# The influence of the business environment on the competitiveness on small and medium-sized enterprises in Bosnia and Herzegovina

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***Abstract:*** *Small and medium-sized enterprises (SMEs) represent 99.8% of all enterprises in the EU. They provide two-thirds of jobs (mainly in the private sector) and are responsible for more than half of the entire added value achieved by companies in the EU. Considering the importance of SMEs in the economy of Bosnia and Herzegovina, but also the generally growing importance of this category of companies in the last twenty years, this sector of the economy is extremely dynamic and records growth every year. However, the business environment in BiH is burdened with bureaucratic procedures, administrative and legal obstacles that limit the efficiency of company establishment, functioning and development. Also, the burden of high tax liabilities and administrative fees, difficult access to finance, especially for start-up companies, a mismatched educational system from the aspect of the needs of the economy and an inadequate level of entrepreneurial culture, the absence of a strategic framework for the adoption and development of innovations, etc., is evident. All this affects the competitiveness of SMEs. According to the Doing Business Index, which monitors 190 countries and evaluates their business regulations and implementation, BiH is still the worst ranked country in the region. The main goal of the paper is to identify the impact of the business environment in increasing the competitiveness of SMEs in BiH, and to partially point out the main problems related to competitiveness. This paper will start from the following main research assumption: H0: The quality of the business environment in BiH directly affects the competitiveness of SMEs. In the paper, the authors present data obtained from a sample of a total of 107 SMEs operating in Bosnia and Herzegovina. A Likert-type interval measuring scale is used to measure each of the indicators, so regression analysis is also used here to test the research hypothesis. The obtained results indicate, at least an unaffirmative atmosphere, that is, the environment in which small and medium-sized businesses in Bosnia and Herzegovina operate and are a clear signal to the institutions responsible for the development of enterprises and the promotion of the economy for the necessity of action to change this situation.*

***Keywords:*** *SMEs, competitiveness, business environment, BiH*

***JEL Classification:*** *L25, L26, M21, O12, P31*

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## Introduction

Small and medium enterprises (SMEs) are very important for any successful economy in the world and they promote private property and entrepreneurial skills. By their very nature, SMEs are carriers of economic development, initiators of innovation and contribute to increasing employment. This is also shown by the following statistical data in the European Union (EU), where out of a total of 20.7 million companies and around 130 million employees in this sector, as many as 99.8% are SMEs. According to the data of the EU Annual Report on the State of SMEs, i.e. SME Annual Report 2020/2021, the total number of small and medium-sized enterprises in the territory of the European Union in 2020 was 22.526.457, of which 21.044.884 were micro enterprises, 1.282.211 were small enterprises and 199.362 medium-sized enterprises, in which 82.432.093 employees were employed.

If we take into account the data of the Federal Bureau of Statistics that the annual average of employees in FBiH in 2021 was 520.162, we can conclude that of that number, 41% of employees were employed in micro, small and medium-sized enterprises of the Federation of BiH, excluding the number of trades. Bosnia and Herzegovina is one of the last countries in Europe in terms of "ease of doing business" (World Bank) and development of innovation and infrastructure (WEF) with the worst ratings. The gray economy accounts for a quarter of GDP (according to the European Commission's Progress Report), while weak protection of property rights and slow administrative procedures make economic growth extremely difficult. BiH has not yet implemented comprehensive reforms to attract foreign capital and investments.

Competitiveness is a modern term that, with the increase in competition in the modern, increasingly open and integrated world economy, is becoming the subject of many studies. *The European Commission* (1999, p. 75) defines competitiveness as the ability to produce goods and services that will respond to the challenges of international markets, while at the same time maintaining a high and sustainable level of income or, more generally, the ability of a country to generate, despite the pressures of external competition, a relatively high income and employment level. In the context of future goals, the EU presents competitiveness as one of the goals of the Lisbon Strategy, which is also important for transition countries that want to become EU members. Competitiveness is one of the most frequently used economic terms in recent times. At the micro level, the methodology for measuring competitiveness is generally agreed upon, and it refers to the company's market share at a certain point in time, as well as profitability indicators, sales trends on the domestic and international markets, and assessment of the company's ability to sustain and develop in the long term in conditions of growing international competition (Krugman, 1996).

On the other hand, there are different views on measuring competitiveness among individual countries. Some analysts advocate the extreme position that the concept of competitiveness is not applicable at the level of countries, but only at the company level (Lovrinčević, Mikulić and Rajh, 2008).

When defining the subject of the research, it was taken into account the importance for the field to which it relates, but also the possibility of application in practice, as well as that there is interest, intellectual curiosity and the researcher's desire to reach a certain

knowledge for its research. In connection with the aforementioned, for the research of the defined problem, there is significant accessibility of data and suitable methods for processing it. All the above is only a part of what indicates to us that it is necessary to pay attention to the phenomenon of BiH entrepreneurs, and its representation in small and medium-sized manufacturing companies in BiH.

## Literature Review

One of the most important economic functions of the state in a market economy is the definition of the legal framework and rules on the market. This includes the legal regulation of ownership relations, the adoption of laws on contracts, business operations and bankruptcy of companies, regulation of work obligations and numerous other legal regulations regulating economic relations in society. Within the defined legal framework, the primary task of the state from an economic point of view is the definition of economic policy, its goals, measures and instruments, and assuming responsibility for implementation. It is necessary to observe the economic policy of the state in the context of the time and space in which we live, which are marked by the processes of globalization, integration and privatization (Buturac, 2014).

An "encouraging" environment is one that reinforces the perception of entrepreneurial activities as possible and desirable among organizational members (Hisrich et al., 2011, p. 67). Miller and Friesen (Miller and Friesen, 1982) state that entrepreneurial firms are characterized by their willingness to innovate boldly, and that they take significant risks in their production and market strategies. Innovativeness reflects a firm's intrinsic willingness to deviate from existing technologies or practices and to engage in ventures that go beyond the current state of development in a particular field (Kimberly, 1981 as cited in Sorak, 2017). It also implies the tendency of SMEs to creatively initiate and support new ideas, to experiment, to create new processes that can result in new and/or better quality products, services or new markets (Taylor, 2013).

Recently, exceptional importance has been attached to the role of institutions in the economic development of a country, which is confirmed by three large research projects of the World Economic Forum, the World Bank, and the Global Entrepreneurship Research Association – GERA) aimed at measuring the quality of institutions between countries and over time. The ranking of Bosnia and Herzegovina in relevant world reports from the aspect of (under)development of the business environment can be followed by the following reports. In explaining the poor position of Bosnia and Herzegovina on the Doing Business list, the World Bank outlines other categories that BiH lacks, such as: starting a business (60 days on average), obtaining building permits (can be extended up to several months), connecting to the electricity grid, registration of ownership, access to finance, protection of small investors, payment of taxes (large burden for small and medium-sized enterprises), foreign trade (taxes and barriers), implementation of contracts and resolution of insolvency (slow and corrupt judiciary). Due to these circumstances, growth of the gray economy, unemployment and poverty arise. Furthermore, many experts think that this leads to an economic situation that does not create an environment for adequate investment into acquisition and knowledge creation.

On the other hand, when it comes to competitiveness, Professor Michael Porter is a pioneer in economic analysis and research on important issues related to competitiveness at the enterprise, industry and national level. He is widely regarded as one of the world's leading authorities on issues related to corporate strategy, competitiveness and economic development of nations, states and regions, and the application of competitive analysis to a range of key social issues, including those related to the environment, health and philanthropy. During the last decade, in addition to Michael Porter's research, other authors and institutions can be found with a much clearer acknowledgment by economists about the importance of quality microeconomic fundamentals for an environment suitable for investment and innovation. Brian Snowdon and George Stonehouse (2006), Baumola (2002), Helpman (2004), OECD (2004), Sena (2004), UK Treasury (2004), World Bank (2005), World Economic Forum (more) year), Index Sala-i-Martin and Artadi (2004).

Many believe that there is a confusion between the competitiveness of firms and the competitiveness of states and that it is widespread. If we analyze the company, it is evident that it can work, produce and sell in any market, without restrictions. Its result and indicator of competitiveness is market share and profitability. Conversely, when we look at a location, the real indicator of competitiveness is the productivity of the resources used in that location. Let's take for example a company that produces shoes in, for example, Tuzla and that gains market share, but pays its workers only 3-4 KM per hour. The low wage makes it competitive in selling shoes abroad, but does not increase the prosperity of the city and the state, which would like to have high wages.

Porter believes that "only companies can create wealth; governments, NGOs and universities cannot create wealth. Only companies can create wealth when they create a product or service that they can efficiently produce and sell if the price is higher than the production costs, which leads to the creation of profit". The productivity of firms is driven by the level of sophistication in their operations and competitive strategies, as well as the characteristics of the business environment in which they operate. This is where the diamond theory becomes relevant. The theory focuses on analyzing the immediate business environment that shapes and influences the competitive process. The factors represented within the diamond framework play a crucial role in determining the conditions that fundamentally impact a firm's production potential. These include factor conditions, demand conditions, the competitive context and strategy of firms, as well as the presence of related and supporting industries. Improving that diamond is a key part of the economic development process, enabling firms to achieve successively higher levels of productivity.

Economist (Bhagwati, 2002) speak of "comparative advantage" when they write about competitiveness, while Porter writes about "competitive advantage" and claims that comparative advantage is based on traditional trade theory, and that the idea of comparative advantage focuses on country factors, labor and capital. But that is not what drives current trade between nations.

Porter (2005) believes that the process of specialization is intensifying, and that this can lead to the fact that even a small economic region can become a world player. But this cannot be done with one company, but with a cluster of companies. A critical mass of firms is needed. It is much more efficient for components, machines and backup services

to be all in the same location. Another area for competitiveness is education. The famous Alfred Marshall also wrote about this in his "Principles of Economics", where he emphasized the importance of geography in the competitive process, emphasizing the micro-dimensions in achieving competitiveness. Most practitioners in the field of economic development now recognize this and point out that the big missing link was the microeconomic and business side of the equation. The microeconomic perspective includes that the focus on the quality of the business environment affects competitiveness.

Governments play a fundamental role in maintaining macroeconomic stability and ensuring the provision of services within a stable political, legal, and social framework. While these conditions are essential for fostering economic prosperity, the microeconomic dimension is equally significant, particularly the sophistication of firms and the quality of their competitive environment. Rather than directly influencing firm competitiveness, governments should function as enablers, creating conditions that support businesses in enhancing their strategic positioning and overall productivity. A good example is the success of Japan where the government is considered to have played a key role in forging the Japanese economic miracle.

The EU has its own definition and different types of industrial policy. Industrial policy is any type of government policy that attempts to improve the business environment or change the structure of economic activity in relation to sectors, technologies or tasks that are expected to offer better economic prospects than would occur in the absence of such investment. The BiH economy, like other world economies, has suffered several shocks since the outbreak of the COVID-19 pandemic, including disruptions in the supply chain, rising food and energy prices, and the complete closure or minimization of certain activities. Although until 2020, the economy of BiH showed growth in development indicators, during the pandemic years. However, indicators from 2021 point to a gradual recovery of the BiH economy, with average employment reaching the level of 843,876, which indicates a gradual return of the employment growth trend. Bosnia and Herzegovina is in the process of transition to a market economy.

This implies the creation of a completely new economic environment to which all companies, in order to survive, must adapt in an appropriate manner. The most important changes are: ownership transformation, establishment of firm financial discipline, which implies the abolition of state subsidies, introduction of world standards in business to encourage exports and investments, relocation of the social function from companies, inclusion in international flows and stimulation of competition. According to the first preliminary data of the Agency for Statistics, BiH achieved an economic growth of about 2.0% compared to the same period of the previous year. This growth rate is the result of the slowdown in economic activity from last year, as well as the outbreak of the global pandemic of the Covid 19 virus.

In addition, most short-term indicators such as industrial production, foreign trade, construction and credit activity, as well as public finance data indicated are on the weakening of economic activity in 2022. Supporting entrepreneurship with institutional policies for creating new business has to be priority for future economic growth. Entrepreneurship Indicators Programme (EIP) highlighted 2006, main determinants for

boosting entrepreneurship. There was six of them: regulatory framework, market conditions, access to finance, creation and diffusion of knowledge, entrepreneurial capabilities, and culture (Anton, 2017). Policies can provide support or block for an individual who has an intention to start or create a business. As some countries recognize entrepreneurial activity as a benefit, others are still in the process of implementing it.

The growth of economic activity in BiH in 2023 amounted to about 2%, although it still indicates a significant slowdown in growth, compared to the multi-year average. Real economic growth in 2024 is currently projected at 3.2%. In 2023, inflation was reduced to around 2% compared to 2022. The key reason is the continued rise in food prices and core inflation. A gradual weakening of inflationary pressures is expected already from the second quarter. (www.cbbh.ba/press/ShowNews/1514, accessed on February 2, 2024). Private consumption in Bosnia and Herzegovina has the highest level of representation in the structure of GDP in the amount of about 75% (3/4) and based on the previous analyzes it can be concluded that it almost completely determined the trends of economic growth during the previous years. Investments, which even before the outbreak of the global pandemic had a modest representation of less than 20% in the structure of the economy of Bosnia and Herzegovina, are additionally threatened by the newly created circumstances. According to preliminary data, in addition to the electricity production sector, an increase in production in the mining sector was also registered by 6.1% compared to the same period of the previous year.

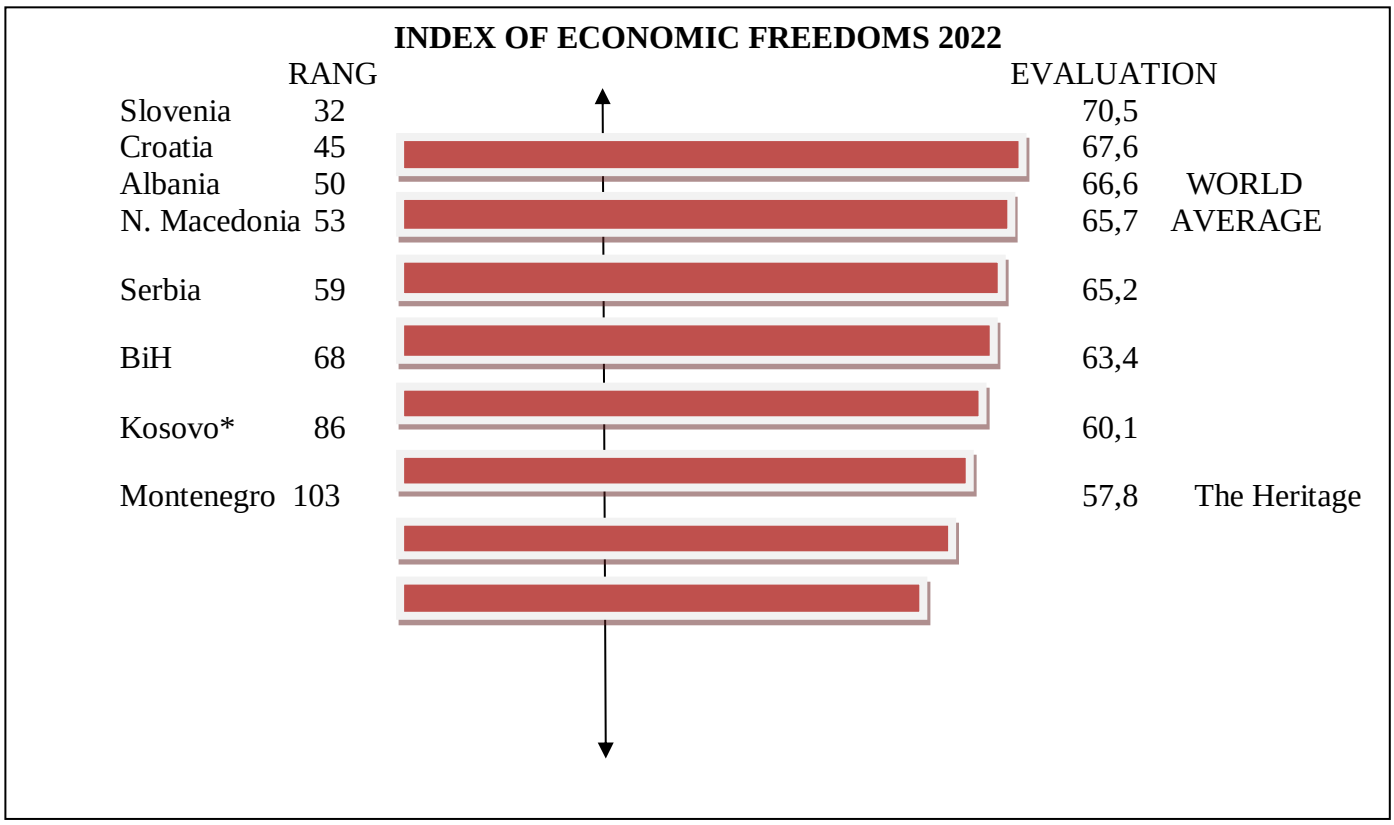
In the recently adopted FBiH Development Strategy 2022-2027, special attention is paid to SMEs as factors of economic growth in the coming period. Specifically, 4 strategic goals, 18 priorities and 78 measures were defined. The fact is that all measures contained in this document do not have the same strength and priority in implementation, and the FBiH does not have enough resources to implement all measures simultaneously and in full. For this reason, we will mention here only the key measures that significantly accelerate economic development and contribute to the growth of employment and productivity.

Offensive measures are singled out in the Strategy because it is known that GDP growth rates lower than 6 to 7% per year are not acceptable for the FBiH economy, and for such a thing it is necessary to have a productivity growth rate of at least 3 to 5% per year. In the post-war period, FBiH was close to the target GDP growth rate of 6 to 7% per year only in 2006 (5.5%) and 2008 (5.3%). If the growth rate of 7% were to be maintained, in ten years FBiH would reach an income p.c. in the amount of about $10,000, which would exceed the current income p.c. Romania. On the other hand, a double-digit growth rate of around 10% in seven years ensures that income p.c. of about $12,120, what is the current threshold for entering the club of high-income countries, i.e. what is the current Croatian income p.c.

According to the estimates of the Executive team for creating the Strategy, the most important accelerator that makes a significant contribution to productivity growth and socioeconomic development is innovation and digitalization. Digital data is of fundamental importance for the development of digital technologies such as data analysis, artificial intelligence, blockchain, things on the internet, cloud computing and all internet-

based services. Data-based business models are introduced not only by digital platforms but also by leading companies in various sectors. During the last few years, there has been a great breakthrough in artificial intelligence in training computers to learn, make decisions and solve problems without human intervention. It is also important that universities create a favorable environment for enabling innovative thinking. Here we will mention the famous Harvard and the multitude of graduates who come from this prestigious university. According to this year's report, the countries of our region belong to the group of "economically moderately free" countries. Only Slovenia is in the group of "mostly economically free" and is in 32nd place. Croatia is in 45th place, Albania in 50th place, North Macedonia in 53rd place, Serbia 59th, BiH 68th, Kosovo* 86th, while Montenegro is in the group of "mostly unfree countries" in 103rd place and is last in region according to the economic freedom index.

Figure 1. Index of economic freedoms 2022




Source: https://www.heritage.org/index/ranking

Bosnia and Herzegovina is in 68th place out of a total of 177 countries in the world. The total rating of our country is 63.4, while the previous year's total rating was 62.9, and BiH was in 82nd place out of a total of 178 countries in the world. Bosnia and Herzegovina achieved an increase of 0.5 points with an improvement in the tax burden assessment category. BiH is ranked 36th among 45 countries in the European region, and its overall

result is below the regional average, but above the world average. Out of 45 countries, after BiH on the list are: Azerbaijan, Greece, Moldova, Kosovo*, Montenegro, Turkey, Russia, Ukraine and Belarus. Economic growth of Bosnia and Herzegovina slowed down from 2017 to 2019, turned negative in 2020 and recovered in 2021.

The five-year trend of expanding economic freedom continued. The tax burden is good, but there are deteriorations in the area of fiscal health, freedom of trade and freedom of labor. It is encouraging that the ease of doing business follows the constant changes between developed and developing economies, especially in the area of starting a business. Since 2003/04, 178 economies have implemented 722 reforms included in the set of business start-up indicators. In total, 106 economies abolished or reduced the minimum initial paid-up capital, 80 introduced or improved one-stop services, and more than 160 simplified pre-registration and company registration formalities.

According to data from the BISNODE database based on the data of the Financial Informatics Agency (FIA) (Agency for Financial, Information and Intermediary Services before the establishment of the FIA), the Agency for Intermediary, Informatics and Financial Services of the Republic of Srpska from business entities that submitted final financial statements in the area in 2021, 35.404 economic entities were actively operating in Bosnia and Herzegovina, and this number has continued to increase since 2018 (*Table 1.*)

Table 1: Total number of SMEs in BiH

| **The total number of small business entities** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2018 | 2019 | 2020 | 2021 |
| Federation of Bosnia and Herzegovina – Micro enterprises | 18.188 | 18.186 | 18.218 | 18.990 | 79,59% | 79,07% | 79,84% | 79,59% |
| Federation of Bosnia and Herzegovina – Small businesses | 3.745 | 3.858 | 3.680 | 3.630 | 16,39% | 16,77% | 16,13% | 16,39% |
| Federation of Bosnia and Herzegovina – Medium enterprises | 918 | 956 | 920 | 919 | 4,02% | 4,16% | 4,03% | 4,02% |
| **Federation of Bosnia and Herzegovina – economic subjects** | **22.851** | **23.000** | **22.818** | **23.539** | **66,47%** | **66,60%** | **66,24%** | **66,49%** |
| Federation of Bosnia and Herzegovina – Trades – Individual physical persons | 51.337 | 52.161 | 52.687 | 53.188 | / | / | / | / |
| **Federation of Bosnia and Herzegovina – subjects of small economy** | **74.188** | **75.161** | **75.505** | **76.727** | **66,5%** | **66,6%** | **66,2%** | **66,5%** |
| Republic of Srpska – Micro enterprises | 7.814 | 7.819 | 7.911 | 8.096 | 28,8% | 28,8% | 29,0% | 28,6% |
| Republic of Srpska – Small businesses | 1.873 | 1.873 | 1.879 | 1.852 | 32,4% | 31,8% | 33,0% | 32,8% |
| Republic of Srpska – Medium enterprises | 486 | 486 | 474 | 474 | 34,1% | 33,2% | 33,4% | 33,5% |
| **Republic of Srpska – economic subjects** | **10.173** | **10.178** | **10.264** | **10.442** | **29,6%** | **29,5%** | **29,8%** | **29,5%** |
| Brčko District BiH – Micro enterprises | 1.174 | 1.174 | 1.196 | 1.263 | 4,3% | 4,3% | 4,4% | 4,5% |
| Brčko Distrikt BiH – Small businesses | 160 | 160 | 143 | 160 | 2,8% | 2,7% | 2,5% | 2,8% |
| Brčko District BiH – Medium enterprises | 22 | 22 | 25 | 20 | 1,5% | 1,5% | 1,8% | 1,4% |
| **Brčko District BiH – economic subjects** | **1.356** | **1.356** | **1.364** | **1.443** | **3,9%** | **3,9%** | **4,0%** | **4,1%** |
| Bosnia and Herzegovina – Micro enterprises | 27.176 | 27.179 | 27.325 | 28.349 | 100,0% | 100,0% | 100,0% | 100,0% |
| Bosnia and Herzegovina – Small businesses | 5.778 | 5.891 | 5.702 | 5.642 | 100,0% | 100,0% | 100,0% | 100,0% |
| Bosnia and Herzegovina – Medium enterprises | 1.426 | 1.464 | 1.419 | 1.413 | 100,0% | 100,0% | 100,0% | 100,0% |
| **Bosnia and Herzegovina – economic subjects** | **34.380** | **34.534** | **34.446** | **35.404** | **100,0%** | **100,0%** | **100,0%** | **100,0%** |

Source: BISNODE database; Institute of Statistics of the FBiH

The largest share of business entities of BiH is made up of business entities of the Federation of BiH (66.49%), followed by business entities from the territory of Republika Srpska (29.5%) and Brčko District of BiH (4.1%). Out of the total number enterprises, 26,1% are technologically innovative, while 30,7% are non technologically innovative. In the overall structure of business entities in BiH, the most represented are micro enterprises (80%), then small enterprises (16%) and medium enterprises (4%). The share of business entities that belong to the small business sector in FBiH, RS, and BD BiH follows the structure of the representation of companies by size as it is at the BiH level. The impact of the COVID 19 pandemic is visible in the number of business entities in the FBiH in 2020, which recorded 182 or 0.8% fewer business entities compared to 2019.

The fact that the number of business entities belonging to small business entities in the FBiH in 2021 compared to 2020 has increased again is encouraging, indicating a gradual recovery of the economy after the pandemic in 2020. In contrast to the Federation of BiH, the number of economic entities that belong to small business entities in the RS and BD BiH has recorded continuous growth since 2018, and the COVID 19 pandemic, according to available data, did not have a negative impact on the reduction of the total number of these entities, but it certainly left consequences for reducing the volume of business. (Strategy-development-of-small-businesses-FBiH-2022-2027, p. 16).

**Methodology**

A portion of the data collection process was conducted electronically via the Google Forms platform for online surveys, with participation requests distributed to respondents via email. The remaining survey questionnaires were administered through direct contact with respondents. During the primary data collection phase, responses were obtained from a total of 126 participants. However, due to identified irregularities, such as missing responses, 19 questionnaires were excluded from further analysis. Consequently, the study on innovation as a determinant of the microeconomic competitiveness of small and medium-sized enterprises in Bosnia and Herzegovina was conducted using data from a final sample of 107 respondents.

The survey questionnaire that was used in the research was designed in several parts, so, through its segmented parts, answers were collected about the respondents' demographic characteristics (gender, age, level of education, position in the company), characteristics of the company (form of ownership, length of business, entity affiliation of headquarters, type of activity, legal form, percentage of highly educated staff, implementation of quality standards, carrying out export activities and number of employees), business performance of companies and ease of doing business in Bosnia and Herzegovina.

The survey questionnaire was mostly structured in the form of closed-ended questions in which the respondents were required to circle one of the offered alternative answers. A large part of the questions was formulated using a five-point Likert scale, where the respondents had the opportunity to evaluate their degree of agreement with the presented

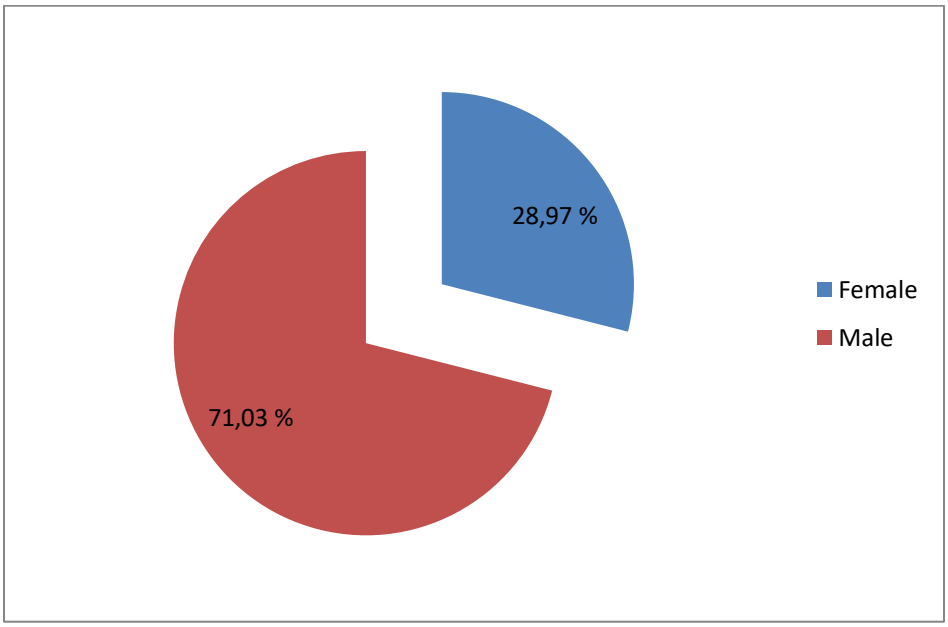
statements through the provided answer form with the following meaning: 1 – I completely disagree, 2 – partially disagree, 3 – neutral attitude, 4 – I partially agree and 5 – I completely agree.

Within the framework of the research methodology of this paper, among other things, the basic research hypothesis was set, which reads "The quality of the business environment in BiH directly affects the competitiveness of SMEs.

**Data Analysis**

As already mentioned earlier, the research included a total of 107 respondents of different gender, age, level of education and position in the organization of employees in Bosnia and Herzegovina companies of different nature of ownership, length of business, territorial affiliation, activity, legal form, participation of highly educated personnel in the employee structure, the market where they deliver their products and services, and the number of employees. Gender structure of the respondents in *Figure 2*. The results show that the survey included 71.03% male respondents and 28.97% female respondents.

Figure 2: Gender structure of respondents




Source: Authors' own work

Also, the research sample includes subjects of different age categories, so the following table shows the distribution of subjects by age.

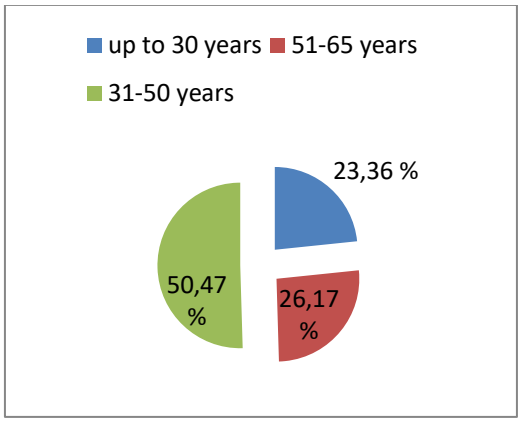
Table 2. Distribution of respondents according to age

| Years of age | Number of respondents |
|---|---|
| Up to 30 years | 25 |
| 31-50 years | 54 |
| 51-65 years | 28 |
| In total | 107 |

Source: Authors' own work

The presented distribution shows the highest frequency of middle-aged respondents. Namely, as shown in *Figure 3*, around half of the respondents included in our research, 50.47% of them, are between 31 and 50 years old. 26.17% of them are between 51 and 65 years old, while the remaining 23.36% are respondents younger than 30 years old.

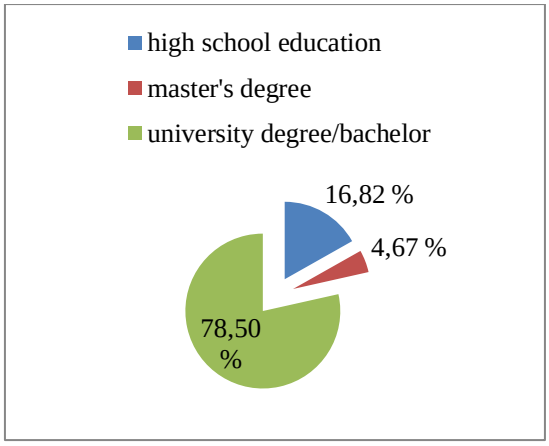
Figure 3. Age structure of respondents




Source: Authors' own work

Observing the level of education as a categorization criterion, the respondents were classified into three groups: respondents with a secondary vocational education, respondents with a college education or a bachelor's degree or equivalent, and respondents with a completed master's degree, while in the research sample there were no respondents with a completed third cycle of studies or with a doctorate. The educational structure of the respondents shown in *Figure 4*.

Figure 4: Educational structure of respondents




Source: Authors' own work

The presented structure shows the highest frequency of university-educated respondents, i.e. respondents with a university degree, since 78.50% of respondents in the sample

belong to this category. 16.82% of respondents have completed secondary school, while the remaining 4.67% have completed the second cycle of studies. The distribution of the survey questionnaires to the respondents was carried out using e-mail and through direct contact with respondents who, in one part of the survey questionnaire, through an open-ended question, identified the position in which they are currently employed in the company. By analyzing the collected answers, the distribution shown in the following tabular review was made.

Table 3: Distribution of respondents according to position in the company

| Position in the company | Number of respondents | Percent of respondents |
|---|---|---|
| Director | 38 | 35,51 |
| Manager | 50 | 46,73 |
| Head of organizational unit (production, procurement, accounting, finance, etc.) | 15 | 14,02 |
| Accountant | 2 | 1,87 |
| The rest | 2 | 1,87 |
| Total | 107 | 100,00 |

Source: Authors' own work

Based on this, we can state that slightly less than half of the respondents, 46.73% of them, are employed in the position of manager. The function of director is held by 35.51%, head of one of the company's organizational units by 14.02%, and accountants by 1.87% of respondents in the sample. The remaining 1.87% of respondents in the sample are employed in some of the other positions.

**Descriptive statistical indicators of the ease of doing business in BiH**

At the very end of the questionnaire, the ease of doing business in Bosnia and Herzegovina was operationalized through a total of twelve indicators measured on a Likert scale. The same was observed in the context of the assessment of the development of education and training for entrepreneurship, easy and cheap start-up of a company, existence of support for entrepreneurs after failure or bankruptcy, legal regulations, availability of necessary work skills, online access, advantages of the internal market, resolution of tax and financial issues, the existence of support for strengthening technological capabilities, assumptions for digital business, support from the state and trust in the transparent work of institutions. In this regard, Table 4 provides an overview of the distribution of respondents' responses by listed aspects of ease of doing business.

Table 4: Distribution of respondents' answers for indicators of ease of doing business in BiH

| | I completely disagree | | Partially disagree | | Neutral attitude | | I partially agree | | I completely agree | |
|---|---|---|---|---|---|---|---|---|---|---|
| | [1] | % | [1] | % | [1] | % | [1] | % | [1] | % |
| Education and training for entrepreneurship has been developed. | 32 | 29,91 | 59 | 55,14 | 14 | 13,08 | 2 | 1,87 | 0 | 0,00 |
| Starting a business is easy and cheap. | 18 | 16,82 | 72 | 67,29 | 14 | 13,08 | 3 | 2,80 | 0 | 0,00 |
| There is support for entrepreneurs after bankruptcy or failure with the first business. | 44 | 41,12 | 37 | 34,58 | 19 | 17,76 | 5 | 4,67 | 2 | 1,87 |
| There is excellent legislation and regulation. | 5 | 4,67 | 11 | 10,28 | 52 | 48,60 | 33 | 30,84 | 6 | 5,61 |
| There is the availability of the required job skills. | 3 | 2,80 | 46 | 42,99 | 23 | 21,50 | 30 | 28,04 | 5 | 4,67 |
| There is excellent online access. | 9 | 8,41 | 38 | 35,51 | 39 | 36,45 | 16 | 14,95 | 5 | 4,67 |
| There are benefits of the internal market. | 23 | 21,50 | 13 | 12,15 | 31 | 28,97 | 36 | 33,64 | 4 | 3,74 |
| Tax and financial issues have been excellently resolved. | 25 | 23,36 | 39 | 36,45 | 23 | 21,50 | 13 | 12,15 | 7 | 6,54 |
| There is support for strengthening the technological abilities of small and medium enterprises. | 17 | 15,89 | 54 | 50,47 | 20 | 18,69 | 14 | 13,08 | 2 | 1,87 |
| There are great conditions for digital business. | 14 | 13,08 | 43 | 40,19 | 37 | 34,58 | 9 | 8,41 | 4 | 3,74 |
| There is excellent support for small and medium-sized enterprises from the state. | 43 | 40,19 | 36 | 33,64 | 22 | 20,56 | 3 | 2,80 | 3 | 2,80 |
| The company trusts the transparent work of institutions. | 11 | 10,28 | 58 | 54,21 | 25 | 23,36 | 11 | 10,28 | 2 | 1,87 |

Source: Authors' own work

As with all other segments of the survey questionnaire measured with an interval Likert measuring scale, descriptive indicators were also calculated for the ease of doing business indicators. The results are given in *Table 5.*

Table 5: Descriptive statistics of ease of doing business in BiH

| | average | median | modus | standard deviation |
|---|---|---|---|---|
| Education and training for entrepreneurship has been | 1,87 | 2,00 | 2 | 0,702 |

| | | | | |
|---|---|---|---|---|
| developed. | | | | |
| Starting a business is easy and cheap. | 2,02 | 2,00 | 2 | 0,644 |
| There is support for entrepreneurs after bankruptcy or failure with the first business. | 1,92 | 2,00 | 1 | 0,972 |
| There is excellent legislation and regulation. | 3,22 | 3,00 | 3 | 0,883 |
| There is the availability of the required job skills. | 2,89 | 3,00 | 2 | 1,003 |
| There is excellent online access. | 2,72 | 3,00 | 3 | 0,979 |
| There are benefits of the internal market. | 2,86 | 3,00 | 4 | 1,209 |
| Tax and financial issues have been excellently resolved. | 2,42 | 2,00 | 2 | 1,166 |
| There is support for strengthening the technological abilities of small and medium enterprises. | 2,35 | 2,00 | 2 | 0,963 |
| There are great conditions for digital business. | 2,50 | 2,00 | 2 | 0,955 |
| There is excellent support for small and medium-sized enterprises from the state. | 1,94 | 2,00 | 1 | 0,989 |
| The company trusts the transparent work of institutions. | 2,39 | 2,00 | 2 | 0,877 |

Source: Authors' own work

As expected, we observe that the values of the arithmetic means within this group of statements are lower compared to all other segments of the survey questionnaire. They range from 1.87 to 3.22, with data variability ranging from 0.644 to 1.209. If the indicators of the ease of doing business in BiH are ranked according to the decreasing average value of their expressiveness, the overview of them can be structured in the following way:

- the existence of excellent legal regulations,
- availability of necessary work skills,
- the existence of advantages of the internal market,
- the existence of excellent online access,
- the existence of excellent assumptions for digital business,
- resolution of tax and financial issues,
- expressed confidence in the transparent work of institutions,
- the existence of support for strengthening the technological capabilities of small and medium-sized enterprises,
- simple and cheap procedure for starting a company,
- the existence of excellent support for small and medium-sized enterprises from the state,
- existence of support for entrepreneurs after bankruptcy or failure with the first business, and

- developed education and training for entrepreneurship.

At the same time, only the first indicator was evaluated with an average value above the neutral attitude, while for all other indicators the average value was obtained with a result below 3.00. These results indicate, at the very least, an unaffirmative atmosphere or environment in which small and medium-sized businesses in BiH operate and are a clear signal to the institutions responsible for the development of enterprises and the promotion of the economy for the necessity of action to change this situation.

The central research hypothesis examines the relationship between the quality of the business environment, on the one hand, and the competitiveness of small and medium-sized enterprises, on the other. It is formulated in the following form: The quality of the business environment directly affects the competitiveness of SMEs in BiH. The quality of the business environment is a variable that is operationalized through a collection of twelve indicators that are marked in the survey questionnaire as elements of the ease of doing business in BiH:

- education and training for entrepreneurship has been developed,
- it is easy and cheap to start a business in BiH,
- there is support for entrepreneurs after bankruptcy or failure with their first business in BiH,
- there is excellent legislation and regulations,
- there is availability of necessary work skills,
- there is excellent online access,
- there are advantages of the internal market,
- tax and financial issues are well resolved,
- there is support for strengthening the technological capabilities of small and medium-sized enterprises,
- there are excellent prerequisites for digital business,
- there is excellent support for small and medium-sized enterprises from the state,
- the company has confidence in the transparent work of institutions.

A Likert-type interval measuring scale was used to measure each of these indicators, so regression analysis was used to test the research hypothesis. The first part of the results, shown in the following tables, refers to the evaluation of the tested impact model.

Table 6: Evaluation of the model of the influence of the quality of the business environment, the sophistication of production and the company's strategy on microeconomic competitiveness

| Model summary[b] |
|---|

| Model | R | The determination coeff. | Corrected determination coeff. | Standard error of estimate |
|---|---|---|---|---|
| 1 | 0,369[a] | 0,136 | 0,128 | 4,24963 |
| a. Predictor: QUALITY OF THE BUSINESS ENVIRONMENT | | | | |
| b. Dependent variable: COMPETITIVENESS | | | | |

| ANOVA | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of squares | df | Average of squares | F | Sig. |
| 1 | Regression part | 298,063 | 1 | 298,063 | 16,505 | 0,000 |
| | Residual part | 1896,236 | 105 | 18,059 | | |
| | Total | 2194,299 | 106 | | | |

Source: Authors' own work

The coefficient of determination, which indicates the proportion of variance in the dependent variable explained by the model, is 0.136 in this study. This implies that the model accounts for 13.6% of the variance in the microeconomic competitiveness of small and medium-sized enterprises. The statistical significance, determined by a p-value below 0.05, as presented in the ANOVA results, confirms that the model is statistically significant. Additionally, to assess the extent to which the quality of the business environment contributes to predicting the dependent variable, the standardized beta coefficient is examined, as reported in Table 7.

Table 7: Coefficients of the regression analysis model of the influence of the quality of the business environment

| Model | | Non-standard coefficients | | Standard coefficient | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | St. error | Beta | | |
| 1 | (Constant) | 28,827 | 3,230 | | 8,926 | 0,000 |
| | QUALITY OF BUSINESS ENVIRONMENT | 0,215 | 0,053 | 0,369 | 4,063 | 0,000 |

Source: Authors' own work

The statistical significance of a variable's unique contribution to the equation is determined by the significance value presented in the final column of the coefficients table. If this value is below 0.05, the variable is considered to make a statistically significant unique contribution to predicting the dependent variable. In this study, the quality of the business environment meets this criterion, indicating that it plays a distinct and significant role in predicting the microeconomic competitiveness of small and medium-sized enterprises.

Considering the findings presented, the main research hypothesis is confirmed, leading to the conclusion that the quality of the business environment has a significant impact on the competitiveness of small and medium-sized enterprises in Bosnia and Herzegovina.

## Conclusion

The business environment is made up of many different forces that influence each other, but also each functional area in the company. A company is not completely helpless when faced with the forces of the business environment, because sometimes it can strongly influence the forces of the business environment. The number of SMEs per 1,000 inhabitants in the EU is on average 50 SMEs per 1,000 inhabitants, and in 2020 it was 50.3. According to data from 2021, the Federation of Bosnia and Herzegovina is far below the EU average. If we take the number of SMEs per 1,000 inhabitants in the FBiH, it was 10.9 in 2021, and the situation is even worse in the RS. On the other hand, if we look at craftsmen, the number of crafts per 1,000 inhabitants in the FBiH in 2021 was 24.5, which ultimately leads to an indicator of 35.4 small business subjects per 1,000 inhabitants in the FBiH. SMEs must monitor all changes, regardless of which segment of the environment it is, because if the company does not monitor and react in time, these changes will prevent its normal operations and jeopardize its efficiency, that is, bring the company into crisis.

The highest number of SMEs per 1,000 inhabitants in 2021 was recorded in Sarajevo Canton (19.1), followed by West Herzegovina Canton (13.8) and Herzegovina-Neretva Canton (12.4). According to the conducted research, whether the indicators of the ease of doing business in Bosnia and Herzegovina are ranked according to the decreasing average value of their expressiveness, it is evident that the availability of the necessary work skills, the existence of the advantages of the internal market, the existence of excellent online access, the existence of excellent assumptions for digital business, determination tax and financial issues, expressed confidence in the transparent work of institutions, the existence of support for strengthening the technological capabilities of small and medium-sized enterprises, a simple and inexpensive procedure for starting a company, the most important problems for SMEs.

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