

Entrepreneurship and SME Growth: Evidence from Advanced and Laggard Transition Economies

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Non-technical summary

This study focuses on the impact of firms' technological capability and other firm and environmental characteristics on the growth of small and medium-sized enterprises (SMEs) in six transition countries at different stages of transition. While much of the recent literature has focused on the role of the business environment, less attention has been paid to the relevance and the role of entrepreneurship and its various manifestations – in particular the innovation activities. This paper aims to respond to this aspect of the SME growth process. A secondary aim of the paper is to compare this process in two distinct group of transition economies: the group of leading reformers in Central and Eastern Europe which are now members of the European Union (Poland, Hungary and the Czech Republic) and the so-called laggard countries of the South East Europe (Albania, Macedonia and Serbia and Montenegro). Given that the two regions are at different stages of transition, the lessons drawn from the experience of the advanced group may have practical relevance and policy implications for the less developed group.

A theoretical framework is proposed based on three groups of factors influencing SME growth: innovative and entrepreneurial features of the firm, characteristics of the firm and those related to the institutional/business environment. Subsequently this study uses the Business Environment and Enterprise Performance Survey (BEEPS) conducted by the World Bank/EBRD in 2002 and 2005 to test a number of hypotheses regarding the determinants of SME growth. The two groups of countries have similarities and differences: both display similar trends with respect to the growth process; both are affected by entrepreneurship activities

positively; but the institutional barriers affecting the two groups are somewhat different. We also find that despite the growing importance of SMEs in all transition economies, they still face many institutional barriers – which have prevented them from making greater contribution.

The key limitations of our empirical investigation are the qualitative nature of survey data and the shortcomings associated with self-declaration of entrepreneurs. It is important to for future research to complement this line of research with panel data.

This cross-country study extends current understanding of the determinants of SME growth in various stages of transition economies based on a unique data set. It also provides some implications for policymakers as well as entrepreneurs/managers for improving the growth of SMEs .