

Krivokapić, Jovan; Jaško, Ondrej

**Article**

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## GLOBAL INDICATORS ANALYSIS AND CONSULTANCY EXPERIENCE INSIGHTS INTO CORRELATION BETWEEN ENTREPRENEURIAL ACTIVITIES AND BUSINESS ENVIRONMENT

Jovan Krivokapić<sup>1\*</sup> and Ondrej Jaško<sup>2</sup>

<sup>1)2)</sup> Faculty of Organizational Sciences, Belgrade, Serbia

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**Abstract**

Many researches and practical experiences clearly indicate the existence of a strong relationship between entrepreneurial activities and the business environment in which these activities are initiated. Although this topic has been quite ignored until the late twentieth century, a lot of studies and consulting practice have contributed to the fact that there are now a number of theories concerning mentioned correlation. These theories aim to offer a model that would provide better utilization of the possibilities from the business environment which could be very important for the development from both macroeconomic and microeconomic aspects. An increasing number of articles on this topic says enough about its importance, and numerous researches by many reputable globally recognized institutions go in favor of this claim. There are many indicators that observe the economic situation in a country or a region from different aspects, so the analyses of these indicators make it possible to determine the specific relationships between entrepreneurial activities and the local and the global business environment. Given the complexity of these relations, the impact cannot be observed partially, without taking into consideration other important factors, but more detailed analyses, however, result in some useful conclusions, which in the proper context can have a positive impact on many economic factors.

It is very important to emphasize the fact that the correlation between the business environment and entrepreneurial activities is bidirectional, since this influence is mutual, so that changes in one of these factors can and usually cause some modifications in the other. Frequent series of such iterations actually lead to changes in the business environment, while entrepreneurial activity changes its shape and affects the economy of a country or a region, which is of particular importance for its competitiveness in the era of globalization.

**Keywords:** entrepreneurship, business environment, consultancy experience-based theories, global performance indicators

**JEL Classification:** L26, M20, E20, E32

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\* Corresponding author, Jovan Krivokapić – krivokapicj@fon.bg.ac.rs

## **Introduction**

Despite the undeniable importance that entrepreneurship has for the development of the society and the economy, it has become a subject of study in academic circles just in the last few decades (Fayolle, 2008), especially during the last years of the twentieth century and the beginning of the 21<sup>st</sup> century. This period is characterized by a large rush of research projects and scientific papers that have shown that throughout history entrepreneurship had great significance and role in laying the basis of modern economic achievements and relationships in virtually all stages of the development of the society. Nowadays, there are numerous reputable institutions all over the world that dedicate great attention to this topic, so the fact that entrepreneurship is considered as one of the most important factors that influence economic development and competitive position on the market is not surprising. The role and the importance of entrepreneurship, however, vary depending on the specifics of the environment in which it occurs. Entrepreneurship finds its foundation in the factors that are relevant for a specific business environment, but also has an impact on the development and the general change in that environment. This relation is certainly bidirectional and iterative, given the simultaneity of interaction and adaptation of these factors. Accordingly, on the level of the entire region or country, conditions for a wide range of business activities are created, and these conditions determine further competitiveness of certain region. This paper will point to the nature of this relationship, through the theories that are based on the experiences from the consulting practice, and thus demonstrate the complexity and interdependence of the factors given at the microeconomic level, which clearly distinguish companies that have different access to markets. The second part of paper will through the analysis of indicators related to the Republic of Serbia show the correlation of entrepreneurial activities and the business environment from a macroeconomic point of view, which will be followed by the analysis of the barriers that limit the achievement of better results in order to highlight the importance of encouraging innovative ventures and improving conditions for entrepreneurship development with the objective to create potentials for achieving competitiveness on the modern local and global market.

The concept of entrepreneurship can be interpreted in many ways, depending on the social and economic context in which it is observed. In the USA, the entrepreneur is anyone who runs his personal, new and small business (Drucker, 2007), while in Germany this term includes other elements such as power, so the entrepreneur is not only the owner of the enterprise, but also the one who runs the business and takes care of the results that it achieves. When it comes to entrepreneurship, many analysts point out the importance of innovative activities (Drucker, 1984), regardless of whether the entrepreneur is seen as someone who is leading a new or personal business, since it always entails a certain amount of risk having in mind that the one who is responsible for the business engages in something that is unknown to a certain extent. However, although significantly different, all these views essentially confirm that the entrepreneurial activities rely on social and economic potentials that are typical for a particular region. Also, the personal characteristics of entrepreneurs are crucial for the success of these activities due to the fact that many ventures have failed precisely because entrepreneurs were not aware of all those challenges, so they were not prepared properly. Therefore, it is considered that entrepreneurship is a combination of planning, creativity, and risk-taking (Kuratko, 2013), and that all these factors must be considered with the adequate attention, given their impact on the final outcomes of these efforts.

### Review of the scientific literature

Generally, when we talk about the enterprises we should keep in mind that their position is actually the result of the interaction of a large number of factors on the market, where each individual enterprise is also one of the factors that influence the creation and the change of the market itself. Thus, there is an obvious causal relationship, but it has unequal intensity and manifestation, so it is difficult to predict accurately in which direction the business environment is going to develop, given the complexity of these market relations. This complexity has been the subject of a number of studies that have been carried out in order to determine the potentials that a particular business environment offers. Many of these studies are actually results of consulting projects in this area, and correlations that were found in that way are grounded in practice, and as such are of great importance for the development of entrepreneurship and the economy of a certain region. They particularly emphasize the importance of the strategy that the company has, because it should include all relevant internal and external factors, and then set a course of action in order to achieve optimal results under the circumstances (Jaško, Čudanov, Jevtić and Krivokapić, 2013a).

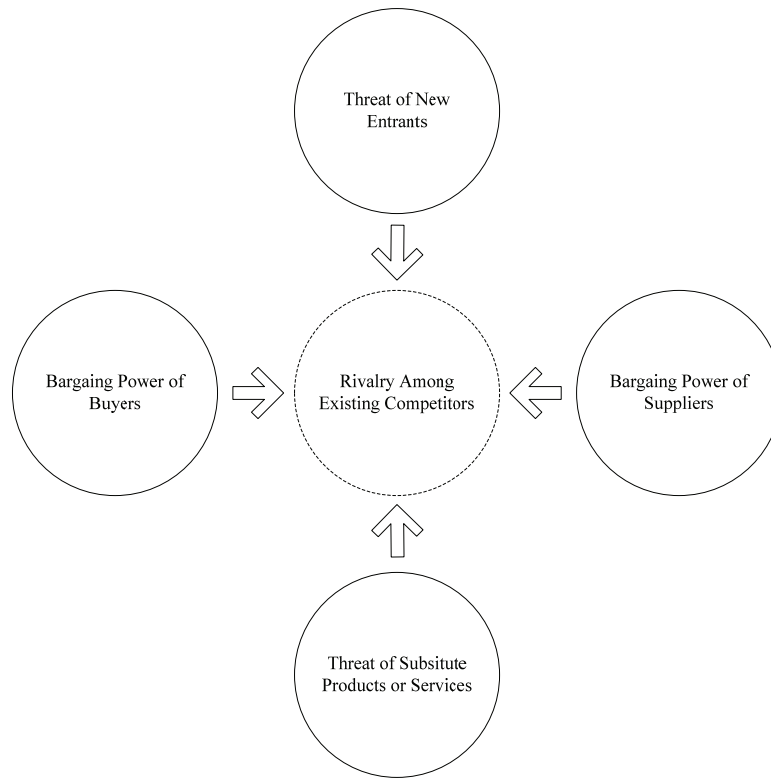
When it comes to external factors, it must be emphasized that they actually define the business environment in which these activities are completed. One of the most popular models that enables efficient external analysis is the structural analysis of Michael Porter, who believes that the analysis of the industry in which the company operates is of great importance, having in mind the fact that neither different industries offer equal opportunities, nor the participants use those opportunities in the right way (Porter, 2008), so the appropriate strategy is the main weapon to fight in the market.

According to Porter, there are 5 basic forces that determine the attractiveness of the industry and influence the selection of strategies, and these are (Porter, 2008):

- *Threat of new entrants* - can be seen as an indicator of competitiveness, because the presence or absence of barriers to entry for new companies significantly affect the position of existing market participants and determine the risk of new competitors. The reaction of the existing enterprises on the emergence of new ones will certainly have a major impact on the development of the business environment, and determine its further direction. Barriers to entry may be economies of scale, product differentiation and high demands for capital (Jaško, Čudanov, Jevtić and Krivokapić, 2013b);
- *Rivalry among existing competitors* – a factor that considers relationships that exist between the companies that are already on the market, and includes various forms of struggles based on price, promotion or after-sales services. It is related to the barriers of entry, the degree of concentration and the degree of product differentiation;
- *Bargaining power of buyers* - affects the behaviour and the strategy of the company, due to the fact that customers may affect the sale price, but also the quality that they expect in order to satisfy their needs, which directly forms the shape of the concrete industry. If customers are strong, their influence is crucial, and that happens when they are concentrated, when they buy in large quantities or when there are substitute products that provide them opportunities to set up conditions to the producers (Jaško, Čudanov, Jevtić and Krivokapić, 2013b);
- *Bargaining power of suppliers* - also has significant influence, but on the other end of the production chain, due to the fact that suppliers define conditions important for the producers in order to provide the necessary raw materials for production. Their strength is especially emphasized when there are no substitutes for these materials, so they are in a

position to dictate price, terms or the quality, and when they can sell their products to a large number of customers so they do not depend on a single one;

- *Threat of substitute products or services* – existence of these products or services directly affects demand for certain goods. If the customer has more alternatives that can satisfy his basic needs, then the original product becomes weaker. This is especially important when customers are not loyal, so they look for products that have the same utility value, but under better conditions, and the producers are forced to meet their demands in order to maintain their competitiveness. Therefore, the producers often recourse to differentiation of products and achievement of cost advantages, so they can cut the selling price of their products, and thereby make it more attractive for the buyers (figure no. 1).



**Figure no. 1: The “Five Forces” that shape industry competition**

*Source: Porter, 2008, p. 27.*

These described factors interact in a certain way and give a complete picture of the business environment in which businesses are conducted. In the context of entrepreneurship, the situation in such ambience can influence the creation of possibilities to run new ventures. Thus, for example, suppliers or manufacturers of semi-finished products are motivated to operate in markets where there are not many others like them, because that way they can dictate the terms on which they want to operate, so they have more opportunities for their own progress and development. Those that buy these semi-finished products from them,

however, want to have more options at their disposal, so they try to motivate potential producers to engage in production in order to provide the best conditions. The solution for them often lies in investing in capacities in other countries, particularly in developing countries, because they provide better production conditions, so there can be gained an advantage over the competition. Such ventures are motivated by the benefits that the governments of these countries offer in order to attract foreign investors, but this is also very attractive for the local businesses since they can focus on the production of certain components for these systems, which has a positive impact on their own productivity. However, the quality of those outputs should be on an adequate level, since such powerful companies cannot allow their products to lose the functionality due to better conditions, because it will cause the loss of customers. This trend of relocation of production is particularly characteristic for the automotive industry, where it is not a rare situation that companies try to gain better conditions for the production of their cars or parts in other countries. For example, this is one of the reasons for forming international Automotive Cluster in Slovakia, or motive for the Italian FIAT to focus on Serbia, or for the French Renault to operate in Romania. However, if the entrepreneurial initiative does not exist, then it becomes repellent for participants who had the intention to invest. Therefore, it is necessary to create conditions that will continuously attract investments of large systems and the benefits - either directly or indirectly - will be multiple since these investments will lead to the development of the local economy and create the conditions for increased competition on the market.

Nowadays there are a number of theories that consider the interaction that exists between the environment and the organizations that operate in it. Many of these theories are based on researches on real problems, so they have a foundation in practice. A concept that is very popular is the *Population ecology theory*, by the authors Hannah and Freeman, which was created almost half a century ago, but still has a significant basis in practice, despite the fact that the business environment has changed significantly during this period and has become even more complex. These authors consider an organization as a living organism, and as such it goes through the phases of birth, growth and death, so they tried to determine its behaviour in each of these phases. Through research they showed that its behaviour is influenced by numerous factors which mainly come from the environment and shape it in a specific way (Hannan and Freeman, 1993).

The Population ecology theory primarily was not focused on the entrepreneurship, but given the width of its coverage, it can be said that it does follow the new ventures in various stages of development. Therefore, it is believed that this theory can be viewed through the prism of entrepreneurship.

When they initiate businesses, entrepreneurs need to opt for a market niche in which they want to operate. Thus, according to the Population ecology theory, at the beginning there is a large number of organizations with different characteristics in a certain niche. If a niche is new, and if organizations are not aligned with the external factors, then a number of them will fail during the selection process. Those that survive in such an environment will form a stable population that will have certain rules and attributes. Subsequently, the structure of the population stabilizes, and imposes different standards and barriers for all those that approach the niche in subsequent iterations (Jaško, Čudanov, Jevtić and Krivokapić, 2013a).

Population density in a particular niche will also influence the birth and death of organizations that should operate in it. In this respect, if the niche has a small number of organizations, it might be the motive for the birth of new ones that can fight for their place, while in a situation where there is a large number of organizations there is a strong competition and pressure, so many of them fail to survive, which is certainly not attractive to potential new entrants. It is considered that organizations are selected through their fitting into environment (Smith and Cao, 2007).

According to this theory, each organization can be classified into one of two categories - specialists and generalists. Specialists are organizations whose product range consist of a small number of products or services, or they focus on a small number of users whose needs they want to meet. Sometimes it even happens that they have only one group of clients on which they focus. Generalists, on the other hand, are organizations that focus on the broader niches, and they have a number of different groups of clients, or offer a wide range of different products and services that thereby become available to a large number of users. Depending on market conditions and own capabilities and intentions, each organization will belong to one of these two categories.

Given the different conditions in which these companies appear, it can be said that there are certain combinations of factors that suit them and enable them to develop faster and achieve better results. Accordingly, in changeable conditions generalists have a great advantage in the fact that they offer a wide range of products or services, and therefore have a lower risk of collapse, because it is unlikely that they will have problems with the whole assortment, bearing in mind that sometimes this assortment is very diverse. In such situations, generalists find solutions in the reallocation of resources in such a way to close down parts of the portfolio that are not profitable, and enhance investment in those promising segments. Specialists cannot afford such a luxury, because they have only few products and services in the range, and must take all possible measures to protect them and to avoid disaster. That does not mean that specialists are not better than generalists in certain circumstances. Their advantage lies in the flexibility and speed of response to changes, and the experiences show that they engage in a close relationship with customers because they are trying to fully adapt to their needs and thus gain a competitive advantage over generalists who have problems with internal coordination due to the existence of wide focus.

It can be said that for the specialists are appropriate narrow market niches, and they achieve the best results if the environment is not changeable. Generalists, on the other hand, due to their inflexibility, are more capable in wide niches, and they are more responsive to the changes in the environment, especially if those changes are rapid, since they have sufficient capacity that will enable them adopting to that new situation. However, if these changes are incremental and do not bring many quakes, specialists will have the advantage, because of quick adoption to these minor differences which comes from their flexibility, having in mind that they do not need many resources due to the nature of the change.

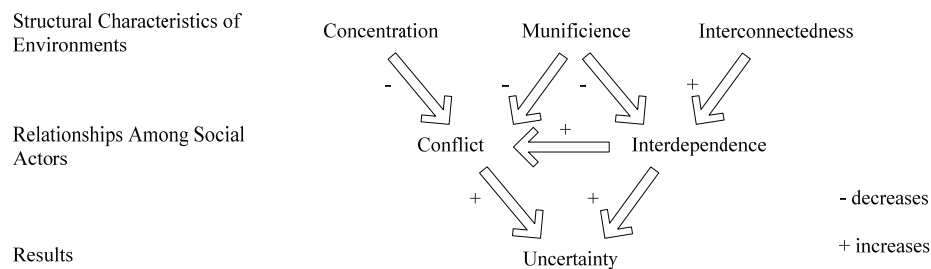
To conclude, the Population ecology theory observes organizations very practically and describes the dynamics of their origin, growth, development and disappearance. Much behaviour is explained thanks to this theory, and its importance is undisputed as it provides an overview of the characteristics of organizations that appear in the respective niches. However, it is believed that its major drawback is the fact that it neglects the influence of internal factors, and also does not observe strategy as a source of competitive advantage,

but focuses on environmental factors only. These factors, it is true, are very important, but not the only relevant for the results that the organization achieves, so the impression is that this point of view should be expanded with the help of other theories that do not ignore other factors, in order to obtain a complete and clear picture of the relation between the organization and its environment.

Another concept that observes this relationship and that can be viewed through the prism of entrepreneurship is the *Resource dependence theory*. The authors of this theory, Pfeffer and Salancik, believe that organizations mostly depend on the resources that are necessary for them to perform their activities. In order to reach these resources, they interact with other organizations, engage into complex relationship and adjust their behaviour since they become dependent on the factors from the environment (Grundstén, 2004). The elements which interact and define the nature of these relationships are (Pfeffer and Salancik, 2003):

- *Concentration* of authority and power;
- *Munificence* of important resources;
- *Interconnectedness* of organizations;
- *Interdependence* between the organization and the environment;
- *Conflict* as a lack of ability to coordinate interdependent activities;
- *Uncertainty* in terms of future events.

The complexity of their relationship is shown in figure no. 2.



**Figure no. 2: Interaction between dimensions of organizational environments**

Source: Grundstén, 2004, p. 39.

Observing the relationship presented by the image, it is possible to establish some rules that characterize the market and the behaviour of its participants. The authors of this theory primarily emphasize the importance of the availability of resources and believe that this factor can largely motivate the launch of new entrepreneurial ventures, but they also emphasize the complexity of the relationship between this factor and other elements, which actually through mutual coordination creates the true state on certain market. Unlike the Population ecology theory, according to this theory organizations operate and can significantly influence their behaviour, even if the situation in the environment changes. The Population ecology theory, however, gives organizations a passive role and believes that they are able only to react, and not to provoke change, whereby they will survive only if the external factors permit them to. These differences are represented in table no. 1.



**Table no. 1: Frameworks for entrepreneurial environments**

<b>Criteria</b>	<b>Population ecology theory</b>	<b>Resource dependence theory</b>
<b>View on the environment</b>	A set of influences that allow some organization to survive	A spring of resources available for entrepreneurs
<b>The entrepreneur's behaviour</b>	Mostly deterministic	Primarily willing
<b>The entrepreneur's choice</b>	Shaped by the industry	Based on his strategy
<b>The entrepreneur's autonomy</b>	Depends on the environment	Controls his fate

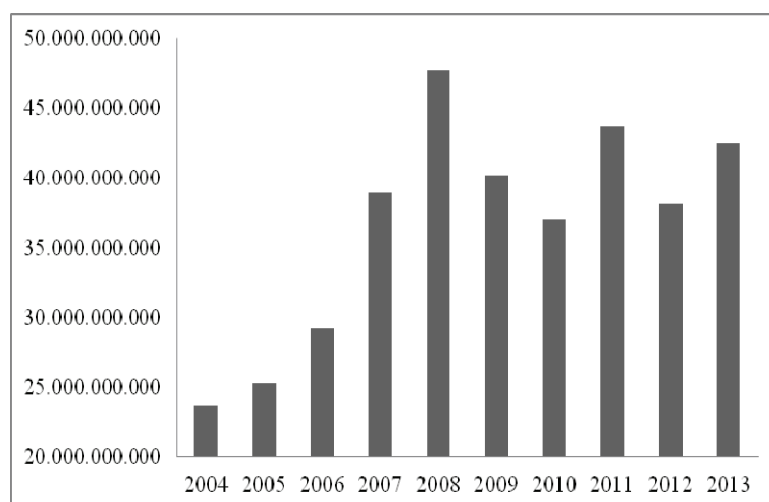
*Source: Grundstén, 2004, p.41.*

Accordingly, these theories are essentially different; however, they have in common the fact that they observe the interaction that exists between the organization and the environment, and argue the importance of these causal relationships. The authors of this theories, as well as many experts who dealt with their further development and application in practice through numerous studies confirm that environment significantly guides the behaviour of enterprises, but also that the enterprises have even slight impact on the ambient in which they carry their businesses. These changes can occur for many reasons, which may be due to different impulses within and outside the company, but the real effects depend on the specific characteristics of the business environment on the one hand, and the number, strength, and the relationship between market participants on the other.

**Research methodology**

In the era of globalization, it is difficult to observe individual national economies independently from the economy of other countries, given the modern tendency to establish different relationships between countries at the international level. However, the economy of a certain country is as strong as her national market participants are, which indicates a close connection between macroeconomics and microeconomics. Accordingly, the intention is to indicate the level of development of entrepreneurial activities in the Republic of Serbia, and to explain resulting indicators through the prism of business environment, using the analyses that were conducted by internationally recognized institutions, which would in certain way indicate the aforementioned correlation and help to identify barriers for strengthening entrepreneurship by improving the local business environment.

Serbia belongs to the group of the developing countries. Its population consists of 7.2 million inhabitants, with a GDP of 42.52 billion USD in 2013, and GDP per capita of 5,935.32 USD in the same year (World Bank, 2014). Observing the trend of these two indicators over the previous ten years, we can come to the conclusion that in the beginning these two indicators have increased their values noticeably, but that in the last five years these values vary, indicating the unstable economic growth, which is partially a consequence of the conditions in business fields, including entrepreneurial activities (figure no. 3).



**Figure no. 3: Serbia GDP (current US\$) during the period 2004-2013**

*Source: World Bank, 2014.*

However, the analysis of GDP is a complex and delicate activity, since it is clear that its value is actually the result of the interaction of several factors, but it is certain that the activities such as development and promotion of production and exports have a very positive influence on it. As a consequence, more and more attention is dedicated to the entrepreneurs all over the world, since they play a very important role in each national economy. It is particularly important to emphasize the importance of small and medium-sized enterprises (SMEs), because many reports indicate that they dominate in number and make more than 95% of all businesses, while more than 60% of employees in all countries actually work in such enterprises (Stefanović, Ranković and Prokić, 2011), so the fact that SMEs are now in the focus of entrepreneurship (Levi-Jakšić, Marinković and Rakićević, 2014) is not surprising at all.

In accordance with that, European Commission data point the interesting tendency of simultaneous slight increase in the number of enterprises and the reduction of employees in small and medium enterprises in Serbia (table no. 2).

**Table no. 2: Number of SMEs, Employment and Value added in Serbia**

	2009	2010	2011	2012
<b>Enterprises (Thousands)</b>	81.8	83.3	84.1	n/a
<b>Annual% change</b>	0.1%	1.8%	1.0%	n/a
<b>Employment (Thousands)</b>	634.2	611.9	614.5	n/a
<b>Annual% change</b>	-4.0%	-3.5%	0.4%	n/a
<b>Value added (Billion Serbian Dinars)</b>	7.0	6.7	7.3	n/a
<b>Annual% change</b>	-14.2%	-4.5%	8.6%	n/a

*Source: European Commission, 2013, p.96.*

During the observed period, the number of SMEs in Serbia grew, but there is a noticeable decreasing trend of the number of employees in these years. This trend is especially expressed in comparison to SMEs in the European Union. Also, the fact is that the *Value*

*Added* was in decline, although this situation has improved in 2011. It is believed that the main reason for this kind of performance is an unstable business environment, particularly in the financial sector, and pre-election fiscal and industrial reforms have revived the economy, but other key sectors remained at a fairly low level of performance (European Commission, 2013).

In order to determine other reasons for this trend, the results that have been achieved by several globally recognized indicators will be presented here. The current economic situation and local business environment will be analyzed, as well as the parameters that indicate the current status and the potentials for development of entrepreneurship in Serbia.

**Results and discussion**

One of the most important indicators that allow comparison of countries through a number of different factors is the Global Competitiveness Index (GCI). GCI is the indicator that measures the level of competitiveness of certain country. It is composed of a series of microeconomic and macroeconomic components that are measured in grades from 1 to 7.

The indicators within this index are grouped in twelve pillars which show different aspects of the current economic situation and the prospects of a certain country. These twelve pillars of competitiveness are grouped so as to highlight the strategies and priorities that should be followed by individual countries at different stages of development. According to this methodology, the least developed countries need to follow the factor-driven economy; middle-income countries need to follow the efficiency-driven economy; while the most developed countries need to pursue innovation-driven economy (Jaško, Čudanov, Jevtić and Krivokapić, 2013a). The reliability of this indicator, as the indicator of development of business conditions, is determined on the basis of a high correlation between countries rank in the publication and independent assessments of the individual factors of business conditions. Also, in the course of determining the GCI, the greatest obstacle to growth are investigated, which can be both a cause and a consequence of the entrepreneurial activities.

GCI takes into consideration a particular set of indicators and measures their value in each country. On the basis of the obtained score, each country is ranked in the group of countries that were included in the survey, both in partial columns, and in total, when all these factors are taken into account. The results for Serbia in the last five years are shown in table no. 3.

**Table no. 3: Global Competitiveness Index of Serbia**

	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
<b>Rank</b>	85	93	96	95	95	101
<b>(Out of...)</b>	134	133	139	142	144	148
<b>Score (1–7)</b>	3,9	3,77	3,84	3,88	3,87	3,77

*Source: World Economic Forum, 2008; 2009; 2010; 2011; 2012; 2013*

The fact is that Serbia is basically losing its position on this list, with the observation that there are a growing number of countries ranked according to this index, but it is probably more significant the fact that the total score that Serbia achieves does not really change or changes its value very slightly. This means that in terms of this indicator Serbia is not progressing, which is certainly reflected on its economic situation and the local business

environment. Naturally, this score is the result of a large number of interdependent factors; therefore it is ungrateful and virtually impossible to analyse it in terms of only one of them. However, if we analyse some pillars that are included in this index, it is possible to find relation between this result and entrepreneurial activity in the country.

Therefore, this analysis can be complemented with the help of World Bank Doing Business indicator. This indicator also ranks countries in relation to certain parameters, and thus makes this analysis even more appropriate in the context of previous discussions about entrepreneurship. According to this indicator, Serbia generally does not have a good overall score or ranking, but the situation is significantly better if we observe its ranking in the context of starting a new business (table no. 4).

**Table no. 4: World Bank Doing Business indicator rankings in Serbia**

Indicator Name	2007	2008	2009	2010	2011	2012	2013	2014
<b>Starting a Business - Rank</b>	/	/	/	/	/	91	38	45
<b>Ease of Doing Business Rank</b>	84	86	90	89	95	92	87	93

*Source: International Bank for Reconstruction and Development/The World Bank, 2013, p.221.*

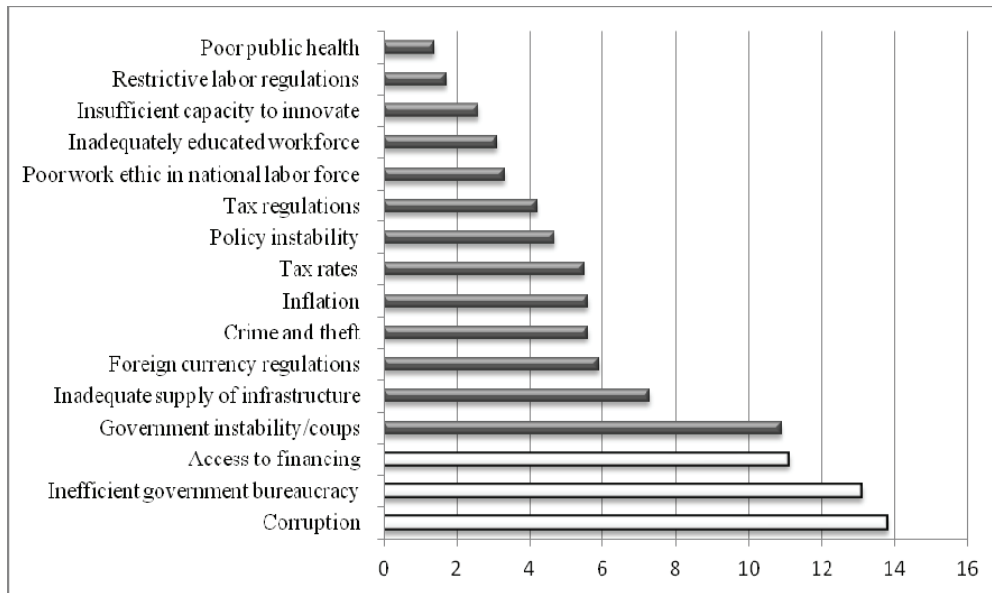
This table shows that the value of the indicator *Starting a Business* in Serbia has considerably improved, especially in the last few years. The reasons for this should be found in a significant improvement of the factors that influence launching businesses (table no. 5).

**Table no. 5: World Bank Doing Business - Starting a Business Indicator for Serbia**

Indicator Name	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Cost (% of income per capita)</b>	15,9	15	12	10,2	8,9	7,6	7,1	7,9	7,8	7,7	7,2
<b>Paid-in Min. Capital (% of income per capita)</b>	113,4	101,6	7,6	7,6	8	6,9	6,1	6	6	0	0
<b>Procedures (number)</b>	12	12	11	11	11	11	7	7	7	6	6
<b>Time (days)</b>	56	56	23	23	23	23	13	13	13	12	11,5

*Source: International Bank for Reconstruction and Development/The World Bank, 2013, p.221.*

It is obvious that the formal preconditions for starting a business are not problematic, but there are a number of the other factors that generally negatively affect the real success of these operations. In fact, according to the current report which tracks the GCI, the most problematic factors for doing business in Serbia are those presented in figure no. 4 (World Economic Forum, 2013).



**Figure no. 4: The most problematic factors for doing business in Serbia**

Source: World Economic Forum, 2013, p. 334.

Some of the particularly expressed factors that also appear in reports from previous years are *Corruption*, *Inefficient government bureaucracy* and *Access to financing* (World Economic Forum, 2008; 2009; 2010; 2011; 2012; 2013), and that clearly indicate their impact on the business environment and indirectly on the creation of conditions for stimulating entrepreneurial activity. The barriers that affect entrepreneurial ventures in Serbia are studied by Bober, Leković and Berber. They believe that removing these barriers in developing countries is necessary because of (Bobera, Leković and Berber, 2014):

- Faster development of new entrepreneurial ventures, which creates opportunities for reduction of social conflicts in countries in transition;
- Creation of healthy and strong enterprises that would be leaders in innovation and technology development;
- Employment and development of new skills and knowledge necessary for SMEs;
- Provision of opportunities for all those who have an idea and the initiative to start a business, regardless of their personal characteristics.

Figure no. 5 shows the most significant barriers to initiate entrepreneurial activities in Serbia, and the study of these authors has shown that the financial and fiscal burdens actually have the biggest influence on these activities, while barriers related to human resources also hinder such jobs, but with a less significant impact. In addition, the concrete barriers of the highest importance in Serbia are *lack of financial assets*, *VAT on invoiced instead of realized values* and *taxes and contributions on salaries* (Bobera, Leković and Berber, 2014).



**Figure no. 5: Barriers of entrepreneurship – HR, FB and SC**

*Source: Bobera, Leković and Berber, 2014, p.170.*

It is interesting to combine these considerations with the analysis of The Global Entrepreneurship & Development (GEDI) Index. GEDI index was created in order to offer a better understanding of economic development through the analysis of the contextual nature of business formation, expansion, and growth (The Global Entrepreneurship and Development Institute, 2014). It is an annual index that observes national economic systems, measure their quality and ranks countries by overall score, thus showing the performance achieved by the certain country within its borders and on an international level.

GEDI index provides significant findings related to this topic since it observes these countries through “3EA” (The Global Entrepreneurship and Development Institute, 2014):

- Entrepreneurial attitudes - societies’ attitudes toward entrepreneurship, defined as general feelings about recognizing opportunities,
- Entrepreneurial abilities - the characteristics of the entrepreneurs and their businesses,
- Entrepreneurial aspiration - the quality aspects of start-ups and new businesses.

Each of these elements is further decomposed, so the country is observed through 15 characteristics that form this index. According to this indicator, in 2014 Serbia is ranked 68th out of 120 countries included in this survey, so it has its position in the third quintile overall, but is also one of the worst ranked countries in the region (in Europe) – 33rd position out of 38 European countries. Data on these relations between Serbia, the countries in the region and all the countries included in the analysis are shown in figure no. 6 through the individual pillars (The Global Entrepreneurship and Development Institute, 2014):

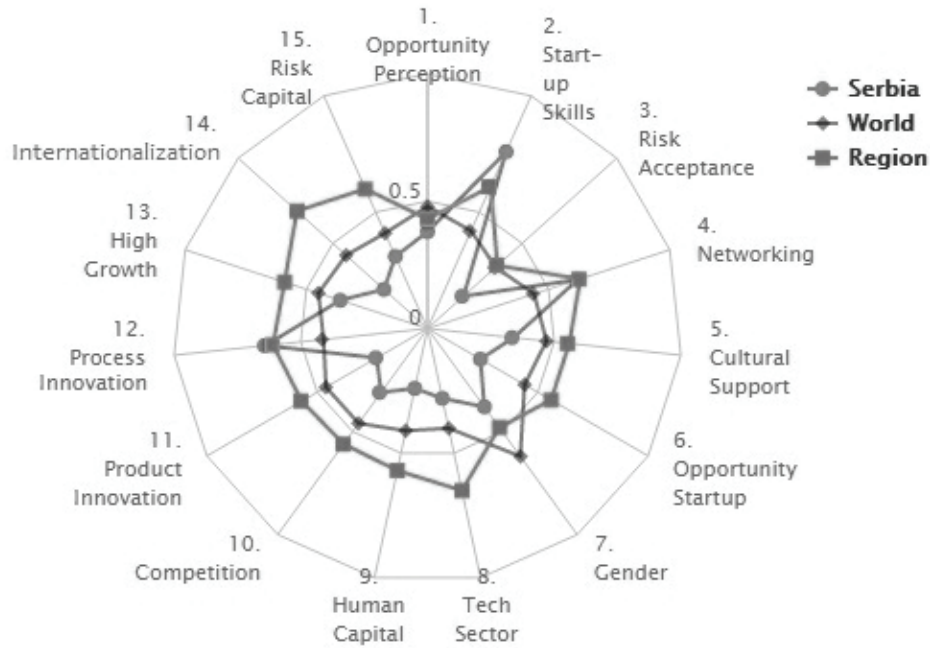


Figure no. 6: GEDI – 15 Pillar Comparison, Serbia

Source: The Global Entrepreneurship and Development Institute, 2014.

From this point of view, it can be concluded that in fact the strongest pillar for Serbia is *Start-up Skills*, which is above the regional and especially global average. Also, good basis are *Networking* and *Process Innovation*, but practically most of the other pillars are at a very low level, and thus have an extremely negative impact on the overall image of the entrepreneurship and development potentials.

Therefore, having in mind all the foregoing, it is clear that entrepreneurial activities in Serbia are not at satisfying level, although there are some formal preconditions that enable their development, but many factors, primarily of a financial nature, hinder that development. Overall, the business environment, which in turn is largely a result of political and social events, is not perfect and does not provide sufficient support for the development of entrepreneurship. Although the number of companies established in Serbia is increasing, it is noticeable that the number of employees decreases. This is significantly caused by the economic crisis that has arrived in the Balkans with the small delay, since it is considered that the economic crisis threaten the integrity, the reputation or the existence of an economy, it causes a failure of administration, a decrease in governability, and after all culminates with the inconsistency and incoherence of the survival of an economic system (Săvoiu, Dinu and Tăchiciu, 2012). It is necessary to improve this situation in the future and to make a positive step towards the development of national economy, as it is believed that the solution to these problems actually are increasing investments in innovative activities and technology investments in order to develop sustainable opportunities for new economic cycle of development and prosperity (Levi-Jakšić, Marinković and Rakičević, 2014). Given the relationship of the business environment and

enterprises operations, it is necessary to work hard to ensure that these two factors effectively pull each other, which means that the improvement of one of them should be reflected on the improvement of the other, and that through a series of iterations it would help to create economically healthy and promising environment that will allow to take advantage of the potentials that this country has, with no doubts, but fails to exploit them properly.

### **Conclusions**

Despite the undeniable importance of entrepreneurship for the economic development, academic research about this topic have emerged only in the second half, especially at the end of the twentieth century, and most of them are based on practical consulting experiences and studies. These researches actually observe entrepreneurship as a kind of art, since it is basically not possible to find a pattern of behaviour that will always lead to the desired results. The impact of numerous important factors that influence the success of entrepreneurial ventures is different in different business environments, but it is certain that is always expressed in some way. Accordingly, it happens that the ventures that were followed by significant financial resources and modern technology and knowledge fail just because they are not compatible with the business environment, as they have no institutional or legal support that would provide proper conditions for a successful implementation. Also, it is important to analyse other market participants, since they influence and define markets, so appropriate business results could be gained only with the right strategy that considers all important elements. In particular, each enterprise should especially consider its relationships with the strong participants, whether they are competitors, business partners or government institutions, having in mind their impact on their own businesses, and on the creation of a business environment.

Since the market is an alive entity which is constantly changing, it offers new opportunities but also creates new barriers that can limit entrepreneurial activities. These activities can also be reasons for the change of the environment. When we observe all companies operating within a certain country, it becomes possible to obtain significant indicators of competitiveness of the country at the international level.

In this paper we observed various indicators that pointed to the fact that the level of entrepreneurial activity in Serbia is not as good as it could be, and the reasons are primarily in financial nature, although here should be noted the importance of corruption and inefficient bureaucracy typical for this country. As a result, Serbia is not one of the better-ranked countries according to these indicators, so, among other things, it is necessary to improve its local business environment in order to create the conditions for economic development, which would be reflected on entrepreneurial ventures. Given the correlation between these factors, both of them should pull each other, so the government and the enterprises should consider this fact and find proper strategies that will allow them to create and use opportunities in order to become more competitive on the local and the global level. However, having in mind the complexity of observed correlation, the future direction of research will actually go towards finding a model that should recognize and include those elements that are of greatest importance, in order to provide an accurate tool which will help in determining concrete critical factors and in finding directions for potential actions that would lead to the desired objectives.



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