

ROLE OF SMALL AND MEDIUM ENTERPRISES IN IMPROVING COMPETITIVENESS OF ECONOMY OF BOSNIA AND HERZEGOVINA

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Abstract: It is obvious that small and medium enterprises are becoming increasingly important segment of economy, which is necessary for the implementation of structural reforms, especially in the function of reviving overall growth and creation of new workplaces. They are the main drivers and carriers of economic activity of each state in which market economy functions.

1. INTRODUCTION

For smooth functioning of enterprises, we need strategic vision, business ideas and specific risk preferences, as well as particular knowledge and skills of leaders in the fields of planning, organizing, managing, motivating, communicating and controlling. Small and medium enterprises own the mentioned characteristics and they are precisely the ones that can identify all potential threats and opportunities and use the strategies that will enable efficient operation to the enterprise. [1]

Growing pressure of competitive environment imposes to the modern enterprises a clear necessity of increasingly faster departure from »traditional« economy and transformation towards modern economies. A fundamental change in the strategy of each enterprise is necessary.

2. ENTERPRISE, TERM AND GOAL

The enterprise is an independent whole, which is owned by particular entities, which produces goods or performs services meant for the market and, therefore, uses appropriate resources and assumes a certain level of business risk for the sake of profit-making and other economic and social goals.

It can be said that „enterprises are independent organizations whose goal is performing the particular function in the process of social reproduction“ [2], and that means that enterprises do not perform only one economic activity in their operation. Those are, actually, complex economic entities that must include precise defining of the number and qualification structure of employees, by means that are necessary for smooth performance of activities, adequate space and possibilities in terms of capacity and organization of business.

“Enterprise is not a simple (random) group of people and resources that are combined in certain period in certain activity, but it is a very precisely defined organization that owns its functions, structure, activity, strategy, economic motive and defined property relations” [3].

Taking the criterion of size into account, the enterprises can be divided into small, medium and large. It should be said that the criteria that are used for such a division of enterprises, vary from economy to economy, but at the same time there is no unique opinion of economic analysts regarding this issue.

Precisely the size enables small and medium companies to own more than necessary flexibility, because they constantly „monitor“ the occurrences in the market and in that way they are in the position to largely avoid market disruptions, which can have a negative effect of the enterprise, and on the other hand, SMEs are a fertile ground for investing private capital in those enterprises.

3. SOME INDICATORS OF THE PERSPECTIVE OF SMALL AND MEDIUM ENTERPRISES

Association of business Consultants in B&H - LESPnet in cooperation with Norwegian Ministry of Foreign Affairs have created „Benchmarking system for small and medium enterprises in B&H“, on 16.12.2010.

European Union and EBRD (European Bank for Reconstruction and Development) are implementing a program for business turnaround TAM, which is active since 1997 and includes 26 enterprises and BAS program that was initiated in 2001 and included 470 enterprises.

Both programs aim at improving the operation of enterprise, as the basis of products' export, improvement of standards and obtaining the necessary certificates.

Programs contain the inclusion of foreign experts that will work as personal consultants (medium enterprises) and giving the subsidies for the engagement of local consultants (small enterprises).

In the previous year, 300 millions of Euros were invested by EBRD, which is a small amount for a country of B&H's size. In this year, 730 millions of Euros are predicted for 47 projects, i.e. for regional development projects.

These programs are very significant and they can visibly increase the export of B&H, which amounted to 648 million of CM in February this year, and the import of billion and 116 millions of CM. If we compare it to Serbia, in which foreign trade deficit was 575 millions of dollars in January this year, which is by 16.6 % higher than in the same month of the previous year, and 74.7 millions of dollars was deficit in the trade with CEFTA countries in January this year. The export of Serbia to Germany has increased for 22% in 2010 and foreign trade exceeded the amount of 2 billions of Euros. It means that the direction should be aimed at successful strategy that is advocated by European Union. [4]

Project of CEFTA represents the internationalization of the economy of South-eastern Europe and includes the Chambers in Albania, B&H, Croatia, Macedonia, Moldavia, Montenegro and Serbia. The goal of the project is economic cooperation, improvement of the trade, improvement of activities in the region of South-eastern Europe in order to attract FDI and also the development of competitiveness of small and medium entrepreneurship.

During 2010, the employment in EU has dropped by 0.5 %, and a year before the decline was 1,8 %. EUROSTAT evaluates that in the last quarter of previous year, in EU there were 221.7 millions of people who worked, and of this number, 144.8 million were in the euro zone. Annual inflation in February was 2.4 %, and in EU 2.8 %. [5]

Directorate for Entrepreneurship and Industry of European Commission has established Enterprise Europe Network, which is a part of the Competitiveness and Innovation Framework Program (CIP). After a thousand days of work, Entrepreneurship Europe Network (EEN) has provided, through its services, for 2.5 million of companies to make a contact and access to common market of EU. This greatest entrepreneurial network in Europe still gives great contribution to development of entrepreneurship in the sense of internationalization and innovation and thus the financing from the part of European Union.

Foreign Trade Chamber of B&H has joined this Network through EICC in the beginning of 2009 as the coordinator of the Consortium of European Entrepreneurial Network of B&H, which brings together another four partners responsible for the field of research, technology and innovation.

EICC B&H has brought 120 profiles of enterprises from B&H to the base of business cooperation of the Network during the last two years.

We will mention some other significant indicators that are significant in promotion of small and medium enterprises:

- It is interesting that, in the countries of European Union, the governments adopt regulations that are primarily oriented on direct support to small and medium enterprises and on stimulation of their growth and competitiveness. In that way, in March 2000, from the part of the Heads of Governments of the European Union in Lisbon, SME sector was marked as one of main pillars in accomplishment of one of the major goals, which is: European Union should become „the most competent and the most dynamic economy in the world until the year 2010“. [6]

- After that, in June 2002, the leaders of European Union have adopted the European Charter for Small Enterprises, by which member countries of European Union and European Commission are invited to provide the support and help small enterprises in numerous key fields, such as education and training of entrepreneurs, as well as creation of more efficient legislation, regulations, tax and financial system. In that way, the significance of small enterprises and entrepreneurs for development, competitiveness and employment in European Union is completely recognized.

- The fact that small and medium enterprises have a great impact on the economy of European Union is in the best way illustrated by the following data: from a total of 23 millions of enterprises and approximately 100 millions of employees in this sector in European Union, even 99% are small and medium enterprises (it is assumed that their number in USA is 25 million and in Japan 5 million). If we consider the achieved gross domestic product in EU, small and medium enterprises participate in it with 60% and in that way, they provide more than 80 million workplaces. In other words, it means that two thirds of the total number of employees in private sector of EU are employed in SME sector. [7]

- The best example of the efficient organization and engagement of entrepreneurs is Irish model of SME development. Ireland is a state with a total of 4.2 millions of inhabitants, and even 90% of the companies are small and medium enterprises, in which 54% of total number of employees work, and it is interesting that 98% of enterprises in Ireland are classified as small enterprises. By functional connecting of entrepreneurs and good organization, Ireland has doubled gross domestic product and increased the exports eight times and the number of employees was increased 70 times in the last twenty years. In that way, in the last twenty years, Ireland has drastically improved its gross domestic product and thus taken a rather high position on the list of the richest countries in the world.

- Medium, and especially small enterprises can be considered the main drivers of competition, innovations and employment in Europe, and in our country as well. Development of SMEs in B&H is important because it enables employment, for those special categories, which include: youth, women and persons with disabilities. Development of small and medium enterprises has a primary role in policies for acceleration of economic growth.

In our economy, small enterprises have the following characteristics:

- Small-sized,
- Management is centralized,
- They are focused on smaller market segments,
- Entrepreneurially oriented,
- Employ a small number of workers,

- Possess flexibility, i.e. they are willing to react rapidly to market occurrences,
- They have a small market participation.

The number of small private enterprise has significantly increased, even at the time of economic collapse and international isolation during the 90's. The ownership structure of enterprises in today's economy is largely transformed, and also it requires the changes in motivation, responsibility and relation towards entrepreneurship and business risk. Economic development of B&H needs to be based on affirmation of private ownership and market economy, with the creation of one more efficient and favourable environment for foreign direct investments and development of entrepreneurship. One of the primary reforms planned for the following period aims at providing favourable developmental environment for the development of SMEs so that more workplaces would be created and in order to improve the feasibility and market competitiveness of economic structures. [8]

It needs to be pointed out that the development of small and medium companies is very significant for transitional countries, so the great interest of governments of particular countries for SME sector is not surprising. They develop the strategies of SME development and at the same time they promote the goals and set out the guidelines to explain how the things should be developed in a longer or shorter period. Following the examples of states in the environment, Serbian government has also adopted the strategy of development for small and medium enterprises and entrepreneurship for the period from 2003-2008.

The main objective of the strategy is „promotion of entrepreneurship and creation of framework for opening the sustainable, internationally competitive and export-oriented sector of small and medium enterprises and entrepreneurship in the period of five years“, by which „the economic and social prosperity of the Republic of Serbia would be provided“. It is quite certain that in the following period, it will be continued with increasing the number of small and medium enterprises in Serbia, as well as that after the completion of already initiated privatization process, the SME sector will be gaining in significance as the factor of development of economy and society as a whole.

4. CHARACTERISTICS OF DEVELOPMENT

4.1. ECONOMIC ENVIRONMENT

Of all the economic problems, which Bosnia and Herzegovina is faced with, we will mention the following:

- 1) High rate of unemployment,
- 2) Small growth of GDP,
- 3) Total productivity is among the lowest in Europe,
- 4) Low level of innovative activities,
- 5) High foreign trade deficit,

Conception of challenges and improvement of situation:

- a) Opening of new workplaces,
- b) Greater competition in international frameworks,
- c) Investments in strengthening of innovation capacities,
- d) Modernization of industry and the industry based on knowledge,
- e) Increased export and substitution of exports in order to improve foreign trade balance,
- f) Quality of life and living standard.

4.2. EUROPEAN CONTEXT

Development of SME sector is one of the key factors in the process of European integrations of Bosnia and Herzegovina. SME are a significant source of business relations with other European countries and they significantly support the process of B&H integrations into wider European economic frameworks. EU pays special attention to SME development, so the EC has adopted a special document in June 2008, named „Small Business Act” for Europe, which determines the principles and actions for activities in SME sector in the countries of EU.

The recommendations of the Council of Ministers of EU14 for further improvement of SME refer to:

- 1) The application of the principles of European Charter for Small Enterprises and reduction of administrative barriers in SMEs operation;
- 2) Adoption of the new medium-term policy of SME development with operation plan;
- 3) Strengthening the Council for SMEs.

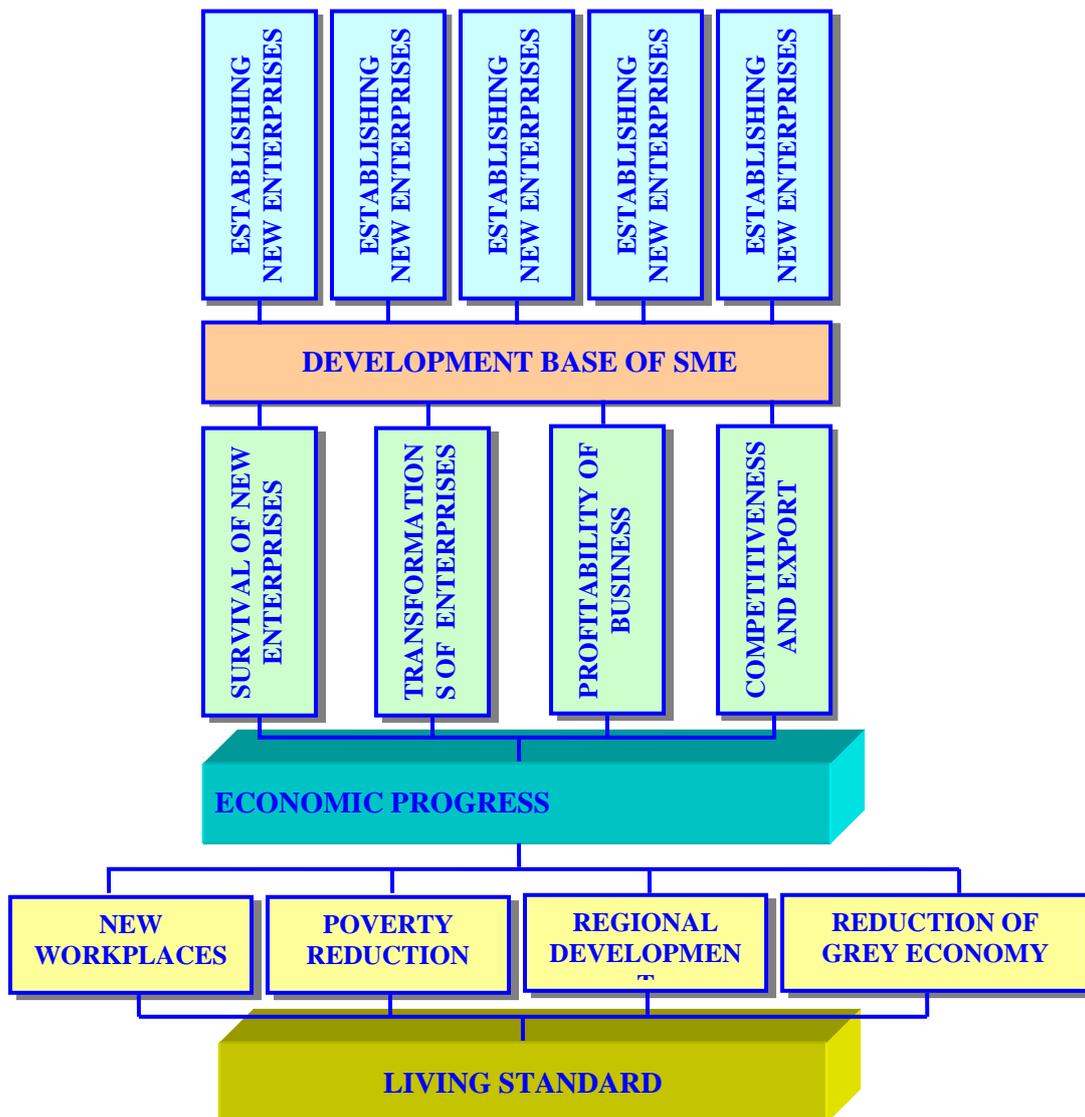


Figure 1. The path to a better living standard

5. CONCLUSION

Small business volume of small enterprises, small invested capital and small number of employees, it can be said they structurally fit into business space that is not covered by large and medium companies and that they perform jobs, which larger enterprises are not interested in.

The most significant social and economic effects of the activities of small and medium enterprises are the following:

- Increase of employment,
- Increase of exports,
- Reduction of payments deficit,
- Balanced regional development.

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