

INSTITUTIONAL FRAMEWORK FOR DEVELOPMENT OF ENTREPRENEURSHIP IN SERBIAN ECONOMY

Srđan Nikezić¹, Dragan Bataveljić², Milutin Matić³

¹Faculty of Science, University of Kragujevac, Serbia, srdjan_nikezic@yahoo.com

²Faculty of Law, University of Kragujevac, Serbia, ³Administrative District of Šumadija,
Kragujevac, Serbia

Keywords: entrepreneurship, enterprises, small and medium companies...

Abstract: Small and medium enterprises have the key role in economic development and social progress in general. Regarding this, it is necessary to create conditions and provide support to this segment of the economy, in order to develop their potentials and use available economic resources. In the selection of strategy for development we should start from the existing status: number of companies, number of employees, overall turnover that they achieve and gross value added that they create.

1. INTRODUCTION

The real development of national economies is based upon several factors, out of which key role play natural potentials, development of “human resources”, technology base and financial possibilities – own and accumulated with foreign loans and credits. Again, efficient economic development implicates well grounded and developed system of entrepreneurial forms of economic activities organization, supported by institutional assumptions that means the following – the basis for economic development are neither only nor prevalently big companies, with great capital and large number of employees, but various entrepreneurial forms, of small and medium size, economically efficient and flexible in period of crisis and global “pressures” due to reduction of economic activities and disturbances on financial markets.

For transitional countries of the key importance is creation of institutional prerequisites for development of entrepreneurial models of doing business and their implementation in the conditions of fall in economic activities, high unemployment and lack of certain capital for investment needs and introduction of equality system in order to have better position on the market and strengthening of competitive advantages.

2. ASSUMPTIONS FOR THE DEVELOPMENT OF ENTREPRENEURIAL MODEL

Creation of sustainable conditions for the development of entrepreneurial model of doing business is not easy. It is economy with dominant role of big companies, public enterprises that are not efficient enough, with, most often, outdated technologies and large number of employees, especially on less productive positions, in administration and “services”. Overall economic system was based upon concentration of production factors, in spite of obvious defects that were approved during certain period of time through initiation of economy of scale, and less variety, quality and rational use of available resources. Therefore many countries in transition strived to reach more efficient system of economy through creation conditions for development of entrepreneurial forms in various economic sectors. Accordingly, Serbia is not an exception, in spite of the fact that transitional processes here had more controversies and misunderstandings. Hence, we could say that establishment of entrepreneurial model in our economy is lacking behind to some extent and reaching the turning point. In order to assure more intense economic development of Serbia it is necessary to: a) revise the privatization process, b) erect adequate legislative and c) develop entrepreneurial potentials through more rational development and selection of human resources.

-Serbia has changed the regulations that regulate the matter of transformation and change in property structure. But, most of the companies were privatized through tenders and auctions. Some of the companies change their owner without compensation, or for symbolical one, cheap. Others were ruined after the privatization, because new owners only wanted to use available land and turn it into construction land, and rent the buildings and sell the existing equipment and machinery. Today many previous workers are not working, and strikes are everyday events. Defected privatization brought nothing good, except for those that divided among them national welfare and destroyed the existing economic system in the unseen manner, with the blessing from the state. Breaks of privatizations nowadays neither can improve nor significantly change the situation. The old system is irreversibly ruined, and the new one is not created. Therefore, it is hard to say today what our economy resembles of, what is its dominant characteristic and what are its prospective. Big economic systems are not present in there, as well as dominant entrepreneurial forms. It is absolutely devastated and subjected to the lobby impacts and interests. Trade is dominant here, and not the manufacture. It is well known that from the beginning of the privatization process 2550 companies got new owners, 435 purchasing agreements were dissolved and 428 criminal applications were submitted, and finally, the change of owners was in the function of "purchase in order to sell" and "sucking out" the money from the companies that were deliberately pushed towards bankruptcy by new owners [1, p. 20]. Withal, according to the one conducted pool among entrepreneurs in Serbia, badly performed privatization is on the fifth position among the reasons for obvious weakness of Serbian economy, out of 10 reasons, with 10.08% [2, p. 30]. On the first three positions are sanctions, inadequate economic policy of the Government of Serbia and break of the former Yugoslavia (13.5%, 13.17%, 10.41%), and the existence of monopolies 11.22% [2, p. 30].

-Creation of adequate legislative means to have such regulations that induce and support the development of entrepreneurial companies. These are regulations that enable for enterprises to gain some financial resources (capital) under the lower prices than market prices, to use some privileges in the phase of the establishment and privileges during reinvesting into their own development. Certain financial institutions, for examples banks, especially foreign ones, are not interested in such "industry". They estimate the efficiency of the investment only through the level of interest rate and the possibility to return their investment. But, more important role could have investment funds that should receive the loan from the state, or NNP and that invest one RSD on every three borrowed. In such manner, the state would, through the legislative, purposely direct economic development and help rational concentration of capital in certain entrepreneurial forms, that would even in the initial phases of transition, to some extent, compensate the loss of big companies and accelerate the changes of overall economic surrounding and creation the conditions for the development of the new technologies and market competitiveness. The existing legislative is not good. It does not recognize the importance of institutional redirecting of capital from big towards small companies, and the role of funds in financing the development of smaller, efficient enterprises and the significance of economic incentives to the more priority, strategically important subjects.

The concept of "distribution" of great funds through NIP, politically polyvalent, does not give the results and is more in the role of demonstration of state power and impact. Therefore, institutional changes are more that urgent, in order to save whatever is possible.

-The third key assumption for the development of entrepreneurial model means the establishment and development of entrepreneurial skills of the individuals, and various social groups. It is delicate problem of human resources development in the conditions

where there are not, or are very weak foundations for real demonstration of entrepreneurship and the predisposition for private initiative and business. It is, simply, the lack of domination of entrepreneurial values and creation of management genius according to the strange opinions and role models, characteristic for the processes of the first accumulation of capital. The real changes are related to the change of the existing culture and pattern of behaviour, return of the wealth accumulated over night, better education, practice, etc, and media focus towards affirmation of capable, meritorious, modest and talented people, and not the virtual values, rudeness and primitiveness. The goal is to create capable leadership that is up to the requests of modern doing business and competitive market. (According to the previously demonstrated pool the management is the eighth reason for weakness of the economy, with 9.11% of votes) [2, p. 30].

Creation of more adequate institutional bases would lead to the establishment of entrepreneurial model of doing business, as realistic basis for higher economic growth rate and social progress. On such conceptual bases, withal, are developed economies of USA, Japan, Great Britain, India, Israel, etc. Thanks to the entrepreneurial model of doing business in USA are founded 500 000 small companies and achieved leadership role in the world economy. Small companies compensated the loss of jobs in big corporations and created over 16 million of new jobs [2, p. 93-100]. The best example is the development of efficient companies in software industry that cover with its production over 70% of software market in USA. The similar situation is also in some other countries.

3. THE TYPE AND THE STRUCTURE OF ENTERPRISES

In the structure of enterprises are incorporated small, and most of medium companies. On the following table is presented the number, structure of the companies, and structure of employees according to the size of the company [4].

Table 1: Number and structure of employees according to the size of the company

Size of the company	Number of companies	Number of employees	Year
Small	73.097	338.906	2004.
Medium	2.121	264.535	
Large	667	543.392	
Small	73.549	386.296	2006.
Medium	2.412	253.898	
Large	677	468.514	
Small	88.389	386.005	2008.
Medium	3.520	260.499	
Large	925	472.267	

Source: F.N. National Bank of Serbia – Direction for register and collection, 2004.

From this table we could see the significant growth in the number of companies between 2004. and 2008., small, medium as well as big organizations. In the observed period is shown the tendency of decreasing the number of employees, to the greater extent in large companies compared to small and medium companies. Therefore, large companies employ less than 50% of the total number of employees. In small companies, that make for 95.1%, are employed 386 000 employees, according to the statistical data from business 2008. year. In large organization were employed around 472 000 employees, in the same period in 2008.

Small and medium companies have an important role in Serbian economy (Government of Republic of Serbia – Development Strategy for competitive and innovative SMEs for the period 2008-2013). In the period between 2004. and 2007. in them were opened around 149 000 new jobs; that participate in the market with 67.7%, in gross domestic product with 36%, in gross value added with 58.3%, in profitability with 38.6% and productivity; in import with 50.2%, export 64% and investments into non financial sector with around 51.2%. Small and medium enterprises play key role in employment, especially long term, restructuring of the economy, its innovation growth and adjusting to the new technological request in strengthening of competitive capacities of the economy, covenant of products with market needs, especially with requests of consumers that want to satisfy their needs fully, with various and more quality products, according to aspirations and purchasing power.

With the participation of 99% of small and medium companies Serbia is approaching to the structure of market economy, typical for European Union. According to the available data in our economy are dominant small companies (micro) with the participation of 78%, and in them private companies with participation of 88% in total number of economy entities. The greatest numbers of small and medium companies are in the service sector, trade and services of around 50%, and in processing industry around 20%. In overall structure the number of employees increased for around 4% [5].

Table 2: Development of the sector of SMEs in the peropd between 2004. and 2007

Category	2004.	2005.	2006.	2007.
Number of SMEs	285.139	276.695	268.515	296.086
Number of employees	752.740	810.862	870.979	906.669
Total turnover (in billion of RSD)	2.496,8	2.771,5	3.588,5	4.106,8
GAV of SME sector (in billion of RSD)	357	467	592	720
Value of export of SME (in billion of RSD)		115	182	227
Export growth rate (in %)			41,2	16,1
Value of import of SME (in billion of RSD)		391	503	653
Import growth rate (in %)			14,2	21,2
Deficit in foreign trade (in billion of RSD)		276,3	320,7	425,8

Source: RDB – Report on SME sector for the observed years

On the table 2. is presented the development level of SME sector in period between 2004. and 2007. According to the periods, in 2004. the number of SMEs was 285 139, 2005. it was 276 695, 2006. was 268 515 and 2007. was 296 086. In spite of the domination in the total number of companies and employees SMEs posses only 1/3 of the total capital in the economy, more precisely 32%, which demonstrates that they are in the phase of serious expansion, i.e. development. the real progress of SME is possible to track through the “movement” of certain economic indicators for the period between 2001. and 2006. [6], table no. 3.

Table 3: Basic indicators of economic movements for SMEs (growth rates, in %)

	2001.	2002.	2003.	2004.	2005.	2006.	2001-06.
GDP, real growth	4,8	4,2	2,5	8,4	6,2	5,7	5,3
Retail prices	40,7	14,8	7,8	13,7	17,7	6,6	16,4
Number of employees	0,2	-1,7	-1,2	0,5	0,9	-1,9	-0,5
Net salaries, real growth	16,5	29,9	13,6	10,1	6,4	11,4	14,4
Labor productivity	4,6	6,0	3,7	7,9	5,3	7,8	5,8

Indicators of economic movements for SMEs are the result of general economic conditions and economic activities for observed periods. In 2006. are acquired certain results in dynamical economic growth, macro economical stability, inflow of foreign investments, strengthening of reserves in foreign currency, but were demonstrated certain difficulties, like unemployment, large deficit in foreign trade and growth of salaries over productivity.

4. STRATEGY FOR SME DEVELOPMENT IN SERBIA

Small and medium enterprises have the key role in economic development and social progress in general. Regarding this, it is necessary to create conditions and provide support to this segment of the economy, in order to develop their potentials and use available economic resources. In the selection of strategy for development we should start from the existing status: number of companies, number of employees, overall turnover that they achieve and gross value added that they create. On the graph number 1 is presented the structure, employment and economic effects [7]. From the graph it is obvious that micro companies are dominant regarding the participation in the number of employees, turnover and gross value added, etc.

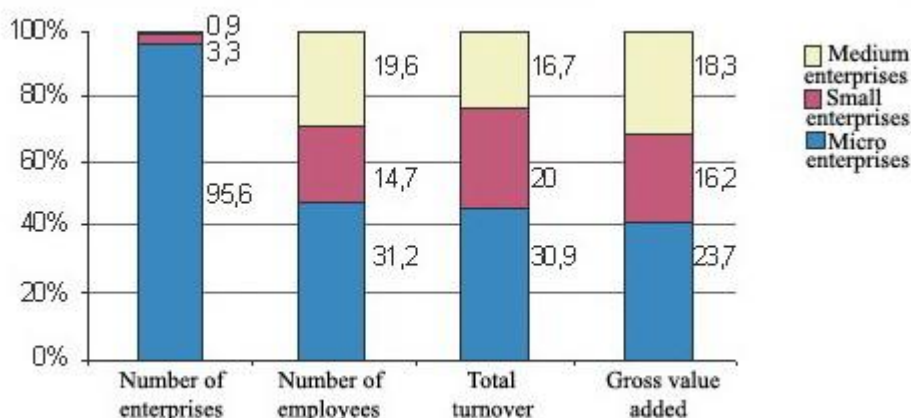


Figure 1: Structure of SME sector in the Republic of Serbia

According to the data we could conclude that are necessary certain changes towards strengthening of the economic position of SMEs, their competitiveness and technical and technological qualification. In this sense it is necessary to: 1) establish larger number of SMEs; 2) strengthen their position in the initial phases of development; 3) provide more financial resources for their support, under favourable conditions; 4) adjust taxation policy and 5) more significantly support export oriented companies.

In order to implement the strategy of strengthening of SMEs it is necessary to: 1) improve institutional frameworks, 2) remove the effects of inadequate privatization, 3) financially support the development of SMEs, through grants, as well as through forming „real“ investment funds, without state interference and its bureaucracy, 4) separate local self government from „economical milieus“ and their impact reduce to efficient administering in establishment and initiation of economic activities, and 5) develop the concept of mutual „help“ between public and private sector. Such measures can strengthen strategic prospective of SMEs and facilitate painful transitional processes of our economy.

5. ENTREPRENEURIAL MODEL AND QUALITY SYSTEM

Introduction of quality system is important step in provision of sustainable development of entrepreneurial forms, whose development is intensified in transitional conditions of doing business. Entrepreneurial forms, basically, in transitional conditions are faced with several problems, with the problem of selection of development program (definition of vision and mission), provision of financial resources and overcoming of various institutional „obstacles“, that are derived from unprepared regulations and real market mechanisms, based on the institutes of developed markets. Within these problems entrepreneurs are faced with the question of standardization of jobs and definition of responsibilities for creation of high quality offer in the area of services or production of some goods. In the very start they have the advantage compared to big corporations and their alliances. Overall, it is facilitated marketing role because it is shorter path from the identification of market requests, that is needs for certain conditions or products, and market needs regarding quantities, prices and terms of delivery. Besides, it is easier to incorporate the requests of consumers through overlooking the purchasing relations and revision of some of the market requests, and accept some of the demands from consumers and inform on it the employees in the company, that can react quick and efficient, without middle men and additional instructions. Entrepreneurial forms have more suitable organizational structure, concept of linking jobs and tasks, concept for linking some of the activities and their directing towards defined goals and transferring the right to make decision, and partly the responsibility to the individual and specialized teams.

Entrepreneurial forms are more suitable for the requests of quality systems due to the following reasons:

- a) their structure is simple, and the system of communication less diffuse compared to the large forms, i.e. companies;
- b) system of responsibility is transparent and adapted to the character of jobs performed and working places;
- c) pattern for information is less formal, more immediate, opened and based on communications and explanations, rarely is written format, which defines the number of documents and their rational use;
- d) employees are wider educated, so the rotation within organization is possible and desirable, without change in rules, instructions or directives;
- e) chain of control is shorter, because organizations are more shallow, so the directions are «circulating» faster and reach operatives, so the integral organization is kept under continual monitoring and
- f) it is more obvious the link between work and effect, success and difficulties in order to achieve that.

Finally, entrepreneurial forms have good capacities, better than large companies, for identification of the results and creation of simulative system for payments, introduction of rewards and bonuses, certain benefices in achievements and strengthening so called delegated leadership of employees. If we look from that angle undoubtedly is that entrepreneurial forms are favourable model for implementation of the quality system and application of certain leadership styles, because they enable the following: a) members of the organization can observe easier where are they and where are they going, b) they can be included and involved easier in processes of introduction and improvement of quality system, c) they could dedicate to the capability for further independent activities in new conditions and other organizational forms [8, p. 164-168]

6. CONCLUSION

SMEs have great role and importance for the development of Serbian economy, employment and creation of efficient and flexible sector, especially in the situation of creation objective market postulates and making easier transitional processes that are present on several levels and with various consequences. SMEs induce dynamic economic development and enable to the economics and local economies to successfully operate in the restructuring period for big systems and transition to model of doing business, primarily, based on the concept organization of economic life through smaller, innovative entrepreneurial forms, that are flexible, innovative and based on capabilities of the individual, or smaller teams, to observe quickly rational business options, take over the risks and responsibility for good business.

In order to induce development of small and medium enterprises successfully it is necessary to create adequate regulatory systems, assumptions and developed market system suitable for development of this economic segment. It is necessary to have adequate economic policy and incentive measures for the implementation of investment enterprise, focused to development of this segment of the economy. Development of small and medium enterprises up to now, their number, realized income, number of employees and contribution to economic development justify mentioned needs.

Besides, strengthening of entrepreneurial economy in Serbia is coherent with the efforts from EU to dedicate maximal attention to the development of SMEs and with enacting Act on small companies introduce rules and principles for actions in this area. It is compatible with the requests from quality system to provide sustainable development of companies, improve the quality and improve market position and satisfy the needs and demands from consumers better. Entrepreneurial forms are suitable framework for implementation of quality system.

References:

- [1] Economist, no. 495, 13-19.November, 2009.
- [2] Economist no. 497, 20.November, 2009.
- [3] Harvard Business Review, 2000.
- [4] F.N. National Bank of Serbia – Direction for register and collection, year 2004.
- [5] Ministry of economy: Bureau for the development of the Republic of Serbia and entrepreneurship, Belgrade, 2005.
- [6] Bureau for the development of the Republic of Serbia – Report on SMEs for some business years
- [7] Government of Republic of Serbia, Strategy for the development of competitive and innovative small and medium enterprises for the period 2008 – 2013.
- [8] Nikola Stefanović, Leadership and quality, Faculty of mechanical engineering in Kragujevac, 2007.