

ANALYSIS OF ECONOMIC AND BUSINESS INDICATORS OF ENTREPRENEURSHIP IN REPUBLIC OF SRPSKA

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ORIGINAL SCIENTIFIC PAPER

ISSN 2637-2150

e-ISSN 2637-2614

UDC 334.722:005.961(497.6RS)

DOI 10.7251/STED2401015M

COBISS.RS-ID 140644353

Paper Submitted: 06.02.2024.

Paper Accepted: 13.05.2024.

Paper Published: 30.05.2024.

<http://stedj-univerzitetpim.com>

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ABSTRACT

The article examines the role of small, medium and large enterprises in the economy of Republic of Srpska for the period from 2014 to 2022 year. The authors analyzed the economic indicators, according to company size (profitability rate, labor costs per employee, added value per employed person - productivity, employees - annual average and average wages paid per employed person), and also annual business indicators by company size (number of entrepreneurs, number of employees, number of companies and turnover). The aim of the paper is to analyze the operations of SMEs in order to give recommendations for future business improvement and to indicate the main

obstacles and weaknesses as well as recommendations. The method of description and classification of data and the method of analysis and synthesis were used in order to achieve the objectives of the research.

Keywords: economic indicators, business indicators, entrepreneurship, Republic of Srpska, SME.

INTRODUCTION

With economic and economic development and growth, the wealth of both societies and individuals should be increased, as well as technological progress should be intensified, which will significantly change the living and working conditions of people, especially in the most developed parts of the world. Republic of Srpska should also strive for this goal.

The largest number of companies in Republic of Srpska belong to the SME category, that is, the largest number of them are organized in the form of a limited liability company, and most often with the minimum prescribed share capital. It is a fact that the economic sector and its entities face numerous difficulties and obstacles in their functioning. Due to the stated reason, this article will concentrate on these categories. Entrepreneurs in Republic of Srpska are exposed to numerous fiscal and parafiscal burdens. An unfavorable business environment is characterized by high business costs caused by high taxes and contributions, numerous fiscal and parafiscal levies, various taxes, bureaucracy, unfavorable loans, slow debt collection, smuggling and illegal work. The burden on entrepreneurs greatly affects the creation of an unfavorable environment and non-competitiveness of the domestic economy. Large parafiscal burdens have a negative effect on attracting foreign investments.

Bosnia and Herzegovina, and therefore Republic of Srpska (as part of it), is going

through a phase of intensive legislative reform in the field of economy. The goal of the reform is to create a favorable environment for starting and developing businesses. The role of entrepreneurship in the economic development of Bosnia and Herzegovina (BiH) is becoming particularly relevant. The pace of reform in the sector of small and medium-sized enterprises is limited by the problems of complex administration, incoherent regulations at various levels of government and relatively weak coordination. The SME sector stimulates the transformation of social and state into private ownership, since small and medium-sized enterprises in private ownership are more flexible and can adapt more quickly to oscillatory changes in the market. They generate employment, help the diversification of economic activity and influence the development and increase of export activity and trade. Also, SMEs occupy a significant place in the field of innovation, as well as high-tech jobs. Thanks to their flexibility and innovation, many of them become large enterprises. In this process, emphasis should be placed on creating a friendly business environment in which the transformation of society towards a market economy should take its place (Dušanić-Gačić, 2022). Also, it is very important to point that job satisfaction and employee engagement are key drivers of retention, performance, low turnover rates, organizational citizenship behavior and customer-oriented behavior which leads to customer loyalty (Milovanović, Mamula Nikolić, & Perić, 2022). The goal of the research is to identify the decrease or increase of registered entities in Republic of Srpska (RS). Entrepreneurship develops creativity, improves the birth of ideas and enriches human needs.

THEORETICAL BACKGROUND

Entrepreneurship develops creativity, improves the birth of ideas and enriches human needs. It is neither science nor art, but a practice based on knowledge, which rests on the need for constant changes, during the realization of economic activities. Drucker (1996) believes that it is not enough just to combine resources in entrepreneurship in a new way, but also to create them, which leads to new companies. An interesting conclusion

was also reached by a group of authors which states the highest level of innovation culture is present in micro, then in small and the lowest is in medium size enterprises (Pavlović, Rašković-Depalov, & Milovanović, 2023). This leads to the conclusion that micro-enterprises see their biggest potential in innovations they deliver and this is why they put efforts in the development of innovation culture from the very beginning.

There is no universally accepted definition of entrepreneurship. For many authors, it is synonymous with innovation. Entrepreneurship is taking risks or starting, owning and managing your own business (Dušanić-Gačić, Novaković, & Mirosavljević, 2022). An entrepreneur finds, evaluates and develops a chance, against the forces that prevent the creation of something new. Entrepreneurship is management that implies constant concern for opportunities and challenges, regardless of whether it is about developing the business of an already established organization or about creating a new business and a new organization. Creative destruction is the process of breaking down the existing structure in order to increase its quality and efficiency. In order to create something new, we have to "destroy" what already exists. According to Schumpeter's vision of capitalism, the innovative efforts of entrepreneurs are the main driver of long-term economic growth, despite the fact that in this process the value of existing companies that enjoyed a certain degree of monopoly is destroyed (Schumpeter, 1962). Ludwig von Mises (1966) one of the most significant representatives of the Austrian economic school, believed that in the imaginary construction of the equilibrium system, no one is an entrepreneur. However, in dynamic reality, every participant is an entrepreneur. According to Mises, all economic decisions involve making decisions in accordance with future uncertainty. He defines an entrepreneur as a decision maker whose behavior is influenced by the future itself and his vision of the future. Izrael Kirzner (1973), a representative of the Austrian school of economics and a student of Ludwig von Mises, believed that the essence of entrepreneurship is to quickly respond to profit opportunities that appear on the market.

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Mark Casson (1982) one of the most respected contemporary British economists, believes that an entrepreneur is someone who specializes in making "right" decisions. Jeffrey Timmons (1989) professor of entrepreneurship at Babson College and Harvard Business School, sees entrepreneurship as the ability to create something and practically make it "out of nothing". William Bygrave (2003), one of the leading contemporary authorities in the field of entrepreneurship and a professor at Babson College, believes that an entrepreneur is any person who starts a new business. His opinion is that an entrepreneur can be revolutionary only in rare situations. Raajpoot, & Sharma (2021) suggest that managers should understand their central role in setting innovation culture which is important for success of new services. In the absence of innovation culture, understanding customer.

METHODOLOGY AND RESULTS

In order to be able to evaluate the development of the SME sector in countries in transition, UNECE introduced the SME Development Index, which is a complex of economic indicators that incorporate the share of the SME sector in the overall performance of the national economy, based on three economic indicators. These are: share of private property, share of SMEs in GDP, the share of the workforce in the SME sector in relation to the workforce of the entire country. In the first group of countries, the SME Development Index ranges from 500 to 2,200 USD per inhabitant, in countries of the middle level of transition it is less than 500 USD, and in countries with the slowest growth it is less than 100 USD per inhabitant. In our research, we used data available on the web portal of Republic of Srpska Institute of Statistics. In order to achieve the goals of the research in accordance with the defined research subject, the following methods were used: method of description and classification of data, method of analysis and synthesis.

The authors also analyzed the following economic indicators: Profitability rate (in %); Labor costs per employee (in BAM); Added value per employed person - Productivity (in BAM); Employees - annual average; Average wages paid per employed person (in BAM) (Table 1, Table 2, Fig 1).

As table 1 shows, the profitability rate (%) in small businesses has a constant growth throughout all 9 observed years except in 2017, when it was 12.9%. In the case of medium-sized enterprises, the continuity of growth is interrupted in 2018 (9.1%) and in 2022 (12.2%). With large enterprises, there is no continuous growth, but there is variability. The profitability rate, expressed as a percentage, typically indicates the level of profitability of a company or industry. It measures the efficiency of a company in generating profit relative to its revenue or investment. A higher profitability rate suggests that a company is more efficient in converting revenue into profit, which is generally a positive sign for investors and stakeholders. The profitability rate can be calculated using various metrics, such as net profit margin (net income divided by revenue), return on investment (ROI), return on equity (ROE), or earnings before interest, taxes, depreciation, and amortization (EBITDA) margin. These metrics help assess the financial health and performance of a business and are crucial for decision-making processes, such as investment analysis, strategic planning, and performance evaluation.

The constant growth of Labor costs per employee (in BAM) recorded an interruption in 2016 for small and 2017 for medium-sized enterprises. Also with this indicator, there are oscillations when it comes to large enterprises. Labor costs per employee encompass various expenses related to employing workers, including wages, salaries, bonuses, benefits, social security contributions, and other related expenses such as training costs. It's a crucial metric for businesses as it directly impacts their financial performance and competitiveness. Next indicator "Added value per employed person - Productivity" typically represents the amount of value added to goods and services by each employed person in a given economy or within a specific industry. It is a measure of labor productivity, indicating how efficiently workers are contributing to the production process. When it comes to this indicator, a similar situation is recorded as with the previous indicator (Labor cost per employee), for all three business sizes.

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Also, table 2, which shows Average wages paid per employed person (in BAM) shows an irregularity in growth in 2017, with net salary and gross pay. As for Employees - annual average, continuous growth in the number of employees can be observed for

Employees in business entities, but analyzing "Entrepreneurs and employees of entrepreneurs" there is a noticeable break in the growth of the number of employees in 2020.

Table 1. Economic indicators according to company size in Republic of Srpska (from 2014 to 2022 year): Profitability rate (in %); Labor costs per employee (in BAM); Added value per employed person - Productivity (in BAM)

Indicator	Business size	small (0-49 employees)	medium (50-249 employees)	large (250 and over employees)
Profitability rate (in %)	2014.	13,2	5,8	16,7
	2015.	13,3	7,8	19,4
	2016.	14,5	10	18,2
	2017.	12,9	10,2	18,6
	2018.	14,2	9,1	19,4
	2019.	15,5	10,5	17,3
	2020.	15,9	11,7	16,9
	2021.	17,2	14,4	18,5
	2022.	17,3	12,2	17,4
Labor costs per employee (in BAM)	2014.	10839	12845	18771
	2015.	10967	12998	18537
	2016.	10672	13383	17892
	2017.	10973	13229	17393
	2018.	11554	13652	17896
	2019.	11966	14480	18453
	2020.	13075	15007	18926
	2021.	14028	16178	20279
	2022.	16465	18707	22343
Added value per employed person - Productivity (in BAM)	2014.	22936	20772	32580
	2015.	23564	23531	34713
	2016.	23849	26814	34018
	2017.	23029	25962	35162
	2018.	26030	25187	37394
	2019.	28191	27171	35186
	2020.	28987	28619	34987
	2021.	34314	35309	42168
	2022.	40068	38248	47287

Table 2. Economic indicators in Republic of Srpska (from 2014 to 2022 year): Employees - annual average; Average wages paid per employed person (in BAM).

Indicator	year	net salary	gross pay	Indicator	year	Employees in business entities	Entrepreneurs and employees of entrepreneurs	Total
Average wages paid per employed person (in BAM)	2014.	825	1334	Employees – annual average	2014.	204714	36830	241544
	2015.	831	1340		2015.	207709	38266	245975
	2016.	836	1344		2016.	213844	39461	253305
	2017.	831	1331		2017.	219899	40709	260608
	2018.	857	1358		2018.	225342	40967	266309
	2019.	906	1407		2019.	230538	41828	272366
	2020.	956	1485		2020.	232546	41681	274227
	2021.	1004	1546		2021.	236254	42776	279030
	2022.	1144	1730		2022.	243115	43564	286679

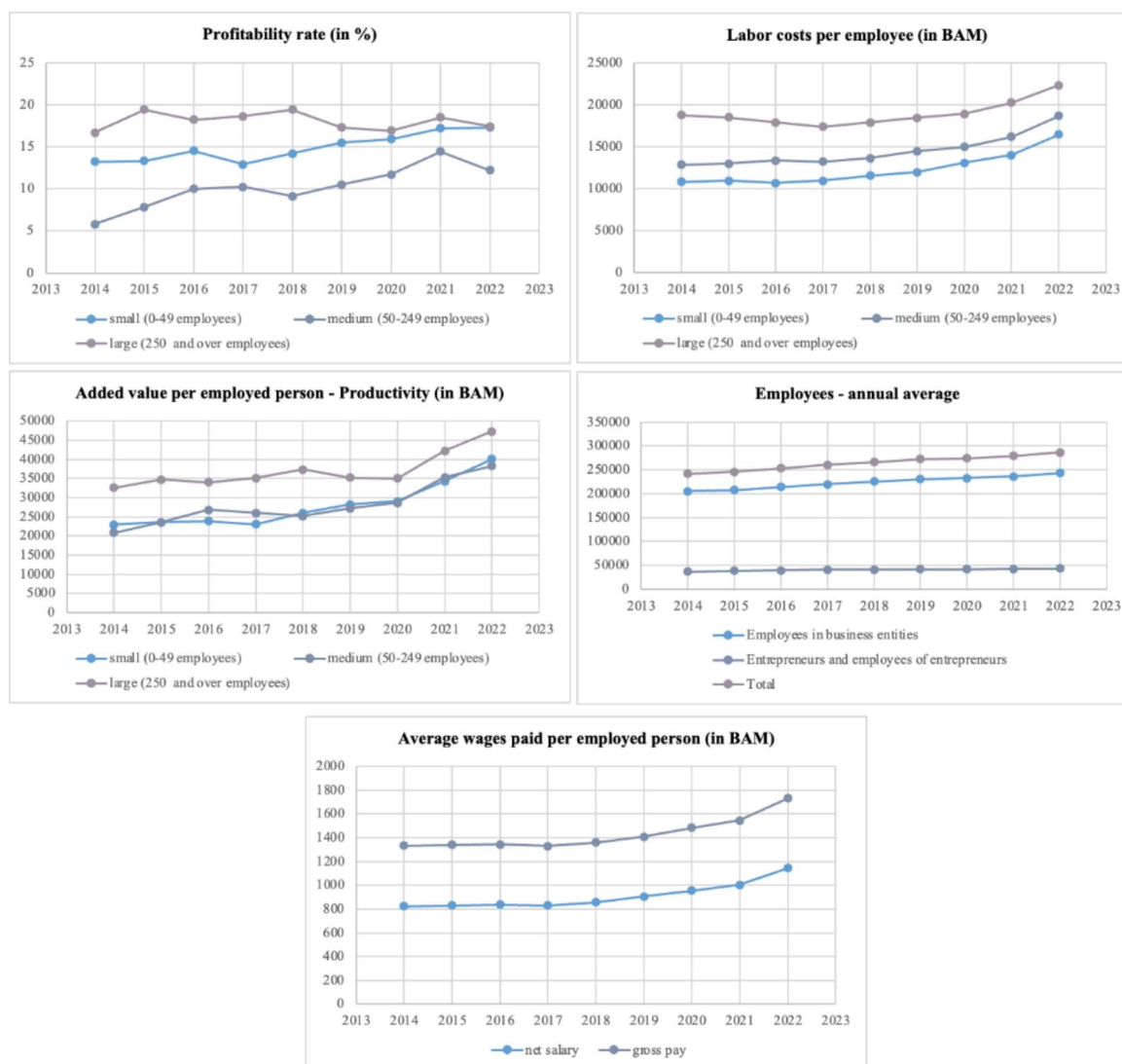


Fig. 1. Economic indicators according to company size in Republic of Srpska (from 2014 to 2022 year): Profitability rate (in %); Labor costs per employee (in BAM); Added value per employed person - Productivity (in BAM); Employees - annual average; Average wages paid per employed person (in BAM) (Authors according the Republic of Srpska Institute of Statistics)

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The authors analyzed "Annual business indicators by company size in Republic of Srpska" (from 2014 to 2022 year): Number of entrepreneurs; Number of employees; Number

of companies; Turnover (0000 in BAM). The analyzed period is 9 years (from 2014 to 2022) (Table 3, Fig 2).

Table 3. Annual business indicators by company size in Republic of Srpska (from 2014 to 2022 year): Number of entrepreneurs; Number of employees; Number of companies; Turnover (0000 in BAM)

Indicator	Business size	small (0-49 employees)	medium (50-249 employees)	large (250 and over employees)
Number of entrepreneurs	2014.	18576	7	0
	2015.	18834	9	0
	2016.	18657	9	2
	2017.	18033	12	3
	2018.	17801	11	3
	2019.	17907	15	3
	2020.	17629	16	2
	2021.	18743	17	2
	2022.	19370	16	2
Number of companies	2014.	7074	381	58
	2015.	7023	356	63
	2016.	6900	371	70
	2017.	7539	417	78
	2018.	7495	418	87
	2019.	7556	435	88
	2020.	7265	429	95
	2021.	7840	427	94
	2022.	8322	440	97
Number of employees	2014.	86252	39287	38895
	2015.	89374	37659	41700
	2016.	90050	38074	43951
	2017.	88805	42781	49011
	2018.	90776	42738	53371
	2019.	93992	44977	55329
	2020.	91087	43272	56242
	2021.	93675	43661	56244
	2022.	95724	44486	58257
Turnover (000 in BAM)	2014.	9471853	5376298	3222574
	2015.	10088261	5102289	3469023
	2016.	9586490	5098286	3898609
	2017.	9847602	5328347	4673038
	2018.	10702495	5442864	5353766
	2019.	11248247	5464171	5338391
	2020.	10589231	5038512	5354051
	2021.	12587102	5818958	6637779
	2022.	14942143	7114550	8337125

Many economists argue that these metrics are fundamental for assessing the scale, growth, and economic contribution of businesses within an industry or economy. They provide insights into the entrepreneurial ecosystem, business dynamics, employment trends, and revenue generation, helping stakeholders understand the business landscape and make strategic decisions.

It is known in the literature that "Number of Entrepreneurs" refers to the count of individuals who have started or are involved in establishing and managing a business venture.

Entrepreneurs are individuals who take on the risks associated with starting and operating a business with the aim of making a profit. These metrics show that there is a decline from 2017 to 2020, and that the number of entrepreneurs was decreasing. In 2021 year the number would approximately return to the number from 2017.

As for medium entrepreneurs, the continuous increase in the number of such entrepreneurs was interrupted in 2018, but continued the following year. For large entrepreneurs, the number has been the same for the last three years.

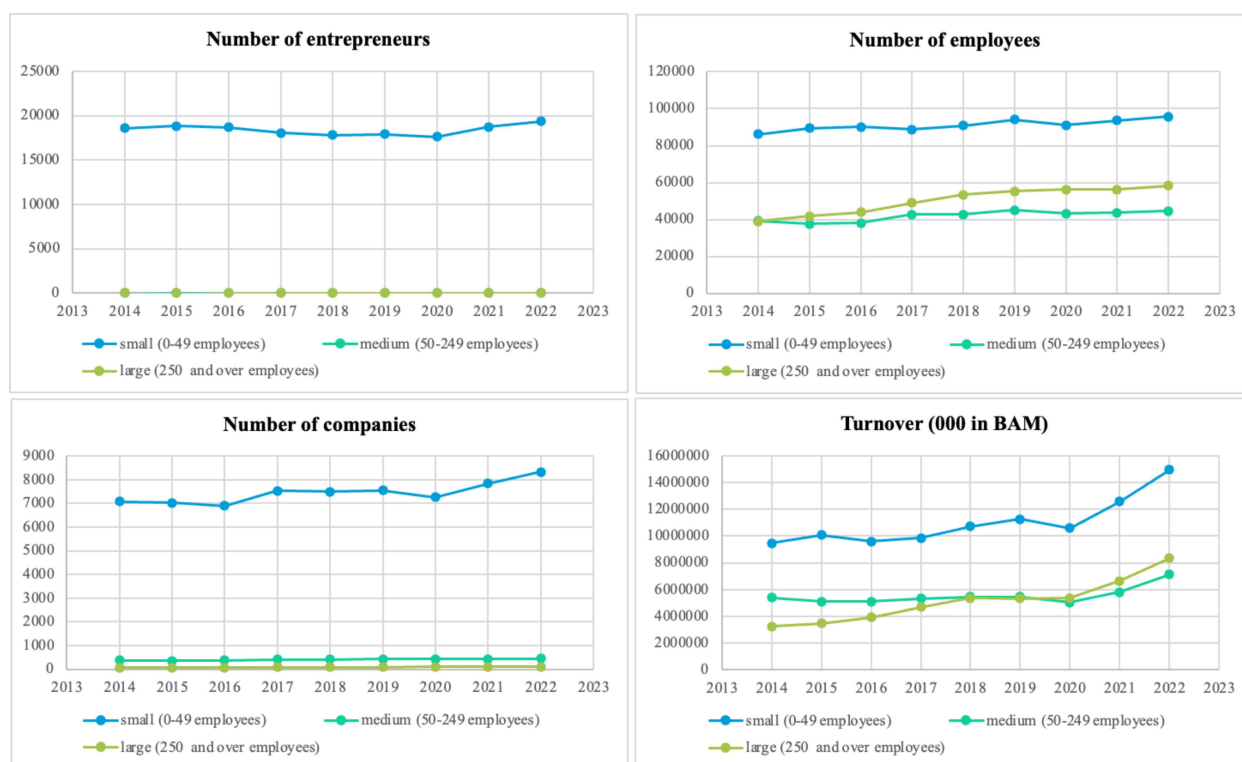


Fig. 2. Annual business indicators by company size in Republic of Srpska (from 2014 to 2022 year): Number of entrepreneurs; Number of employees; Number of companies; Turnover (0000 in BAM) (Authors according the Republic of Srpska Institute of Statistics).

"Number of Companies" represents the total count of registered or active businesses within a particular jurisdiction or industry. It provides an indication of the level of business activity and competition in a given market or economy. Only large companies see the continuity of the growth of the number of companies. Analyzing the numbers of small and medium-sized companies, variability is noticeable from year to year.

As table 3 and Fig. 2 show "Number of Employees" metric indicates the total count of individuals who are employed by a company or

organization. It includes full-time, part-time, and temporary workers. The number of employees is a crucial measure of workforce size and organizational capacity. Looking at the data of the mentioned indicator, the situation is noticeable, as with the previous indicator and business sizes.

Turnover, also known as revenue or sales, refers to the total income generated by a company from its primary business activities, such as selling goods or services, over a specific period, usually a fiscal year or quarter. It represents the top-line financial performance

of a business before deducting expenses. Also with this indicator, the situation is similar, as with the previous two, with the fact that there is a noticeable increase in turnover in 2022 compared to the previous year for all three business sizes.

DISCUSSION

In most countries in transition, including in RS, there is underdevelopment of one or more levels or non-cooperation and inconsistency, so the situation is often encountered that, although the government has set the goal of developing the SME sector, support for it is still weak even in the initial phase. Until now, the lack of comprehensive legislation related to the development of entrepreneurship and SMEs in countries in transition has mostly hindered their development. The key condition for success is the creation and adoption of a coherent and transparent SME development program, assistance and promotion, so that the legal, technical and financial conditions are applied comprehensively and in a complementary manner (Dušanić-Gačić, 2022).

The main weaknesses of the institutional framework for the development of the SME sector and entrepreneurship are:

1. The complexity of the institutional arrangement due to the existence of 14 governments throughout BiH, within which is RS, on their territorial entities, and each of them has its own characteristics of creating and implementing policies;
2. Lack of coordination and cooperation between institutions dealing with SME policies at the state and entity level;
3. Limited capacity of these institutions;
4. High dependence on initiatives and programs financed by donors.

However, entrepreneurs have the possibility of incentives that are not unified at the level of BiH, nor in RS. However, we can single out that financial support programs are available that are intended for those who plan to start their own business or are entrepreneurs in the initial phase of development. The programs that have been continuously implemented in recent years are:

- The Start-up program is a combination of loans and grants through which beginners

can acquire new or used equipment necessary for starting a business, finance ongoing maintenance of business or production premises, as well as cover operational costs.

- The early development program is intended for young companies that develop a technological innovation for which there is a need on the market. The program is designed with the intention of supporting the survival of the company during the critical phase of research and development and enabling the development of business capacities with which to place their innovations on the market.
- The subsidy for self-employment is intended for the unemployed who are registered with the National Employment Service and have completed training to start their own business.

CONCLUSIONS

Despite slight progress, SME culture is still at an initial, initial level in countries in transition. It is necessary to develop coherent national educational programs in which individual initiative and creativity are promoted from the very beginning and are later monitored in the subsequent professional education of entrepreneurs. Basic obstacles to faster development of the SME sector are classified into six main areas: financial obstacles, institutional obstacles (including regulatory framework and taxation regime), competitive market barriers, barriers related to internal organization and resources, social barriers (including support from government agencies) and the degree of trust between businesses. The basic views of what is considered a key obstacle in the development of the SME sector are classified into two approaches: the "money first" approach (unfavorable conditions under which the bank provides financial support to SMEs) and the "institutional" approach (non-financial obstacles represent a key barrier to growth).

The authors conclude that the main weaknesses for the development of the SME sector and entrepreneurship are the complexity of the institutional and political structure of BiH, the lack of coordination and cooperation between institutions at the entity and state level, high dependence on donor funding. The opportunities

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that have been provided are available financial support programs for starting your own business, which have been continuously implemented in recent years for entrepreneurs in the initial phase of development, which were previously discussed. The recommendations are focused on better information and education about the mentioned programs, in order to use them more purposefully.

Interest in the role of SMEs in the transition process has grown rapidly in recent years and there is now general agreement that the SME sector can play a key role in the transition process. Blanchard (1997) believes that the essence of the transition is the reallocation of resources from the state to the private sector, combined with the restructuring of enterprises. The establishment of new companies is a key mechanism through which the reallocation process can bring results.

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