up-to-date information. Keeping these factors in mind, they argued that information processing systems ought to be used in the organisations where decision making is more comprehensive than its competitors.

In addition to the implementation of ICT applications in the organisations for strategic decision making, it is also important to examine the actual use of these applications by the strategic decision makers. Though Jarvenpaa and Ives (1991) claimed that use of ICT application is not as important as their acceptance of the use of ICT applications in a firm, Liender and Elam (1995) found that the frequency and the length of the use of decision supported technology by top management can speed up the process of problem identification and decision making. The frequency of the manager's use of information technology is also found to enhance perceived information availability but was found to produce no impact on the participation of the subordinates in decision making. Furthermore, because of the higher involvement of executives in strategic decision making as compared to routine decision making, the actual use of ICT application by these executives is important.

The usability of this application depends on the perception of strategic decision makers (managers and CEOs) about their functionality and effectiveness in aiding strategic decision making process (Hedelin and Allwood 2002). Previous studies reported that despite the implementation of ICT applications in the organisation, many CEOs are reluctant in using them for several reasons (King 1985; Jarvenpaa and Ives 1991). However, Hedelin and Allwood (2002) conducted the interviews of 41 strategic decision makers of different companies and found that, to a large extent, the study participants have positive views about the use of information technology in strategic decision making. This contradiction in the results can be due to the fact that studies that reported the reluctance of CEOs in ICT-use are very old and due to the increasing knowledge and use of information technology managers' fear about the use of ICT has been reduced and their knowledge of ICT application has been intensified. It is evident from the finding reported by Hedelin and Allwood (2002) that majority of the respondents were ready to integrate information technology in strategic decision making for the simplification of decision making process. However, they also found that the participants seemed less concerned about the usability of ICT applications and it appeared as if they did not often use the system themselves but had hired some persons for this purpose. Because there were no clear evidence of the non-usability of ICT applications by the decision makers and Hedelin and Allwood (2002) only assumed this from their results, the subject is still unclear and requires further investigation (Fletcher 1999).

Some important factors, identified in the previous studies to influence the usability of ICT application in organisations include perceptions of the management about the usability and applicability of the ICT-application, perceived ease in the use of application, and the use of same ICT-application by competitor organisations (Zain et al. 2005). Among these factors, competition has been shown as an important factor because of its double influence on the acceptance of ICT-application in business firms. On one side, in the highly competitive business environment, the frequency of introduction of new services and products is much higher (Garten 1998). Thus with the rise in competition, firms stated to think of new ways to gain competitive advantage over other firms. In the present scenario, adoption of technology is the first possible strategy adopted by the firms in highly competitive environment (Patterson et al. 2003).

On the other hand, adoption of new technology by any firm increases the pressure on its competitors to adopt the same or better technology (Cheng and Yeh 2011). Keeping in view the positive impact of compaction on ICT-integration, the study assumes that competition can serve as an important covariate in the relationship between ICT and strategic planning. It is also important to give considerations to the requirements and needs of each selected industry and the interaction between ICT and strategic decision making in the firms of these respective industries.

3 Business Environment in the Republic of Macedonia

The Republic of Macedonia is a small landlocked country in the South-eastern Europe, having population of about 2.06 million (IMF 2010). In the initial days after independence, the country faced serious problems in economic growth due to absence of infrastructure, UN Sanctions and economic embargo from Greece (EuCommerz n.d.). However, the country's economy is now growing as evident by the growing GDP and improvement in business infrastructure due to the considerable economic reforms in past decade (World Bank 2011). According to International Monetary Fund's (IMF) estimates, the GDP of the country in 2010 was 9,580 billion USD (IMF 2010) with GDP Growth of 1.201 % (Economy Watch 2011a). Nevertheless, if we compare it with the 1.762 % growth of GDP in EU (Economy Watch 2011b), there is room for further improvements in the economy. GDP growth in Macedonia during 2001–2010 is presented in Fig. 3.

The continual GDP up to 2007 is attributed to the privatization policy of the government and the investment from international community (Dauti and Pollozhani 2008), with its peak achieved in 2007. However, in 2009 one can notice negative growth of GDP which might be attributed to global economic crisis. The country is also seeing a continual increase in the GDP per capita representing improving living standard of Macedonian public. The country is striving to reach the standard needed for EU membership but there is still much room for improvement (Dauti and Bodo 2009). Despite all economic progress the

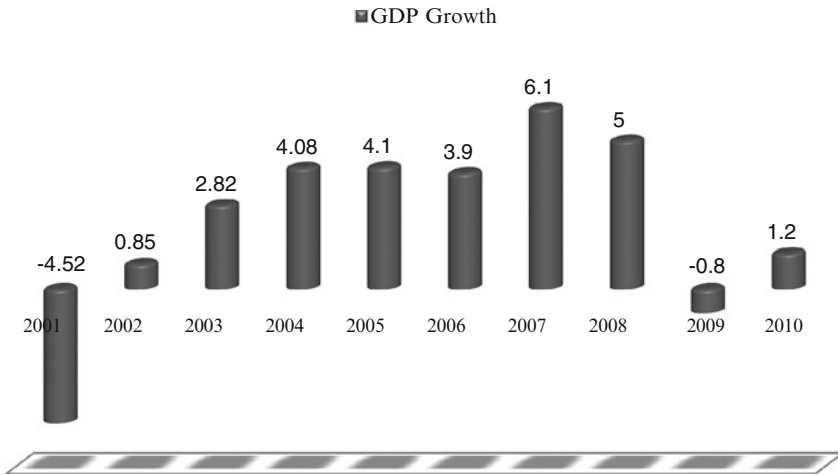


Fig. 3 GDP growth in Macedonia during 2001–2010 (Source: EconomyWatch 2011)

unemployment rate is still high in the county (Dauti and Bodo 2009). In addition, the raising trend of current account deficit and external debt is a big problem which raises the concern about long term sustainability of current account deficit (Unevaska and Jovanovic 2010).

There are some cultural problems with the country industrial growth as well. Evans (2009) pointed out a number of problems in the Macedonian business culture. First, Macedonian citizens give little importance to time and late deliveries, unscheduled business meetings, and unnecessary delays in business transactions are common in the country. Second, nepotism is quite common in the country and personal relations are usually given precedence over the work quality. Third, customer satisfaction is not the main concern of organisations in Macedonia and finally and very importantly, there is lack of initiative for improving business performance. As a result, innovation and entrepreneurship are the least spoken words in the organisations. However, he noted that the environment is slowly changing and the new generation is more innovative and enthusiastic (Evans 2009).

The main transition seen by the country in past few years is in the economic structure from monopolistic to free market economy. It is among the top economies making biggest effort in creating a regulatory environment (Doing Business 2012). A number of new legislations have been promulgated for liberalization of economy and several state-owned enterprises have been privatised. However, this liberalization of economy is causing several problems for the country particularly its impact on the inflation rate (Karatnycky et al. 2001). The impact of this liberalization on organisational culture and performance is also a matter of debate (Apostolov 2010).

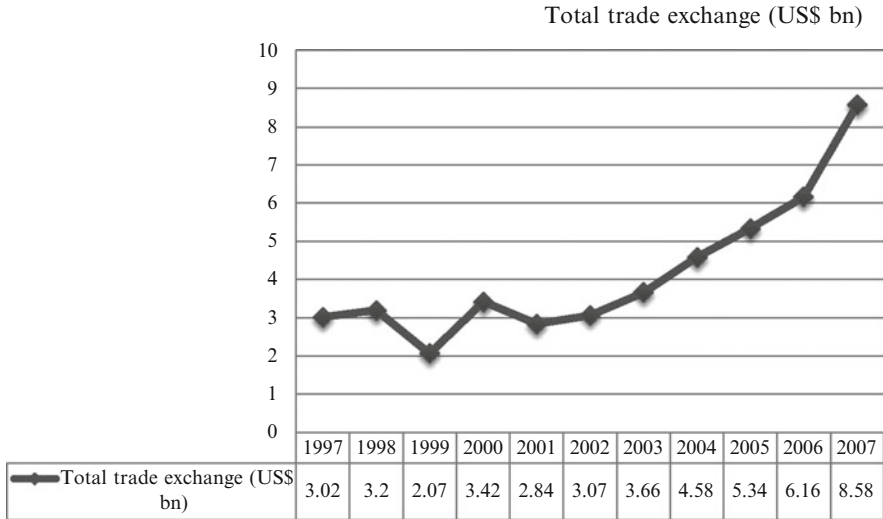


Fig. 4 Total trade exchange in RM 1997–2007 (Source: Petkov and Mojososka 2008)

3.1 Trade Sector in Macedonian Business

According to Petkov and Mojososka (2008) report there is positive trend in the trade sector of Macedonia from 1997 to 2007. As shown in Fig. 4, there is continual rise in the total trade exchange of the country with a little decline in 1999 and 2001. In 2007, the amount reached at 8.58 billion USD – a remarkable rise.

As the government is committed to get membership in the European Union (EU) and NATO, it is trying its best to establish better trading relationship with European countries. In 2001 the government signed an agreement with EU which enabled the Macedonia to have duty free access to the European markets (US Department of State 2011). As a result, 56.2 % of trade in Macedonia is with EU countries particularly Germany, Greece and Italy (US Department of State 2011). Macedonia has concluded a bilateral free trade agreement with Ukraine, Turkey and European Free Trade Association. It is a member of Central European Free Trade Agreement and is also a signatory of Agreement for Promotion and Protection of Foreign Direct Investments with other important countries of the world (US Department of State 2011).

3.2 Manufacturing Sector of Macedonian Business

Manufacturing sector is an important sector of the country as it contributes about 30 % to the GDP (Global Trade n.d.). The sector suffered a lot during the economic downturn in 1991 (Parker 2007). Manufacturing sector of Macedonia is known for

the lowest average salary per employee (Risteska and Daskalovski 2008). Due to the low labour cost, manufacturing sector is the centre of attention for foreign investors (Risteska and Daskalovski 2008). However, the flow of foreign direct investment differs among industries and countries of origin (Bitzenis et al. 2007).

Steel and Textile industries are the main manufacturing sectors in the country (Risteska and Daskalovski 2008; Global Trade n.d.). The steel industry of Macedonia is represented by Makstil A.D. which has initiated a new investment project in April 2007 (Duferco Makstil 2011). The industry is seeing a slow yet continual rise in production and employment (Duferco Makstil 2011; Lee 2011). On the other hand, textile manufacturing industry is the highest contributor of revenue to the economy of Macedonia (Maps of the world n.d.). However, the industry is suffering a lot due to the high competition in this industry (Evans 2009).

3.3 Service Sector of Macedonian Business

Service industry comprised 47 % of the GDP in 1990s when the country got independence (Parker 2007). However due to the better policies implemented by the government and modernisation of the economy, this sector has seen a real boost in past few years. According to 2008 estimates, 61.4 % of the countries' GDP is contributed by service sector (Central Intelligence Agency 2010). The major industries in this sector are transportation, telecommunication and food services industries.

4 Integration of It in the Businesses of Republic of Macedonia

According to the Ministry of Information Society and Administration of the Republic of Macedonia, there is growing trend of internet and computer usage among Macedonian public (Ministry of Information Society and Administration 2009). The use of information technology in the enterprises has also increased and about 98 % of the large organisations and around 85 % of small and medium sized enterprises in the country have access to internet (Ministry of Information Society and Administration 2008). However, there is no information regarding the use of information technology by the top management in these enterprises. The purpose of the use of information technology in the enterprises is also unclear.

A report published by the Commission of Information Technology in the year 2005, provide some insight to the use of information technology in the business sector of Macedonia. According to the report, large organisations in the country are implementing information technology for digitalizing business process whereas small organisations have digitalised only certain function of the business process, usually finance and accounting functions (Commission for Information Technology 2005).

We now turn to the research methodology and analysis of the firm-level data gathered by the following section continues with the statistical elaboration of the data.

4.1 Research Methodology

For a study to be conducted on business industries of Macedonia and adaption of strategic management principles through technological medium, some factual information with more figurative presentation of real-world was required. For this reason, a strong philosophical inclination towards any suggested philosophies was needed; not as a formality, but as a requirement. In this regard, there were two major options (in the form of philosophical school of thought) available for the researcher to acquire.

The first option was available in the form of phenomenological school of thought. This school of thought, according to Easterby-Smith, Thorpe and Lowe (1991), asserts that the built-environment, including the entire surrounding nature, is socially assembled and subjective in its nature. From this, it is meant that science and logic is not a value-free discipline, but is being run by human interests and requirements. The phenomenological school of thought also holds that the person observing (researching) the built environment is also a part of it, and through his/her research, a focus on meaning rather than fact of studied phenomenon or event is to be made (Easterby-Smith et al. 1991). These assertions were also confirmed by Saunders et al. (2000), who confirmed that by following phenomenological school of thought, a researcher should always try to understand what is going around and should perceive each and every object with a sense of totality detection and identification. Moreover, a researcher should be keeping a focus on inducing information from available data, and sample size of research should be kept minimal, with repetitive investigations carried out over it (Easterby-Smith et al. 1991).

Second option was in the form of positivism school of thought, which offers entirely different philosophical stance for a researcher. According to Saunders, Lewis and Thornhill (2000) and Easterby-Smith, Thorpe and Lowe (1991), philosophy of positivism states that the built-environment and its surrounding environment (world) is external and objective and factual in nature, with observer not included in its domain, but lying outside of it. This satisfies that science is not driven by humanistic requirements, and perception is somewhat a neutral process in its nature. Easterby-Smith, Thorpe and Lowe (1991) further included that a researcher should be focusing of factual information rather than meanings of the phenomenon, and should be looking for actual causes behind fundamental laws. Through this philosophical stance, a researcher reduces any phenomenon, any activity, to simple facts and designs a hypothesis for testing it. As evident, this philosophical stance is in opposition to the phenomenological school of thought,

and therefore, results obtained through it should be representing reality in numerical format (Saunders et al. 2000).

After a considerable amount of consultation, this research was carried out under the domain of positivism, with an assumption that this step will make it a more factual study, rather than subjective. Moreover, positivism stance was acquired also because sample size which was pre-assumed to be taken was larger for phenomenological research, and data obtained through them was likely to be of measurable nature. Fortunately, this decision remained fruitful, as positivism approach helped this study to gain a lot of useful information, which was to be (supposedly) missed by phenomenological stance of research.

4.1.1 Sample Size

Overall 45 managers of large firms were surveyed out of three industries. Specifically, from each industry, 15 firms/managers were surveyed. The selection was made according to their knowledge on the industry, and the idea of why and how technology should be implemented to serve strategic decision making process.

4.1.2 Instrument

Particularly stating about survey researches, Saunders, Lewis and Thornhill (2000) and Easterby-Smith, Thorpe and Lowe (1991) agree that survey based researches usually begin with the assessment of the research instrument designed. This assessment is targeted towards getting an idea about the efficiency level of the research instrument i.e. is research instrument completely fulfilling the requirement of study by getting the required data or not. Usually, it is done by making a pre-research application of questionnaire (pilot survey) through getting some feedback from random people. Although, it is not a necessity, but taken as a good practice in formal researches. For this reason, this study also applied its instrument in a post primary research condition, and made its application after getting verified and satisfied.

Instrument used in this research was a self designed survey questionnaire intended to take participant feedback on the issue of study. This questionnaire contained eight sections, targeting distinct general and professional aspects of the participants:

- First section, section A, required control information (name, city, industry, address, etc.) to be added by the specific participants.
- Section B was named 'General Information' and consequently it asked about the position, gender, age, and education of the participant. In this manner, all the personal information of the participants is taken with the help of first two sections. However, this personal information was not used as selection criteria but was used to expelling the demographics of respondents of the present study.

- Section C was about getting the information regarding competition in the specific industry of participant. It asked about the number of competitors of the specific industry penetrating in the market and their business origin (i.e. domestic or foreign). Moreover, this section contained a question targeting the efficiency of participant's specific industry in overall Macedonian business environment, and asked the participant to evaluate the industry's performance on a scale of 1–5 (with 1 being highly competitive and 5 as not competitive).
- Section D was named 'Information Communication Technology'. First question required participant to reflect the frequency of communication technology (i.e. e-mail, IM, etc.) usage by managers to interact with in and outside the organization, usage of computer networks for communication, and technical information transfer to/from managers via electronic communication sessions (with 1 being all the time and 5 as never). Similarly, second question required participant to mention the application of internet in the organization (by managers) for obtaining work related information or for interaction with clients, partners, etc. (with 1 being all the time and 5 as never). Last question of section D was about the use of information systems (like CRM, ERP, etc.) in the organization.
- Section E was about strategic planning of the participant's particular organization in the specific industry of operations. This section remained a vital constituent in the survey questionnaire as it was directly targeting the issue of research. It contained five questions regarding emphasis of organization on the development of mission statement, on business planning, on annual goals meeting, short term actions and plans, and meeting of strategic objectives respectively. These questions were also scaled according to numerical Figs. 1, 2, 3, 4, and 5, with 1 being no emphasis and 5 as very strong emphasis.
- Section F was targeting a more important and specific issue i.e. use of technology in strategic decision making process. It involved six questions in the first part, asking participant to reflect how technology can be used in this pursuit, what efficiency will be brought by using IT in SDM, what is the current effectiveness level of MIS in the organization, what should be the extent of integrating technology in SDM, and what benefits shall be obtained in this regard. Scaling was done with 1 = always to 5 = never. In its second part, section F simply required participant to mark the ideal percentage of shareholders' involvement in organization's ordinary and strategic decision making sessions.
- Section G was regarding the management structure and hierarchy operating in the participant's organization. Exactly four questions related to the presence of board of directors and supervisory board, their specific count, and influence on company policies and decisions, were added in this section.

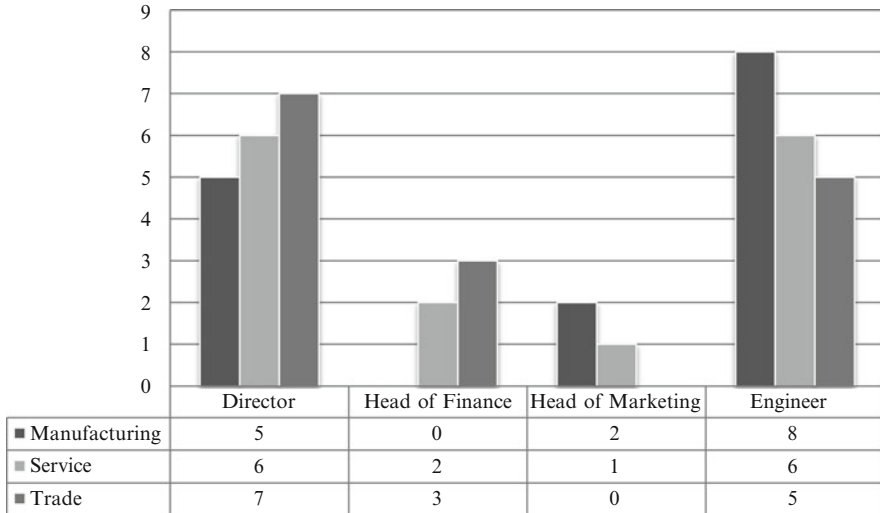


Fig. 5 Respondent’s position (Source: Own Research)

5 Comparison of Three Industries

As provided above, professionals working in three industries of Macedonia were selected for the survey. Fifteen respondents were taken from the different firms of each industry, making a total of 45 study respondents. These respondents were the professionals serving these firms at different management positions. The researcher wanted to include those professionals in the study who were serving in a position with decision making power so that they can provide correct information about the role of ICT in strategic decision making. Figure 5 shows the graphical comparison of the distribution of the sample of each industry with respect to respondent’s position.

As shown above, in the sample of trade industries, majority were working at the position of directors and strategic decision making as part of their job responsibilities. They are adequate number of directors and engineers in the sample of manufacturing, service and trade industry as well.

Head of finance is responsible for financial decisions of the firm and it is an important position with respect to strategic decision making, again trade being the highest. The above graph also shows that the sample of the manufacturing industry has slightly less director respondent position in comparison to trade and service sector, but more in head of marketing.

With respect to education, as shown in the Fig. 6, all industries have educated general managers. In only one firm of manufacturing industry, one firm of service industry and three firms of trade industry, the general manager were reported to be educated with high school level.

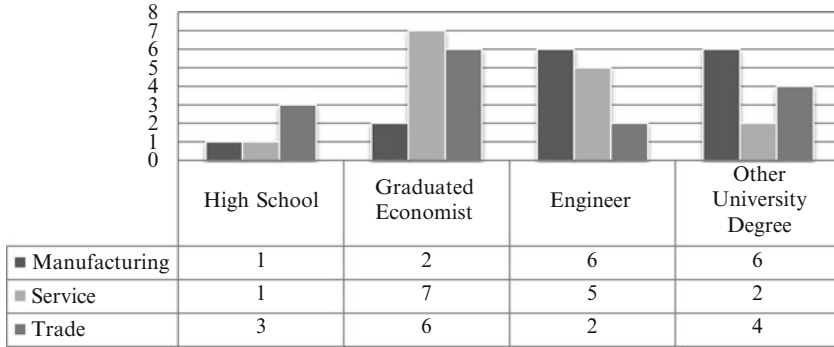


Fig. 6 Respondent’s education (Source: Own Research)

Since the General Managers of most firms have professional degrees, their education can aid them a lot in planning and management of better strategic decision. All the findings presented above are important for understanding the context of the main findings presented in the following paragraphs. It provides knowledge about the firms and the industries from which respondents have been selected for this study and can assist in better interpretation of the strategic decision making trends and use of ICT in these firms.

The researcher inquired the respondents about the number of competitors and level of competition in the firm to examine the competition situation in each industry as well as to find the impact of level of competition on the integration of ICT in strategic decision making. Figure 7 compares the average of the two variables for the three industries.

As shown above, there is little difference in the competition structure of the three industries. The average number of competitors for the firms of manufacturing industry is 4.6 and for firms of trade industry are 4.5. For the firms of Service industry the average number of competitors is relatively lesser (3.9) but the level of competition, as perceived by the professionals working in the firms, is higher than that of other two industries.

The use of IT in the firms was benchmarked with the help of calculating the use of ICT, Internet and IS in the firms for different purposes. The obtained results are shown in the Fig. 8 With regard to the use of ICT in three respective industries the researcher found that manufacturing industry is better than the other two industries, as evident from Fig. 8 In the firms of manufacturing industry, the use of ICT is far more than the use of ICT in firms of other two industries. Similarly, the firms of manufacturing industry also use internet more than the firms of service and trading industry. However, the importance and use of IS in the manufacturing industry is not very much. In fact, the firms of manufacturing industry are the least user of IS amongst the three selected industries.

There were five questions for calculating Strategic Planning – each asking the level of emphasis paid by the firm’s management to the important ingredient of strategic planning. The respondents were asked to provide answers to these

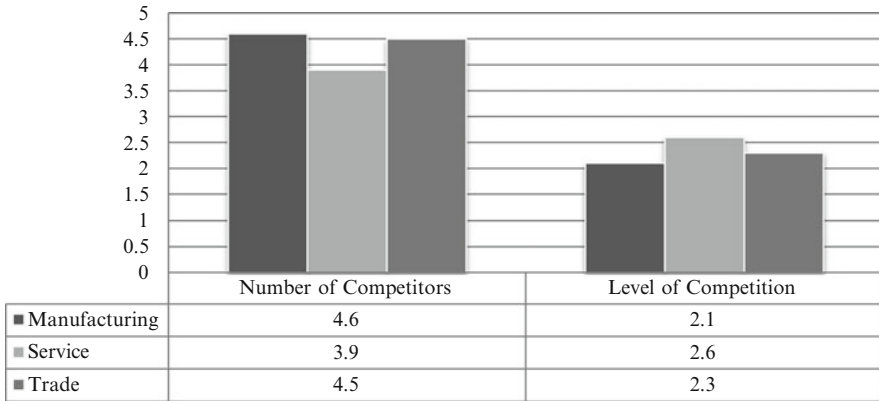


Fig. 7 The number of competitors and level of competition in the firm (Source: Own Research)

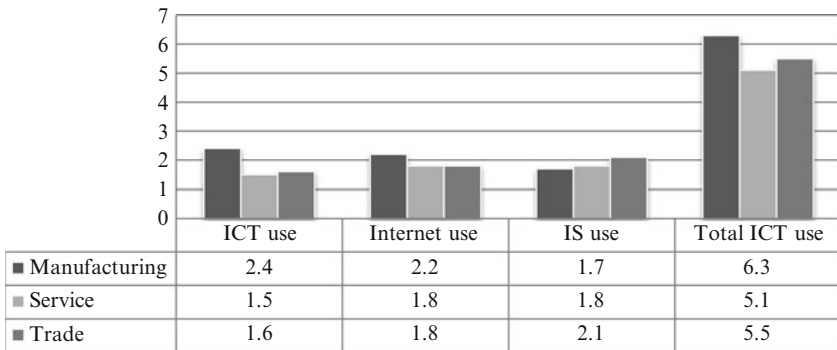


Fig. 8 Use of IT in the firms (Source: Own Research)

questions through rating them from 1 to 5, where 1 refers to no emphasis and 5 to very strong emphasis. Figure 9 shows the graph obtained by plotting the average score of the firms to each important element of strategic planning.

In the firms of service industry, strong emphasis is paid to the development of mission statement followed by trade and manufacturing industry where emphasis is a bit lower, but not weak. In terms of long-term planning, as well, service industry has more emphasis than the other two industries. All three industries have same degree of emphasis on annual goals and almost same degree of emphasis on short-term planning. However, with respect to the evaluation of strategic objectives, firms of trade industry have strongest emphasis followed by service and manufacturing industry.

Apart from strategic planning, the researcher also took into account the relationship between ICT and strategic decision making in the company. The researcher asked the participants to tell the frequency with which ICT is being used in the company with the aim of facilitating strategic decision making and the extent to

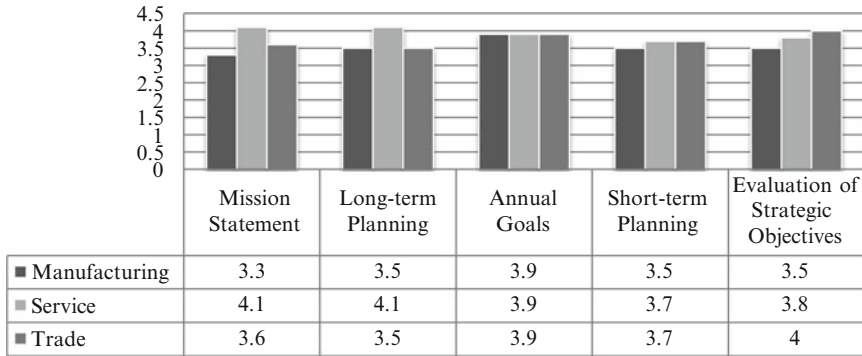


Fig. 9 Firms’ emphasis on strategic planning (Source: Own Research)

which this integration of ICT in the strategic decision making improve the efficiency of the firm.

As it shown in Fig. 10., in the firms of trade industry, the integration of ICT in the strategic decision making was reported by its workers as highest (2.4) as compared to the integration of ICT in strategic decision making in the firms of manufacturing (2.0) and service industry (1.9). However, taken together the integration of ICT in the strategic decision in all three firms is not very satisfactory and there is need to give importance to the integration of IT in the firms for this important function.

When the respondents were asked about the presence of the board of director and supervisor board in their firm, most of them replied in affirmation. In manufacturing industry, 8 out of 15 claimed to have a board of director in their firm and 6 out of 15 replied positive to the question on the presence of supervisor board in the firm. In the 15 firms of service industry 9 had board of directors and 13 had supervisor board. By contrast, in the firms of trade industry the management is somewhat less central as only seven had board of directors and five have supervisor board. This presence of managerial boards in the firms can provide a good insight into the hierarchical structure of the firms in respective industries (Fig. 11).

6 Conclusion

The chapter provides critical review of the recent literature on strategic management and the use of information communication technologies, with specific emphasis on decision making. The importance of strategic decisions at different hierarchal level and for different purposes has been provided. Nowadays we have an increasing trend of moving away from the traditional approach of managing companies and concentrating more on IT which is becoming an essential part for the future of the companies. Previous studies reported the importance of timely access to reliable information for strategic decision making and highlighted the role played by ICT in

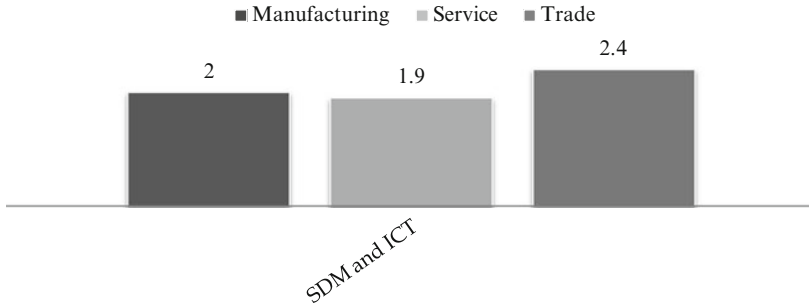


Fig. 10 Integration of ICT in strategic decision making (SDM) (Source: Own Research)

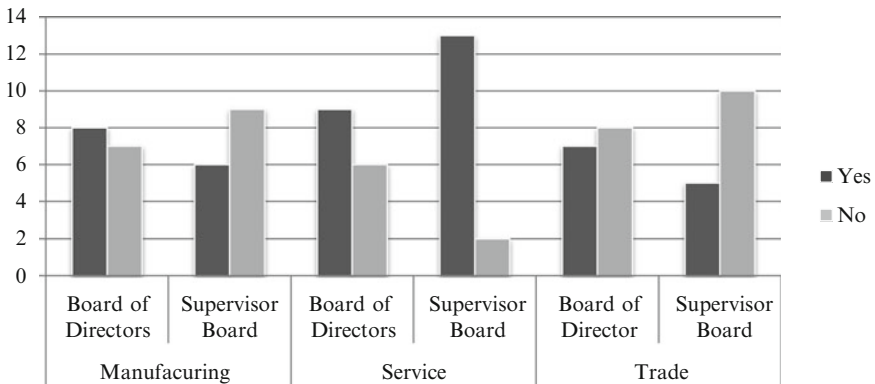


Fig. 11 Presence of managerial boards in the firms in decision making process (Source: Own Research)

this regard. The literature also pointed out the need to look at the usability of ICT application by the decision makers to understand the actual use of information technology in strategic decision making.

In this chapter the respective markets of Macedonia and their business environment, along with the current enhancements and requirements of integrating IT business enterprises of the country to help in strategic decision making process are also discussed. It was found that there is lack of literature on the strategic management in business enterprises of Macedonia. The use of information technology for strategic management in the respective enterprises of Macedonia is also an untouched subject and is in critical need of research.

Statistical and graphical analysis of the survey responses produced a number of important findings with regard to the information technology induction in the Macedonian firms of three selected industries. The study compared the firms of the three industries in terms of a number of factors. In all three industries, the proportion of female decision makers was lesser than the proportion of male decision makers. There was little difference in the three industries in terms of the

age and education levels of their general managers'. Most of the managers in the firms of these three industries had ages between 30 and 50 years and had professional degrees in economy, engineering or other related disciplines. The level of competition was also much similar in all of these firms.

In terms of the use of information technology applications, manufacturing industry is better than the other two industries with the exception of the use of IS where the firms of service and trading industries are better than the manufacturing ones (See Fig. 4, chapter "[Growth Strategies of Entrepreneurial Businesses: Evidence from Macedonia](#)"). In terms of strategic planning, firms of service industry scored better than the others in formulating a mission statement and having long-term planning (See Fig. 5, chapter "[Growth Strategies of Entrepreneurial Businesses: Evidence from Macedonia](#)"). However, all firms reported to give equal importance to annual goals and there are also slight differences in the short-term planning carried out in these firms (See Fig. 5, chapter "[Growth Strategies of Entrepreneurial Businesses: Evidence from Macedonia](#)"). With respect to the evaluation of strategic objectives, firms of manufacturing industry have strongest emphasis followed by service and trade industry (See Fig. 5, chapter "[Growth Strategies of Entrepreneurial Businesses: Evidence from Macedonia](#)"). Firms of trade industry were also found to have better induction of information technology in their strategic planning (See Fig. 6, chapter "[Growth Strategies of Entrepreneurial Businesses: Evidence from Macedonia](#)"). The firms of the three industries also differ in the presence of the managerial boards (See Fig. 7, chapter "[Growth Strategies of Entrepreneurial Businesses: Evidence from Macedonia](#)").

The study concludes that it is the right time for the management of firms in Macedonia to recognise that the integration of information technology cannot make the organisations successful than their competitors unless information technology is linked with the strategic planning of the firms. A number of firm-level studies have been carried out in the past few years, taking advantage of cross-firm/country variation in performance and in perceived or actual severity of business environment constraints. These studies represent an important advance over the ones based on more aggregate data and also the ones that employ comparative analysis between economies provide recommendations from those that are performing better.

The recommendation for the management of the selected firms and for other firms in Macedonia is to improve the level of their integration of information technology, however, these firms are cautioned that the integration of information technology is not the only success factor and there are certain important factors that need to be given consideration while integrating information technology in a business firm. One such factor, identified in the present study, is the integration of information technology as a strategic plan to gain competitive advantage. The finding of the present study suggests several courses of action for the government of Macedonia as well. It is highly recommended to the government of Macedonia to increase the level of competition in the three industries, as competition is important for adopting the free market economy system.

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Conclusions

Robert C. Schneider and Veland Ramadani

Several points are offered from the chapters of this textbook entitled, “*Entrepreneurship in the Balkans: Diversity, Support and Prospects.*” Although the points made in this textbook regarding successful entrepreneurship are primarily focused on particular Balkan States, and include specific points relative to Greece and the U.S., much of what is offered in this text can be universally applied, regardless of the country or continent. The points made here, in fact, are summary points and not exhaustive from the standpoint of all that can be done to establish, improve, or maintain successful businesses. Important to note is that approaches to entrepreneurship should incorporate a mix of empirical investigations with practical offerings by those who have a history of engaging in successful entrepreneurial practices.

Given their basic characteristics, businesses can be highly effective as generators of economic development. Economies can be improved and citizens retained and increased if countries are entrepreneurially savvy. In the event that business opportunities are not created and seen to successful fruition at home, people will seek business opportunities elsewhere. Thus, it is necessary that Balkan countries and countries throughout the world approach entrepreneurship (as wide ranging as various approaches may be) in a way that supports the creation and maintenance of businesses as one of its top economic priorities.

Such approaches to entrepreneurship include but are far from limited to: the cooperation between the state and the private sector; business risk exposure and treatment; strategic directions; succession planning; networking as a key elements for business success; women’s involvement in entrepreneurship; institutionalization indicators of businesses and corporate entrepreneurship; focus on immigrants;

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sport entrepreneurship; necessary reforms; sustainable development; effective establishment of businesses; integrating technology into successful business; and the role of venture capital funds.

Looking into the future, entrepreneurship and the development of businesses can have a powerful impact on the financial future of countries, especially developing countries. It is claimed that businesses have played and continue to play a significant role in recovery from the economic crisis. More than ever, it is obvious that without strong businesses, it is practically impossible for a country to achieve a solid economic position internationally. However, the recent economic crisis, in some cases had and continues to have a stifling effect on entrepreneurship, as funds were allocated to cover deficits instead of for investment purposes.

From a government transition standpoint, as nations pursue and engage in entrepreneurship, challenges, of course, are to be expected. One challenge that continues to impede a natural unassumed approach to entrepreneurship is the process of economic and social transition from socialism and a highly centralized economy to capitalism and a market economy. Such a transition takes time and requires adjustments on the part of individual entrepreneurs and governments. Assertiveness on the part of government policy and individuals is especially important in transitional countries where entrepreneurship is a new phenomena. As a non transitional country, the United States has been practicing entrepreneurship for generations and can offer a blend of creativity, innovation, and opportunism with sound business practices, extending across various types of businesses including sport as business. Sport, as a microcosm of United States' society, imparts insights on creative approaches to money generating strategies that other countries might find useful.

Business reform and government support of entrepreneurship are necessary to remain competitive. To identify long term sustainable solutions, the state must work with politicians, for without such cooperation the chances of business prosperity are low. Sustainable development, in part, through competent individual entrepreneurs should also be emphasized and is readily recognized by researchers as an area in need of government support. In particular, national policies that support training and skill development in business related areas must be emphasized. Other areas in need of support through government policy include: scientific and technological development; immigrant entrepreneurship; and the development of business autonomy, as it was found to positively influence dimensions of entrepreneurship. Government involvement should also include the creation of more venture capital funds, ranging from public and private support to tax relief, as a means to increase businesses investment opportunities.

Strategies to assist entrepreneurship should not exclusively be left up to governments but should also include the private sector and cooperation between the government and private sector that includes research and development with a focus on the university. Some contributors support connecting with universities as an instrumental aspect in the pursuit of improving entrepreneurship, which can be done through formal and informal education.

Improving company structures without over institutionalization is another prudent approach to improving businesses because over institutionalization can lead to centralization in businesses, which can be an impediment to new ideas and can stifle proactivity on the part of employees. Assertive efforts to offer services and products, throughout and beyond the growth phase of businesses are also necessary for continued business prosperity. In addition, information technology must be incorporated into strategic business plans which, will help support a competitive advantage and reinforce competition in free market economies. Furthermore, businesses must take measures to treat risk by stabilizing and minimizing its risk exposure and when doing so, variances such as the age of the business and type of industry should be taken into consideration. Not to be ignored are societal conditions and supportive environments that were found to be necessary for successful individual entrepreneurs, which is supportive of successful businesses.

Building connections with people or networking is a key element for business success for both businesses and entrepreneurs. From the standpoint of the individual entrepreneur, irrespective of gender, networking is important, as it can support business success. Males and females network differently in that women's networks are more intensive than men's and women are more apt to limit networking to their business life. The role of women in business, generally, have made an impact as second-level managers but still do not usually act as the CEO in many family firms. Informally, women are recognized as board members and in positions of management but such roles are mostly present in family firms, where women also exercise their influence as decision makers. The female management style generally differs from the males' style in that women, as a whole, incorporate a degree of sensitivity and an emphasis on people as part of their style, which serves the business well in areas like resolving conflict.

Careful succession planning is needed if a business is to maintain its success through the transfer of leadership from one generation to the next. Persons often decide to pursue an entrepreneurial career when their partners or parents are also entrepreneurs. Smooth succession requires transparent succession planning and flexibility on the part of the founder whose knowledge and experience generally make him a natural fit to mentor the recipient of the business.

Understanding necessities for successful entrepreneurship lays a foundation for successful businesses. However, strategic directions are important for the purpose of arriving at decisions germane to the improvement of businesses. In the long term, flexibility will allow for appropriate upgrades and/or evolution, over time, to maximize the businesses life cycle. With appropriate government support, leadership, and individual effort, the necessities of successful entrepreneurship can lead to long term business success that can stimulate and sustain economies, laying the ground work for a good life in the Balkan states and nations beyond the Balkans.

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