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THE ROLE OF TOP MANAGEMENT IN QUALITY MANAGEMENT ACCORDING TO BFC SEE STANDARD

ABSTRACT

Business Friendly Certification South-East Europe (BFC SEE) is a unique program for improving the quality of services in municipalities in the region of South-East Europe, which is available to companies and potential investors. BFC SEE provides the top management of municipalities with a clear roadmap on how to create a favorable business environment and introduce internationally recognized standards of efficient and transparent local administration. For investors looking to invest or expand their business in Southeast Europe, BFC SEE serves as a standardized tool for assessing local business conditions, indicating which municipality in the region provides the best investment climate. The problem that will be addressed in the paper is focused on analyzing the effects of the introduction of standards and determining the justification of their application in local self-government units in order to improve the organization of business and quality of service provision. The goal of the research is to examine how quality management using the BFC SEE standard affects the creation of a favorable business environment and the increase in the number of business entities in local self-government units. In the framework of this research, important aspects related to the attitudes of the top management of local self-government units are questioned regarding their perception of the importance of standards and improvement of business processes that determine the attractiveness of the business environment. The research sample will include at least 50% of the local self-government units that have implemented the specified standard in the Federation of Bosnia and Herzegovina.

Keywords: *Quality management, local self-government, top management, BFC SEE*

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1. INTRODUCTION

One of the essential goals of economic activity, but also one of the central problems of economic science and economic policy from ancient times to the present day, is economic development. Unlike national economic development, local economic development opens up new challenges and opportunities. In this sense, it is necessary that the elected representatives of the government move away from the traditional exercise of only administrative power and turn to proactive, innovative and creative action to promote and strengthen modern, sustainable and inclusive economic development that will transform local communities as attractive business locations for the benefit of all citizens. In the management of local economic development, it is important to achieve a balance between activities, places and investment resources for individual target groups. The ideal solution is to meet the needs of several target groups with the same measures.

The subject of the research includes the analysis of the impact of the creation of a favorable business environment in local self-government units (hereinafter: LGUs) in Bosnia and Herzegovina on increased investment, the creation of new jobs and the improvement of the standard of living of citizens. A favorable business environment is one of the most important drivers of economic development in the country or in the area of the local community (Hlaváček, 2014). It represents one of the main drivers and reasons that enables local communities to grow and develop faster, thus becoming a desirable modern activity that the local community wants to engage in. The process of creating a favorable business environment promises a lot for the local economy as well as for the environment. Local communities in Bosnia and Herzegovina have solid potential for creating a favorable business environment that can strongly contribute to the economic development of local communities, and thus to the development of cantons, entities and the state. In order to create an environment that is favorable and attractive for domestic and foreign investors, it is necessary to develop an entire concept in the area of the local community with defined goals, priorities, implementation and strategy.

A pleasant business environment is part of economic development, because it attracts and increases the interest of local and foreign investors in investing at the local level, which aims to create new jobs and improve the living standards of residents of a local community. From the perspective of creating a favorable business environment, the paper describes the perspectives and development of selected local self-government units, taking into account all relevant definitions and concepts of economic development and sustainability of the economy in Bosnia and Herzegovina, that is, selected local communities in the Federation of Bosnia and Herzegovina that have implemented the BFC SEE program (Business Friendly Certification South-East Europe). The problem that will be addressed in the paper is

based on the fact that the local business environment in BiH is still damaged by many obstacles that reduce its attractiveness for investment, which is also confirmed by the World Bank's report on the ease of doing business⁴.

In the first part of this work, the significance of quality management through the BFC SEE program and the certification process of cities and municipalities is reviewed. The second part describes the application of cluster analysis and analysis of variance (ANOVA) to the obtained data in assessing the degree of fulfillment of criteria in certified municipalities. Based on these analyses, conclusions were drawn about the significance of differences in the average fulfillment of criteria between cities and municipalities in the Federation of Bosnia and Herzegovina. Therefore, this paper intends to elaborate on the management's perception of the effects of the BFC SEE program so far and to compare the results in at least 50% of the local self-governance units certified by this program.

2. LITERATURE REVIEW

Urban regions (through local government, public private partnerships, or the local private sector) typically influence local infrastructure and amenities, industrial estates, complex office development, community networks/forums, etc. (Webster and Muller, 2000). A pleasant business environment represents a part of the economic development process aimed at improving the competitiveness of local self-government units. This process is intended for cities and municipalities that have adequate capacities, are strategically determined to improve the business environment, attract domestic or foreign investments and encourage the development of the local economy, create new jobs and thus improve citizens' quality of life.. Starting a business environment as a process implies meeting demanding criteria for improving the quality of services and information that local self-governance units provide to business people and potential investors (Dragoi, Mihaela Cristina 2018).

A favorable business environment is a challenge faced by local self-governance units in improving work and increasing competitiveness. For a specific local government unit (LGU) to create a favorable business environment and officially meet particular criteria, one of the options is the regionally recognized and accepted standard BFC (Business Friendly Certificate), i.e., a certificate for a favorable business environment in Southeast Europe. Based on the TQM principle, business Friendly Certificati on Southeast Europa (BFC SEE) is a unique program for improving the quality of services and information in municipalities in Southeast Europe, which is available to companies and potential investors. BFC SEE provides cities with a clear roadmap for creating a favorable business environment and introducing

⁴ <https://data.worldbank.org/indicator/IC.BUS.EASE.XQ?locations=BA> (accessed: 23.2.2023.)

internationally recognized standards of efficient and transparent local governance. For investors looking to invest or expand their business in Southeast Europe, BFC SEE serves as a standardized tool for assessing local business conditions, indicating which municipality in the region provides the best investment climate⁵. According to BSC SEE, the criteria for evaluating the quality of the local business environment are classified into ten categories:⁶

The quality of local business environment is evaluated based on 67 indicators of the BFC SEE standard, in the following 10 areas: 1. Sustainable local development strategy 2. Functional Local economic development office 3. Partner relationship with the private sector 4. Efficient system for issuing construction permits 5. Up-to-date economic profile and electronic databases 6. Proactive approach in investment promotion and destination marketing 7. Predictable costs of doing business and responsible finance management 8. Labor force availability and alignment with the needs of businesses 9. Stimulating policies and measures for supporting entrepreneurship 10. Adequate infrastructure and reliable utility services.

In order to be certified as business friendly according to the BFC SEE regional standard, local governments need to meet at least 75% of the listed criteria, with a positive rating of the regional verification commission. The certificate is valid for three years.⁷

The BFC SEE program was launched by relevant institutions from Bosnia and Herzegovina, Croatia, Macedonia, and Serbia in 2012 with the aim of establishing a common standard and seal of quality for the business environment in cities and municipalities in the region. The entire BFC SEE program builds on the certification program launched by the National Alliance for Local Economic Development (NALED⁸) located in Belgrade.

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⁵ Business Friendly Certificate South East Europe, http://bfc-see.org/ABOUT_BFC_SEE (accessed: 10. 2. 2023)

⁶ *ibid.* page 3.

⁷ Manual for the certification of cities and municipalities with a favorable business environment in Southeast Europe edition 3, NALED, page 5-7.

⁸ NALED otherwise it is also represented by the Regional Technical Secretariat, and the regional network is responsible for the implementation of the program in the region, which represents a unique platform for improving the competitiveness of municipalities and cities in South-Eastern Europe through the transfer of knowledge, the exchange of best practices and the application of reforms in public administration

launched by the Belgrade National Alliance for Local Economic Development (NALED).

The certification of cities and municipalities with a favorable business environment in Southeast Europe has an overall and designed goal to be sustainable in such a way that, once established, quality procedures and procedures in local administration continue to function even after the successful realization of the process. The certificate has a validity period of 3 years, which requires continuous verification, improvement, and sustainability of established procedures. For this reason, the evidence supporting the fulfillment of the selected criteria cannot be older than two years from the date of conclusion of the contract/agreement with the municipality/city, except for evidence covering a more extended period. The standard stipulates that the complete process of verifying the fulfillment of the criteria of the BFC SEE regional network will be implemented within 12 months (Randelovic et al., 2020).

Within the framework of the certification program, 3 phases are defined through which the municipality/city passes:

- Approaching the certification process
- Certification process i
- Supervisory check

The procedure for checking the fulfillment of the criteria/by criteria consists of the following 3 phases:

- Evolution
- Implementation and
- Verifikation

The process lasts so that the municipality/city has 60 days from the training date, which is organized in the first month, to submit all available evidence of fulfilling the certification criteria through the BFC SEE software.

The advantages of the BFC SEE program are multiple: Harmonizing and improving the business environment on the local and regional level through the implementation of the joint standards, strengthening the position of certified local governments in attracting and negotiating with potential investors, knowledge exchange and replication of best practices, local policies, and regulatory solutions among the local governments and countries in the region and the EU, strengthening the image of South East Europe as an investment destination through the common seal of quality (BFC SEE, encouraging economic cooperation and exchange, recruiting new investments in the region, promotion of certified municipalities and brand development in the country and abroad, etc.

This research aims to use statistical analysis to determine the weightings for the criteria mentioned above, that is, to evaluate the local business environment in the Federation of BiH by the top management of local self-governances.

Continuous evaluation of the quality management system is necessary for the organization to confirm the soundness of its current quality system. The contemporary trend indicates a transition from service/product quality assessment to quality management system assessment. Quality management is, therefore, a process that recognizes and manages the activities necessary to achieve the goals and quality of an organization (Mazllami, 2020).

Many LGUs in the world have started introducing quality systems. Providing high-quality services increases the value of such services in users' eyes. To achieve a high quality of services and efficiency and effectiveness, high productivity of work and employees is necessary, i.e., meeting the demands of users with as little costs as possible. In this way, a higher level of user satisfaction is achieved, directly proportional to the level of service quality. The top manager of each LGU is its head, who, based on the powers and authorities defined by law, together with the available human resources, has the task and obligation to continuously improve local self-governance's organizational effectiveness and efficiency. The involvement of the top management in the development and application of the quality management system and the constant improvement of its effectiveness can be shown as evidence that the top management understands the management system's role in achieving business goals and stakeholder satisfaction. Top management must publish a quality policy stating this; it is only the first step. The top management has to attract the employees' attention, which requires the customer's expectations to be conveyed to all necessary levels in the organization. In this way, decisions will be made primarily based on satisfying these expectations and not based on secondary internal requirements.

In this context, meeting the needs of all stakeholders (interest groups) as well as increasing competitiveness, the most crucial role is played by top management or municipal management (the mayor and the first round of managers of municipal services), which should be forced to use modern managerial concepts with the aim of more efficient management.

In developed European local governments, municipal management sees "their profit" through the possibility of increasing regional economic capacities, attracting domestic and foreign investments, reducing unemployment, raising the standard of living of the local population, and the like. Inefficiency and ineffectiveness of municipal management lead to a decline in the quality of services and dissatisfaction among citizens and all other stakeholders. According to Brunner, the factors that most influence the inefficiency of public sector organizations are lack of financial resources, inadequate organization, and overloading with the number of tasks.

For managers in local administration, a better understanding of the process of creating a favorable business environment and the role it plays for the local community and beyond is essential. In recent years, chiefs/mayors increasingly understand the importance of this process, but they also lack professional support in order to be able to transform their administration into a modern and efficient business location. When the importance of creating a business environment is understood, then the importance of creating an office or department/department for local economic development (KLER) will also be understood. The first person of the local community must do the necessary systematization of jobs, form the KLER that will constantly support him and employ the best people for entrepreneurship, investments and marketing there. Successful practices tell us that the majority of chiefs/mayors who understand the importance of LER work actively with KLER staff on all economic issues, employees are involved in all economic activities of LGUs and inform the local community leader about it and plan together with him . Therefore, the key role in the implementation of the above-mentioned activities is played by the municipal management led by the mayor and the internal organizational unit for planning and development of human resources. Therefore, local authorities (municipal management) have a decisive role in creating a favorable business environment. Local authorities must establish a system of strategic and action planning coordination in cooperation with the private sector in order to improve the business climate, the quality of local government services and ultimately local economic growth. The advantages of the quality management system can be external and internal. External advantages include: improvement of services, fulfillment of user requests, development of relations with stakeholders, reduction of user complaints and increased competitiveness. Internal advantages are: improvement of internal processes, documentation, fulfillment of service users' expectations, increase in employee motivation and efficiency. Many organizations which have tried to implement TQM have failed, and the reason is that management has not adopted the new set of beliefs. It is practically impossible for TQM to work when management is "hanging" on the outdated "top-down" mentality of management and communication.

3. METHODOLOGY AND RESEARCH CONCEPTUAL FRAMEWORK

The paper aims to examine and present the critical aspects of the impact of the BFC SEE program on the business environment, local economic development, and the competitiveness of local self-governance units. Based on the research problem, the purpose and objectives of the research, research questions can be formulated that more clearly establish the relationship between the application of the BFC SEE program and the impact on the improvement of a favorable business environment in

municipalities and cities, i.e., the progress of local economic development. Research questions can be defined as follows:

Q1. Does the creation of a favorable business environment enable economic growth and a better quality of life for citizens in the area of the local self-government unit?

Q2. Does the efficiency of the work of the local self-government unit depend on the establishment of an office/organizational unit as one of the prerequisites for local economic development?

Q3. Are business conditions improved by the cooperation of the existing economic council with the local administration?

The research covered 12 out of a total of 18 certified municipalities in Bosnia and Herzegovina.

4. RESEARCH RESULTS AND DISCUSSIONS

The following table shows the results of fulfilling the criteria by municipality. Of the 10 BFC SEE criteria, C2- Functional Local economic development office, C7- Partner relationship with the private sector , C3- Labor force availability and alignment with the needs of businesses C4 have the most fulfilled criteria.

Table 1. *The level of criteria fulfilment in municipalities surveyed according to the BFC program.*

LGUs	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10	Average	Cluster
LGUs1	4	4	5	3	3	5	2	3	3	4	3,41	2
LGUs2	4	5	5	4	5	3	3	5	5	5	4,41	1
LGUs3	2	2	2	2	2	2	1	2	2	2	1,91	2
LGUs4	3	4	3	3	3	4	3	4	4	2	3,16	2
LGUs5	5	5	5	5	5	5	4	4	5	4	4,66	1
LGUs6	3	3	5	4	4	4	3	5	5	3	3,91	2
LGUs7	5	5	5	5	5	4	3	5	5	5	4,66	1
LGUs8	3	4	4	3	3	4	3	4	2	5	3,58	2
LGUs9	4	4	4	4	3	4	3	4	3	4	3,66	2
LGUs10	4	4	4	4	4	4	4	4	4	4	3,66	2
LGUs11	5	5	3	4	4	5	4	4		4	3,83	2
LGUs12	5	5	5	5	5	4	4	5	5	5	4,75	1
Average	3,91	4,16	4,16	4	3,83	3,83	4,08	3,08	3,90	3,91	3,80	

Source: *Author's*

Proactive approach in investment promotion and destination marketing. On the other hand, municipalities and cities have the least fulfillment of criteria C5- Predictable costs of doing business and responsible finance management, C8- Stimulating policies and measures for supporting entrepreneurship C6- Efficient system for issuing construction permits and C5- Up-to-date economic profile and electronic databases.

Local governments that make up cluster 1 according to the perception of the top management of local governments have more than 85% fulfillment of the BFC SEE criteria. The lowest ratings do not apply to e-government, i.e. the application of information technologies due to the lack of slow public administration reform and the lack of adequate regulations and capacities for the development of electronic administration in BiH. The second cluster consists of local governments that have less than 85% fulfillment of the BFC SEE criteria and they dominate the observed sample. In addition to underdeveloped e-administration, the lowest degree of fulfillment of criteria in these municipalities refers to the system of efficient issuance of building permits, the availability of information and databases relevant to business and creditworthiness and financial stability, which is the cause and method of income distribution in BiH, as well as the issue of local autonomy. self-government in collecting tax and non-tax revenues where smaller local governments, due to the criteria for the distribution of income from indirect taxes, do not have sufficient ability to create a better business environment for the improvement of local economic development. In order to provide answers to the research questions, average values and standard deviation were calculated. Namely, the majority of respondents (top management) believe that the creation of a favorable business environment enables economic growth and a better quality of life for citizens in the area of local self-government (Mean=4.00).

Table 2. *Descriptive Statistics*

	N	Mean	Std. Deviation
Do you think that creating a favorable business environment enables economic growth and a better quality of life for citizens in the local self-government area?	12	4.00	0.095
Do you think that the efficiency of local self-government depends on the establishment of an office/organizational unit as one of the prerequisites for local economic development (KLER)?	12	3.67	1.155
Do you think that the business conditions are improved by the cooperation of the existing economic council with the local government?	12	3.92	1.165
Valid N (listwise)	11		

Source: *Author's*

In order to determine whether there are differences between local self-government units according to the number of employees, an ANOVA analysis was conducted where $Sig > 0$, which means that there are no differences in the answers when it comes to this categorical variable.

Table 3. *Do you think that creating a favorable business environment enables economic growth and a better quality of life for citizens in the area of local self-government?*

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	0.417	2	0.208	0.144	0.868
Within Groups	11.583	8	1.448		
Total	12.000	10			

Source: *Author's*

The second research question was Do you think that the efficiency of local self-government depends on the establishment of an office/organizational unit as one of the prerequisites for local economic development? We obtained an average value of 3.67 with a standard deviation of 1.155, that is, 58.3% of respondents agree with the stated claim. In order to determine whether there are differences in the responses of the top management of local governments, an ANOVA procedure was performed where $Sig > 0$, which means that there are no significant differences in the responses when it comes to this categorical variable, if we exclude local governments that have over 250 employees. Namely, 75% of respondents from municipalities with over 250 employees believe that the efficiency of local self-government does not depend on the establishment of an office/organizational unit as one of the prerequisites for local economic development.

Table 4. *Do you think that the efficiency of the work of local self-government depends on the establishment of an office/organizational unit as one of the prerequisites for local economic development (LDER)?*

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	5.083	2	2.542	2.387	.147
Within Groups	9.583	9	1.065		
Total	14.667	11			

Source: *Author's*

To the third research question was: „ Are business conditions improved by the cooperation of the existing economic council with the local administration.“ The average value of the answer is 3.92 with a standard deviation of 1,195. There are no

significant differences in the responses of the top management of local governments if we exclude municipalities with more than 250 employees, where 50% of them do not consider that business conditions are improved through the cooperation of the existing economic council with the local administration.

Table 5. *Do you think that business conditions are improved by the cooperation of the existing economic council with the local government?*

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.833	2	1.417	1.055	.388
Within Groups		9	1.343		
Total	14.917	11			

Source: *Author's*

There are minimal differences according to the size of the municipality, i.e. the criterion of the number of employees, where the municipalities are divided into three categories. The first cluster of municipalities that have from 50 to 100 employees in the administration, the second cluster consists of municipalities that have from 100 to 250 employees and the third cluster of municipalities that have more than 250 employees. Namely, the top management of 50% of municipalities that have more than 250 employees in the administration do not believe that the business conditions are improved by the cooperation of the existing economic council with the local government, nor that the efficiency of the work of local self-government depends on the establishment of an office/organizational unit as one of the prerequisites for local economic development, while everyone else thinks the opposite, which is also shown by Tuke's HSD test below, where each significance is greater than 0.05.

Table 6. *Multiple Comparisons*

Dependent Variable: Q1,Q2,Q3 Tukey HSD						
(I) Number of employees in JLS:	(J) Number of employees in JLS	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
50-100 employees	100-250 employees	0.333	0.946	0.934	-2.31	2.97
	More than 250 employees	1.083	0.748	0.359	-1.00	3.17
100-250 employees	50-100 employees	-0.333	0.946	0.934	-2.97	2.31
	More than 250 employees	0.750	1.003	0.743	-2.05	3.55
More than 250 employees	50-100 employees	-1.083	0.748	0.359	-3.17	1.00
	100-250 employees	-0.750	1.003	0.743	-3.55	2.05

Source: *Author's*

5. CONCLUSION AND RECOMMENDATIONS

The very process of creating a favorable business environment is demanding and often exhausting for LGUs. Employees need the capacity or sufficient knowledge or support from LGU leaders to start this process independently. So the only technical support for LGUs in the region comes from technical secretariats to provide professional support to LGU employees. The research of the LGUs mentioned above clearly shows that creating a favorable business environment in Bosnia and Herzegovina is based on the interest and potential of each local self-governance unit and its leadership. Through creating a good business environment, local self-governance units confirm their strategic commitment to improving the business environment, attracting investments, and accelerating economic development through continuous verification, improvement, and sustainability of established procedures. In this way, they are ranked among the advanced local communities in the country. Creating an environment enables the progress of all administrative processes and even better establishment of mechanisms for encouraging increased investment, strengthening cooperation with the business sector, increasing competitiveness, expanding the network of existing contacts, and creating new ones.

Most respondents (top management) believe that creating a favorable business environment enables economic growth and a better quality of life for citizens in local self-governance. The paper gave answers to the research questions, where LGUs are divided into two clusters according to the fulfilment of the BFC SEE criteria.

LGUs with over 250 employees believe that the efficiency of local self-governance is independent of establishing an office/organizational unit as one of the prerequisites for local economic development and that business conditions are not improved by the cooperation of the existing economic council with the local government.

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ULOGA TOP-MENADŽMENTA U UPRAVLJANJU KVALITETOM PREMA BFC SEE STANDARDU

SAŽETAK

Business Friendly Certification South-East Europe (BFC SEE) je jedinstveni program za unapređenje kvaliteta usluga u opštinama u regionu Jugoistočne Evrope, koji je dostupan kompanijama i potencijalnim investitorima. BFC SEE daje najvišem rukovodstvu opština jasnu mapu puta kako stvoriti povoljno poslovno okruženje i uvesti međunarodno priznate standarde efikasne i transparentne lokalne administracije. Za investitore koji žele da investiraju ili prošire svoje poslovanje u jugoistočnoj Evropi, BFC SEE služi kao standardizovani alat za procjenu uslova lokalnog poslovanja, ukazujući koja opština u regionu pruža najbolju investicionu klimu. Problem koji će biti obrađen u radu usmjeren je na analizu efekata uvođenja standarda i utvrđivanje opravdanosti njihove primjene u jedinicama lokalne samouprave u cilju poboljšanja organizacije poslovanja i kvaliteta pružanja usluga. Cilj istraživanja je ispitati kako upravljanje kvalitetom korištenjem standarda BFC SEE utiče na stvaranje povoljnog poslovnog okruženja i povećanje broja poslovnih subjekata u jedinicama lokalne samouprave. U okviru ovog istraživanja propituju se važni aspekti vezani za stavove najvišeg rukovodstva jedinica lokalne samouprave u pogledu njihove percepcije značaja standarda i unapređenja poslovnih procesa koji određuju atraktivnost poslovnog okruženja. Uzorak istraživanja obuhvatit će najmanje 50% jedinica lokalne samouprave koje su implementirale navedeni standard u Federaciji Bosne i Hercegovine.

Ključne riječi: *Upravljanje kvalitetom, lokalna samouprava, top menadžment, BFC SEE.*

JEL: *M10, M12 H70, O10*