INNOVATORS' VS. NON-INNOVATORS' PERCEPTIONS ON BUSINESS BARRIERS IN SOUTHEASTERN EUROPE

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Abstract

The aim of this paper is to analyse whether perceptions regarding obstacles for doing business differ between innovative and non-innovative firms in post-transition period. To that end, we use the latest EBRD Business Environment and Enterprise Performance Survey (BEEPS round V) and perform the analysis for 9 countries in the Southeastern Europe: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Kosovo, Montenegro, Romania and Serbia. These countries have been chosen, since similar analysis is not available in the literature. We classify enterprises into 3 groups, according to their innovative performance: innovators (that have innovation output), R&D firms (that have innovation input) and non-innovators. The analysis reveals that in most countries and for most types of firms, tax rates and informal sector are perceived as the most important obstacles for business activity.

Keywords: *business barriers, innovation performance, Southeastern Europe*

JEL Classification: O3, O32, O39

1. INTRODUCTION

The main focus in this paper is to reveal perceptions on major obstacles to business in Southeastern Europe. We specifically focus on 9 countries - Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Kosovo, Montenegro, Romania and Serbia – which have been frequently found in the literature to lag behind more advanced transition economies (Tsanana & Katrakilidis, 2014). Furthermore, we distinguish 3 groups of enterprises, according to their innovative performance: innovators (that have innovation output), R&D firms (that have innovation input) and non-innovators. Since it has been frequently emphasized that innovation promotion is important for sustainable growth in these countries (Bartlett, 2014), we wanted to explore whether different groups of enterprises have different perception on major obstacles for their businesses.

Empirical research on business obstacles reveals some interesting findings. Many studies indicate, for instance, that innovators express more concern over barriers to innovation than non-innovators (Galia & Legros, 2004). This is confirmed even in case of less innovative countries such as Croatia (Božić, 2011). D´Este et al. (2012) point out the need to distinguish between revealed barriers experienced by innovators and deterring barriers faced by non-innovators. According to their findings, non-innovative and highly innovative firms report the highest levels of barriers. The same pattern applies to ecological innovations (Marin et al., 2014).

Furthermore, extant findings indicate differences in barriers perception among countries. Hölzl and Janger (2012) show that perception of barriers to innovation changes with technological development of country. They find that in countries closer to technological frontier the lack of qualified personnel is perceived as bigger issue than lack of finances, completely opposite than for countries further from the frontier. Galia et al. (2012) argue that because of different perception of barriers across countries, public policies should rely on country specific measures for elimination of main obstacles. Innovation systems in SEE countries primarily are at different level of development (e.g. Švarc, 2012). We can thus expect that innovators and innovating firms in these countries are likely to face different obstacles and perceive their level to different extent.

Apart from the barriers to innovation, important issues concern barriers to business in general. Previous studies are mostly concentrated on detailed analy-

sis in a single country. For example, the most pronounced problems of entrepreneurs in Albania identified by Bitzenis and Nito (2005) are unfair competition, changes in taxation procedures, lack of financial resources and public order issues. High costs of capital and high level of bureaucracy impede business growth of SMEs in Slovenia (Bartlett & Bukvič, 2001). We adopt comparative approach to enable discussion on relative position of entrepreneurs across the countries in the region.

In this paper we focus on business barriers and aim to explore if principles identified in case of innovation barriers apply for business barriers, as well. We hope to contribute to the literature by identifying differences in perception of business barriers among a) innovators, R&D firms and non-innovators and b) South-eastern countries.

The paper is organized as follows: after the introduction, the next section explains data. In section 3 we present results of the analysis while the last section summarizes conclusions.

2. DATA SOURCES AND EMPIRICAL STRATEGY

We analyse the perception of obstacles by innovative, R&D performing and non-innovative firms in different countries. We use the latest available Business Environment Survey (BEEPS V), which relates to the 2012-2013 period. BEEPS is conducted jointly by the European Bank for Reconstruction and Development (EBRD) and the World Bank. This round of survey includes data for approximately 15,600 manufacturing and services firms in 30 EBRD countries collected employing face-to-face interviews. The analysis in this paper is performed relying on responses of 2,975 firms from nine countries and two sections of questionnaire/ segments of data: data on business barriers and innovation activities. For more details on BEEPS V see http://ebrd-beeps.com/ .

As innovative firms we consider all of those that during the last 3 years reported having one of the following: new products/services, new products/ services new to one of the establishment's markets, new/significantly improved production/supply, new organisational/management practices or structures, new marketing methods and new or significantly improved logistical or business process.

Firms that attempted innovations, but were not successful during the analysed period are those that had negative answers to previous questions, but at the same time: spend on research activities, either in-house or contracted with other companies and/or give employees time to develop or try out a new approach or new idea about products or services, business process, firm management or marketing.

Non-innovative firms are all the rest. Since the categorisation of the individual firms is important for our paper, we have excluded from the sample all cases where the answer to one of the questions above was "I do not know". We assume that in those cases it would not be plausible to consider other answers reliable (this has reduced the overall sample for all the countries for 60 entries). The structure of the final sample used in the analysis is presented in Table 1.

Table 1 Firms' share according to innovation activities, across countries

Country	Innovators	R&D firms	Non-innovators	Observations
Albania	14.08	8.91	66.67	348
B&H	53.91	7.26	36.03	358
Bulgaria	50.88	4.21	39.30	285
Croatia	60.17	10.03	26.46	359
Kosovo	70.11	14.67	12.50	184
FYR Macedonia	53.63	3.35	38.55	358
Montenegro	26.17	5.37	63.76	149
Romania	70.72	5.70	21.67	526
Serbia	51.96	5.03	38.55	358

Source: authors' calculations based on BEEPS V.

Due to the relatively low innovation activities in the analysed countries, relatively high share of the respondents reporting innovation activity in three-year period might be somewhat surprising. We can assume that the sample is biased towards those enterprises that are more actively engaged in the innovation activities. Also, the high share of innovating firms is a consequence of rather broad definition of innovators for the purpose of this analysis that includes development of non-technological innovation as well. Consequently, the relative high share of innovative firms in the sample provides enough data to proceed with the analysis.

The data presented in previous table reveals that the shares of firms that have devoted resources to R&D activities (either through financing or through human capital) are relatively low in the sample. Nevertheless, it is highly important to consider the perceived business obstacles by those firms in comparison to other categories. The literature claims that, at least when it comes to innovation barriers, those that have attempted innovation activities have different perspectives on the obstacles they may face on the market in comparison to those that never attempted innovative activity. Even though the barriers that we consider in this paper have larger scope, differences between certain categories of enterprises might persist.

In order to investigate the major business obstacles, we analyse which of the 15 categories (access to finance; access to land; business licencing and permits; corruption; courts; crime, theft and disorder; customs and trade regulations; electricity; inadequately educated workforce; labour regulations; political instability; practices of competitors in the informal sector; tax administration; tax rates; transport) the enterprises consider to be the most important impediment to their business operations. Since the questionnaire asks respondents to precisely choose one of the listed impediments, their direct answers to this question should reveal important differences. This is presented in more details in following section.

3. RESULTS

Since the main concern of the analysis is on the obstacles to innovators, we first present these results. The data in following tables refers to the percentage of respondents that have listed specific obstacle as major impediment for their current business operations.

Table 2 Innovators' perceptions on major obstacles for business

	Countries								
	Albania	B&H	Bulgaria	Croatia	Kosovo	FYRM	Montenegro	Romania	Serbia
1	12.07	14.80	6.32	16.16	12.50	18.72	8.05	11.03	14.53
2	5.46	0.56	1.05	0.28	2.72	1.40	1.34	1.71	0.56
3	0.57	2.79	2.11	0.56	1.63	1.12	1.34	1.14	1.68
4	4.89	9.22	7.71	4.46	7.61	1.68	2.01	4.18	6.14
5	0.57	3.35	2.81	4.18	1.63	3.91	1.34	0.38	5.03
6	1.44	3.35	3.51	2.23	2.17	1.12	2.68	1.14	3.35
7	1.44	5.87	0.70	2.23	7.61	2.79	4.70	0.38	3.91
8	12.93	0.84	3.16	0.56	10.33	6.42	5.37	1.71	0.84
9	1.44	2.79	4.56	2.79	4.89	1.68	1.34	8.17	1.96
10	0.29	0.84	4.91	5.29	0.54	0.56	2.01	0.95	1.68
11	6.90	**32.40**	12.98	8.91	4.35	12.01	2.68	9.70	**19.27**
12	**18.39**	6.42	**18.60**	8.91	**21.20**	**23.46**	14.09	7.60	10.89
13	11.49	1.68	2.81	4.74	2.17	3.35	4.03	3.61	4.75
14	10.63	9.50	8.07	**23.68**	7.61	3.35	**19.46**	**41.83**	16.48
15	1.72	1.95	-	0.56	1.09	1.68	0.67	2.66	0.56

Source: authors' calculations based on BEEPS V.

Notes: 1-Access to finance; 2-Access to land; 3-Business licensing and permits; 4-Corruption; 5-Courts; 6-Crime, theft and disorder; 7-Customs and trade regulations; 8-Electricity; 9-Inadequately educated workforce; 10-Labor regulations; 11-Political instability; 12-Practices of competitors in the informal sector; 13-Tax administration; 14-Tax rates; 15-Transport.

Major business obstacles for innovative firms are different across countries. It is interesting to note that political instability is perceived as the major obstacle for Serbia and Bosnia and Herzegovina. This implies that, although the questionnaire covers 2012-2013 period, political factor remains important issue for some countries in the region. Another important impediment seems to be flourishing shadow economy. Innovators in four countries – Albania, Bulgaria, Kosovo and FYR Macedonia have stated that practices of competitors in the informal sector present major obstacle for doing business. It is interesting to note that one of those countries is Bulgaria, an EU member. Recently, Williams (2015) offered explanation for cross countries differences in levels of informal entrepreneurship, which can be associated with economic development and

state intervention to protect workers from poverty. However, full discussion for our group of countries is beyond the scope of the present paper.

Similar analysis for the firms that have devoted some resources to research and development, but have not realised them in the analysed period is presented in Table 3.

Table 3 R&D firms' perceptions on major obstacles for business

	Countries								
	Albania	B&H	Bulgaria	Croatia	Kosovo	FYRM	Montenegro	Romania	Serbia
1	6.45	19.23	8.33	16.67	18.52	25.00	-	6.67	11.11
2	9.68	-	8.33	-	-	-	-	3.33	-
3	3.23	3.85	-	-	-	-	12.50	6.67	-
4	3.23	7.70	-	2.78	3.70	-	12.50	3.33	-
5	-	3.85	-	-	-	-	12.50	-	5.56
6	3.23	-	-	-	-	8.33	-	-	-
7	-	15.38	8.33	2.78	18.52	-	12.50	-	5.56
8	9.68	-	-	-	11.11	-	-	-	-
9	6.45	-	-	-	-	-	-	3.33	5.56
10	-	-	**16.67**	8.33	-	-	-	-	-
11	9.68	7.69	8.33	5.56	7.41	**33.33**	-	10.00	16.67
12	**25.81**	3.85	8.33	2.78	**22.22**	25.00	12.50	-	11.11
13	9.68	-	-	8.33	3.70	-	-	-	-
14	6.45	**26.92**	-	**44.44**	-	-	-	56.67	33.33
15	3.23	11.53	-	-	-	-	-	3.33	-

Source: authors' calculations based on BEEPS V.

Notes: 1-Access to finance; 2-Access to land; 3-Business licensing and permits; 4-Corruption; 5-Courts; 6-Crime, theft and disorder; 7-Customs and trade regulations; 8-Electricity; 9-Inadequately educated workforce; 10-Labor regulations; 11-Political instability; 12-Practices of competitors in the informal sector; 13-Tax administration; 14-Tax rates; 15-Transport.

The data shows that for some countries, the major obstacle is rather different for firms that have performed R&D activities but didn't report innovation in comparison to those that already having innovation output. In case of Bulgaria, labour regulations seem to be important constraint and in case of FYR

Macedonia political instability. For those firms in Bosnia and Herzegovina, as well as Serbia, tax rates are perceived as major threat. Although the number of respondents in this group is significantly smaller than in case of innovators, we may argue that they do perceive obstacles to business differently, at least in some countries.

Finally, the Table 4 presents similar results for non-innovators.

Table 4 Non-innovators' perceptions on major obstacles for business

	Countries								
	Albania	B&H	Bulgaria	Croatia	Kosovo	FYRM	Montenegro	Romania	Serbia
1	12.50	17.05	4.46	11.58	**30.43**	18.12	7.37	11.40	13.77
2	5.17	-	1.79	1.05	8.70	2.90	2.11	0.88	0.72
3	4.31	3.10	1.78	2.11	-	2.17	-	-	0.72
4	3.88	8.53	5.36	5.26	4.35	1.45	1.05	5.26	4.35
5	0.43	0.77	1.79	5.26	-	3.62	-	0.88	3.62
6	1.29	6.20	5.36	2.11	-	0.72	4.21	1.75	4.35
7	1.72	3.10	0.89	1.05	-	0.72	4.21	0.88	4.35
8	12.50	0.78	1.79	-	17.39	7.25	6.32	3.51	2.17
9	0.86	3.10	3.57	2.11	-	-	-	7.02	2.90
10	0.43	-	1.79	5.26	-	-	1.05	-	2.17
11	6.90	**30.23**	14.29	13.68	4.35	9.42	3.16	8.77	19.57
12	**14.66**	7.75	**17.86**	9.47	8.70	**25.36**	14.74	6.14	9.42
13	**14.22**	1.55	2.68	4.21	-	5.07	3.16	1.75	5.80
14	11.64	10.08	12.50	**18.95**	13.04	1.45	**24.21**	**42.98**	18.84
15	2.16	2.33	-	-	-	-	1.05	3.51	0.72

Source: authors' calculations based on BEEPS V.

Notes: 1-Access to finance; 2-Access to land; 3-Business licensing and permits; 4-Corruption; 5-Courts; 6-Crime, theft and disorder; 7-Customs and trade regulations; 8-Electricity; 9-Inadequately educated workforce; 10-Labor regulations; 11-Political instability; 12-Practices of competitors in the informal sector; 13-Tax administration; 14-Tax rates; 15-Transport.

Previous table reveals that there are some similarities between major obstacles perceived by innovative and non-innovative firms in the analysed countries. One of the differences to previous can be noted in case of Kosovo. Non-inno-

vative firms in Kosovo perceive access to finance as one of the major obstacles. Actually, it ranks consistently high across the region, although is mostly overshadowed by other problems the firms face in their business activities.

Summary of previous findings is presented in Table 5. The summary clearly shows that out of 15 possible obstacles, 6 were detected as most important by either on sub-segment of the enterprise population. In general, it seems that large shadow economy and fiscal pressures are recognized as major obstacles most frequently.

Table 5 Major obstacles across types of enterprise in Southeastern Europe

Major obstacle	Type of enterprise		
	Innovator	R&D firm	Non-innovator
Access to finance			Kosovo
Labour regulations		Bulgaria	
Political instability	B&H, Serbia	FYR Macedonia	B&H, Serbia
Informal sector	Albania, Bulgaria, Kosovo, FYR Macedonia	Albania, Kosovo	Albania, Bulgaria, FYR Macedonia
Tax administration			Albania
Tax rates	Croatia, Montenegro, Romania	B&H, Croatia, Romania, Serbia	Croatia, Montenegro, Romania

Source: authors' systematization.

4. CONCLUSIONS

The main contribution of the paper is that it enables discussion on major obstacle to business specifically distributed across innovative and non-innovative firms. Although there are various ready available indicators – for example, World Bank Doing business – they consider the whole economies, and not some specific segments. Since innovation activity is frequently assessed as growth enhancing activity, exploring perceptions of business barriers for innovative firms should have additional policy implications.

Although it might have been initially assumed that during the crisis the firms might point to access to finance as one of the most important problems, it is perceived as major barrier only for non-innovating firms in Kosovo. Findings indicate that firms in other SEE countries perceive access to finance as a

barrier to their business operations, but other problems prevail. Furthermore, except in case of Kosovo and Bosnia and Herzegovina, innovative firms report this barrier more. It appears that firms in most of the analysed countries are able to overcome access to finance as a barrier and continue the innovation activity despite this obstacle.

Few points should be emphasized:

- Corruption often emphasized as major obstacle to business in SEE countries, is not ranked among top six obstacles in none of the countries. The same is found by Bitzenis and Nito (2005) in their analysis on obstacles to entrepreneurship in Albania.
- Analysis reveals that firms in SEE mostly struggle with different barriers to their business operation. Some similarities include practices of competitors in the informal sector as a barrier (in Albania, Bulgaria, Kosovo and FYR Macedonia) and tax rates (in Croatia, Montenegro, Romania, B&H, and Serbia).
- Interestingly, these two barriers are major barriers for both innovators and non-innovators in respective countries.

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