THE STRATEGIC ROLE OF LOCAL COMMUNITY AND SIGNIFICANCE IN SUSTAINABLE ENTREPRENEURIAL ECOSYSTEM DEVELOPMENT

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Abstract: The stimulation of entrepreneurship development is one of the most effective local community developing strategies, therefore, entrepreneurship is regarded as the key initiator of innovation and technological development within a local community. Local community improvement leads to the improvement of the entire entrepreneurial ecosystem it belongs to. In this paper, the role of local community in entrepreneurial ecosystem is regarded through local community investment, since it’s considered one of the socially responsible investment strategies. The focus of the paper is the case study on the example of Cross Border Development Office between the Municipality of Zitiste in the Republic of Serbia and the Municipality of Sakalaz in Romania. The research focuses on the local community investment and the activities of the Office that have led to the improvement of economic and social indicators in the community as an entrepreneurial ecosystem actor

Keywords: Local community investment, socially responsible investment, entrepreneurial ecosystem, sustainability.

JEL classification: Q01, R11

1. Introduction

Advanced technologies and globalization have altered the ideas about business methods, and the idea of entrepreneurial ecosystem helps the subjects operating within the ecosystem to adjust faster to the changes in business environment (Isenberg, 2010). Being part of the entrepreneurial ecosystem certainly implies the stimulation of innovation, technological improvement and competition on the market. The entrepreneurial ecosystem goals are as follows:
Stimulating cooperation with the goal of solving the current social and economic issues;

Innovation and creativity in business with the aim of reducing the production costs and entering new markets;

Learning and development, so that the members could mutually cooperate and transfer expertise and knowledge;

Developing the methods for solving the basic human needs (Pilinkiene & Mačiulis, 2014).

Generally, it is accepted that technological development, innovation and sustainability are three most important factors that affect success and economic development (Levi Jakšić et al., 2018). Accordingly, the role of local community in entrepreneurial ecosystem has been regarded through investments in local community, as one of corporate, socially responsible investment strategies. The investment in local community implies direct investment in poor local communities through the provision of banking services (e.g. the loans for SMEs), as well as the investment in education and healthcare (LaRose, 2017). Local community economic improvement is brought into focus, causing the improvements in the entire entrepreneurial ecosystem to which the community itself belongs.

**Socially Responsible Investment – SRI**, also known as sustainable, “green” or ethical investment, refers to any investment strategy that includes financial return and social responsibility and, thus, it contributes to social changes (Berry & Junkus, 2012; Barnett & Salomon, 2003; Markowitz, 2007; Crifo & Mottis, 2016). SRI closely refers to a rejection to invest in certain subjects that are supposedly “harmful” - alcohol, tobacco, gambling, gun industries, etc. Its wider meaning also includes the investments in local community and the shareholders' commitment. According to certain authors, the shareholders' commitment and local community investment are the most significant strategies for SRI development (Heinkel et al., 2001). The way people spend their money and invest affects the society awareness. Corporations can positively or negatively affect people, local community and natural environment and, consequently, the current social issues become the future economic issues.

The paper aims to give an insight into the scientific and expert works dealing with SRI strategies with particular reference to local community investment as a SRI strategy. In addition, a systematic presentation of local community investment is provided by means of the practical example – Cross Border Development Office (CBDO), which was founded with the goal to improve the operation of small and medium-sized enterprises; it offers support to farmers and unemployed people and attracts potential investors, demonstrating the way CBDO contributed to the local community improvement and development. Furthermore, the paper aims to demonstrate local community role and significance within the entrepreneurial ecosystem, i.e. the way in which the investments in local community contribute to
the entire ecosystem improvement and the local economic development, as well as to point out the obstacles to the local community development.

The following hypotheses are defined in accordance with the research goals:

\[ H1: \text{Investment in local community contributes to local economic growth;} \]

\[ H2: \text{Investment in local community contributes to entrepreneurial ecosystem improvement;} \]

\[ H3: \text{By stimulating entrepreneurship and investment in education, they become grounds for local community development.} \]

2. Methodology

Case study analysis method using CBDO between the Municipality of Zitiste in the Republic of Serbia and the Municipality of Sakalaz in Romania has been used in the work, as an example. The research focuses on the investment in local community and the improvement of economic and social indicators within the community as an entrepreneurial ecosystem actor. Four factors have been considered co-initiators of economic and social improvement – stimulating entrepreneurship, improving farmers’ status, attracting investors and organizing the trainings for the unemployed. The Office’s data, which present the goal of the Office and results’ analysis related to the local community development, i.e. what has been done so far, have been used for the study development. Since attracting investors is of great significance for an underdeveloped local community, such as Zitiste, the paper utilizes SWOT analysis, developed in accordance with the Office’s data, so as to present the opportunities and threats, strengths and weaknesses of Zitiste Municipality, regarded as a local community. On the one hand, the SWOT analysis helps investors dispose of the information on positive and negative aspects of investment in local community, whereas on the other hand, it helps the local community overcome the existing problems, so that it could become a more favourable place for investments.

3. Literature Review

3.1 SRI strategies

Contemporary investors utilize specific strategies for SRI analysis development. The most renowned ones are scanning, dialogue with the shareholders and investments in community. Investors strive to use all three strategies - they all have a different goal and effect, but, at the same time, each of them serves to reinforce the role of other two strategies. SRI strategies have two goals – financial gain and the difference in the investment approach, which implies that the investment
process takes into consideration social and economic consequences of investment, both positive and negative, within financial analyses (Schueth, 2006).

**Social Screening** is the oldest, most renowned and most frequently used SRI strategy (Budde, 2008). Within the investment process, the company business performances, as well as social responsibility, are analyzed. Socially responsible investors include corporate social responsibility in making financial decisions and granting funds based on ethical, social and ecological influences of a subject (Puaschunder, 2016). When selecting the companies for investment, it is important to make a selection of suitable companies by means of scanning strategy. This strategy enables investors to avoid certain products or businesses and to put an emphasis on other, more suitable ones. For the last 20 years, scanning, as a strategy, has been developed to assist investors to successfully estimate both positive and negative effects that a company has on different interested parties (Budde, 2008).

On the other hand, in order to recognize the companies whose activities contribute to the improvement of environment and society, investors have developed the strategy within social scanning, named positive and qualitative scanning. Positive scanning analyzes the companies with the desirable social and ecological performances that take into consideration human rights, responsibility for the employees, equal opportunities for everyone, environmental protection, consumers' protection, relation to the local community and relation with all interested parties (Puaschunder, 2016; Domini, 2001). It implies that socially responsible investors take into consideration the risk management models in investment analyses with social and ecological factors that refer to corporate governance. Investors commonly invest in the shares of successful businesses that positively contribute to the social community within which they operate (Schueth, 2006).

**Shareholder Advocacy** occurs as shareholders' influence on the company decisions through direct negotiation with a company or through supporting certain suggestions that imply the shareholders' votes, as well as through the election of a director. It is important to emphasize that the dialogue with the shareholders represents an option that entails the fact that a shareholder possesses shares directly, as well as funds such as common funds (Domini, 2001; Budde, 2008; Logue, 2009). The dialogue with shareholders has a number of forms, some of them being reported to a company on social audit, as means of warning of problems, the boycott of certain consumers, selective purchase campaigns, but the most widespread form of dialogue is certainly voting and lodging appeals on the shareholders' decisions. As far as SRI is concerned, this strategy also implies the influence of dissatisfied shareholders on the management, i.e. the shareholders' estimation that the management is not performing in the best interest of the shareholders (Guay, Jonathan, & Sinclair, 2004). The shareholders are allowed to request necessary information from the management, as well as to vote on the corporate issues at shareholders’ meetings. A goal of socially responsible investors
is to improve commercial practices and company procedures and guide the management in the direction of socially responsible behavior, promoting financial effects and long-term shareholder value (Puaschunder, 2016).

Community investment started in 1970s and it implies that the investment funds are directed towards the companies or projects that have a positive social and ecological effect, such as promoting the development of energy saving technologies. This strategy provides the community with the access to the investment funds, capital and basic banking products. The funds are directed to the individuals with low income, small and micro enterprises, utilities like social housing, childcare, education and healthcare (Sparkes, 2003). A number of socially responsible investors direct a significant portion of their investments into financial institutions dealing with community development, reducing poverty, creating new jobs and development opportunities within underdeveloped communities. Investors, in order to secure their investment and its return, most frequently provide trainings and other forms of professional support. Today, community investment, as a SRI strategy is the fastest growing SRI segment. One of the indicators is the fact that many recognized institutions and foundations regard local community investment as the focus of their investment decisions (Budde, 2008; Barracchini, 2004).

3.2. Local community investment – the role of local community in entrepreneurial ecosystem

For the last 20 years, the term “ecosystem” has been increasingly present in the discussions concerning various business strategies, which has resulted in growing interest for interdependence between organizations and business activities. Together with a number of related ideas, such as business models, platforms, cooperation, networking, supply chains – the term ecosystem draws attention to new value creation models (Adner, 2017). It is a fact that entrepreneurship is the initiator of economic growth, creating innovations, productivity and new job opportunities (Pilinkiene & Mačiulis, 2014).

Isenberg (2010) emphasizes the theory that entrepreneurial ecosystem “consists of a set of individual elements – such as leadership, culture, capital markets and open-minded customers – that combine in complex ways.” (p. 3) Individual elements are integrated in the system that initiates growth and creates business opportunities at certain locations (Isenberg, 2010). According to Hyeyoung, Lee, & Han (2010) entrepreneurial ecosystem represents economic community that includes a number of factors, such as government agencies, companies, distributors, consumers, suppliers that are interconnected and, thus, affect local entrepreneurship, which results in gaining competitive advantage. Xu, Wu, Minshall, & Zhou (2018) emphasize that it is of great importance for the ecosystem actors to cooperate, in order to survive in entrepreneurial ecosystem. Scaringella & Radziwon (2018) point out that
entrepreneurial ecosystem is defined as a relation between the actors that cooperate, but, at the same time, that compete with each other. The ecosystem enables the actors to create the value that could not be otherwise realized, in case the actors operated independently. With regard to close interaction within entrepreneurial ecosystem, innovation is one of the major goals. Provided the company fails to place its product or service onto the market, it requires external resources in order to overcome internal disadvantages. The important advantages of ecosystem are: leadership, key strategies, innovation, faster adjustment to changes and interconnected organizations (Scaringella & Radziwon, 2018).

As it has already been stated, entrepreneurial ecosystem is composed of a number of actors, either companies or other organizations. One of the actors is local community, which is of significant importance for entrepreneurial ecosystem, since the local community investment leads to a series of improvements reflected on the subjects that operate within the local community, as well as on the entire ecosystem it operates within (Graça & Camarinha-Matos, 2017). Therefore, local community investment is one of the fastest growing SRI segments (Budde, 2008). Local community investment is not based solely on economic growth, but also on the activities that lead to creating a better business environment and higher quality of life for the citizens living in local community. Local community development projects are based on local infrastructure development, providing support for local business entities and possible amendments of local legal regulations, with the goal of creating a better business environment (Emery & Flora, 2006). The effects of local community investment are a reduced number of young and educated people who decide to leave the country, a reduced number of citizens receiving social assistance, reduced poverty, an increased employment rate, the stimulation of setting up small and medium-sized companies, attracting investors (Gruidl et al., 2015). Within an entrepreneurial ecosystem, local communities and other actors can be competitors, but their mutual partnership reflects a number of benefits: applying new technologies, training for their workforce, innovation, faster economic growth. Consequently, a number of large companies and financial institutions invest their funds in the local community they operate within. It is most commonly invested in education, supporting entrepreneurship, environmental protection, culture and art, human rights, social inclusion (which supports local economic growth). One of the main obstacles for the development of local community is certainly the lack of economic funds. Therefore, attracting investments and cooperation with companies and other local communities is a very important segment of local community investment (Camilleri, 2017).

Economic development, particularly regarding local community transformation, is a long-term process. In order to realize the economic growth outcomes, human and financial capital ought to be invested in communities (Gruidl et al., 2015). Five steps for successful defining local community development strategy within entrepreneurial ecosystem have been identified (Markley et al., 2015):
1) Development possibilities – understanding the current local community structure, its position in economy (at the level of the region and state) and demographic trends that can either facilitate or aggravate its development;

2) Entrepreneurial talent – identifying and understanding the entrepreneurs' needs, based on which the strategy for entrepreneurial stimulation in local community is formulated;

3) Existing resources – identifying existing local resources that can represent the infrastructure of entrepreneurial system and local community development;

4) Development goals – harmonizing the local community goals with those of the entrepreneurial ecosystem;

5) Stakeholders' involvement and their role is of great significance for defining local community development strategies and entrepreneurial ecosystem.

4. Example of local community investment – CBDO

4.1. Introduction to CBDO project

Within cross-border Serbia-Romania cooperation programme, financed by the European Union through the instruments for IPA fund pre-accession assistance, the Municipality of Zitiste, as a leading partner in the project “CBDO”, signed the cooperation agreement with the Municipality of Sakalaz from Romania.

The project has been realized with the goal to enhance the competition among local development actors in the cross-border Serbia-Romania region, through stimulating business environment, as well as reinforcing institutional support for small and medium-sized enterprises, merchants and potential investors. In accordance with this, the local community improvement and economic growth are expected in the two municipalities.

The goals of the project and CBDO are as follows:

1. Stimulating the development of small and medium-sized enterprises;
2. Stimulating the foundation of new enterprises;
3. Promoting foreign and domestic investments;
4. Organizing trainings for the potential and current entrepreneurs or owners of small and medium-sized enterprises;
5. Providing business advisory services;
6. Supporting the foundation and development of business associations;
7. Supporting research and development;
8. Monitoring the invitations to tender by republic and provincial institutions for economy development support and assisting commercial enterprises upon applying with the above-mentioned institutions.
The Office provides information, technical and advisory assistance in the field of: management and company management, market research, marketing and promotion, environmental protection, quality system, the implementation of standards and certification process, controlling and human resource quality.

4.2. Target groups in CBDO project

The defined target groups in the project are the following:

1. Small and medium-sized enterprises
2. Farmers
3. Investors
4. The unemployed.

4.2.1 Stimulating the development of small and medium-sized enterprises

The activities which are most commonly present on the territory of the Municipality are trade, with 34% of the total number of entrepreneurial operations, hospitality with 20%, whereas the other types of business are present in a smaller percentage. The Office directs a significant part of its operation towards small and medium-sized enterprises with the goal to inform and advise them, increase their entrepreneurial possibilities and cooperation, not only at a local and republic level, but also in the cross-border region. The communication forms between the Office and entrepreneurs are the following: survey and businessmen’s visits, the preparation of booklets, brochures and magazines, constant communication via e-mail, text message notices. Likewise, one of the main goals of the Office is to form the entrepreneur database that includes the following data: company title, type of business, legal form, ownership structure, its size, address and contact. On the grounds of these data, the Office employees obtain the directions that help them select small and medium-sized enterprises in current tenders, invitations to bid, support programmes, subsidies at the provincial and republic level. Enquiries are dealt with over the phone, as well as via e-mail and text messages (individually), and, apart from that, as the form of enquiry available to everyone is the official website of the Office.

In addition to the entrepreneur database, the Office has also formed other databases with the goal of informing various interest groups, such as: the database of available employees, the database of local enterprises and entrepreneurs, the database of foreign and domestic investors, the database of privatization capacity, the database of available municipality assets, the database of land available for potential greenfield investments, the database of brownfield locations, the database of local providers. Furthermore, in order to improve the operation of local

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1 Opština Žitište http://www.zitiste.org.rs/, accessed October 9, 2018
businesses, the Office deals with educating the entrepreneurs on the quality system, ISO standards and HACCP.

4.2.2. The improvement of farmer status

On the Municipality territory, more than 50% of the population deals with agriculture. In this respect, the Office in its operation focuses on:

1. Informing the farmers on funding possibilities;
2. Informing the farmers on the EU fund availability;
3. Informing the farmers on republic and provincial tenders/funds;
4. Providing the farmers with the technical support upon submitting their bids.

4.2.3. Promoting foreign and domestic investments

The basic goal of the Office is, principally, to solve economic and social issues present in this border area, in the cooperation with the Municipality of Sakalaz from Romania. Table 1 demonstrates SWOT analysis indicating the advantages and disadvantages of the area itself.

The basic prerequisite for the development of an underdeveloped local community is attracting investors. In accordance with that, the Office has been cooperating with National Employment Agency and Serbian Business Registers Agency in order to create a certain database to facilitate connecting potential investors with the Local Self-Government agencies, Tax Office and Serbian Business Registers Agency. Thus, the administrative procedures can be conducted much more easily. In case potential investors are interested in cooperation, the Office will provide all the data on business entities that might be significant for initiating cooperation. The Office aims to facilitate all the procedures potential investors have to undergo and, thus, significantly reduce the wait time, so that the potential investment may be realized as easily and simply as possible.

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2Opština Žitište http://www.zitiste.org.rs/, accessed October, 9, 2018
Table 1. SWOT Analysis

Source: Author’s research based on data from CBDO (2018)
4.2.4. Stimulating employment

A serious problem that the Municipality has been dealing with is the departure of young, mostly highly-educated people to larger cities. In addition to that, the majority of the unemployed people in the Municipality are the persons who have 1. or 2. degree of professional skills, i.e. who are regarded as persons without qualifications. Another obstacle for the Municipality and cross-border region development is work in gray area, i.e. a significant number of engaged workforce is in gray economy. In the field of unemployment, the main goals of the Office, apart from attracting investors, are being stated as follows: the reduction of unemployment among young people, support for creating new job opportunities, stimulating employment in private sector, larger-scale investments in human resources by improving the education process and providing training with the goal to harmonize demand and supply on the labor market. Likewise, one of the goals is stimulating the unemployed to set up their own businesses, providing support for the newly-formed enterprises by means of training, advising and providing information.

4.3. Discussion

Lyons (2015) points out that one of the most important factors for local community development is, certainly, stimulating entrepreneurship, which significantly contributes to solving social, economic and ecological issues within a community. Stimulating entrepreneurship with the goal of entire entrepreneurial ecosystem improvement leads to creating new jobs, attracting investors and consequently improving the quality of life in a local community. Local community development ought to be directed towards entrepreneurs, their individual development and openness for all existing and potential entrepreneurs, the development of their ideas towards new products and services and their placement on the market and the exploitation of the existing resources. According to Gruidl et al. (2015) attracting potential investors that will invest their funds in the local community, as well as the investment in education are, certainly, of great importance. The effects of local community investments are decreased number of young and educated people departing from the community, reduced poverty, higher employment rate, stimulating SME foundation and improving the quality of life in the community. Based on these claims, we could confirm the hypothesis H1, H2 and H3.

5. Conclusion

CBDO is a good example of local community investment, for much has been done since the Office foundation, which resulted in the improvement of economic indicators, increase in local enterprise competitiveness and the fact that the entrepreneurs, farmers, investors and the unemployed are provided with more
information, i.e. the improvements in business environment of this cross-border region are evident, as well as in the entire ecosystem in which it is located. It should be emphasized that the project has been realized by European Union, where Serbia, as a country in the process of the accession to EU, ought to harmonize its system and principles with that of the Union. Through the cooperation with Romania, the member of EU, Serbia has the possibility to adjust to EU standards easier and faster through joint projects.

As far as small and medium-sized enterprises are concerned, the Office activity is based on providing information on potential funding sources, as well as assistance in order to gain better understanding of financial offers, since an important prerequisite for SME operation is the knowledge of various forms of financial support. In accordance with that, the Office organizes trainings for entrepreneurs, provides cooperation with banks and funds, maintains contact with the banks that operate on the territory of the Municipality and, in cooperation with them, recommends the most favorable financial packages to the Office service users. SMEs in the Municipality of Zitiste are mostly directed towards local market, which proved to be a disadvantage in practice in relation to larger-scale companies, where the Office, by means of cooperation with the Municipality from Romania, strives to direct the entrepreneurs towards foreign markets through various trainings. The advantages being gained through the Office activities are better awareness of entrepreneurs, adjustments to market changes and larger exploitation of resources which are at their disposal.

The SWOT analysis demonstrates opportunities, threats, strengths and weaknesses of local community with which the potential investors are confronted. The basic prerequisite for attracting investors is spatial and urban planning. However, there are recognized certain shortcomings, i.e. the problems that could adversely affect the will of investors to invest their funds. These issues primarily refer to the absence of updated cadastral plans, lack of promptness by state and local administration, general lack of financial funds. In order to overcome the stated shortcomings, it is necessary to establish a proper cooperation among the agencies, other local self-governments and institutions through the association with the republic entities and institutions responsible for local economic growth, cooperation with business chamber of commerce, suggested social programmes and programmes for the employment of young people, creation and maintenance of unique information system for statistic and other data related to business and economic growth, cooperation with other cities and municipalities with the goal of proper and successful exchange practice. Cooperation is a significant step towards eliminating or reducing negative trends and promoting development opportunities within the local community, in order to attract investors, which is of great significance for underdeveloped local communities.
The Office activity in the field of unemployment has, thus far, mainly been based on training for unemployed people wishing to start their own business. In order for them to gain competence, the Office has organized trainings in the field of sales and marketing, IT literacy, business plan development, EU funds availability, project development, as well as applying for nonrefundable funds. All trainings are planned in cooperation with National Employment Service, Local Self-Government, schools and faculties.

The example of the Office has proved that local community investment contributes to local economic growth, to entrepreneurial ecosystem improvement, and, certainly, the stimulation of entrepreneurship and investment in education are firm grounds for local community development.

The first research limitation is related solely to a closer definition of all SRI potentials in terms of strategies, and particularly the strategy of local community investment and its role and significance in the entrepreneurial ecosystem. The second limitation refers to the fact that the local community investment is an area that is new and thus not sufficiently researched, but that is also fast developing. Therefore, local community investment requires the estimation methods that, first and foremost, need to be critical in the context of identifying challenges and developments necessary for a high-quality assessment of local community investment effects, generally speaking, but also the effects on entrepreneurial ecosystem.

The practical application research refers not only to the systematization of knowledge from this field, significant for both the following local community investment development as a SRI strategy and for the contribution to the provision of knowledge reviews that refer to an increasing application of local community investment. Adopting socially responsible activities creates new opportunities for all the subjects that operate within entrepreneurial ecosystem, from the development of new products and services to changes in the entire business method.

References


STRAĐEŠKA ULOGA I ZNAČAJ LOKALNIH ZAJEDNICA U RAZVOJU ODRŽIVOG PREDUZETNIČKOG EKOSISTEMA

Rezime: Podsticanje razvoja preduzetništva, jedna je od najefektivnijih razvojnih strategija lokalne zajednice, stoga se preduzetništvo se smatra glavnim pokretačem inovativnosti i tehnološkog razvoja u lokalnoj zajednici. Poboljšanje lokalne zajednice dovodi do poboljšanja celokupnog preduzetničkog ekosistema čiji je ona akter. U radu je uloga lokalne zajednice u preduzetničkom ekosistemu posmatrana kroz investiranje u lokalnu zajednicu kao jednu od strategija društveno odgovornog investiranja. Fokus rada je analiza studije slučaja na primjeru Kancelarije za saradnju u Pograničnoj oblasti između opštine Žitište u Republici Srbiji i opštine Sakalaz u Rumuniji. Istraživanje se fokusira na ulaganje u lokalnu zajednicu i aktivnosti Kancelarije koje su dovele do poboljšanja ekonomskih i društvenih pokazatelja u zajednici kao akteru preduzetničkog ekosistema.

Ključne reči: Ulaganje u lokalnu zajednicu, društveno odgovorno investiranje, preduzetnički ekosistem, održivost.

Author’s biography

Milica Grujić is a PhD student at the Faculty of Organisational Sciences. She has published numerous papers in refereed journals and participated in many scientific conferences in the country. Her research interests include marketing management and sustainable development.