

ENTREPRENEUR OR EMPLOYEE: A CHOICE IN A SMALL OPEN DEVELOPING ECONOMY

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Abstract: The choice to be an entrepreneur or employee is relatively new phenomena for the former socialist and communist countries that went through the process of transitions, mass privatization and restructuring. The first prerequisite that enabled this choice were structural changes and reform measures. On the other hand, privatization, restructuring or shutting down the enterprises with socially owned capital left number of people jobless. This created a space for the development of entrepreneurial sector, where former employees could create job for themselves, but also could employ other people and create new jobs. During the period of transition new segment, of small and medium private enterprises and entrepreneurs, that emerged was supposed to be one of the main drivers for economic growth and development in Serbia. Unfortunately, policy makers missed an opportunity to create a sustainable and favourable business environment that would stimulate and foster entrepreneurial spirit in transitional years.

Stable macroeconomic environment is essential prerequisite for favourable business environment, boosting entrepreneurial spirit and developing the SMEs segment. Unfortunately, the business environment in Serbia is not favourable and is characterized by high unemployment, high level and constant growth of external and public debt, low level of investment and slow level of recovery from the economic crisis. On the other hand starting a business has a lot of obstacle. Bureaucracy is complicated, no enough sources of finance are available for start-ups and existing companies and also there are a lot of fiscal and para-fiscal burdens.

The labour market in Serbia is underdeveloped with low labour mobility, devastated transition downturn in conditions of political instability, wars and economic sanctions. Since the beginning of the transition, the employment rate is falling, but on the other hand the number of people employed in the public sector is rising (with the exception of the last year and the program of downsizing in public sector). This led to the paradox that the average wages in the private sector are lower than in the public administration, while terms and conditions are harder. Having this in mind, a trend of aspiration towards employment in public sector is identified in Serbia. Job is relatively easier than in the private sector, wages and conditions are better. However, it is necessary to mention that the last downsizing in public sector brought uncertainty in this segment also. The most optimistic estimates are that during 2015 and 2016 the number of employees will be reduced by 20 percent in the public sector. Having in mind all this it is not surprising that the option of being an entrepreneur gains importance.

Key words: entrepreneurship, employment, transition

Introduction

Political and social conditions in the former socialist countries determined the economic systems, labour market, capital and goods market. In the era of socialism centrally planned economy was implemented which limited the emergence of private capital. It is obvious that the possibility of choice to be an entrepreneur or to be employee did not exist in such conditions. Transition brought changes which led to the disappearance of social capital, structural changes in the Serbia economy and in the number of reform measures. Among other things, transition from socialism to capitalism implies an allocation of economic resources (labour, capital goods, finance, technology, etc.) where newly established private companies had to be the main actors. This was the first prerequisite for the growth and development of entrepreneurial segment. Existing firms are less well placed to be the engine of structural change because they are themselves institutions of the planning system and must also be subject to major reforms (Estrin, et al., 2006). People had a chance to choose to be employees or to engage in entrepreneurial activity. Privatization, restructuring or shutting down the enterprises with socially owned capital left number of people jobless. This created a space for the development of entrepreneurship, where former employees could create job for

themselves, but also could employ other people and could contribute to the increase in the level of employment by creating new jobs. The emergence of new companies reduce the growth of unemployment that was created as a result of shutting downs and restructuring of enterprises with socially owned capital, but also boosted entrepreneurial spirit.

Entrepreneurship is often considered to be one of the most important drivers of economic growth, since numerous studies confirm a direct positive relationship between development and encouraging of entrepreneurship and economic growth. This new segment of private enterprises that emerged after the transition was supposed to be one of the main drivers for economic growth and development of Serbia. Unfortunately, policy makers missed an opportunity to create a sustainable and favourable business environment that would stimulate and foster entrepreneurial spirit in transitional years.

Low level of entrepreneurial spirit and the pursuit of entrepreneurial ventures is legacy of former socialistic system. Former socialist system provided the majority of the working-age population with adequate job and now this is primarily manifested in the older generation as aspirations to be employed rather than to begin entrepreneurial activity. The result is a large number of working-age population in search of work. The employment in the public sector is especially popular among them; since this environment is similar to that they were used to work in.

Employment in Serbia

Employment is one of the most important phenomena for the country's economy. The main macroeconomic indices are indicators on GDP, prices and cost of living, foreign trade, balance of payment, FDI, monetary and foreign exchange indicators, together with the indicators about labour market. Employment is important from various aspects. It is a way to earn income and provide for living, it provides socializing, creates and increases self-confidence, morale integrity, enables independence, increases ability to enhance and develop skills, competences and knowledge and contribute to the society and public finance.

Low level of employment boosts migrations towards those areas who offer employment under better conditions. Migrations are most pronounced at young people who have the greatest chances of getting a job abroad. Young people in Serbia have strong aspiration to leave the country because they do not see their chance to find appropriate job in the market or to successfully engage in entrepreneurial activity. According to the Research on the status and needs of young people in Serbia for 2015, more than 60% of respondents believe that young people in Serbia do not have a perspective. At the same time two thirds of the respondents think that young people in Serbia do not have equal opportunities for development as young people in the countries of the region. Finally, slightly more than 60% of young people think that they should look for the chance to live outside Serbia (Research on the status and needs of young people in Serbia, 2015). Such an attitude of young people leads to the loss of the most productive part of the population.

The employment rate as one of the most important indicator that shows how labour as one of the factors of production is used, shows the level of effectiveness of public policies in providing employment. Unfortunately, since 2000 when half of the working age population was employed, the employment rate in Serbia has dropped by 10 percent, and at the end of 2014 amounts to 39.7 percent. A significant decline occurred in the early transition years with mass privatizations and restructurings. Other significant decline in employment happened as a result of the global economic crisis since 2008 (Figure 1). The impact of the economic crisis on unemployment in Serbia felt immediately after the start of the crisis in 2007. Although the crisis did not immediately spill over to the overall economy, since a general decline of indicators happened with a few years of delay, the labour market immediately reacted.

Perhaps the reason lies in the fact that a large number of foreign companies that operate in Serbia employ a significant number of workers. The crisis had the strongest impact on their home markets and costs and number of employees had to be reduced.

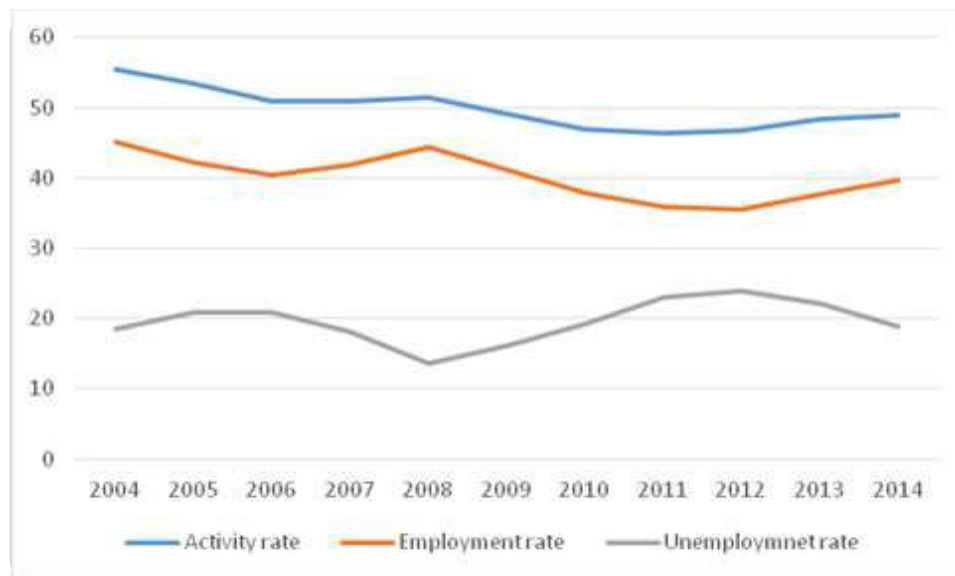


Figure 1. Employment in Serbia
Source: Statistical office of the Republic of Serbia

Note: The activity rate is the percentage of the active population of the total population aged over 15. The employment rate is the percentage of the total employed population aged over 15. The unemployment rate is the percentage of unemployed of total active population aged over 15.

According to the certain authors Serbia did not develop the labour market in the process of the transition – it is shallow, underdeveloped, followed by low labour mobility, devastated transition downturn in conditions of political instability, wars and economic sanctions (Tešić, et al. 2015, 1118). Having in mind specificities of Serbia market, such as transition and large-scale privatizations, it was reasonable to expect problem of low employment rate since the early nineties (Radic, 2005). There is no doubt that the privatization of numerous companies and changes in ownership structure influenced the dismissal of workers and hindered market relations in the field of labour. Major problem Tešić et al. identified beside the structural constraints and limitations in business environment include failures in the education system (missing a clear link between the needs of employers for labour and an education system), the disastrous privatization and polarization (politicization) of the public sector in the field of employment (mass recruitment and hiring party (incompetent and unskilled) personnel throughout the public administration and public enterprises at the national and at the local level (Tešić, et al. 2015, 1118). This led to the paradox that the average wages in the private sector are lower than in the public administration, while terms and conditions are harder. Having in mind these facts, the trend of aspiration towards employment in public sector is identified in Serbia. Job is relatively easier than in the private sector, wages and conditions are better. It is much easier to be employed (especially in public sector) comparing to starting a business with lot of obstacle such as complicated bureaucracy, limited sources of finance for start-ups and other companies, lot of fiscal and para-fiscal burdens.

Certain paper show that employees of established companies turn out to be one of the most important part in creating entrepreneurial activates (Hellmann, 2007, p. 919). After they gain enough experience they can go on their own. Another research points out that employees

with higher earnings are less likely to leave the company, but if they do, they are more likely to create a new venture than to join another firm, especially in the knowledge intensive activities (Campbell, et al., 2012). Finally, literature shows that smaller firms spawn new entrepreneurs more frequently than larger firms, but R&D intensity is negatively related to the probability that employees transit into entrepreneurs (Hyytinen&Maliranta, 2008). This is not applicable for Serbia, because most of the enterprises are dealing with low technologically intensive production (according to the Report on SMEs for 2013, Ministry of economy) and employees often do not acquire important knowledge, or do not gain added value to their skills.

A large number of employees in enterprises with socially owned capital is the legacy of former socialist system. In the process of transition, the number of employees in these companies was reduces through the retirement system, severance pays or dismissal. On the other hand, the number of employees in state administration constantly grew, and in 2014 reached a peak in the observed period (Figure 2). This oversized public apparatus has become a huge burden for the state budget, economic development and growth. In early 2014 came into force the prohibition of employment in the public sector, which has not brought any significant effects, but in the course of 2015, downsizing in the public sector started. The percentage of employees in public sector of around 30% (right axis on Figure 2) is unsustainable for Serbia.

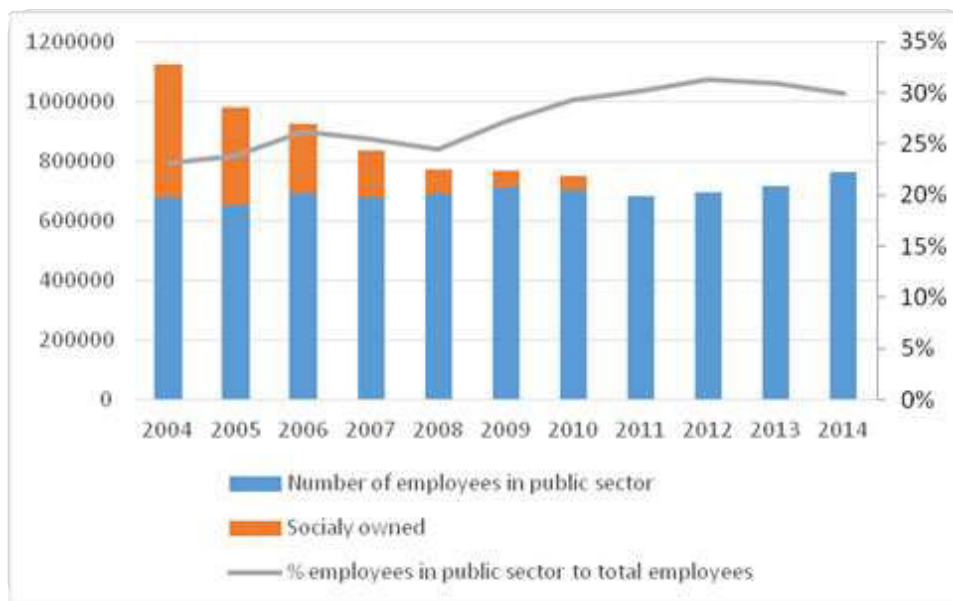


Figure 2. Employed by type of ownership
Source: Statistical office of the Republic of Serbia

Entrepreneurial ecosystem in Serbia

Modern business environment is based on entrepreneurship, since it is considered that small and medium enterprises, especially fast-growing, are the backbone of economic development. Small and medium enterprises have the dynamism and flexibility that is essential for the introduction of innovative technologies. Numerous studies, including research from Hölzl & Friesenbichler, show that the fast-growing small and medium enterprises are the main drivers of change in developed but also in developing countries (Hölzl & Friesenbichler, 2008). Although entrepreneurship is seen as a major instrument to

create employment and increase economic growth and development, it involves much more. Entrepreneurship is important from the point of prosperity in terms of creating conditions for a better life of all people (almost all important inventions that gave us better quality and more comfortable life were created as a result of business (entrepreneurial) idea, ranging from radio and television, personal computers and other information technology to biotechnology and medical discoveries (Ljumović et al., 2015). Small and medium enterprises and entrepreneurs (SMEEs) are an important segment of the Serbian economy: they account for 99.8% of the total active businesses, employing nearly 2/3 of employees in the non-financial sector and account for about 30% of GDP in Serbia.

In the EU, the focus of policy makers is on promotion of entrepreneurship and on the empowerment of SMEs, especially in the times of economic crisis, when they are most vulnerable. Pre-crisis positive effects of the development of SMEs were diminished by the global economic crisis and all basic indicators of the development policy were set back to the pre-crisis levels. SMEs were most affected by the crisis and the slow pace of the recession recovery is more pronounced in SMEs than in the large companies. The number of small and medium enterprises is reducing particularly as a result of the economic crisis (Figure 3). It is assumed that a significant number of companies will not survive the economic crisis and that the number of micro, small and medium enterprises will further reduce in the coming years. The trend of entrepreneurship promotion and empowerment was not present in Serbia until 2016. This year was declared as the year of entrepreneurship and numerous initiatives were introduced.

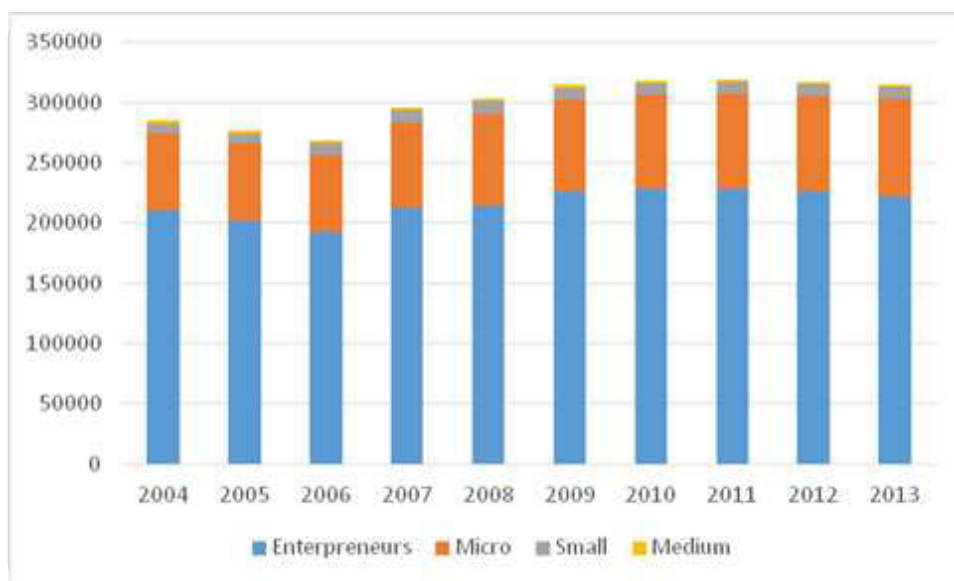


Figure 3. Number of SMEs in Serbia
Source: Report on SMEs for 2013, Ministry of economy

Stable macroeconomic environment is an essential prerequisite for the development of SME segment in Serbia. Unfortunately, business environment in Serbia is manifested by high unemployment, high level and constant growth of external and public debt, low level of investment and slow level of recovery from the economic crisis. International position of the national economy that directly affects the positioning of Serbian SMEs in relation to their partners in the EU and neighbouring countries is equally important and is not satisfactory.

Entrepreneurship is usually a choice, but in countries with shallow and underdeveloped labour market it could be necessity. This choice should mainly depend on determinants of

entrepreneurial aspirations which include education, occupational status, individual and family background characteristics, income from present occupation (Hyytinen&Ilmakunnas, 2007), overall economic culture and environment. However, in countries with limited labour market, such as Serbia, Schumpeter's picture of an entrepreneur as a dynamic risk taking individual is changed with the picture of a person needing to survive and provide for family. They do not have other option than to start small business that could generate income for them. In general, the transition economies have lower rates of entrepreneurship than most developed and developing market economies. This is considered to be the legacy of communist and socialist planning with formal market supporting institutions that are currently under the process of structural change and capacity building, but are slow in adaptation including attitudes and social norms (Estrin&Mickiewicz, 2011).

According to the Doing Business Report for 2016, Serbia is ranked 59th. This report that assesses the structural potential of the national economy for the development of the private sector is an important indicator of the structural quality of a national economy. It is important since it analyses the possibilities for individual economies to contribute to the development of small and medium enterprises through structural reforms and deregulation of business environment. Serbia is ranked high in terms of trading across borders (23), resolving insolvency (50) and getting credit (59). It is clear that even in the best ranking indicators there is a plenty of space for improvement. The most negative aspects of doing business in Serbia are paying taxes (143) and dealing with construction permits (139), with a note that in the period 2015-2016, these two indicators were improved by 22 and 39 points respectively. There are 42 payments per year in Serbia, for which it is necessary to prepare, file and pay (or withhold) the corporate income tax, value added or sales tax, and labour taxes, including payroll taxes and social contributions 244.3 hours per year. On the other hand there are 18 procedures in order to build a warehouse, and it takes 272 to complete it. These two indicators project an extremely negative image of Serbia to potential and existing entrepreneurs. Looking at these indicators it is not likely that people will opt for self-employment and that entrepreneurship has good prospects for the future.

Conclusion

The labour market in Serbia is very structural constrained, shallow and ineffective. Mobility is very limited and average wages are among the lowest in the region. Conditions for employment in the private sector are poor, while the competition is considerable. Employment contracts are often not respected or employees are engaged in the black market. Working week is longer than the standard, employees in the private sector are often unable to use vacation, they work in shifts, Sundays and holidays. It is not unusual that people with higher education do jobs for which they are overqualified because they cannot find a suitable job. On the other hand, employment in the public sector implies clear rules that are defined by the labour contract, wages are higher and the job is not so stressful and demanding. With this in mind, it is understandable that the aspiration towards working in public administration is high. However, there has been an increase in the number of employees in public administration for several years now. At the end of 2014, almost 30% of the total employees were engaged in the public sector. It is clear that the budget and economic system cannot handle such a burden. In the course of 2015 the process of the restructuring and downsizing of the public administration started and it is expected that the number of employees will be reduced by a fifth at the end of 2016. With this in mind and taking into account a ban on public sector employment, self-employment appears as a second option. This option could be interesting for the unemployed or former employees of the state administration but they lack the experience and skills. In fact, certain studies, described in this paper, clearly indicate that

the greatest chance of success in the entrepreneurial endeavour have those employees that gained certain knowledge and skills. If we add the large fiscal and para-fiscal charges, as well as complicated bureaucratic procedures for starting a business, it seems that starting own business is rarely becoming an option. Decision on starting own business is usually brought out of necessity, when there are no other options to provide sources of income. Without serious reform of the entrepreneurial environment and serious state support, particularly in the establishment of new enterprises, significant progress in this area is not to be expected. Still, it would be a better option to be employed than to be an entrepreneur.

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