The State of Entrepreneurship in the Balkans: Evidence from Selected Countries

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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). Kruft 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 Summaries[1]

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 Seljacka 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 Radikalma 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 denars[3];
- 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 Timişoara 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 Naţională 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 şi Liberă Iniţiativă*, *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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