

## The capacity of local governments to improve business environment: Evidence from Serbia\*

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### Abstract

*The aim of this paper is to draw attention on the need to strengthen institutional cooperation between local self-governments and the business community. The paper analyses the ability of socio-economic councils in Serbia, as a part of local governments, to improve the business environment and indicators of social status at the local level. In addition to socio-economic councils, this analysis includes the departments, divisions and offices for local economic development and their responsibilities. The results in the paper has been generated using descriptive statistics, Chi-Square test, t-test and regression analysis, based on the analysis of primary data collected in empirical research on 55 municipalities in Serbia. The fundamental results obtained using the stated analysis is that socio-economic councils have positive impact on the social and economic development in the survived municipalities. Finally, the basic conclusion from the executed research is that size of the municipality is not a limiting factor for the establishment of the socio-economic councils and their functionality.*

**Key words:** business environment, socio-economic council functionality, local self-government institutions, indicators of a social and economic status

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## 1. Introduction

Creating enabling business environment in order to increase the entrepreneurial activities is very important jurisdiction of local self-government. State authorities are responsible for the creation of a macroeconomic framework that encourages the growth and development of the economy, while the efforts of local governments are aimed at creating framework that fits to the concept of a local business friendly environment. One of the first steps of local self-government in the process of creation of micro climate, which should make their communities recognizable and favourable for entrepreneurs, includes development of local economic strategies and plans with purpose of reducing risks for developing business and creating stable business environment.

This paper analyses the functionality of local socio-economic councils in Serbia, as being local self-government institutions whose activities are aimed at creating business friendly environment and the effects of their actions are measured through quality rate of socio-economic councils operation. The respondents in empirical research were local economic development offices. The set of questions have been offered to the local economic development offices in order to assess activities of socio-economic councils. They are asked to express an opinion on significance of observed activities of socio-economic councils for the improvement of the business environment. The statistical analysis in the paper will quantify the subjective perception of local economic development offices about business council's operations quality and functionality. In addition, the analysis includes the official data of Statistical Office of Republic of Serbia about some key parameters of social and economic development of observed municipalities. The strengthened hypothesis this paper deals with is whether the existence and the functionality of socio-economic councils is connected with the size of municipality as well as the effects of activities they are performing.

Since the encouraging of local economic development is recent competence of cities and municipalities in Serbia introduced by the Law on Local Self-Government (Official Gazette of the Republic of Serbia, No. 129/2007), cities and municipalities undertake activities aimed at stimulating local economic growth in the relatively short period. These activities are carried out not only in the offices of local economic development, but also in other agencies and departments within the organizational structure of local self-government, such as the city or municipal council in charge of economy, the council or committee of Municipal Assembly for economy, the strategic planning committee, the committee for planning capital investment, employment council, socio-economic council, etc. The Law on Local Self-Government determines competences of local self-governments in the area of local economic development, leading to establishment of legal basis for local self-governments to cooperate proactive with business communities. However, this

Law does not define obligations or models of institutional cooperation, although other regulations predict establishment of different institutional mechanisms for cooperation between local self-government and business community. Namely, establishment, jurisdictions and functioning of different institutional forms of cooperation between local self-government and business community have been defined mostly by the Law on Employment and Insurance in Case of Unemployment (Official Gazette of the Republic of Serbia, No. 36/2009 and 88/2010) as well as the Law on Socio-Economic Council (Official Gazette of the Republic of Serbia, No. 125/2004).

Representatives of business community have the opportunity to be involved in local self-government bodies and to make statements on certain aspects of the local economic development through some of these institutional forms – for example, local employment councils gather representatives of local self-governments, national employment service, entrepreneurs, centres for social work, representative syndicates and non-governmental organizations. However, having in mind that these institutional forms have been established with the aim of improving functioning of some certain parts of the local economic framework (e.g. employment, education, etc.), the role of these business community representatives is limited only to propositions and initiatives and control of already adopted measures referring to a single particular area. In that way, they do not always have motivation or a long term interest in participating and essentially contributing to activities of these institutional forms.

The remaining part of this paper is structured as follows. We continue in Section 2 with a review of literature on the role of local self-government units in promoting business activity. Description of methodology employed, dataset and empirical findings are presented in the following two sections. Finally, the last section presents a conclusion.

## 2. Literature review

Business activities are mostly determined by two essential factors: business environment and the capability of state and local government's institutions to overcome specific problems in creating enabling business environment (Škof and Bradaschia, 2010). Contemporary economic literature analyses these two factors in many different perspectives (e.g. Grilli, 2011; Lavric, 2010; Bumgardner *et al.*, 2011; Nicolescu *et al.*, 2010). Findings that points out the significance of these factors can be found in research conducted by Ciocarlan-Chitucea and Popescu (2010), Norwood (2011), Dunkelberg and Wade (2012) as well as Nicolescu and Nicolescu (2013). The conclusions of all mentioned researches are related to the multiple effects of the business environment on the business activities

and the leading role of the state institutions in developing and enabling business environment.

On the other hand, local self-governments institutions are likely the leading policy makers and regulators in terms of enabling activities of entrepreneurs and small businesses (McFarland *et al.*, 2010). Instead, the most of local self-governments still do not know the effects of their efforts or what are their most effective activities. Very often, local self-government regulations may unwittingly cause institutional and bureaucratic barriers that discourage and frustrate attempts to develop new business projects, but as well impede maintaining the existing level of business activities (Morris and Brennan, 2003; Roxas *et al.*, 2008; Stankovic *et al.*, 2013). Moreover, the most local governments have policies and programs designed to proactively support entrepreneurs and small businesses, but these efforts are not necessarily well suited to meet the needs of the types of small businesses and the most likely are declarative with no practical results (McFarland and McConnell, 2011a). Local self-governments are interacting with business activities via its regulations, policies and communicatory and governance processes, as an important factor in supporting new and small business growth. Regulations affect doing business in a community and good communication between local institutions and business community helps establish trust, build supportive policies and provide ways to solve problems (McFarland and McConnell, 2011b). “Governments can, given their powers, have considerable influence over the entrepreneurial process by stifling the efforts of those attempting to start a new business. This may be done through onerous bureaucratic requirements, complex regulations or merely slow reaction to requests for decisions required to form a new business“ (Reynolds *et al.*, 1994: 447). The simplicity of procedures, the speed of service delivery and availability of local institutions are indicators to what extent the local government has recognized the needs of a business community.

Local economic development initiatives were especially effective in South Africa, which may be considered a success story. The core of the initiative was reduction of Red Tape. Although, excessive and unnecessary bureaucratic burden harms all forms of business, equally foreign and domestic, big entrepreneurial ventures and small business, small business have less staff, administrative and financial resources available on dealing with Red Tape, so that it is the one more vulnerable to poor municipal service. Potentially useful approaches include, but are not limited to establishment of municipal ombudsman and customer care centres, creation of standards in service quality delivery (Customer Care Charter), putting in place effective dispute resolution procedures etc.

In terms of the high level of centralization that exists in Serbia, the ability of local governments to perform tasks of improving business conditions and creating a favourable micro-climate for business is assessed Law (Stankovic and Novakovic, 2014). Regardless the efforts of local self-governments in Serbia, there are many

problems concerning business environment improvements that local communities were facing during the last two decades, as well the many factors that influenced on the reduction of business activities (Mojsilovic and Klacar, 2011; Stankovic *et al.*, 2014; Office of the National Council for Decentralization, 2010). Some local self-governments have been already recognized the significance of locally tailored actions and developing local comparative advantages for increasing businesses and making more favourable position inside regionally unbalanced Serbian economy (Stankovic *et al.*, 2014). Actually, because of the high level of centralization, the operational capacity of local institutions in the creation of an enabling business environment is almost negligible. Also, previous studies have shown that the business community continues not to perceive the local government as a partner and between them remains a distant relationship, where the local authorities are seen as “power” (Stankovic *et al.*, 2013). All competencies of local institutions in the field of local economic development are relatively new and still have not been found the right model of action. In this regard, this paper aims to identify some of the key issues related to the (in)efficiency of local institutions and thus improve the relationship between the business community and local government.

### **3. Methodology and conception of analysis**

Empirical part of research was carried out in cooperation with the Board for Local Economic Development and Network for Local Economic Development of Standing Conference of Towns and Municipalities in Serbia during April and May 2013. The research sample includes 55 cities and municipalities in Serbia and consisted of two segments of questions that consider following subjects:

- A. Existence of institutional capacities at the local level for accelerating local economic development and
- B. Exploring efficiency of various models and mechanisms of institutional cooperation with business community, where special attention is given to existence, structure and functionality of three possible forms: (1) Local Socio-Economic Council, (2) Local Employment Council and (3) Local Economic, i.e. Business Council.

The total number of questions included in the survey is 31. The primary idea was that the research should be conducted in all local self-government units in Serbia and questionnaire was sent to all local governments in Serbia. According to Statistical Office of RS there are 174 local self-government units in Serbia: 150 municipalities, 23 cities and the City of Belgrade as a capital. Only 55 of them responded on questionnaire and accepted to be involved in research. In addition to the functionality of subjective indicators of socio-economic council, this analysis includes the objective indicators of social and economic conditions in the surveyed local governments (city or municipality) such as: the number of employees per

1,000 inhabitants, the number of unemployed per 1000 inhabitants, average income, the aging index (the ratio between population aged 60 and over and the population aged 0 to 19 years), the share of highly educated and the amount of investment in fixed assets per capita. The descriptive statistics of the sample is given in Appendix (Table A and Table B).

Within local self-governments that were the subjects of research, activities in the area of local economic development are organized through four different institutional forms: (1) Department for local economic development, (2) Division for local economic development (3) Office for local economic development and (4) Agency for Local Economic Development. Department for local economic development is established by the decision of the municipal administration with the approval of president of municipality, or the mayor and request amendment of the regulations on internal organization and job classification, and the aforementioned amendment is necessary to verify in the local assembly. Although is the most suitable, this organizational form is rarely applied in practice because of the request for verification by the majority in the local assembly. Division for local economic development is formed by the decision of the head of municipal administration, with the approval of president of municipality or the mayor and also requires changing the regulations on internal organization and job classification. The above-mentioned changes is not necessary to verify in the local assembly, which is the main reason for the general prevalence of this organizational form, regardless of its shortcomings arising from the hierarchical structure. Unlike the previous two forms, office for local economic development is a separate legal entity in the relation to other bodies of local self-government. The basic advantage of this organizational form is more autonomy and a greater possibility of hiring competent staff. Agencies for local economic development are established in the accordance with the Law on Public Agencies (Official Gazette of the Republic of Serbia no. 18/2005 and 81/2005) and represent the highest form autonomy of the local self-government institutions in the field of local economic development (LED). The advantage of this institutional form is reflected primarily in the ability of self-appearance on the market and generating their own income, self-expansion of operations and establishing priorities of its activities. This form of organization is not significantly widespread in Serbia, and the practice has shown that a high level of autonomy often means a lack of cooperation with other bodies of local self-governments.

In addition to assessment of an adequate institutional infrastructure at the local level, the paper will test the functionality of socio-economics councils in relations to size of municipality as well as the activities they are performing. Therefore, the null hypothesis is defined as:

$H_0$  - Size of the municipality is not a limiting factor for the level of development of institutional infrastructure of local government and does not affect the quality and functionality of the socio-economic councils, while the existence of socio-



economic councils has an influence on the improvement of social and economic indicators at local level.

The activities of socio-economic councils offered in the questionnaire are the following:

- A1. Making conclusions, recommendations and opinions important to improve the business climate in the local community;
- A2. Submitting Specified documents to the Parliament, Council and the Mayor/ Mayor with a proposal to take adequate measures;
- A3. Preparation of the Strategic Plan proposal;
- A4. Preparation of amendments to the Strategic / Action Plan;
- A5. Preparation of annual implementation plans;
- A6. Monitoring and evaluation of the projects and tasks of the Strategic Plan implementation;
- A7. Providing support to the LED offices;
- A8. Providing support to the Mayor and Municipal Council in making decisions related to other economic and development programs; and
- A9. Giving opinions and suggestions for improvement of the municipal/city government, public enterprises, institutions, organizations and agencies established by the Municipal/City to improve conditions for doing business in the municipality/city.

In order to test the research hypothesis, the several statistical methods were applied. The dependence between the size of the municipalities and the existence of the socio-economic councils, as well as their functionality was tested by Chi-Square Test. Chi-square test belongs to a group of tests by which is possible to test whether there is a statistically significant correlation in the frequencies of the two attributive variables or between the received (observed) frequencies and frequencies that are expected. For the purpose of research, Chi-Square Test is used in its first sense. The original procedure dates from Karl Pearson paper published in the 1900s which defined the chi-squared test of goodness of fit (Plackett, 1983). The next method applied in the research was t-test of equality of means, the aim of which was to test the difference in mean values of social and economic indicators between municipalities where exists socio-economic council compering to those where there is no such an institutional form. After that, the multiple regression analysis was used in order to explore the connection between functionality of socio-economic councils and objective indicators of social and economic conditions in the surveyed local governments.

#### 4. Empirical data and analysis

The cities and municipalities in research sample are classified according to the number of inhabitants in three categories: (1) small municipalities with up to 20,000 inhabitants, (2) medium-sized with a number of inhabitants from 20,000 to 80,000; and (3) large municipalities with over 80,000 inhabitants. The structure of a sample according to the number of inhabitants is presented in Table 1.

Table 1: The structure of the sample by size according to number of inhabitants

The size of municipality	Number of municipalities	
	Absolute	Percentage share (%)
Small	22	40.00
Medium	21	38.20
Large	12	21.80
Total	55	100.00

Source: Authors' research

In addition to socio-economic councils, the existence of other institutional forms in the area of local economic development was explored. The structure of sample according to type of local institutional form with jurisdiction in local economic development is presented in Table 2.

Table 2: Local institutional forms that conduct the LED activities

Type of institutional form	Number of municipalities	
	Absolute	Percentage share (%)
Department for Local Economic Development	12	21.82
Division for Local Economic Development	8	14.55
Office for Local Economic Development	25	45.45
Agency for Local Economic Development	5	9.09
Total number of municipalities with local institutional forms in the field of LED	50	90.91
No local institutional form in the field of LED	5	9.09
Total number of municipalities	55	100.00

Source: Authors' research

Due to the significant regional differences in Serbia, all the analysis will contain the regional dimension. Regions are defined as administrative units under the Law on Regional Development, according to which the territory of Serbia is divided into five statistical regions. Since the sample do not include any of the municipalities from the territory of Kosovo and Metohija, further analysis includes four



administrative units. The structure of the sample according to regional belonging of cities and municipalities is given in Table 3.

Table 3: The regional structure of sample

Region	Number of municipalities	
	Absolute	Percentage share (%)
Belgrade region	4	7.30
Vojvodina region	19	34.50
Šumadija and Western Serbia	16	29.10
Southern and Eastern Serbia	16	29.10
Total	55	100.00

Source: Authors' research

Considering a high level of centralization in Serbia (Office of the National Council for Decentralization, 2010), the authors of this paper have found it necessary to evaluate initially the existence of an adequate local self-government bodies with jurisdiction to deal with local socio-economic problems in all municipalities. In the observed sample of local self-government units, 21 of them have established Socio-economic council, which is 38.2 percent. The structure of the sample according to size of the municipalities and existence of the Socio-economic councils is presented in the Table 4. If the size of LSG units in the context of the population is considered, it can be concluded that 66.7% of large municipalities have established the socio-economic council (Table 4). The majority of medium-sized municipalities (66.7 percent) do not have socio-economic council. When it comes to small municipalities, the percentage of those who have a socio-economic council is the smallest and amounts to only 27.3%.

Table 4: The distribution of socio-economic councils according to size of municipalities

The size of the municipality	Has the socio-economic council been established?		Total
	No	Yes	
Small – up to 20.000	16	6	22
Count % within municipality size	72.7%	27.3%	100.0%
Medium – from 20.000–80.000	14	7	21
Count % within municipality size	66.7%	33.3%	100.0%
Large – over 80.000	4	8	12
Count % within municipality size	33.3%	66.7%	100.0%
Total	34	21	55
Count % within municipality size	61.8%	38.2%	100.0%

Source: Authors' calculation

The next issue to be analysed is related to quality and functionality assessment of socio-economic councils in observed municipalities. The quantification of perception of LED offices about quality and functionality of socio-economic council is achieved by applying the Likert scale (Likert, 1931), where the highest level is rated with 5, and the lowest level with 1. Assessment results are presented in Table 5.

Table 5: Socio-economic council quality and functionality assessment

Quality rates		Frequency	Percent	Valid Percent
Valid	1	2	3.6	9.5
	2	4	7.3	19.0
	3	5	9.1	23.8
	4	8	14.5	38.1
	5	2	3.6	9.5
	Total	21	38.2	–
Missing	System	34	61.8	–
Total		55	55	100.0

Source: Authors' research

In the final part of the research, respondents were able to indicate the activities performed by the socio-economic councils. Activities offered in the questionnaire are defined by offices for local economic development, so by the respondents themselves. The number of cities/municipalities where local socio-economic councils are performing certain activities and their regional distribution are shown in the Table 6.

Table 6: Regional distribution of performed activities of socio-economic councils

Activity	Region				Total
	Belgrade	Vojvodina	Šumadija and Western Serbia	Southern and Eastern Serbia	
A1	0	5 (35.7%)	4 (28.6%)	5 (35.7%)	14 (100%)
A2	0	9 (50.0%)	3 (16.7%)	6 (33.3%)	18 (100%)
A3	0	4 (44.5%)	2 (22.2%)	3 (33.3%)	9 (100%)
A4	0	5 (50.0%)	2 (20.0%)	3 (30.0%)	10 (100%)
A5	0	3 (50.0%)	1 (16.7%)	2 (33.3%)	6 (100%)
A6	0	4 (57.1%)	1 (14.3%)	2 (28.6%)	7 (100%)
A7	0	2 (50.0%)	0	2 (50.0%)	4 (100%)
A8	0	4 (36.4%)	3 (27.3%)	4 (36.4%)	11 (100%)
A9	0	3 (30%)	2 (20%)	5 (50%)	10 (100%)

Source: Authors' calculation

Based on the data in Table 6 it can be concluded that they are almost equal territorial contain of all activities performed by the socio-economic councils, as well as that there are no regionally tailored policies for institutional cooperation between local governments and the business community, nor activities for their implementation. In addition, the lack of data about activities of the socio-economic councils in Belgrade leads to conclusion that there is insufficient cooperation and familiarity between offices for local economic development and the socio-economic councils.

In the next segment of the research, the regional distribution of subjective assessment of quality and functionality of the socio-economic councils and objective indicators of social and economic development in the survived cities/municipalities in the region were observed (Table 7).

Table 7: Average values of selected indicators by regions

Region		Quality and functionality assessment	Number of employees per 1,000 inhabitants	The aging index	Number of unemployed per 1000 inhabitants	Average income in RSD	Share of highly educated	Investment in new fixed assets per capita (000) RSD
Belgrade region	Mean	3.00	374.000	112.990	60.000	56931.50	0.131	97.835
	Std. Deviation	1.414	46.669	17.819	4.242	8217.28	0.091	33.566
Vojvodina region	Mean	3.13	212.375	121.046	89.000	36450.62	0.068	33.512
	Std. Deviation	1.356	30.895	12.026	18.493	4976.08	0.017	19.110
Šumadija and Western Serbia	Mean	3.25	205.000	105.887	114.500	31851.75	0.062	30.117
	Std. Deviation	1.258	43.886	45.105	60.324	5721.64	0.012	21.601
Southern and Eastern Serbia	Mean	3.29	177.857	150.471	120.421	33204.42	0.061	19.744
	Std. Deviation	1.113	40.506	41.271	60.528	3463.14	0.044	22.508

Note: Selected indicators are related to subjective assessment of quality and functionality of the socio-economic councils and objective indicators of social and economic development in the survived municipalities.

Source: Authors' calculation based on data from empirical research and Statistical Office of the Republic of Serbia official reports

The relationship between data in Table 7 is such that in regions where the average values of objective indicators are more preferred, subjective assessments of the quality and functionality of the socio-economic councils are lower. This is information leads to the conclusion that the cities and municipalities with higher living standards have greater requirements and expectations of the socio-economic councils operations.

## 5. Results and discussion

The data presented in Table 4 shows that in smaller municipalities there is lower percentage that indicates the existence of the socio-economic council. For purpose of testing connection between size of the municipalities and the socio-economic council existence, Chi-Square Test was applied. However, the results of Chi-Square Test (Table 8) clearly show that municipality size does not influence the fact whether socio-economic council is established (significance of Pearson Chi-Square equals 0.066). Regardless of the circumstances where small municipalities have a lower percentage of those who established socio-economic council, this difference is not statistically significant and cannot be correlated with the size of the municipality.

Table 8: Chi-Square test results

Coefficient	Value	df	Significance (2-sided)
Pearson Chi-Square	5.444	2	0.066
Likelihood Ratio	5.352	2	0.069
Linear-by-Linear Association	4.375	1	0.036
Number of Valid Cases	55	–	–

Source: Authors' calculation

The average rate of socio-economic council quality and functionality assessment was 3.19, and the standard deviation is 1.167. Socio-economic councils in medium-sized municipalities have best average rating 3.43, while both other groups are below the sample average (Table 9).

Table 9: The quality of socio-economic councils by size of the municipalities

The size of the municipality	The quality and functionality rates of the socio-economic councils					Total	Average rate
	1.000	2.000	3.000	4.000	5.000		
Small – up to 20.000	2	0	0	3	1	6	3.17
Count % within municipality size	33.3%	0.0%	0.0%	50.0%	16.7%	100.0%	
Medium – from 20.000–80.000	0	1	3	2	1	7	3.43
Count % within municipality size	0.0%	14.3%	42.9%	28.6%	14.3%	100.0%	
Big – over 80000	0	3	2	3	0	8	3.00
Count % within municipality size	0.0%	37.5%	25.0%	37.5%	0.0%	100.0%	
Total	2	4	5	8	2	21	3.19
Count % within municipality size	9.5%	19.0%	23.8%	38.1%	9.5%	100.0%	

Source: Authors' calculation

However, despite the obvious difference in average scores, which can be seen from the Table 9, the results of the Chi-Square Test show that there is no statistically significant dependence between the size of the municipality and the socio-economic council quality rating (Table 10).

Table 10: The results of Chi-Square test

Coefficient	Value	df	Significance (2-sided)
Pearson Chi-Square	11.797	8	0.160
Likelihood Ratio	14.539	8	0.069
Linear-by-Linear Association	0.101	1	0.750
Number of Valid Cases	21	–	–

Source: Authors' calculation

In order to test the effects of the socio-economic councils existence the following objective indicators of social and economic conditions in the surveyed municipalities were analysed: the number of employees per 1,000 inhabitants, the number of unemployed per 1000 inhabitants, average income, the aging index (the ratio between population aged 60 and over and the population aged 0 to 19 years), the share of highly educated and the amount of investment in fixed assets. The data on employment, as well as income data, clearly indicate business performance, while fixed assets investment points-out stance of business cycle. The rationale for including aging index and the education variable is drawn on the fact that higher share of younger and educated population may indicate ability of local self-governmental units to attract valuable labour force (e.g. through population migrations). Therefore, they may also serve as good proxies for local economic activity.

The observed municipalities are also divided into two groups: with and without socio-economic council. The obtained results are presented in Table 11.

Table 11: Average values of selected indicators

Has the socio-economic council been established?		Number of employees per 1,000 inhabitants	The aging index	Number of unemployed per 1000 inhabitants	Average income in RSD	Investment per capita in new fixed assets (000) RSD	Share of highly educated
No	Mean	176.059	138.779	125.529	33,998.677	25.592	0.061
	Std. Deviation	78.348	29.395	43.571	7,054.467	55.057	0.073
Yes	Mean	214.857	127.200	101.571	36,443.143	34.402	0.071
	Std. Deviation	65.252	34.618	46.469	8,391.424	29.794	0.040
Total	Mean	190.873	134.358	116.382	34,932.018	28.596	0.065
	Std. Deviation	75.433	31.688	45.803	7,611.095	46.903	0.062

Source: Authors' calculation

As it can be seen from Table 11, municipalities with established socio-economics council have the better performances (higher average values of Number of employees per 1,000 inhabitants, Average income, Investment in new fixed assets, Share of highly educated, from the one side, and lower average values of The aging index and Number of unemployed persons per 1000 inhabitants, from the other). The question is whether this difference is statistically significant. The answer is presented in Table 12.

Table 12: Results of t-test for equality of means

Indicator	Assumption	T*	df	Significance (2-tailed)	Mean Difference	Std. Error Difference
Number of employees per 1,000 inhabitants	Equal variances assumed	-1.897	53	0.063	-38.798	20.449
	Equal variances not assumed	-1.982	48.277	0.053	-38.798	19.577
The aging index	Equal variances assumed	1.326	53	0.191	11.578	8.733
	Equal variances not assumed	1.275	37.297	0.210	11.578	9.082
Number of unemployed per 1000 inhabitants	Equal variances assumed	1.932	53	0.059	23.957	12.402
	Equal variances not assumed	1.902	40.398	0.064	23.957	12.596
Average income in RSD	Equal variances assumed	-1.161	53	0.251	-2444.466	2105.647
	Equal variances not assumed	-1.114	36.999	0.273	-2444.466	2194.728
Investment per capita in new fixed assets (000) RSD	Equal variances assumed	-0.673	53	0.504	-8.811	13.084
	Equal variances not assumed	-0.769	52.309	0.446	-8.811	11.464
Share of highly educated	Equal variances assumed	-.588	53	0.559	-.0101	0.017
	Equal variances not assumed	-.671	52.350	0.505	-.0101	0.015

\* Calculated value of t-statistics

Source: Authors' calculation

The equality of mean values was tested by t-test. The obtained results showed that, beside the fact that the difference in mean values of selected indicators is evident, this difference is not statistically significant.

The values selected of objective indicators can be considered as results of socio-economic councils, and from this aspect, they can be connected with the subjective assessment of their functionality and quality. The connection between these two categories (objective and subjective) will be tested by multiple regression analysis. The objective indicators will be treated as independent variables, while the dependent variable will be quality assessment of the socio-economic councils.

Table 13: The parameters of the estimated multiple regression model

Variables	Standardized Coefficients	T	Significance
(Constant)		1.104	0.288
Number of employees per 1,000 inhabitants	0.709	2.371	0.033
The aging index	0.290	1.252	0.231
Number of unemployed per 1000 inhabitants	0.506	1.996	0.066
Average income	-1.001	-3.552	0.003
Share of highly educated	0.080	0.345	0.735
Investment in new fixed assets	0.386	1.390	0.186

Source: Authors' calculation

Interdependence between the dependent variable and explanatory variables is expressed by the value correlation coefficient, which is 0.746 in this case. The coefficient of determination shows the percentage of variability in functionality and quality assessment explained by variability of independent variables. In this case, the coefficient of determination is 0.556, which is in favour representativeness of the models.

Standardized values of regression parameters indicate importance of each independent variable. According to the results presented in Table 13, there is no statistically significant influence of objective indicators on the quality assessment of socio-economic councils, except in the case of Average income (sig. 0.003). The negative value of the regression coefficient which refers to this variable indicates that in municipalities with higher average income the assessment of the socio-economic council's quality and functionality is on the lower level. Such results lead to the conclusion that municipalities with a higher standard of living have higher expectations from the socio-economic council.

It is necessary to emphasize that the activities of socio-economic councils offered in the questionnaire are defined by offices for local economic development so



they were defined generally, without a precise focus and possibilities of binding to specific results. According to The Law of Social-Economic Council (Article 9, Paragraph 1), the jurisdiction of the State Socio Economic Council include issues such as development and promotion of collective bargaining, the impact of economic policies and measures for implementing the social development and stability, policy employment, wage and price competition and productivity, privatization and other issues of structural adjustment, labour and environmental protection system, education and vocational training, health and social protection and security, demographic trends, and other issues accordance with the regulations of the Social-Economic Council. Article 18 of the same Law defines that all of activities listed above can and should be implemented on the local level, trough activities of local socio-economic councils. Therefore, the situation where there are no clearly defined and operatively measurable activities of local socio-economic councils indicates that there has been no implementation of provided opportunities by The Law of Social-Economic Council. This situation suggests that the socio-economic councils at the local level are still functioning as a politicized institution, without clear and practical objectives, which reduces their effectiveness, but also the accessibility to measure their results, and thus improving their operability.

## **6. Conclusion**

The research results showed that size of the municipality is not limiting factor for the establishment of the socio-economic councils. The perception about quality and functionality of this institutional form also is not influenced by the size of the municipalities. These obtained results confirmed the tested hypothesis where the assumption was that the development of institutional infrastructure of local government does not depend of the size of municipality and do not affect the quality and functionality of the socio-economic councils. The second part of starting hypothesis is confirmed as well and besides the results according to which there is no statistically significant difference in average values of the objective indicators of social and economic conditions between municipalities, it is possible to conclude that functioning of the socio-economic councils has some positive impact on development indicators in municipalities, because the municipalities which have socio-economic councils have better performances compared to the oppsite.

Research has also pinpointed some significant drawbacks related to the efficiency and effectiveness of the socio-economic councils. Firstly, there is no statistically significant relationship between subjective assessment of quality and functionality of the socio-economic councils and objective indicators of social and economic conditions in the surveyed cities and municipalities. Secondly, the activities of the socio-economic councils at the local level are not clearly and operationally defined. This situation indicates the politicized attitude of these institutions and the

lack of guidelines to concrete problem-solving in order to improve the business environment and stimulate business activity. The research has confirmed the existence of a bureaucratic approach of local government institutions in determining and implementing activities in the field of improving business environment. The authors' recommendations are that it is necessary to apply a proactive approach in understanding the needs of the business community and to move focus of activities implemented at the local level towards regionally tailored requirements.

Significant limitation of the research is the low response of local governments and offices for local economic development to participate in it and to submit answered questionnaires. The low response rate clearly indicates lack of awareness of local government institutions on the need to evaluate the results of their activities in the field of creating a business friendly environment. This observation gains importance when are taken into account the results of research according to which there is no compliance between the results of subjective assessment of the efficiency of socio-economic councils given by offices for local economic development and objective indicators of socio-economic conditions in the observed local government (except average income with negative value of the regression coefficient). Precisely in this segment, the contribution of the research should be pointed out as it represents a pioneer attempt at evaluating the effectiveness of institutional cooperation between local authorities and the business community in Serbia. As the overall results are based on subjective self-assessment of local institutions and observed objective indicators, authors' further research will focus on the collection and analysis of data on the opinions and attitudes of the business community about the effectiveness of activities of local self-government institutions in the field of creating an enabling business environment.

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## Kapacitet lokalne samouprave da poboljša poslovno okruženje: Dokazi iz Srbije

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### **Sažetak**

*Cilj rada je skrenuti pozornost na potrebu za jačanjem institucionalne suradnje između lokalne samouprave i poslovne zajednice. Rad analizira sposobnost socio-ekonomskih savjeta u Srbiji, kao sastavnog dijela tijela lokalne samouprave, da unaprijedi poslovno okruženje i indikatore socijalnog statusa na lokalnoj razini. Pored socio-ekonomskih savjeta, analizom su obuhvaćeni odjeli i uredi za lokalni ekonomski razvoj i njihove nadležnosti. Rezultati istraživanja su generirani primjenom deskriptivne statistike, Hi kvadrat testa, t-testa i regresijske analize, a na temelju primarno prikupljenih podataka u empirijskom istraživanju na uzorku od 55 općina u Srbiji. Najznačajniji rezultat dobiven primjenom navedenih analiza je da socio-ekonomski savjeti imaju pozitivan utjecaj na socijalni i ekonomski razvoj u promatranim općinama. Na kraju, osnovni zaključak provedenog istraživanja je da veličina općina nije limitirajući faktor za osnivanje socio-ekonomskih savjeta i njihovu funkcionalnost.*

**Ključne riječi:** *poslovno okruženje, funkcionalnost socio-ekonomskog savjeta, institucije lokalne samouprave, indikatori socijalnog i ekonomskog statusa*

**JEL klasifikacija:** *H11, H83, C12, C14*

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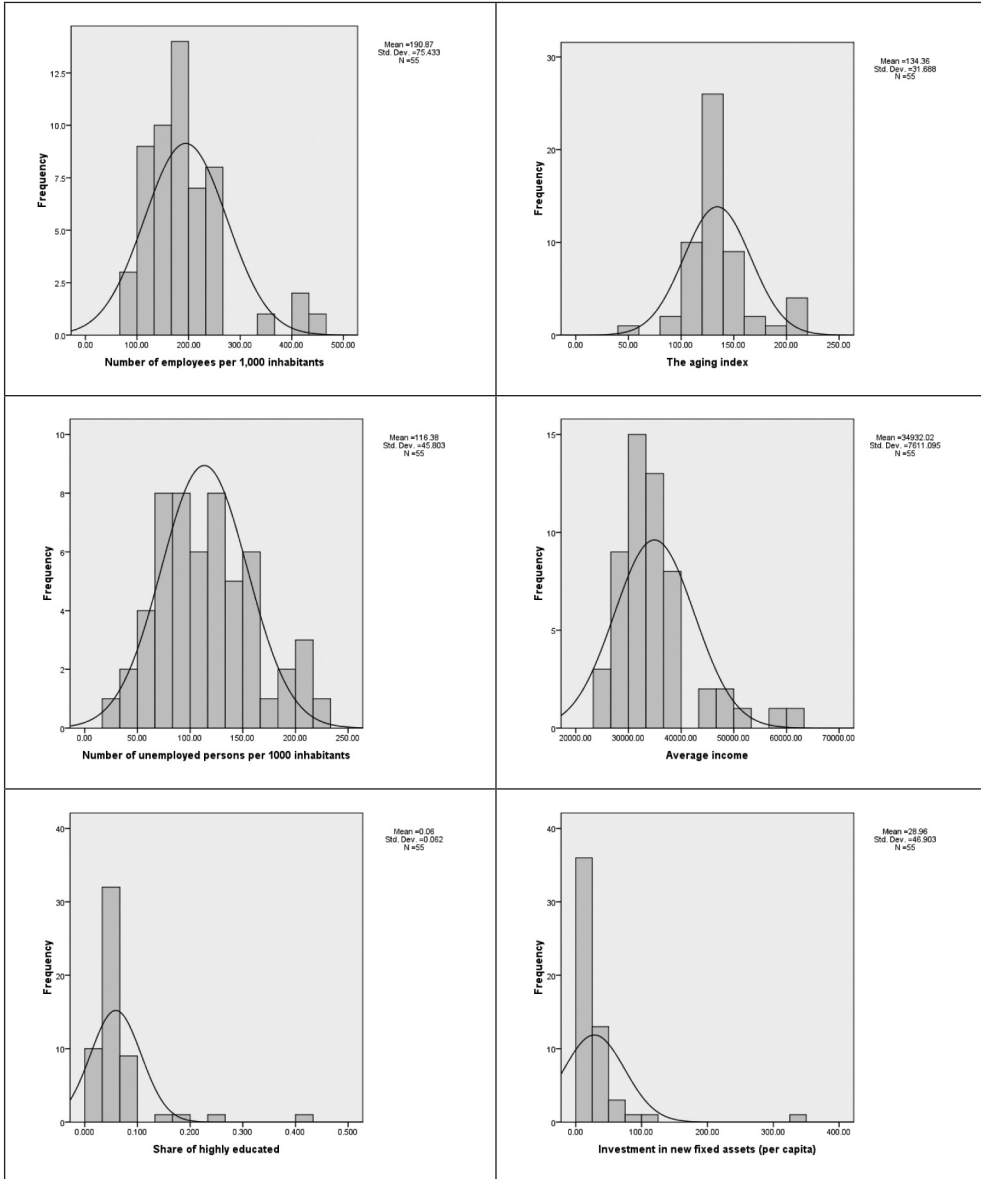
## Appendix

Table A: Descriptive statistics of exploratory regression variables

Indicator	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
Number of employees per 1,000 inhabitants	82.00	445.00	190.872	75.432	1.515	0.322	3.081	0.634
The aging index	41.92	216.19	134.357	31.688	0.601	0.322	2.022	0.634
Number of unemployed per 1000 inhabitants	33.00	225.00	116.381	45.802	0.439	0.322	-0.265	0.634
Average income	24021.00	62742.00	34932.018	7611.095	1.788	0.322	3.853	0.634
Share of highly educated	0.008	0.406	0.064	0.061	3.876	0.322	18.042	0.634
Investment in new fixed assets (per capita)	0.24	326.90	28.955	46.902	5.080	0.322	30.929	0.634

Source: Authors' calculation

Table B: Distribution of selected indicators



Source: Authors' calculation