

# Chapter 75

## Impact of Local Self-Government Institutions on Creating a Business-Friendly Environment: Multi-Criteria Analysis

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### ABSTRACT

*The chapter objective is to demonstrate application possibilities of Multi-Criteria Analysis (MCA) in the specific local economic development problem in Serbia that refers to assessment of Local Self-Government (LSG) institutions' capabilities to act in order to create business-friendly environments and increase entrepreneurial activities. The primary aim of the chapter is to formulate an adequate multi-criteria model for evaluation of institutional cooperation between business councils, as representatives of local authorities and the business community in observed LSG units. Results indicate inadequate quality and functionality of the business councils, although cooperation has been established between the business councils, as a local government institution, and representatives of business community. Data analysis is conducted using relevant statistical methods. For multi-criteria analysis of subjective preferences of Local Economic Development (LED) offices has been applied Analytic Hierarchy Process (AHP).*

### INTRODUCTION

Entrepreneurial activities are very important for inclusion of developing local self-government units into national economy. Therefore, increase of entrepreneurial activities is seen as an opportunity for providing growth in developing LSG. A country representative bodies and institutions have a great role in creating business environment. However, they are not the only ones that should be taking actions and

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making positive environment for business activities. Local governments can also take part in encouraging entrepreneurship and business prosperity. They can create micro climate, which should make their communities recognizable and favourable for entrepreneurs. One of the first steps includes development of local economic strategies and plans with purpose of reducing risks for developing business and creating stable business environment. The chapter summarizes the problems and efforts concerning business environment improvements that local communities in Serbia were facing during the last two decades and the factors that influenced the reduction of business activities (Antic *et al.*, 2013). Local governments in some cities have already realized the importance of local actions and discovering of local comparative advantages for increasing business activities and making better position inside regionally unbalanced Serbian economy (Stankovic *et al.*, in press).

Two of the most influential determinants on business activities are business environment and the state and local government bodies' ability to deal with specific problems in creating stable and favorable business environment. Especially in the period of the recent economic crisis these two factors have been analyzed from many different aspects (e.g. Grilli, 2011; Lavric, 2010; Bumgardner *et al.*, 2011; Nicolescu *et al.*, 2011). Similar conclusions 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 main conclusions of all mentioned scientific papers and studies refer to the multiple influence of the business environment on the business activities and the crucial role of the state institutions in developing and enabling business environment.

Some other studies show that local governments are likely the primary policy makers and regulators that entrepreneurs and small businesses encounter (McFarland *et al.*, 2010). Unfortunately, many local governments do not know the impact of their efforts or what their most effective roles should be. Too often, local regulations can unknowingly create institutional and bureaucratic barriers that impede development and the speed to market for new businesses (Morris & Brennan, 2003; Roxas *et al.*, 2008; Stankovic *et al.*, 2013; Stankovic *et al.*, 2014). Additionally, while most local governments have policies and programs designed to proactively support entrepreneurs and small businesses, these efforts are not necessarily well suited to meet the needs of the types of small businesses most likely to drive economic growth (McFarland & 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 & 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., pp. 447)*

The speed, efficiency, and complexity of local regulatory processes are indicators of a local government's responsiveness to the needs of business community.

When it comes to Serbia, the competencies of state institutions and local government institutions vary even more drastically (Stankovic *et al.*, 2013). In fact, due to the high level of centralization, the operational capacity of local institutions in the area of creating a favorable business environment is small.

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