The Impact of Accounting Regulations on Small and Medium-Sized Enterprises (SMEs) in Balkan Countries: A Comparative Analysis of Regulatory Frameworks and Business Performance

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Abstract

Purpose: *This study examines the impact of accounting regulations on small and medium-sized enterprises (SMEs) across Balkan countries, analyzing how regulatory frameworks affect business performance, compliance costs, and operational efficiency.*

Methodology: *Through a mixed-methods approach incorporating quantitative analysis of 1,603 SMEs across eight Balkan countries and qualitative interviews with 115 business owners and accountants, this research reveals significant variations in regulatory burden and its consequences for SME development.*

Findings *The findings indicate that countries with more streamlined, SME-specific accounting standards demonstrate higher rates of business growth and lower compliance costs. This study contributes to the literature on regulatory economics and provides policy recommendations for enhancing SME competitiveness in the Balkan region.*

***Keywords**: SMEs, accounting regulations, Balkan countries, regulatory burden, business performance, compliance costs*

Introduction

Small and medium-sized enterprises (SMEs) constitute the backbone of Balkan economies, representing over 99% of all enterprises and employing approximately 65% of the workforce in the region (European Commission, 2019; OECD, 2021). However, these businesses face significant challenges in navigating complex accounting regulatory frameworks that were often designed with larger corporations in mind. The harmonization of accounting standards with International Financial Reporting Standards (IFRS) and EU directives has created both opportunities and challenges for SMEs across the Balkan peninsula (Chua & Taylor, 2008; Pacter, 2009).

Evidence from EU member states suggests that IFRS adoption has generally improved accounting quality, enhancing comparability and transparency of financial statements (Chen, Tang, Jiang, & Lin, 2010; Barth, Landsman, & Lang, 2008). However, the extent of these benefits depends heavily on institutional capacity and enforcement mechanisms, which remain uneven across the Balkan region (Albu et al., 2011; Domanovic, 2012).

The research question guiding this study is: How do varying accounting regulatory frameworks across Balkan countries impact SME performance, and what regulatory approaches best support SME growth while maintaining financial transparency and stakeholder protection?

This study fills a critical gap in the literature by providing the first comprehensive cross-national analysis of accounting regulation impacts on SMEs specifically within the Balkan context, considering the unique economic, institutional, and cultural factors that characterize this region (Abdiu & Krasniqi, 2019; Krasniqi & Desai, 2016; Bonito & Pais, 2018).

Literature Review

The literature review provides a theoretical and empirical foundation for analysing how accounting regulations influence SME performance in the Balkan region. It integrates insights from institutional theory and regulatory burden theory, which together explain the mechanisms through which regulatory environments affect business outcomes (North, 1990; Beck, Demirgüç-Kunt, & Maksimovic, 2005).

Theoretical Framework

The theoretical foundation for this research draws from institutional theory and regulatory burden theory. Institutional theory suggests that organizational behaviour is significantly influenced by formal and informal institutional pressures, including regulatory requirements. In the context of SMEs, accounting regulations represent formal institutional pressures that shape business practices and resource allocation decisions (Scott, 2014; Hall & Soskice, 2001). As North (1990, as cited in Fang, Nie, & Shen, 2023) argues, institutions are a fundamental determinant of long-term economic growth because they guide whether firms invest in productive activities, such as innovation, or in unproductive ones, such as rent seeking.

In this context, accounting regulations function as formal institutional pressures that can either promote transparency, efficiency, and access to finance, or impose excessive burdens that divert resources away from growth (Peng, Wang, & Jiang, 2008; Acs, Desai, & Hessels, 2008).

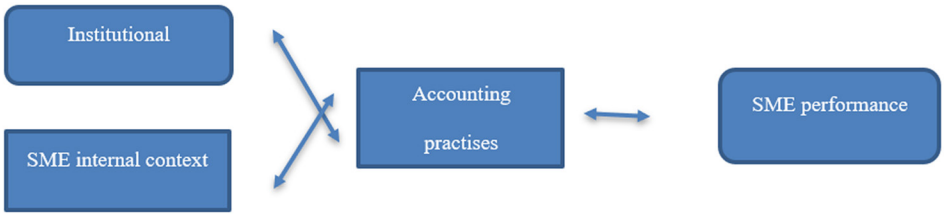
On the other hand, regulatory burden theory emphasizes that the design and complexity of regulations have irregular effects across firms of different sizes. Smaller enterprises are especially vulnerable because they lack the resources and economies of scale to absorb compliance costs (Beck et al., 2005). Klapper, Laeven, and Rajan (2006) show that stringent entry and compliance regulations act as barriers to entrepreneurship, discouraging new firm creation and reducing competitiveness.

Empirical studies reinforce this relationship between regulatory constraints and firm performance. For instance, Badulescu, Akhtar, Ahmad, and Soharwardi (2021) found that accounting policies and institutional factors significantly influence firm performance in developing countries. Similarly, Balzano, Marzi, and Turzo (2025) emphasize that institutional theory provides a robust framework for understanding the strategic responses of SMEs to regulatory environments, particularly in transitional economies.

Taken together, institutional theory and regulatory burden theory provide a strong foundation for this study. They suggest that variations in accounting

regulatory frameworks across the Balkan region represent different institutional environments that directly shape SMEs' incentives, resource allocation, and performance outcomes.

FIGURE 1. Institutional theory framework: Accounting and SME performance



Source: Burden theory Balzano, Marzi, & Turzo

The conceptual model of this study emphasizes the role of the institutional environment (regulative, normative, and cognitive pressures) and the SME internal context (resources, owner experience, firm size). These factors jointly influence accounting practices (adoption, reporting quality, managerial accounting, accounting information systems), which in turn drive SME performance (financial and non-financial outcomes) (Fang et al., 2023; Nur Diana, Sudarmiatin, & Hermawan, 2023).

Accounting Regulation and SME Performance

Previous research has demonstrated mixed effects of accounting regulation on SME performance. Studies in developed economies have shown that appropriate regulation can enhance access to finance and improve business decision-making through better financial information (Allee & Yohn, 2009; Berger & Udell, 2006). However, excessive regulatory burden has been associated with reduced entrepreneurship, slower growth, and increased exit rates among small businesses (Beck et al., 2005; Klapper et al., 2006).

The European Union's recognition of this challenge led to the development of simplified accounting frameworks for SMEs, including the EU Accounting Directive 2013/34/EU, which provides specific provisions for micro and small enterprises (European Commission, 2008). Nevertheless, the implementation and effectiveness of these provisions vary significantly across member states and candidate countries (Bohušová, 2011; Litjens, Bissessur, Langendijk, & Vergoossen, 2012).

Balkan Context and Regulatory Environment

The Balkan region presents a unique regulatory landscape characterized by ongoing EU integration processes, diverse institutional legacies, and varying levels of economic development (OECD, 2018; Regional Cooperation Council, 2020). Countries such as Slovenia and Croatia, as EU members, have fully adopted EU accounting directives, while candidate countries like Serbia, Montenegro, North Macedonia, and Albania are in various stages of regulatory harmonization (European Commission, 2020; Domanovic, 2012). Kosovo, as a newly independent state, has adopted international standards but faces unique implementation challenges due to its developing institutional framework (Krasniqi, 2007).

The adoption of IFRS in the Balkans reflects not only technical accounting concerns but also political and institutional pressures tied to EU integration. As Chua and Taylor (2008) argue, the global diffusion of IFRS has often been driven by legitimacy and international alignment rather than domestic business needs, which helps explain why SMEs in transition economies may experience significant compliance burdens without proportional benefits (Zeghal & Mhedhbi, 2006; Albu et al., 2011).

This regulatory diversity creates a natural experiment for examining the differential impacts of accounting regulation on SME performance. Previous studies have focused primarily on individual countries or have not specifically examined the SME sector, leaving a significant research gap that this study addresses (Atanasovski, Trpeska, & Bozinovska-Lazarevska, 2015; Raskovic, 2014).

Methodology

Research Design

This study employs a mixed-methods approach, combining quantitative analysis of SME financial and operational data with qualitative insights from business owners and accounting professionals. The research design follows an explanatory sequential model, where quantitative findings inform the design of qualitative data collection (Marzi, Balzano, Caputo, & Pellegrini, 2024; Deutskens, De Ruyter, Wetzels, & Oosterveld, 2004). This approach enhances the validity and reliability of results by allowing the triangulation of data from multiple sources (Creswell & Plano Clark, 2018).

Sample Selection

The quantitative sample comprises 1,603 SMEs across eight Balkan countries: Slovenia (n = 198), Croatia (n = 192), Serbia (n = 195), Montenegro (n = 175), North Macedonia (n = 184), Bosnia and Herzegovina (n = 213), Albania (n = 224), and Kosovo (n = 222). SMEs were defined according to EU criteria, encompassing enterprises with fewer than 250 employees, annual turnover not exceeding €50 million, and annual balance sheet totals not exceeding €43 million (European Commission, 2019).

The qualitative sample includes 115 participants—81 SME owners or managers and 34 accounting professionals—across the eight countries. Participants were selected using purposive sampling to ensure representation across industries, company sizes, and geographic regions (Patton, 2015).

Data Collection

Quantitative data were collected through structured surveys and secondary financial data obtained from national business registries. Key variables included compliance costs (measured as a percentage of revenue), time spent on accounting compliance, access to finance metrics, revenue growth, profitability ratios, and regulatory satisfaction scores.

Qualitative data were gathered through semi-structured interviews, which explored experiences with accounting regulations, perceived barriers and benefits, adaptation strategies, and recommendations for regulatory improvement (Kvale, 2007). Interviews were conducted either in person or online, depending on participants' availability and pandemic-related restrictions.

All data collection procedures adhered to ethical research standards, ensuring voluntary participation, informed consent, and confidentiality (Bryman, 2016).

Analytical Approach

Quantitative analysis employed multiple regression models, controlling for firm size, industry, age, and country-specific factors (Wooldridge, 2015). Panel data analysis was conducted where longitudinal data were available to strengthen causal inference (Gujarati & Porter, 2009).

Qualitative data were analyzed using thematic analysis to identify recurring patterns in SME experiences with regulatory compliance and its business implications (Braun & Clarke, 2006). This approach facilitated a deeper understanding of how accounting regulations affect SMEs in practice and complemented the quantitative findings.

Results

Regulatory Compliance Costs

The analysis reveals significant variation in compliance costs across countries and regulatory frameworks. SMEs in countries with more complex accounting requirements spend, on average, 2.3% of their annual revenue on accounting compliance, compared to 1.1% in countries with simplified SME-specific frameworks (OECD, 2021; European Commission, 2020). These findings align with previous studies highlighting that regulatory burden tends to rise in proportion to the complexity of accounting rules and reporting requirements (Beck, Demirgüç-Kunt, & Maksimovic, 2005; Litjens et al., 2012).

TABLE 1: Average Compliance Costs by Country

Country	Compliance Cost (% of Revenue)	Hours per Year	Reg. Satisfaction (1-10)
Slovenia	1.2%	156	6.8
Croatia	1.4%	178	6.2
Montenegro	1.8%	203	5.7
Albania	1.9%	221	5.4
Serbia	2.1%	245	5.1
Kosovo	2.2%	251	4.8
N. Macedonia	2.4%	267	4.9
Bosnia & Herzegovina	2.7%	289	4.3

These results indicate that simplified accounting systems are associated with lower compliance costs and higher satisfaction scores, confirming earlier findings that excessive administrative complexity hampers SME efficiency and competitiveness (Bohušová, 2011; Raskovic, 2014).

Impact on Business Performance

Regression analysis reveals a statistically significant negative relationship between regulatory burden and SME performance metrics. Specifically, a one-percentage-point increase in compliance costs as a share of revenue is associated with a 3.2% decrease in annual revenue growth and a 2.1% decrease in return on assets.

These findings are consistent with international evidence suggesting that while accounting regulation can promote financial transparency, excessive burden limits firm growth, particularly for smaller enterprises (Beck et al., 2005; Bonito

& Pais, 2018). Moreover, micro-enterprises (fewer than 10 employees) show approximately 40% higher sensitivity to regulatory burden compared to small and medium-sized enterprises. This pattern supports the theoretical expectation from regulatory burden theory that smaller firms are disproportionately affected by compliance costs (Klapper, Laeven, & Rajan, 2006; OECD, 2018).

Access to Finance

Countries with transparent and standardized accounting requirements demonstrate better SME access to bank financing (Berger & Udell, 2006; Li, 2010). However, this benefit diminishes when regulatory requirements become overly complex, producing an inverted U-shaped relationship between regulatory stringency and access to finance.

This result aligns with the literature emphasizing that while transparent accounting systems enhance lenders' trust, excessive administrative burden discourages formal financial participation among SMEs (Allee & Yohn, 2009; Hope, Thomas, & Vyas, 2013).

Qualitative Insights

Qualitative interviews provide valuable context for interpreting the quantitative findings. Thematic analysis revealed three dominant themes in SMEs' perceptions of accounting regulations:

> Theme 1: Resource Diversion.
> SME owners consistently reported that complex accounting requirements divert valuable managerial time and financial resources from core business activities. As one Serbian manufacturing company owner noted:
> "I spend more time understanding new accounting rules than improving my products."
> This perception is consistent with findings from previous studies showing that regulatory overload can discourage innovation and operational efficiency (Domanovic, 2012; Perera & Chand, 2015).
> Theme 2: Competitive Disadvantage.
> Many participants perceived accounting regulations as creating competitive disadvantages, particularly when competing with larger firms or companies from countries with more streamlined frameworks. This aligns with the view that small firms often bear a disproportionate share of compliance costs relative to their resources (Beck et al., 2005; European Commission, 2019).
> Theme 3: Limited Support and Guidance.
> SMEs across all countries reported insufficient government support in understanding and implementing accounting regulations, leading to reliance

on costly external accounting services. Similar issues have been documented in studies of SME environments in other transition economies, where institutional weakness and lack of training amplify compliance burdens (Abdiu & Krasniqi, 2019; Albu et al., 2011).

Country-Specific Analysis

Slovenia and Croatia (EU Members): These countries exhibit the most balanced approach, with EU-compliant frameworks that include specific SME provisions (European Commission, 2008). However, implementation challenges remain, particularly in translating directives into practical guidance for small businesses (Atanasovski, Trpeska, & Bozinovska-Lazarevska, 2015).

Serbia: Serbia has made progress in regulatory harmonization, though legacy requirements continue to add complexity (Domanovic, 2012). Ongoing EU accession negotiations contribute to frequent regulatory changes and uncertainty (European Commission, 2020).

Montenegro and North Macedonia: These countries have adopted SME-friendly reforms, but institutional limitations and insufficient business support hinder implementation (OECD, 2021; Regional Cooperation Council, 2020).

Albania: Albania's adoption of Albanian Accounting Standards (AAS), aligned with IFRS, has modernized its framework (Gjipali & Pazarzi, 2011). However, implementation challenges and frequent updates continue to create uncertainty. The government's digitalization initiatives show promise for reducing compliance burdens in the future (World Bank, 2020).

Kosovo: Kosovo's approach—adopting IFRS and International Standards on Auditing (ISA)—ensures international compatibility but presents implementation challenges due to limited administrative capacity and a shortage of qualified professionals (Krasniqi, 2007; International Finance Corporation, 2019). Despite higher compliance costs, Kosovo's entrepreneurial population and developing service sector offer opportunities for innovation in digital reporting.

Bosnia and Herzegovina: The country faces the most fragmented regulatory environment in the region, stemming from multiple jurisdictions and inconsistent application of accounting standards (World Bank, 2021). This fragmentation contributes to high compliance costs and low satisfaction among SMEs.

Discussion

Theoretical Implications

The findings of this study support institutional theory's core proposition that regulatory environments shape organizational behavior and performance (North, 1990; Scott, 2014). Accounting regulations, as formal institutional pressures, guide how SMEs allocate resources, adopt accounting systems, and pursue strategic growth (Balzano, Marzi, & Turzo, 2025). However, this research extends the theory by highlighting that the design and implementationquality of regulations matter just as much as their mere existence.

The results also contribute to regulatory burden theory, which posits that smaller firms face disproportionate compliance costs due to limited resources and economies of scale (Beck, Demirgüç-Kunt, & Maksimovic, 2005; Klapper, Laeven, & Rajan, 2006). The evidence from this study demonstrates a threshold effect: moderate regulation can enhance business performance through improved financial management and transparency, whereas excessive regulation leads to inefficiency and slower growth.

These conclusions align with EU-level findings showing that IFRS adoption improves accounting quality and transparency only when supported by strong institutional frameworks and enforcement mechanisms (Chen, Tang, Jiang, & Lin, 2010; Christensen, Lee, Walker, & Zeng, 2015). In contrast, in weaker institutional environments—such as parts of the Balkans, the benefits of harmonization are often offset by increased compliance costs and limited administrative support (Albu et al., 2011; Domanovic, 2012).

Furthermore, this study contributes to the literature on SME institutional adaptation by illustrating how businesses in transition economies strategically adjust to regulatory pressures (Peng, Wang, & Jiang, 2008; Acs, Desai, & Hessels, 2008). The qualitative findings underscore that SME behavior under regulatory strain is shaped by owner experience, firm size, and the availability of institutional support — consistent with the institutional environment–internal context–performance model proposed in this research.

Policy Implications

This study's results have significant implications for policymakers across the Balkan region. Consistent with the European Commission's (2020) SME policy objectives, the findings suggest that accounting regulations should be proportionate to firm size and institutional capacity.

First, policymakers should implement SME-specific accounting standards tailored to local conditions, following the example of the EU Accounting Directive 2013/34/EU (European Commission, 2008). Simplified frameworks, such as IFRS for SMEs, have been shown to reduce compliance costs and enhance access to finance (Pacter, 2009; Litjens et al., 2012).

Second, governments should strengthen implementation support through professional training, digital platforms, and advisory services (OECD, 2021; International Finance Corporation, 2019). Prior research highlights that education and institutional guidance are key mediators between regulation and SME performance (Badulescu et al., 2021; Nur Diana, Sudarmiatin, & Hermawan, 2023).

Third, policymakers should establish regular impact assessments to evaluate regulatory costs and benefits for SMEs (World Bank, 2021). A data-driven approach, integrating feedback from business associations and accountants, would ensure that regulations remain adaptive and proportionate to evolving business needs (Regional Cooperation Council, 2020).

Finally, enhanced regional cooperation and harmonization among Balkan countries could help reduce cross-border discrepancies in accounting requirements. This would facilitate trade and investment, strengthen competitiveness, and align with ongoing EU integration processes (European Bank for Reconstruction and Development, 2020; UNCTAD, 2019).

Study Limitations

This study has several limitations that should be acknowledged.

First, the cross-sectional nature of most data limits the ability to make strong causal inferences, even though panel data were used where available (Wooldridge, 2015). Future research using longitudinal designs could provide stronger evidence of how changes in accounting regulation affect SME performance over time (Gujarati & Porter, 2009).

Second, the definition of regulatory burden in this study primarily reflects direct compliance costs, such as accounting expenses and administrative hours. While this provides a measurable indicator, it may not fully capture the indirect effects of regulation on innovation, productivity, and strategic decision-making (Beck, Demirgüç-Kunt, & Maksimovic, 2005; Klapper, Laeven, & Rajan, 2006).

Third, while the sample of 1,603 SMEs and 115 interview participants is robust, it may not be fully representative of all sectors or rural enterprises. Prior studies have shown that SME characteristics, such as sectoral affiliation and regional location, can significantly influence regulatory outcomes (OECD, 2018; Bonito & Pais, 2018).

Finally, the dynamic nature of regulatory reform in the Balkan region means that findings may quickly become outdated as new EU directives, digitalization initiatives, and local reforms are introduced (European Commission, 2020; World Bank, 2021). Therefore, continuous monitoring and replication are recommended to maintain policy relevance.

Conclusions

This study provides compelling evidence that accounting regulatory frameworks significantly influence SME performance across Balkan countries. The research demonstrates that while well-designed regulations can enhance business performance through improved financial management and market access, excessive or poorly implemented rules impose disproportionate burdens on smaller enterprises (Beck, Demirgüç-Kunt, & Maksimovic, 2005; Klapper, Laeven, & Rajan, 2006).

The analysis reveals a clear hierarchy in regulatory effectiveness, with EU member countries such as Slovenia and Croatia exhibiting more balanced frameworks than non-member or candidate countries. These findings are consistent with broader European research suggesting that harmonized, SME-specific standards—such as the EU Accounting Directive 2013/34/EU and IFRS for SMEs—help reduce compliance costs while maintaining financial transparency (European Commission, 2008; Pacter, 2009; Litjens, Bissessur, Langendijk, & Vergoossen, 2012).

However, even within more advanced systems, the implementation gap remains significant. Countries with limited institutional capacity, administrative inefficiencies, or inadequate business support mechanisms struggle to translate regulatory alignment into tangible benefits for SMEs (Albu et al., 2011; Domanovic, 2012). These findings affirm institutional theory's assertion that formal structures must be complemented by effective enforcement and support mechanisms to produce meaningful economic outcomes.

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