

HIGH GROWTH ENTREPRENEURSHIP IN BOSNIA AND HERZEGOVINA – IMPORTANCE, CURRENT STATE AND PERSPECTIVES

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ABSTRACT

Focus of this paper are high-growth enterprises which attached considerable attention from policy makers from whole world, which is result of their positive effect on national wealth and job creation. OECD defines high-growth enterprises as firms with average annual growth in employees or in turnover greater than 20% a year over a three-year period, and with ten or more employees at the beginning of the observation period. Enterprises that fulfill these requirements and which operate less than five years are named „gazelles“. High-growth enterprises are rare, but number and share of jobs that those enterprises create is large. There is a wide acknowledgement on importance of defining and implementing the appropriate policies that would foster further operations of high-growth enterprises, which is also a case for Europe and European Union. A number of highly respected and honorable European experts concluded that there is a high-priority need for European-wide dedicated framework that addresses the high-growth, or gazelle phenomenon [Europe Innova Gazelles Panel Summary Report, 2008]. Evident is a lack of representative, large-scale, longitudinal micro-level datasets for research purposes. However, the world's largest academic and research project from the field of entrepreneurship the Global Entrepreneurship Monitor - GEM provided its contribution to analysis of high-growth enterprises. This paper contains authors' overview of the main GEM results related to this topic. High-growth enterprises are important for all countries, especially for developing countries like Bosnia and Herzegovina, since those enterprises have above average impact on new jobs creation, wealth creation and the development of entrepreneurial role models. It is of crucial importance for governments in Bosnia and Herzegovina to identify and support high-growth enterprises in order to foster economic development of the country. Taking in consideration above mentioned, authors of the paper present developed methodology for identification of high-growth enterprises – “gazelles” implemented on territory of Federation of Bosnia and Herzegovina. Willing to make contribution in this field, this paper contains proposed methodology for identification of gazelles for territory of Bosnia and Herzegovina, which implementation would contribute to creation of adequate incentives for support to those enterprises. Proposed methodology is defined on basis of EU good practices and good practices from countries from the region related to this field. Paper finishes with recommendations for policy actions aimed at further development of high-growth enterprises in Bosnia and Herzegovina and their greater impact on reduction of unemployment and economic development of the country.

Key words: *high-growth enterprises, entrepreneurship policies, economic development*

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INTRODUCTION

Until 1970's it was mainly believed that large enterprises create the most of the jobs in the economy. This statement seemed logical and undisputed until David Birch, an American economist, wrote a book in 1979 entitled *The Job Generation Process*. His researches discovered that it was actually high-growing small and medium enterprises that create most of new employment (Birch, 1979). The interest of policy makers as well as researchers for small and medium high-growth enterprises has grown ever since. The trend was especially noticeable in recent years of economic downturn, recession and major job cuts, when these enterprises were seen as key to recovery, because of their significant positive effect on economy growth and development.

The world's largest academic and research project from the field of entrepreneurship, the Global Entrepreneurship Monitor - GEM provided its contribution to analysis of high-growth enterprises around the world through definition of special measures. Additionally, relying on GEM data, Centre for High-Impact Entrepreneurship at Endeavor (C-HIE) conducted an analysis and published a report on high-growth enterprises. One of the key findings of the report was that high-growth entrepreneurs represent only 4% of the total entrepreneurs, yet the businesses they have founded or co-own created close to 40% of the total jobs generated (Morris, 2011).

However, there is still a limited understanding of this phenomenon in Bosnia and Herzegovina, especially on how Bosnia and Herzegovina performs in terms of the number and characteristics of high-growth enterprises and according policies.

High unemployment, low rates of economic growth and development and unfavorable business environment are acute economic problems in Bosnia and Herzegovina. Therefore high-growth enterprises could play an important role in rise of country's growth and development rates, based on their significant contribution to production growth, growth of employment and their tendency to be more innovative than other enterprises. Consequently, particular attention from the policy makers should be paid at these enterprises.

Important step towards creation of policies aimed at high-growth enterprises is development of methodology for identification of high-growth enterprises. This methodology was recently developed in Bosnia and Herzegovina on the basis of EU good practices and good practices from countries from the region related to this field.

Although governments, in most of the countries, are increasingly aware of the importance of high-growth entrepreneurship, it is difficult to design effective policies, because these enterprises experience specific problems (Suddle et al, 2007). Nevertheless, there are some basic guidelines and criteria which should be met and taken into consideration when designing these policies.

The purpose of this work is to emphasize the importance of high-growth enterprises in Bosnia and Herzegovina, as well as to present the current state concerning this topic and give useful recommendations for policy makers on how to support the emergence of high-growth enterprises in Bosnia and Herzegovina in the best possible manner and how to best capitalize on them for job creation and innovation.

IMPORTANCE, CURRENT STATE AND PERSPECTIVES OF HIGH-GROWTH ENTERPRISES

Many different definitions of high-growth enterprises can be found in practice, but authors of this paper decided to use the definition of high-growth enterprises and gazelles given by Organization for Economic Co-operation and Development (OECD). The OECD defines high-growth enterprises, as enterprises with average annual growth in employees or in turnover greater than 20% a year, over a three-year period, and with ten or more employees at the beginning of the observation period. High-growth enterprises have often been referred to as ‘gazelles’ although the term is now increasingly taken to refer only to young, and usually small, high-growth enterprises. The OECD defines gazelles as “the subset of high-growth enterprises which are up to five years old” (OECD, 2011).

High-growth enterprises have a number of particularities, but it is hard to identify a definite list of common characteristics they share (Schreyer, 2000). Nevertheless, some facts can be highlighted. High-growth enterprises usually represent only a small share of the total population; typically up to 6% when measured by employment growth, but they generate a disproportionately large share of all new jobs (OECD, 2011). Their contribution to job creation is especially appreciated during recessionary periods, because large enterprises make significant job cuts in such periods. Although, most of the high-growth enterprises are small, large enterprises can also be important creators of jobs, particularly a sub-group of so called ‘gorillas’ (Mason et al., 2010). Plausibly, high-growth industry of high-technology may seem particularly suitable for emergence and development of high-growth enterprises, but they are actually equally likely to emerge in all industry sectors, and high proportion of high-growth enterprises is also found in services (Autio et al., 2008). Finally, high-growth enterprises do not have a steady growth rate; instead they grow sharply in one period, declining in another, and then start growing again (Birch, 1987).

Employment is not the only way how high-growth enterprises affect the economy. This can happen in many ways but there are at least three ways identified in the economic literature: through productivity growth, innovation or employment change (Acs et al., 2008).

It is common that high-growth enterprises have above average productivity levels in comparison with the industry that they operate in. This higher level of productivity actually leads to the growth of the enterprise itself. However, if an enterprise does not achieve sustainable growth it cannot be profitable in the long term and have rather negative effects to the economy (Department for Business Enterprise and Regulatory Reforms of UK Government, 2008). High-growth enterprises also have tendency to innovate and move towards innovation, which consequently increases productivity in the economy as a whole. Studies use different datasets and definitions of high-growth which results in different levels of importance of high-growth enterprises to employment creation. Though, it is an overall finding that high-growth enterprises are responsible for the majority of employment growth.

Importance of defining and implementing the appropriate policies that would foster further operations of high-growth enterprises, is recognized by governments which is the case in Europe and European Union. A number of highly respected and honorable European experts concluded that there is a high-priority need for European-wide

dedicated framework that addresses the high-growth, or gazelle phenomenon (Autio et al., 2008). Therefore, the key policy priority for Bosnia and Herzegovina, as a potential EU member, should also be creation and implementation of policies and incentives aimed at a small number of high-growth enterprises, which could considerably contribute to job creation and economic growth and development.

In order to deal with the specific needs of high-growth enterprises in the best way, according policies should be horizontal. High-growth enterprises do not appear exclusively in any specific industry, size or geographic area. Therefore, horizontal policy programs might be best solution to address the phenomenon. A direct consequence of the horizontal nature of high-growth enterprises policy is that they involve much coordination across policy departments. It could also be useful to consider policy coordination needs alongside enterprise life cycle stages. At the pre-start-up stage, relevant policies to foster high-growth enterprises would be mainly concerned with the regulation of entry. At the start-up, policies designed to foster high-growth enterprises would primarily focus on facilitating the mobilization of resources to pursue entrepreneurial opportunities. And in more mature stages, policies should focus on removing barriers to growth. The disproportionate economic impact of high-growth enterprises suggests the need of selectiveness in the support measures. Support measures should therefore demand explicit, credible evidence of growth motivation as a selection criterion. High-growth enterprises policies should not be seen as a subset of small and medium enterprise policies, but they should be addressed by a special policy framework. The nature of high-growth enterprises makes them a very demanding object of policy support (Autio et al, 2008).

GLOBAL ENTREPRENEURSHIP MONITOR (GEM) ANALYSIS OF HIGH-GROWTH ENTREPRENEURSHIP

Global Entrepreneurship Monitor (GEM) report measures the job (growth) expectation, innovation, and internationalization profiles of entrepreneurs. GEM methodology uses Adult Population Survey to identify entrepreneurs among general population, and gather data on their attitudes, activities and aspirations about entrepreneurship. In order to determine job (growth) aspirations participants are asked about the number of jobs provided at the moment of the survey as well as their expected number of jobs five years ahead. On the basis of the expected number of jobs, five years ahead entrepreneurs are classified as follows:

- Solo early-stage entrepreneurial activity (SEA): expects no jobs (i.e. outside the entrepreneur);
- Low job expectation early- stage entrepreneurial activity (LEA): expects between 1-4 jobs;
- Medium job expectation early-stage entrepreneurial activity (MEA): expects between 5-19 jobs;
- High job expectation early-stage entrepreneurial activity (HEA): expects 20 jobs or more.

According to the latest GEM B&H report from 2011, the most entrepreneurs (29,9) in Bosnia and Herzegovina expect to experience medium growth of more than 5 new jobs in five years ahead, which is significant increase from only 14,3 of entrepreneurs in 2010. On the other hand, only 0,2 of surveyed entrepreneurs expect high growth of 19

or more jobs in five years ahead, which is 5 times more than only 0,04 entrepreneurs in 2010 (Umihanić et al., 2012). In general, only few entrepreneurs in Bosnia and Herzegovina expect high growth of jobs in five years ahead, but their number increases over the years.

Additionally, a series of analyses have been recently conducted on the basis of GEM data about attitudes, activities and aspirations concerning entrepreneurship, gathered from over 800.000 randomly selected adults in more than 60 countries over the five years period, in order to get better understanding of high-growth entrepreneurship. The respondents were classified into three groups: (1) entrepreneurs, (2) nascent entrepreneurs and (3) general population. More than 70.000 identified “entrepreneurs” were then classified in three sub-groups of “entrepreneurs” by estimated rates of growth, the age of their enterprises and the number of people employed: (1) high-growth entrepreneurs (2) moderate-growth entrepreneurs and (3) low-growth entrepreneurs. High-growth entrepreneurs were defined as “entrepreneurs” who own enterprises that have experienced estimated revenue growth of 20% or more per year. The analyses seek to determine main attributes of low-, medium- and high-growth entrepreneurs and to compare them with each other, as well as to compare high-growth entrepreneurs with each other and with nascent entrepreneurs and general population. Major finding of the analyses was that “entrepreneurs” with high estimated growth rates create significantly more jobs than other “entrepreneurs”. High-growth entrepreneurs represent only 4% of the total entrepreneurs who responded to the GEM surveys, yet the businesses they have founded or co-own created close to 40% of the total jobs generated by all entrepreneurs who responded to the survey (Morris, 2011).

METHODOLOGY FOR IDENTIFICATION OF HIGH-GROWTH ENTERPRISES IN BOSNIA AND HERZEGOVINA

Bosnia and Herzegovina lacks representative, large-scale, longitudinal micro-level datasets which can be used as base for empirical researches and for creation of appropriate policies by the governments. Although, GEM project provided important insight into state of high-growth entrepreneurship in Bosnia and Herzegovina, there is still a need for specially developed methodology for identification of high-growth enterprises within a country.

Implementation of such methodology allows better understanding of these enterprises and helps policy makers develop appropriate approaches and policies to support the emergence and development of high-growth enterprises in Bosnia and Herzegovina in the best possible manner.

This kind of identification methodology was recently developed and used in Bosnia and Herzegovina for the first time, as a part of selection process for BH Business Award “Gazelle” 2011. Main purpose of the methodology was to identify high-growth enterprises – “gazelles” on territory of Federation of Bosnia and Herzegovina in order to award the best high-growth micro, small and medium enterprise from each canton. Methodology was developed by members of methodology team, consisted of number of renowned experts in the field of entrepreneurship and development in Bosnia and Herzegovina, on the basis of EU good practices and good practices from countries from the region related to this field, with respect to specific circumstances concerning economy in Bosnia and Herzegovina. These specifics can be seen when comparing this

methodology to methodologies used in Croatia and in European Union. For instance, methodologies used in European Union and Croatia apply criteria of 20% annual growth in comparison with Bosnia and Herzegovina which applies criteria of 10% growth.

The dataset used for identification of high-growth enterprises is based on annual financial statements of businesses gathered at Agency for Financial, Information and Mediation Services of Federation of Bosnia and Herzegovina (AFIP).

Therefore, the first criteria that high-growth enterprises needed to meet is to be legally registered in the Federation of Bosnia and Herzegovina and in AFIP, and that all required data (number of employees, total income, total assets) are available for the observation period.

According to methodology it is important to ensure that enterprises are market oriented, not state-owned or financial institutions, for that reason all legal entities which have the following core business are excluded: financial intermediation; public administration and defense; obligatory social security; other community, social and personal services; health and social work; buying and selling real estate for own account; rental of real estate for own account and real estate agencies.

Also, according to definitions of high-growth enterprises and gazelle, enterprises must be at least five years old, and have a 10% growth for three consecutive years in the period of last five years. Omitted are the enterprises that operated with a loss in any of the last three years.

In order to classify enterprises by their size, the methodology uses adapted EU definitions presented in Table 1.

Table 1. Classification of enterprises by its size⁴

Enterprise size	Number of employees	Total income (BAM)	or	Total assets (BAM)
Medium enterprises	50 – 249	20.000.000 - 94.999.999		20.000.000 – 85.999.999
Small enterprises	10 - 49	4.000.000 - 19.999.999		4.000.000 – 19.999.999
Micro enterprises	0 - 9	0 - 3.999.999		0 - 3.999.999

Process of filtering micro, small and medium enterprises from AFIP dataset starts with filtering enterprises by the number of employees. If an enterprise does not belong to any of three size groups in the first stage of filtration, it proceeds to the second filter. This filter will test whether it is possible to filter an enterprise in terms of total income or total assets. If an enterprise does not meet any of the above range for ranking, it is not taken into further consideration.

In the next stage, enterprises are excluded if they had a rate of growth in total revenues lower than 10% in the past three years and David Birch Employment Growth Index (DaBEG) lower than zero (i.e., negative index). In the following stage, enterprises are

⁴ BH Business Award “Gazelle” - www.gazela.ba (accessed on 06.09.2012.)

excluded if they had a rate of growth lower than 10% in the past three years, or if they do not meet the criteria of range of 1-250 employees.

The remaining enterprises are identified as high-growth enterprises in Federation of Bosnia and Herzegovina.

Previously mentioned David Birch Employment Growth Index is an economic indicator of employment presented by David Birch in 1987. The index multiplies absolute enterprise job growth by relative enterprise job growth, which reveals the employment-creation power of differently sized enterprises. The index used in the methodology is adapted for observation period of three years and is calculated by the following formula, where z stands for the absolute number of employees in a given year (t).

$$\text{DaBEG} = (z_t - z_{t-3}) \times \frac{z_t}{z_{t-3}}$$

Considering the simplicity of application of previously presented methodology for identification of high-growth enterprises and importance of such methodology in creation of high-growth enterprises policy, authors of the paper suggest the application of the same methodology on the whole territory of Bosnia and Herzegovina. In that case, a simple enterprise dataset consisting of data on: number of employees, total revenue and total assets, should be gathered from registries in Republic of Srpska and Brčko District, also. Next stage in identification of high-growth enterprises in Bosnia and Herzegovina would be application of the developed methodology on the dataset. Application of the methodology and further analyses would continuously provide relevant quantitative and qualitative information about high-growth enterprises in Bosnia and Herzegovina and their specific needs in the best possible manner.

The methodology is a vibrant category and it can be subject of minor changes and improvements in accordance with the growth of experience and development of this field in the following years, and the methodology team has already foreseen such possibilities.

RECOMMENDATIONS FOR POLICY ACTIONS AIMED AT FURTHER DEVELOPMENT OF HIGH-GROWTH ENTERPRISES IN BOSNIA AND HERZEGOVINA

High-growth enterprises are important even in developed countries and communities such as European Union, where the key policy priority for the EU, therefore, should be achieving high rates of enterprise growth rather than achieving high-rates of new enterprise entry (Autio et al, 2008). The need for additional attention to be paid at these enterprises is even larger in developing countries such as Bosnia and Herzegovina. The authors of the paper tend to give their contribution to additional development of the field of high-growth entrepreneurship in Bosnia and Herzegovina through recommendations for policy actions presented below.

Continuous quantitative and qualitative analyses of high-growth enterprises

Previously presented methodology which was used to identify high-growth enterprises on territory of Federation of Bosnia and Herzegovina, should be adapted for application on the territory of Bosnia and Herzegovina as a whole. It should be modeled after Slovenian model. The best high-growth enterprise for the whole Bosnia and

Herzegovina should be identified from the set of previously identified best high-growth enterprises for each of lower administrative-territorial units (Federation of Bosnia and Herzegovina, Republic of Srpska and District of Brčko). Application of that methodology would allow further qualitative analyses of high-growth enterprises in the sense of their specific features concerning typical size, number of employees and their educational structure; industries; geographical areas and markets they dominate; technologies and funding they use. Better familiarity with these enterprises allows policy makers to develop appropriate approaches to maximize the chances of potential high-growth enterprises to develop.

Continuous assessment of high-growth enterprises' needs

In order to help new high-growth enterprises to emerge and the existing ones to develop, it is important for policy makers to be continuously aware of their needs. Once high-growth enterprises are identified, it should be fairly simple to identify the greatest obstacles in sustaining and fostering high-growth in the existing enterprises. Additionally, effort should be made to identify greatest obstacles faced by other enterprises in the economy which prevent them to become high-growth enterprises. BH business practice has so far shown that high-growth enterprises usually do not need financial help or loan, but more often administrative relief, so their needs are very specific and have to be taken into account when developing according policies.

Creation of policies to foster high-growth enterprises

Bosnia and Herzegovina has underdeveloped strategies and policies aimed at small and medium enterprises sector at all administrative levels, and such strategies and policies are almost non-existent when it comes to high-growth enterprises. Regarding disproportionate economic impact of high-growth entrepreneurship on country economic growth and development, it is of crucial importance for governments in Bosnia and Herzegovina to foster high-growth enterprises and therefore create policies which would be based on continuous qualitative and quantitative analyses and assessment of high-growth enterprises needs, previously recommended. Such policies would remove existing barriers for enterprise growth and intensify job creation, productivity levels and tendency to innovate.

Promotion of high-growth enterprises

When business environment is as complex and unfavorable, as it is in Bosnia and Herzegovina, the most of population has a great fear of failure and avoids entering at entrepreneurial activities, unless no other option for employment is available. Promotion of high-growth enterprises would promote entrepreneurship as desirable career choice, encourage general population to start their own business, and additionally persuade existing entrepreneurs that high growth is possible in their business environment. BH Business Award "Gazelle" is an excellent promotion method of best high-growth enterprises. This prize was first awarded in the beginning of 2012 for a total of thirty micro, small and medium enterprises from the territory of Federation of Bosnia and Herzegovina, three from each canton, of which one from each size category. Awarded enterprises proved high growth, significant employment and social responsibility in observation period. Good practice should be continued and taken to a higher level through selection and promotion of best high-growth enterprises from the territory of whole Bosnia and Herzegovina.

CONCLUSION

Bosnia and Herzegovina is facing a number of problems such as high unemployment rates, slow economic progress and development, as well as multi-level political and administrative structures which additionally complicate the existing unfavorable business environment. Mentioned issues, and additional ones contribute to poor state of high-growth entrepreneurship in Bosnia and Herzegovina, characterized by the lack of adequate data, analyses and the support to its development.

It would be of great importance to support high-growth enterprises in Bosnia and Herzegovina, because of their disproportionate large share of all new jobs, tendency to innovate and higher levels of productivity in comparison with other enterprises and industry in general, all of which significantly contribute to economic development of the country. Thus, policies aimed at support, promotion and development of these exceptional and rare enterprises should be one of the priorities for policy makers in Bosnia and Herzegovina.

Basic steps towards creation of such policies have been made with development of methodology for identification of high-growth enterprises on territory of Federation of Bosnia and Herzegovina. Further methodology adaption for its application on the territory of whole Bosnia and Herzegovina would be an excellent base for relevant and continuous quantitative and qualitative analyses of high-growth enterprises in Bosnia and Herzegovina, as well as constant assessment of their specific needs.

Proposed regular data collection would enable valuable researches whose results would additionally emphasize the importance of high-growth enterprises and help improve the current state and perspectives of high-growth enterprises in Bosnia and Herzegovina through creation of policies which would foster the high-growth enterprises in the best possible manner based on existing needs and obstacles faced by these enterprises.

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