

Assumptions and Requirements for Entrepreneurship Determining Role in the Development of the National Economy

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***ABSTRACT** – We live in a time of brutal globalism, order in which developed national economies are establishing standards and rules of conduct. Domestic enterprises had to replace the national business environment with international (global) environment in order to survive, because businesses outside the national borders become the backbone of their growth and development. In an order of globalism, small-scale economies are dependent on those very big national economies which had just entered in a phase of recession, a span of time which is very hard to predict, but it is certain that their recession will have far reaching consequences for small-scale economies such as Bosnian. That gives us the right to say that it is the time for an alert! By which means can the economy of Bosnia and Herzegovina confront with the global economic (financial) crisis? This work should draw attention to that path, and that is the development of entrepreneurship. We are witnesses that entrepreneurship in the world is in a constant rise, and that entrepreneurship greatly contributes to the economic development of societies in which it operates. However, for the development of entrepreneurship it is necessary to be familiar with the market economic system. Unfortunately, economy of Bosnia and Herzegovina is still in the transition process that takes place very slowly and inefficiently, which will result with a greater burden in overcoming the consequences of the global economic crisis.*

***KEY WORDS:** market economy, entrepreneurship development, development of national economy, transition of economy, company restructure*

Introduction

We are living in a time of changes. Those changes are very broad, deep and occur very fast. They occur in almost all spheres of human life and affection. No matter what the causes are all those changes, as well as their consequences, are structural and economic in nature. Entrepreneurship, as a special activity and the entrepreneur as the advocator of that activity are elaborate, dynamic and economic socio-culture categories which today, in addition to classical, receive various new features and meanings in theory and practice. The changes we are encountering include abstract, willing, creative and innovative business and development activities, pervading all enterprise and management functions: planning, organizing, staff recruitment, operating (leading), controlling, and improving due to achieving predetermined goals.



The phenomenon of entrepreneurship and small-scale economy presents some of the main political, economic, media and social topics and the interest for entrepreneurship derives from the perception that the history of mankind is in a certain way a product of an entrepreneurship effect as well as from expectations that this century will represent a period of further expansion or even explosion of entrepreneurship. The social and economic context of contemporary entrepreneurship has been significantly altered- by abandoning the concept of scope economy as the primary driving force of the economy of development, by the occurrence of periods of global uncertainty, by an entry of a huge number of countries in the processes of social and economic transition, entrepreneurship, especially the one realized via lots of small scale enterprise, is again perceived as a booster of development. Today's entrepreneurship renews, transforms and encourages the development of economies worldwide it generates the occurrence of new business ventures, founding of new, usually small-scale enterprises, new employments, and renewing the national economies with "fresh blood", providing them with vitality, innovative products and services and increasing their chances for general, societal, cultural and social improvement. In a world where ideas set forward economy, it is not peculiar that entrepreneurship and small-scale economy are often perceived as an inseparable unity - by decreasing the significance of comparative advantages of material resources, the role of knowledge in achieving advantages of rivals and generating economic growth is increased. According to the previously mentioned, contemporary entrepreneurship based on knowledge, information, human and social capital, and intellectual technology, is frequently alleged as a further, fourth factor of production, in addition to labour force, natural resources and capital. Human creativity and entrepreneurship are a necessity for combining inputs in a profitable manner - and the institutional environment which will encourage entrepreneurs becomes a critical determinant of economic growth. By this approach the entrepreneurs and the entrepreneurship grab the spotlight in acquiring a long-term economic and social development, especially of those economies which tend to be an enterprise - and a man, as a social and economic being, gradually becomes an enterprising being- *homo entrepreneurus* too. However, creativity, manliness, and courage will not be the generators of the new entrepreneurship - entrepreneurship does not only affect our lives by providing us with new products and services, but also represents, for many of us, the future perceived through employment, through our workplaces. Namely the fashion in which big corporations continue with firing results in the fact that more people enter into creating their own business ventures - they establish and manage small-scale enterprising corporations which provide high-quality services for their consumers. In a business environment where big corporations tend to maintain slimmer structures with little hierarchical levels, and without the burden of bureaucracy, an eruption of "micro-enterprises"- enterprises with less than ten employees occurs. Some of these enterprises are founded by workers who were fired. Some of these entrepreneurship based enterprises will be established by individuals who will try to avoid the next wave of resignations.

Contemporary entrepreneurship is a call for struggle, a struggle in which one has to have great courage in order to succeed. Today's and future enterpriser is an explorer, an unsettled spirit asking questions about everything and questioning various paradigms. He is aware of the unpredictability, uncertainty, risk, the chaotic state and sometimes even the pain which goes along with the entrepreneurship process. However, he tries to think things over,



upgrade the existing things, or invent new ones for the common good, and the social process in which he is a protagonist never stops. From this point of view entrepreneurship becomes one of the deadliest weapons which an individual can own and activate in a struggle to survive in the turbulent and uncertain world and in an environment disposed to firing workers.

Entrepreneurship is connected with uncertainty, risk, and responsibilities for business and development ventures, but it is also linked with the pleasure of the achieved and the satisfaction due to participating in such a creative process. A modern and prosperous enterpriser is gifted with creativity and innovativeness. Unsatisfied with moderate and filled with a desire for change and success. Capable of making an enterprise enterprising, flexible, and adaptive to environment changes, market shaped with buyers and suppliers as a locus of interest. He has to choose partners, assign appropriate tasks to them, must be able to communicate and cooperate with people, to listen and consider their positions, motivate them to work, give them appropriate rewards, and ensure their constant advanced study and timely progress.

An enterpriser has to make quality timely decisions and be capable of choosing, obtaining, combining, and activating resources. He has to possess sufficient knowledge about jobs and people and he must be a visionary, a strategist, frank, honest, courageous but also reasonable, cautious but not fearful, enterprising but not rash. He needs to know how to set the right aims, comprehend the meaning of science, knowledge, information, time, place, as well as new resources. A contemporary enterpriser has got to grasp the change of role and position of a man in manufacturing and social processes. He has to be a master of modern electronic communication devices, know at least two world languages, undertake measures which will strengthen the competitiveness and the position of his enterprise on the market, providing permanent income, development and dynamic stability. Science and knowledge are developing into a fundamental producing force of the society. The manner of production, relationships among people, positions toward labour, labour means, as well as relationships of people towards nature in an exchange of matter with it are being changed. The old electro-mechanic, technology-technological basis, and its bureaucracy structures are giving up their place to new electronic-biotic-genetic and robotic-technology-technological basis and its organic structure.

In order to survive Bosnia and Herzegovina enterprises have to replace their national business environment with a global one which is governed by multinational corporations from developed economies. It also has got to, as soon as possible, acquire the 'alphabet of market economy' i.e. reconstruct itself in order to 'play a game at the global market'. Unfortunately the process of domestic enterprise transition is developing very slow and inefficient which amplifies the difficulties when coping with the consequences of the global economic crisis. The quality of the economy of domestic enterprises which are still in transition has a constant down lane which is logical since the managing of those enterprises is left to non-professional managers which are not required to successfully manage an enterprise. Instead of taking responsibility for the results, they are only required to be obedient and to execute the parties goals, so domestic enterprises, due to low efficiency and effectiveness, constantly create damages which have to be covered from the existing state capital. Hence the capital of government enterprises constantly derogates and ends up in the



pockets of individuals. The consequence of all that is a low quality of economy and a low level of competition on the global market, as well as reducing the quality of economy of overall state business.

The effect of entrepreneurship on the accelerated growth of national economy

Entrepreneurship is defined as a process and activity (equal protagonists and society as a whole) which, with the aid of innovativeness in the presence of new combinations with limited producing factors, creates and realizes an venture which results in profit (and other social benefits). Enterpriser is a person who risks: money, health, time, social status, and sometimes family to create and realize a profit-based innovative product i.e. service by offering his creativity and innovativeness in most cases. Many of today's established and worldwide famous enterprises such as Wal-Mart, Ford Motor, BMW, FIAT, Procter&Gamble, Dell Computers, Microsoft, Michelin, Ikea, Qualcomm, Benetton begun their business life as small enterprises with a enterprising vision of their founders as their main generator of development. Despite the risks involved, world entrepreneurship is in a constant growth and greatly contributes to the economic development of the society in which it operates.

We can rightfully state that today's entrepreneurship is the bearer of the permanent innovation (*entrepreneurial innovatori*) which renews, transforms and encourages the development of economy worldwide. It generates: (a) the appearance of new business ventures, (b) the occurrence of many new work places, (c) renews the national economy with "fresh blood" offering: vitality, innovative products and services, and increasing its chances for a general social and societal advance. In 2002, it is estimated that around 460 million people around the globe were involved either in the activities of starting new business ventures or representing owners-managers of new enterprises. [Bygrave, Zacharakis, 2003] The dynamics of entrepreneurship is illustrated by the fact that only in the USA more than one thousand new business ventures are created every hour in every work day. For the sake of a better comprehension of the correlation link between entrepreneurship and the growth of national economy we shall create a concept model of economic growth in which we can see the relationships between its basic parts (see picture 1). This picture demonstrates that the economic growth of certain national economies is strongly influenced by social, cultural, and political factors expressed through: social norms and conduct, the level of democracy, educational degree, political stability, attitude towards entrepreneurship, perception of enterprisers, etc. The factors which determine two significant mechanisms which encourage the economic growth are:

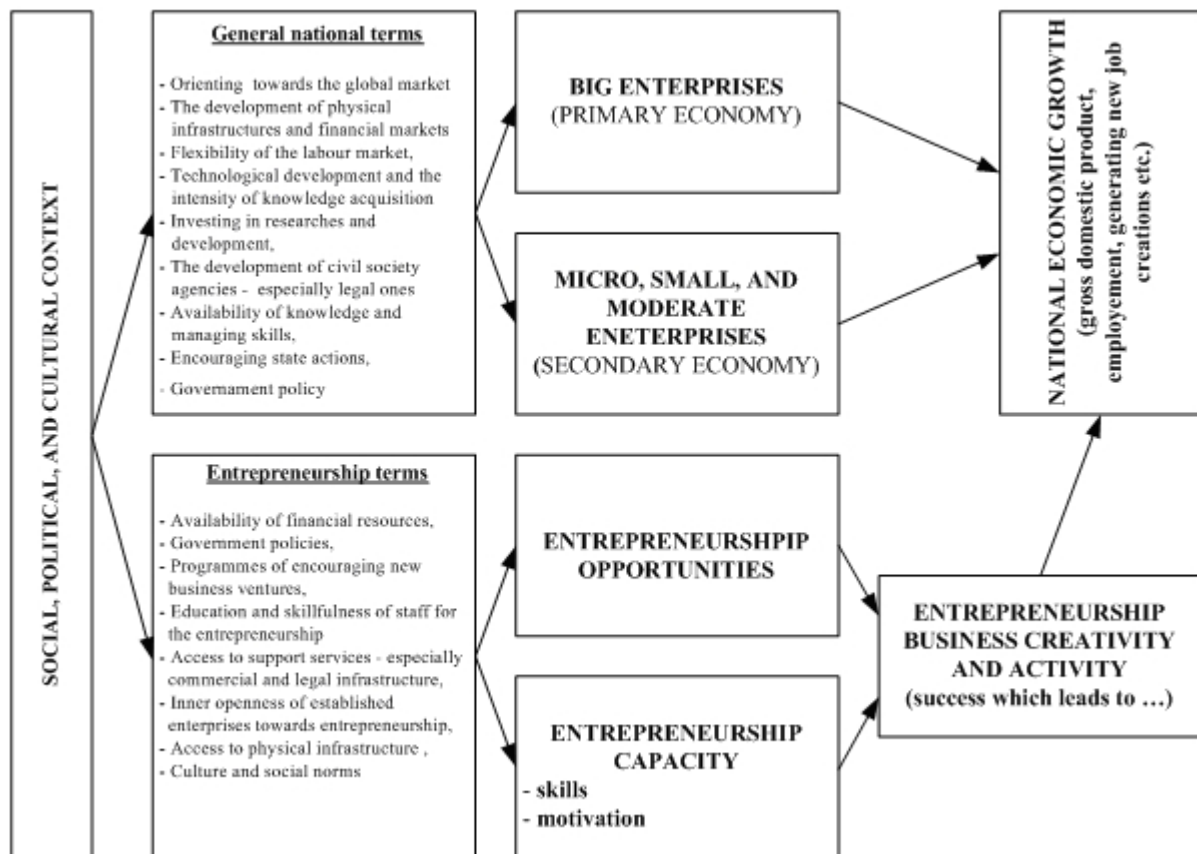
- *General national terms* which generate the most significant, defined and established, enterprises no matter whether big (primary economy) or micro, small or moderate scale enterprises (secondary economy) are at stake. In addition to national scenes, big enterprises also develop on the global scene, making a significant contribution to the prosperity and development of their national economies. The enhance of growth of these enterprises and the expand of their operating will increase the demand for products and services of national economies, including increased market chances for a variety of micro, small and moderate enterprises. In addition to general terms of dealings on the global scene,



the success of overall observed categories of national enterprises is determined by national context in which they operate (general national terms).

- *Entrepreneurship terms* which generate the entrepreneurship process, emphasize and strengthen the role of entrepreneurship in founding and developing new enterprises and other forms of enterprising processes. In this part of the model it is also possible to see that, in addition to general national terms, special i.e. entrepreneurship terms affect the entrepreneurship process and the expand of new enterprises. Furthermore, the prosperity of the entrepreneurship process is subordinate to the following critic contents:
- *Entrepreneurship opportunities* (which are related to the existence of market conveniences and the perception of market opportunities) and b) *entrepreneurship capacity* (which enables people to establish a new business to fulfil the needs of market opportunities - which is primarily related to the motivation for entering the world of entrepreneurship and possessing knowledge and skills necessary for the realization of market opportunities).

Picture 1. The Concept model of Entrepreneurship and the economic growth of National Economy



If the entrepreneurship opportunities and privileges allow for, and the capacity of the economy permits it, *an entrepreneurship business creativity and activity* is developed. On a national level this activity is represented by a number of processes of births, struggles to



survive, developments, but also the ends of enterprises or business ventures. The result of the entrepreneurship business creativity and activity is a *national economic growth* expressed via an increased gross of domestic products, higher employment, and by generating job creations.

Both previously mentioned mechanisms (general national terms and entrepreneurship terms) are in mutual correlation and in clear complexity: through acquiring new technology, expanding technological proficiency and developing new products, the established enterprises can encourage and increase business opportunities for a number of entrepreneurship initiatives. The same goes for enterprises with an accelerated technological development and by cutting down the business expenses they can allow established enterprises to achieve extra advances over competition. In that way entrepreneurship makes another contribution to the growth of national economies.

Seeing the importance of entrepreneurship for national companies and their development, the largest number of countries accepted entrepreneurship as a vital component in the process of economic growth and development. In the process of globalization the world economy is gradually losing its local regional state features and those damages are significantly accelerated by new technologies, new innovative processes and by a number of integrations of a variety of local, regional, and international institutions. The contribution of entrepreneurship is undisputable in the process since enterprisers, as one of the factors of success, develop and implement new technologies, generate new products and services and facilitate the development of educational processes, the growth of common welfare of the society in which they operate.

Entrepreneurship and contemporary tendencies

Entrepreneurship always had an important role in the development and reconstructing of market economy and it was decisive in the so called trans periods when civilization changes were occurring, e.g. the transfer from agrarian to industrial civilization in the 15th and 16th century or the current transfer from industrial to information civilization which in terms of time coincides with the transfer from command economy to social-market economy in the so called countries in transition, while the world's most developed countries have more-less entered that world a long time ago. The processes of development are expressed in decentralization, and flexible organizational structure of the economy and society, among other. New regulations on the position and role of a man in economic and social processes, comparing to the ratio of workers and administrators and the overall human relationships, are being established.

Regarding that, T. Peters, in his book *Thriving on Chaos*, gave attention to ten trends of development which are vital in understanding the meaning which entrepreneurship receives in the modern age. Those are the following trends:

- 1) *A great deal of uncertainty* concerning contemporary economic changes (prices, production, design, distribution, organization). Huge economy dynamic, innovativeness and constant adaptation is required
- 2) *Time* becomes the main factor and the battlefield for rival fights since uncertainty requires speed and flexibility, huge ability to react, and adaptability base on



informational technological changes (the so called *zero responds time company, just in time, stock management*)

- 3) *All markets become patchy*, and the merchandize is produced for a noted buyer (*customized goods*) which requires computer design and a flexible factory system, electronic data processing and distribution. That means that there are no more so called usual "market niches which the traditional manager used to build up strategies.
- 4) *Quality, design and service* become the most important comparative advantages of manufacturers of new products which are made by modern technology and by a new comprehension of quality in new organizational shapes of activities and design as an assembly of technological and esthetic features on a business basis.
- 5) *Reconstruction of big enterprises* - corporations on the basis of competition among quality, design and services, organizational-technological flexibility, and market adaptability. That means that that big enterprises, due to business irreversibility can become flexible themselves with the creation of new lines of autonomous enterprises.
- 6) *New organizational configuration of enterprises* denies traditional enterprise bureaucratic hierarchy which is no longer competent to compete with time, quality, design, and services. That is the reason why organizations are being decentralized, converted in to networks of inner and outer autonomous organizational units.
- 7) Old economic ideas about big size economy are changes under the influence of market structure and conglomeration; it strengthens the trend of small and moderate enterprises which are more and more merging into networks which include enterprises and/or their organizational units. The big corporation becomes a system of small enterprises and their organizational combinations in which the informational technology is one of the key prerequisites of a network of business correlation.
- 8) *Individual organization becomes a part of corporation networks* of an enterprise and market partners are more considered as business associates (*partnership*).
- 9) *Internationalization of all economic processes* means that all economic subjects are mutually connected and dependant on the global market. Production, distribution, exchange and consumption actually become international and the competition and informational flows make the enterprises an integral part of the world production and turnover.
- 10) *Significant changes occur in the process of labor and in the status of employees* in an enterprise. Repetition labor is transformed into innovative sophisticated labor which produces quality instead of quantity, usually provokes higher interest form the employees and decreases absence from work and increases the economy of manufacturing and dealing. [Peters, Waterman 1982]

The stated changes are both the result and the backbone of new changes in entrepreneurship and management. The key question for enterprisers and managers is: how to transfer from one state to another, which is usually linked with dynamic events in the enterprise (collapse or success) or with changes of enterpriser's leadership or new changes in



the form of decentralization of enterprise ownership (*management buy out, spin offis, split offis, split up,...etc.*). On the other side, for a macro-economic approach, the type of institutional changes is very important to enable a fast and efficient restructuring of the whole economy.

The determinateness of entrepreneurship development - assumptions and conditions

The development of entrepreneurship requires freedom: it has to be free entrepreneurship in a free market economy. That includes the right to found an enterprise, the right to choose the subject of dealing (with the exception of areas reserved for some common social interests - defense, ecology, etc.), free convention concluding, free selection of organizational shape, an provided system of acquiring assets and the freedom of investing. It also requires institutional postulates of existence and national functioning of free, integrated and opened marked, free competition.

For the development of entrepreneurship it is also important that there is a social, economic and political environment as well as general perception, philosophy, and atmosphere which are not hostile towards entrepreneurship and the righteous profit-gaining of individuals and the community including the protection of economic subjects from unreasonable tax and similar duties which could jeopardize the necessary accumulation and development of an enterprise. In addition to that it is also necessary that the government advocates a suitable economy-development policy and establishes appropriate stabilizers and stimulators of economic life.

Accordingly, it is necessary to provide the following terms necessary for the development of contemporary entrepreneurship: (a) economic, (b) societal and (c) political terms.

- (a) *Economic terms of the development of entrepreneurship.* Free market is one of the main economic prerequisites for the development of entrepreneurship. It provides enterprisers with the necessary information to make the right calls. Free market generates apportioning and distributional function accepting economic criteria and the rules of the game defined by the conjoint of offer and demands. The prosperous functioning of a market implies free movement, turnover of goods, money and labor force, and creating prices in accordance with specific conditions. Enterprisers acquire the necessary resources under the same conditions and equally participate in the market exchange of goods. The innovative rules of the game which make them to take account of competition, prizes, the selection of manufacturing factors, means of its combining and the possibility of accessing products and their realization on certain markets in organizing their own business are exercised on them. *The basis of market position is formed by its efficiency, lower producing expenses, lucrative work etc.* For a better positioning it is necessary to select a product (service) and constantly work on the development of its quality. Also, before making a decision on entering into a production, it is necessary to evaluate the technological needs and to choose a strategy which maximizes the advances in disposal of the enterpriser.
- (b) *Societal terms of entrepreneurship development.* According to P. Drucker entrepreneurship is a socio-cultural phenomenon which is essentially dependant



on societal structure, and a valuableness (ethic) system. From the societal point of view the crucial factor is also the societal mobility of people and their education as one of the most important criterion of their societal promotion and successfulness in economy. [Drucker 3/84] Namely, entrepreneurship requires a dynamic restructuring of the society on the basis of constant new criteria in societal structure. The system of values, i.e. its broader conception - «economic culture» is an important string in the development of entrepreneurship. Economic behavior of individuals on the basis of private property, market competition or, for example the Christian ethics of rationalism philosophy, individualism, innovativeness, self-discipline, and self- initiation were very encouraging elements in the development of entrepreneurship civilization of the West. When it comes to societal terms of entrepreneurship development, a special place is occupied by *innovative and climate culture* as a very significant societal condition for the development of entrepreneurship. Creating an innovative culture depends on several factors, primarily on tradition and encouraging actions for creating new ideas, products and services. In the development of entrepreneurship tradition has a significant role, since experience is acquired and passed on, and the reputation is inherited and increases from generation to generation. A captured product and the market form the basis for advancing the scope, the assortment and better positioning of the company. Successors add positive things to the company and attempt to modernize its work with knowledge and experience. Creating an innovative culture, as a dominant value in the business of a company is conditioned by the skills of the employees, their abilities and predispositions to explore and innovate. The creation of innovative culture and climate is also affected by healthy competition, imitating and the cooperative work of all participants. A special color to innovative pace is added by prosperous explorers and managers with a vision, willing invest and risk.

- (c) *Political terms of entrepreneurship development.* The development of entrepreneurship depends on basic political-economic values such as democracy, liberalism, pluralism, freedom...etc. Those very values represent the surface framework - field of development of entrepreneurship-economic values. Since the policy freedom determines the economic freedom, it furthermore determines the development of entrepreneurship. So political pluralism is the precondition for economic pluralism which enables the development of a variety of entrepreneurship forms.

Worldwide experience points out that the government behavior and its special regulative part in economy are vital for the development of entrepreneurship, but not if it is the substitution for objective economic legitimacy, but rather in the function of creating conditions for their market operating. Unreasonable state legal regulative for economic processes and shapes can be very harmful - creating an ambient which prevents or slows down initiatives and entrepreneurship, increases uncertainty and risk, restricts foreseeing and prosperity of finishing entrepreneurship actions. The state, with the aid of it's law regulation and economy-development policy has to encourage and support positive conducts, and prevent negative such as monopoly, autonomy, law insecurity, tax overwork,



credit discourage, etc. In that sense, anti-bureaucracy and anti-regulation belong to the same type of institutional innovativeness, but under the condition that the government really removes barriers to the undisturbed functioning of market economy and free entrepreneurship and promotes positive movements. That includes stimulating small and medium entrepreneurship, reasonable taxes, suitable monetary and credit policy, the support of science, education...etc. Hence the state deregulation in economy is a very important determining factor of the entrepreneurship development.

It is necessary to provide free functioning of market institutes by deregulation. The government, by means of its laws, actions and agencies, cannot limit the autonomy of enterprises, nor assign them with the role and manner of participating in the exchange of assets with other market subjects. If the government determines prizes, payrolls in an administrative manner, and conditions the distribution of merchandize (products and services) by its actions, then the market does not have its role and it's economic laws do not force the producers to deal rationally.

In addition to that, the government cannot prevent entrepreneurship initiatives by means of administration and to subject them to a special regime of control, taxation, and tariff payment. Moreover, it can have a extremely positive effect in the entrepreneurship development of countries if it, by its regulations, stimulates creating of new organizations, introduces tax relieves, and enables enterprisers to successfully start and develop their business. Enterprisers who isolate assets for new investments should be tax relieved for that part of assets, and should be enabled to import the necessary equipment under favorable terminal conditions.

The state should create a framework for creating new enterprises by various actions, since they are sometimes complementary with other companies and can discover a part of new market demands and make the offer more various and attractive for the market. Ideological prejudices on entrepreneurship should make room for the economic cause of rational organization of market structure in which different forms of ownership and companies of different proportions have their place under the sun.

The transition of economy of Bosnia and Herzegovina in the function of entrepreneurship development

The transition of economy of a country includes it's promotion to the tracks of propulsive market economizing which means the confrontation of an enterprise with picky, organized, and sophisticated consumers and aggressive (domestic and foreign) competition. Since the 1980s, the economy of Bosnia and Herzegovina, as well as the economy of other former socialistic countries, is an a process of transformation from non-market, earlier self-governing, to contemporary market economy. The transitional package implemented in Bosnia and Herzegovina is based on the «rules of the game» defined by the *Washington* consensus. On the international level, the transition, so far, has been lead by the International monetary fund, The World bank and the USAID.

There is a historic difference concerning the process of transition occurring in a mature market economy and the one in the former socialistic economy. We in Bosnia and Herzegovina are transforming the entire political, social and economic system. This is



actually a revolutionary step and to realize it, we need the following: capital, better management, construction of institutions, time, market, and an adequate macro-economical management.

The constitutionalism of the market economy system and creation of a market-oriented enterprise represent two axioms of the transition process. On a macro-economic level that includes the establishment of a business ambient appropriate for the developed market economies. On a micro-economic level that includes a series of structural changes of an enterprise directed towards the improvement of business efficiency and adaptation to the market demands.

So, for a company to efficiently realize the transition of its economy, it is inevitable to start from enterprise transition. The transition of enterprises has to be realized fully, in an appropriate way and according to appropriate methodology and not by demands and desires of a political party or group, or an international factor. Transitions (restructuring) of enterprises represents an activity of finding the most efficient and effective way to achieve the goals of an enterprise, from the aspect of all of its internal and external *stakeholders*, and that activity results in an accelerated economic development and an increased life standard.

Transition is permanently exercised in developed market economy countries and it is not our feature or our very own characteristic process in economy. In almost all market economy countries there are continuously different transformational processes in the scope of ownership, organization, managing, as well as market and financial restructuring in order to increase efficiency and competitiveness of their enterprises on the domestic and foreign market. Those processes include: (1) the selling of enterprises and or their parts, (2) selling of the check action package, (3) enterprise linking in various forms such as holding or concern, (4) decomposing of enterprises on more dependant (subsidiaries) enterprises, (5) integration and merging of enterprises, (6) decentralization of enterprises and forming various types of business units in it such as a strategy business unit, financial, profit, and investment centers, (7) business pre-orientation of an enterprise, (8) financial recovery of an enterprise, (9) liquidation of an enterprise...etc.

In addition to these transformational ventures undertaken by the enterprises themselves there are also some interesting transformational ventures which are undertaken by the government via its specialized agencies to encourage enterprise capital investment in prosperous activities.

So restructuring is a common process in market economies today. It is the prerequisite and the basis of efficient and effective business of its enterprises. Since every enterprise in the market economy has its development stages, growth, stabilization, stagnation, and healing (or liquidation) it sooner or later finds a way out of the crisis in some of the mentioned transformational ventures. [Milisavljević, Todorović 1991]

Bosnia and Herzegovina enterprises took a huge step toward business on market criteria. For them, restructuring is not only a necessary move, but something vital for its survival on the market economy based on personal risk and fierce competition struggle on the global market. *They have to reform from the ground which means systematizing in the sense of ownership, organization, management, and market, similarly to enterprises of developed market economy countries.*

In addition to ownership, organization and management transformation, the restructuring of domestic enterprises requires a revision of producing programmes and aimed markets, as



well as a change of market approach strategy. Isolation from international surrounding, as well as certain clumsiness and indecisiveness in the adaptation of the economic system created the existence of *gaps* in the field of management and marketing, technology, organization, and motivation. Those gaps must be removed by including our enterprises in the international distribution of labor on the basis of the international marketing standard.

The survival of enterprises is conditioned by their ability to refine their offer via relocation of their resources and by establishing new attitudes towards the challenges and limitations of the global business surrounding. The enterprise on the market is worth as much as it makes profit in the given market ambient. Home enterprises, in order to redefine the market orientation, have to redefine their business portfolio. All efforts on managing, organizational, or financial restructuring will very soon vanish unless they are not followed by market and whereby programme restructuring.

For a better grasp of the «transition» phenomenon and the need to restructure domestic enterprises in the function of entrepreneurship development it is necessary to point out to the fundamental features of the market economy system as an postulate of entrepreneurship development.

Market system of economizing as a postulate for entrepreneurship development

Market economy implies a clearly defined role of the state and it's relationship towards enterprises. The government effects the terms of economy on the market by it's monetary and fiscal policy, but it cannot affect the business calls of private enterprises. It is important that the government makes regulations within it's authority which provide maximal financial discipline and other conditions necessary for a safe performance of enterprises and banks on the market of goods and capital, especially regulations concerning: financial dealing, accountancy reports and supervision, financial recovery and bankruptcy...etc.

On the other side of this process there is a enterprise whose main goal is survival i.e. development in the constant struggle with competition, which is achieved, among other, by constant restructuring, i.e. providing substantial capital structure, reducing debts and risk, creating conditions for a more favourable getting onto debts, securing better cash management, stabilizing money flows...etc.

Market economy is a system in which people have the freedom to choose their occupation (activities, business) depending on the offer and demands of the market, and on the basis of their own possibilities. That is substantial difference compared to the earlier systems of non-market economy where a different force (e.g. in centralistic-planning economy that force is the state) determined the choice of activities. Almost all systems of economizing have three basic questions: (a) *what to produce*, (b) *how to produce*, i.e. *which technology and organization to implement*, (c) *how to distribute the achieved results*.

In a market economy system the answer to the previous questions is looked fo on the market and depends on the offer and demands. In this system everyone has a chance to display their skills and knowledge and to valorise on the market, that way providing existence for themselves and their family. This is an important market economy system feature which was not present in any of the previous social-economy systems. The



relationships between offer and demands in the market economy are regulated by means of price mechanism, without the need of anyone else to interfere.

Famous American economists Heilborner and Thurow reached a conclusion that the *market system of economizing* has four foundation posts, which helped it to prove itself as the best solution for a number of modern world countries. Those four posts are: (1) dominant role of *private property* in business, (2) *profit* as the only objective norm of success in all activities requiring market valorisation, (3) *freedom of choice* of every individual to decide in which way to secure existence in accordance with his knowledge and skills, (4) *competition* in areas where that is achievable, since competition motivate all people to do a better job and to contribute to a higher fulfilment of many human needs.

- (1) *Private property* as the dominant form of ownership in society is the first post of market economy. Market economy cannot function without the private property of most manufacturing tools. Former communist countries, even the former Yugoslavia, had failed trying to create some kind of market economy without the dominating private property. Since it is in the human nature to first think about personal interests then about others, the economy could not grow. Only in the presence of private property people can primarily fulfil their own interests, but contribute to the development of the overall society at the same time. Rich individuals through tax systems help to solve the social problems of the poor and to meet many common society needs, whether they want it or not. Adam Smith called that nice self-regulating system mechanism the *invincible hand*.
- (2) *Profit* is the only objective norm of success in all activities demanding market valorisation. It is the motor fuel of every market participant. Owners of capital are not admirers of one or the other kind of business, except the one which increases their fortune. So the main goal of capital owners is to draw out as many profits as possible from it, no matter which business they are into. The ratio of achieved profit and invested capital is the basic criterion for the manager work control by the owner. Profit is also the main motif for resource allocation .i.e. the removal of capital from one business to another or from one region to another.
- (3) *The freedom of choice* of every individual to, in accordance with his skills and knowledge, decide in which way to secure existence is the third post of the market system of economizing. This possibility is a very important feature of the market economy, and it is closely connected with democracy, as the main aim of all civilized societies. Market economy and democracy are interrelated and fail to exist without the other. Every individual in the market economy has a wide spectrum of activities to choose from, but the final decision depends on his intellectual and psychological features, as well as financial possibilities. So, for example, there are people predisposed to be enterprisers. Enterprisers are all people who establish and develop new enterprises, accepting the risk alongside with the desire to achieve their goals concerning profit. Unlike them there are other people who do not have tendency towards entrepreneurship. Those people entrust their money to enterprisers and in that way they make profit. They call themselves *investors*. A lot of people are very prominent managers but do not share the entrepreneurship spirit. They sell their knowledge to enterprise owners



and in that way secure their own existence. Hence, in the market economy system there is complete freedom of choice of every individual who can change his decision anytime he wants during his entire lifetime.

- (4) *Competition* is a very important post of market economy due to the fact that it continuously contributes to the increase of product and service quality, price-lowering, and better fulfilment of the consumer's needs and wishes. That is why it is necessary to provide competition in all suitable areas, since it motivates everyone to do a better job and contributes to a better fulfilment of all human desires. It is well-known that an individual who has a monopoly position on the market will not bother trying to do something more for his buyers, because nobody is forcing him to, there is not anyone who can take over his customers. Only an appearance of loyal competition can force him to adapt to the needs of customers, in order to keep them. Comprehension of competence and its further monitoring is the key element of an enterprise strategy and the element helping it to grasp the relationship between its buyers and the internal possibilities of providing better services to them than the competition. Hence, it is necessary that the management of an enterprise, in the process of formulation and implementation of its strategy, provides answers on the following questions: (a) *what consumers buy*, (b) *what are the needs of the buyers and how to meet those needs*, (c) *who is the best at fulfilling those identified needs*, (d) *what is the status of my company, comparing to the best*, (e) *can I change my position, and be equal with the competition on the market*. [Heilbroner, Thurow 1987.]

The need to restructure domestic enterprises to develop entrepreneurship

Enterprise restructuring presents an activity which speeds up the economic development. This activity has been exercised for years in the developed market economies, and it shows its abilities in various transformational ventures concerning capital ownership, management organisation, as well as market and financial restructuring. The aim of these transformational processes is *placing efficiency and competition on a higher level*. These processes are particularly needed in our enterprises in Bosnia and Herzegovina, considering bad habits from the previous system, as well as war consequences which multiplied the inherited past.

Restructuring of Bosnia and Herzegovina enterprises is inevitable and a prerequisite of effective and efficient business, primarily since our every enterprise aspiring towards market economy undergoes its developing stages: growth, stabilization, stagnation, and healing (or liquidation). Accordingly, domestic enterprises in a current state of stagnation have two possible paths - *healing* throughout the mentioned transformational ventures or *liquidation*.

Domestic enterprises have to reform from the grounds to be able to successfully take part in the global market game based on ownership risk and fierce competition struggle on the market.

Prosperous enterprises in countries with years of experience in the market system of economizing are being carefully analysed and can be distinguished by some relevant features.

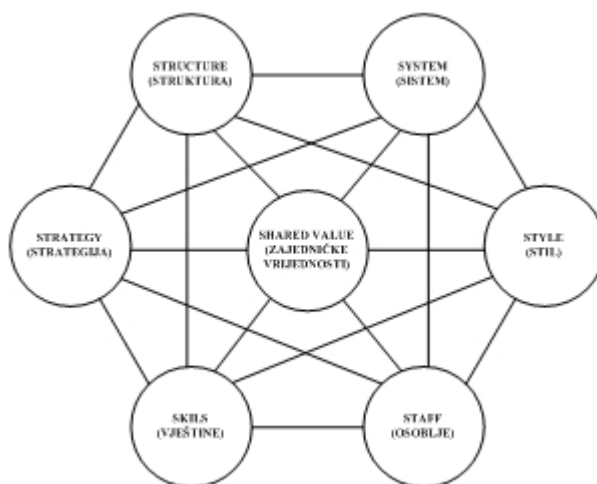
That kind of analysis was performed by two prominent experts of the famous consulting agency *McKinsey*. After a minute research they created a model which is known as the *seven*



S and its scheme is represented on picture 2. [Peters, Waterman, 1982] The authors believe that prosperous enterprises in the market economy have a clearly defined strategy which is used as a foundation to form adequate organizational structure supported by systems such as informational, technological...etc.

In addition to these three elements, which we call *hardware*, there are four other *software* elements. A prosperous company has prominent staff with specific skills and knowledge, recognizable corporation culture and shared values.

Picture 2. The McKinsey - 7S model



Source: Peters T. J., R.H. Waterman: In Search Excellence, Harper and Row, New York, 1982.

Following the mentioned elements it is necessary to identify the critical points in domestic enterprises, i.e. the largest weaknesses which will need devotion in the process of transition. *Strategy* is the modern manager's tool which can bring the crucial competitive advance on the market. We in Bosnia and Herzegovina have not paid attention to that issue nether in theory nor in practice. The previous system and the current inertia of state enterprises are the reason why strategy is one of the weakest chains. In our environment there is a lot of talk about the lack of strategy in the economic development of Bosnia and Herzegovina as a unit, but there are almost no actions to improve strategic managing of every enterprise. It should be also reminded that more attention is paid to the strategy of enterprises in the market system, and the strategy of the government is reduced to creating an ambient which is favourable for prosperous enterprises. Considering the elements of the previous model which is used by prosperous enterprises in the market economy and the fact that they are prosperous due to that usage, we can state that domestic enterprises in the process of transition are absolutely necessary to undergo the following restructures: (a) *ownership*, (b) *organizational*, (c) *managing* and (d) *market restructuring*.

- (a) *The necessity of ownership transition.* We mentioned that the dominant private property is the cornerstone of market economy due to the fact that it produces higher efficiency than other ownership systems because of the following reasons: (1) private property establishes the market of managers- by producing more quality managing, (2) capital market does a better job at disciplining private



companies than companies of public ownership which operate under soft budget restrictions do; (3) private company are more likely to exit the market, i.e. they are more often the subject of bankruptcy, liquidation, and hostile takeovers; (4) the influence of politicians on private companies is less than in companies with public ownership; (5) private companies are the subject of supervision of shareholders and members of managing bodies and, on the basis of that, they use the capital and other factors of production more efficiently. Due to producing better efficiency in economizing it is necessary to start transforming the government ownership of funds in to private property in Bosnia and Herzegovina. That process has begun by the enactment of *Law on privatization of enterprises and banks* and the process is still ongoing with different intensity in different state entities. By changing the structure of ownership it is necessary to eliminate the fatal influence of the political parties' governs over business, which was the main cause of the collapse of the previous commanding system of economizing. Privatization in Bosnia and Herzegovina will not solve the economic problems of existing state enterprises by itself. On the contrary, it will increase them. However, that is the prize we have to pay to enter the system of market economy. *Why is it necessary to approach to the amendment of capital ownership structure in enterprises?* The answer is very simple considering the former capital owner (social property - everyone's and nobody's, and later on it is a country without sense of sight, touch or brain...etc.) who cannot or is not able to effectively manage that capital, has got to give away that property to those who will make an efficient use of it to increase the economic prosperity in our country. The current social and later on state capital has been swiped and transferred into private pockets by various illegal actions, constantly decreasing the economic ground of enterprises. No one demanded responsibility from managers of social i.e. state enterprises for a higher achievement. Such managers were usually appointed according to a political, kinship or grandpa background, without any economic criteria which make a successful manager. All the above contributed to the inefficiency of enterprises on the market and the fact that they could not contribute to the improvement of life standard on the macro level.

- (b) *The necessity of organisational transition.* If we want to include the existing enterprises in Bosnia and Herzegovina in to the global market game and to increase the quality of domestic economy economics at the same time, it is necessary to exercise organizational changes (restructuring), in addition to changing the titular of ownership of producing assets. That presupposes performing a lot of important changes and innovations in the system of enterprise business organization. The following innovations are highlighted as the most important ones: (1) abandoning social (later on state) enterprise as the institutional form of organizing enterprises in our economy, (2) transforming social (later on state) enterprises into suitable, market economy immanent, forms of institutional organizations, (3) decomposing, i.e. profit decentralizing of social (state) enterprises into suitable entities which are more less autonomous and business organizational and billing entities. [Babić, 1997] In order to successfully come up with it's strategy and implement it on the market, domestic enterprises



will have to drastically change their organizational structure, i.e. the manner of organizing their activities. The development of informational and communication technology will enable far more knowledge to everyone involved in the process of business decision making. The established organizational structure, with lots of hierarchical levels and barriers between various functions and an enterprise is no longer able to support flexibility and fast changes in strategy. As a result, the future is in the so called shallow organization, with little staff on the top and a bigger number of independent interdisciplinary teams, created on the basis of project tasks. In such teams there will be planning and executing of all actions needed to achieve global goals set by the top of the management.

- (c) *The necessity of managing transition.* In addition to ownership and organizational transition, management restructuring of domestic enterprises presents a very important transitional venture. In the current process of transition our enterprises will have more sovereignty in decision making, but they will also have to take responsibility for bad decisions, profit loss and even liquidation. Private owners will not tolerate bad managers, and the quality of their work will only be valued by the market value of stocks and the size of dividends. The essence of this restructuring is made by introducing an modern, professional management system, like the one present in the enterprises of developed countries on the economy market. Professional management system is based on: separating management and ownership, manager staff professionalization, standard establishing, ratio of manager's norms and efficiency, monitoring and grading the manager's work, rewarding the success and punishing the failure of managers, signing professional manager contracts, development of market by the manager. Domestic enterprises virtually have none of the previously mentioned in their managing systems. To have a good, superior management is the main prerequisite of participating in a market game. Hence it is necessary to establish this kind of management system in the period of ownership or other transitions as soon as possible.
- (d) *The necessity of market transition.* The market economy of a country presents it's transfer to the path of propulsive market economizing. That means the confrontation of the enterprise with picky, organized and sophisticated consumers and fierce competition. Domestic enterprises will have to do a revision of their producing programmes and aimed markets, as well as their strategy of outbreak on the market. This will have to be done as soon as possible, because these enterprises, due to the collapse of former Yugoslavia and the consequences of the ugly war, suffered a devastation of the market of sales and supplies. Market transition of domestic enterprises, after privatization, will have to start searching for answers on difficult questions such as: (1) Which business do we want to belong to, i.e. what are the essential needs of our potential buyers that we want to emphasize? (2) What is our current status? (3) Where do we want to be? (4) Do we know which road is going to take us there? (5) How many human and material resources do we need for that? (6) How to select our aimed markets, and position ourselves in relation to the competition? (7) What kind of products and



services to offer on the market, under which terms, how to promote and distribute them? These questions are strategic concerning every enterprise on the market system of economizing, and its faith, i.e. survival and development depends on the success of the given answers and on entrepreneurship actions.

Conclusion

Contemporary entrepreneurship renews, transforms and encourages the development of economy worldwide - it generates the emerging of new business ventures, the opening of new, usually small enterprises, new jobs, and renewing the national economies by "fresh blood" offering vitality, innovative products and services and increasing their chances for a general, social, cultural, and societal improvement. The development of entrepreneurship is determined by social, economic and cultural context of previously national and today global economy. Social, economic and political context of modern entrepreneurship is significantly altered. By abandoning the concept of *scope economy* as the main driving force of economic development, by occurrence of higher uncertainty on the global bulk, by the entry of a number of countries in the process of social and economical transition, by decreasing business activities and restructuring big-scale world companies, entrepreneurship is again perceived as an accelerator of development, especially the one realized by a number of small-scale enterprises. Through the development of entrepreneurship every national economy, especially the undeveloped economies such as the one in Bosnia and Herzegovina, finds it easier to confront with the consequences of the global economic crisis. In order for the domestic enterprises to function as the generator of development they must undergo restructuring in a ownership, managing, organizational, financial and market sense, and that is the way to prepare them for the global market game. The process of economy transition in Bosnia and Herzegovina is, unfortunately, happening very slowly and inefficiently, which is a result of three things: (a) the complexity of organization of Bosnia and Herzegovina after the Dayton treaty, where the authority representatives cannot reach an agreement on important transition ventures, (b) our Balkan primitivism led us to be a "guinea pig" to the international community in transitional processes, which has sent some low-quality missionaries, so called «experts» as councillors for our government to lead the process of transition, disregarding qualified domestic staff of higher quality, (c) the consequences of the ugly war which left our home enterprises destroyed, devastated, robbed, with severed market and reproduction connections, expired technology...etc. All that results in the fact that the fall of economy quality in most enterprises in transition has not been stopped.

Considering the previously mentioned, we can conclude that the entrepreneurship development in Bosnia and Herzegovina requires the ending of the transition process and whereby the qualification of domestic enterprises to confront with the global market challenges. Ending of the domestic enterprise transition process will initiate entrepreneurship as the main lever in the economic development. Along with domestic enterprise restructuring, the basis of the entrepreneurship development in the following period, as a good therapy for the consequences of global economic crisis, will be formed by new entrepreneurship ventures mainly expresses via small and moderate enterprises. Small and moderate business will be the main outline of the development of the morbid Bosnia and Herzegovina economy.



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