

ROLE IN THE SURPLUS OF SMALL AND MEDIUM ENTERPRISES OF THE ECONOMY OF BOSNIA AND HERZEGOVINA

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Abstract: 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.

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

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. [1]

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 on the enterprise, and on the other hand, SMEs are a fertile ground for investing private capital in those enterprises.

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. [4,5]

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.

2. CHARACTERISTICS OF ENTERPRISES DEVELOPMENT

2.1. 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 the 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.

2.2. EUROPEAN CONTEXT

Development of SME sector is one of the key factors in the process of European integrations of Bosnia and Herzegovina. SMEs 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. [6,7]

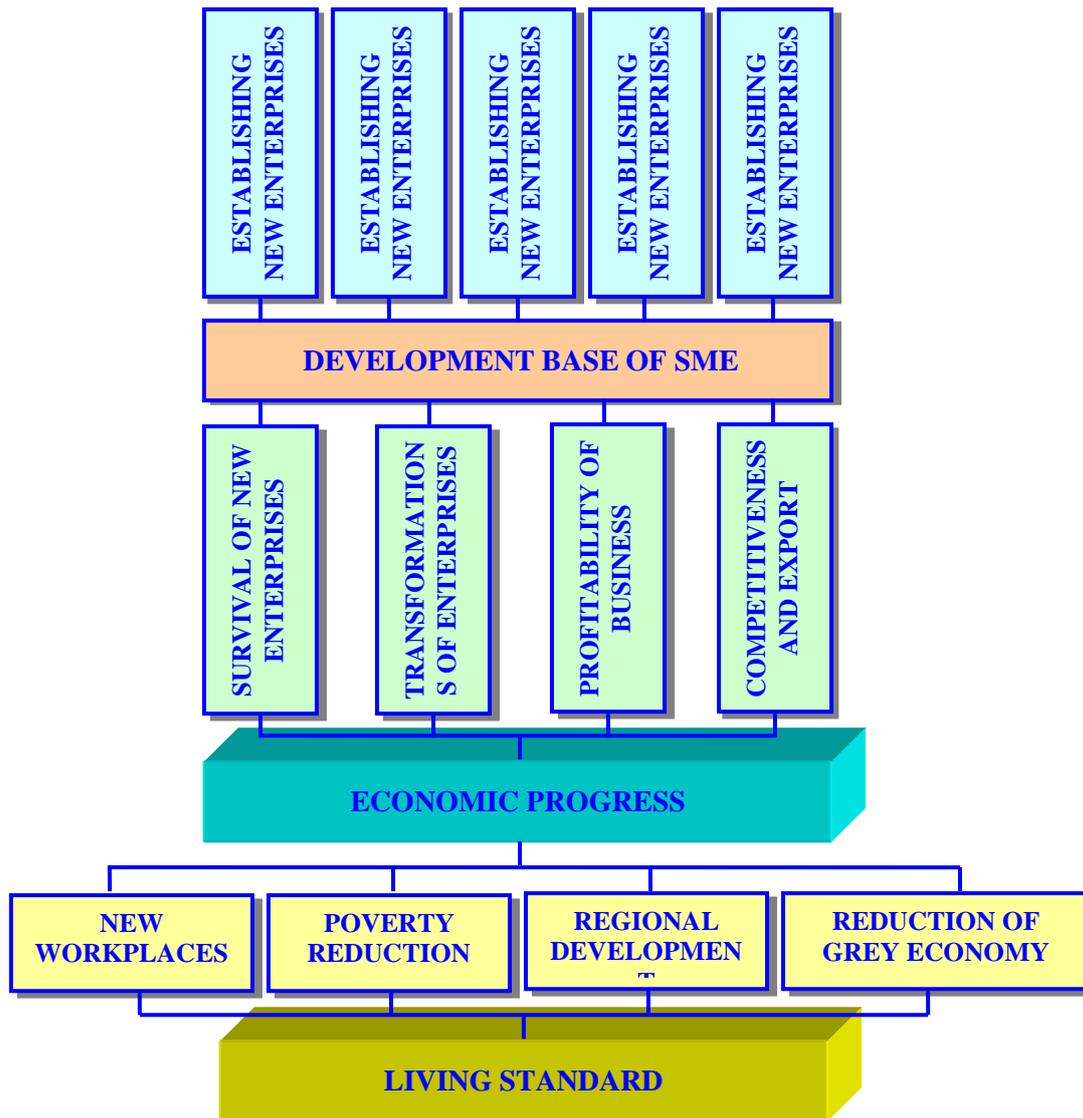


Figure 1. The path to a better living standard

3. SURPLUS AS THE MAIN OBJECTIVE OF SMEs

In B&H, at the moment, there are 145,249 registered legal entities, which shows that approximately every 26th citizen of B&H has a registered company, as the data obtained from the research carried out by economic sector show.

In the Republic of Srpska, the average is 26 enterprises per 1,000 inhabitants, and in EU the average is 40, in Banja Luka it is 56.

According to the research carried out by the company “New Market Consulting” from Sarajevo, in the Federation of B&H there are 84,633 registered companies, while in the Brčko District, there are 4,527 enterprises. [8]

Table 1 presents an overview of the registered legal entities and limited liability companies, and in the Figure 2 there is a graphical display of it.

Table 1. Tabular overview of registered subjects and limited liability companies

Entities	Federation of B&H	Republic of Srpska	Brčko District	B&H
Legal	84.633	56.089	4.527	145.249
Limited liability companies	21.078	9.704	1.266	32.048

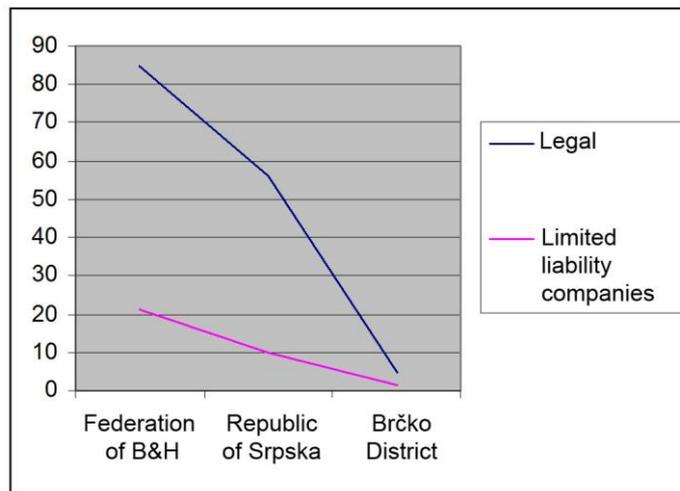


Figure 2. Graphic representation of registered subjects and limited liability companies

B&H in trade with foreign countries has greater export than import only in case of five products, mostly of a low level of processing. The surplus in trade of Bosnia and Herzegovina exists in the turnover of base metals, wood, furniture, electricity and fish. Total surplus is 1.2 billions of CM, which is 41% of domestic exports.

The biggest problem of B&H for the achievement of good results that will increase surplus is the fact that it relies on taking other people's technological solutions, in most cases with a great time lag, where even the stagnation is not guaranteed, not to mention the economic development. [9]

For that purpose, MDG-F in B&H, within Youth Employment Rehabilitation Program (YERP) has completed the third cycle of training for the employees of the Centre for information, counselling and training. Training has included three cycles in which the students have acquired knowledge and skills necessary for the work with young unemployed persons, such as conducting interviews, development of individual employment plans, writing biographies, having a conversation with employer.

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Program is conducted by IOM, UNDP, UNFPA, UNICEF and UNV in partnership with the Ministry of Civil Affairs of B&H, Ministry of Human Rights and Refugees of B&H, entity Ministries of Labour and Education, Agency for Statistics of B&H, entity Agencies for Statistics, employment services across the B&H, primary and secondary schools, municipalities and rural communities, companies and civil society organizations from the level of community to the level of Diaspora.

4. CONCLUSION

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.

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