

COMPETITIVENESS OF SMALL AND MEDIUM ENTERPRISES IN SERBIA

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Abstract—Serbia has the potential of significantly higher exports than it is now and it is also shown by numerous studies. In the essence of the problem of backwardness in the development of trade is insufficient competitiveness compared to the neighboring countries, as well as in the countries of the European Union. There are two types of competitiveness of small and medium enterprises including their advantage over other companies which are macro and micro competitiveness of an economy of the country as a whole.

Keywords—competitiveness, economics, economy, small and medium enterprises.

I. INTRODUCTION

THE difference between the two types of competitiveness is obvious. The micro competitiveness ie. competitive advantage of the enterprises is related to the number of production units. It can be described as the relative efficiency of enterprises in selling of products and services on the market with the existing foreign competition. The competitiveness of enterprises has its basis in relative prices and the quality of the product compared to offering of other manufacturers. Typical factors of competitiveness are reduced operating costs or higher growth of factor productivity. Macro competitiveness ie. comparative advantage of the overall economy is determined by the ability of the government to create, maintain and improve the standard of living in the country. The competitiveness of the macro viewpoint refers to the ability to produce higher factor incomes in circumstances when the domestic enterprises are exposed to the direct impact of international changes.

Macro competitiveness reflects the total, not just the foreign trade performance of the domestic economy. The basis of competitiveness is built so that the country with an increase of exports of goods and services covers an import (ie. to achieve an equilibrium or surplus in the trade balance) and at the same time reaches factor incomes from which can »compete« with incomes of countries with which are predominantly carried out its foreign trade exchange. Since no economy can achieve a competitive advantage for all classes of products, it is interesting to see which products have comparative advantages in the group of countries in transition - the group to which belongs and Serbia. If you rely on the classification of the United Nations SITC (Standard

International Trade Classification), where export products are arranged on the basis of common used features, we find the following groups:

- 1) *-products that have a high participation of natural contents (the so-called. »Ricardo products«, which mainly represent inputs in the production of finished and intermediate goods: food, wood, fibers, minerals, non-ferrous metals, etc.);*
- 2) *-complex products, which have a high technological content for the production of which a key input is IT knowledge (in this group are included chemicals, machinery, aircraft, optical and electrical instruments, etc.);*
- 3) *-industrial products of high concentration, which include petroleum products, office machines, telecommunication devices, home appliances, motor vehicles, railway vehicles, etc.*

II. COMPETITIVENESS OF SERBIAN ECONOMY

In order to achieve global competitiveness, Serbia must aim to increase the rate of economic growth, as well as the constant increase in gross domestic product and the standard of employees. The process of such development of competitiveness is most sensitive on the market of the EU, where Serbia must be included as a frequent factor in the performance of foreign trade exchange, capital flows and to whom has the largest share of the external debt. The processes of economic globalization and multipolar connection of different types of economic activities - which implies creation of common market of goods, services and production factors of mega sizes - demands from economic policy to develop competitive advantages of the Serbian economy, not only comparative advantages. Comparative advantage is traditionally connected to production factors, such as natural resources and labor costs, so for something that the country possesses a better schedule or quality or to a greater extent than other countries with which is encountered in international trade. Comparative advantage can be understood as something given, more or less of the fixed character, unlike of competitive advantages, which is based on qualitative factors, to which can influence the strategy of the enterprise, as well as macro-economic policy (and it's not thought to

exchange rate of policy). From this point of view, become much more significant ability to combine all production factors and the organization of production process, distribution and placement of the given factors of traditional comparative advantages. At the center of activities, aimed at strengthening the competitiveness of the Serbian economy stands raising of labor productivity. And it is assumed in the first place - it already has been said – increase of investments, ie. their

participation in GDP. Factors that directly contribute to productivity growth are technological advances, the rate of utilization of production capacity, volume and quality of staff, management capability, organization of production, and the way of disposal related to resources and raw materials including energy sources. In Fig. 1 is shown a graphical representation of the level of development of Serbia.

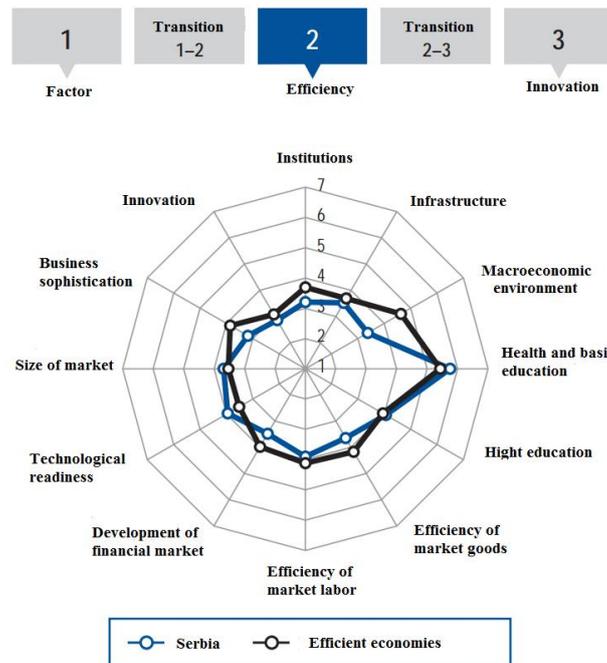


Fig. 1. Level of development of the Republic of Serbia 2013-2014 [21]

TABLE I. POSITION OF THE REPUBLIC OF SERBIA IN THE INDEX OF GLOBAL COMPETITIVENESS [21]

<i>Index of global competitiveness</i>	<i>Rank (out of 148 countries)</i>	<i>Assessment (1-7)</i>
IGK 2013-2014	101	3.8
IGK 2012-2013 (out of 144 countries)	95	3.9
IGK 2011-2012 (out of 142 countries)	95	3.9
Basic requirements (40.0%)	106	4.0
Institutions	126	3.2
Infrastructure	90	3.5
Macro-economic environment	136	3.4
Health and primary education	69	5.7
Improvement of efficiency (50.0%)	92	3.8
Higher education and training	83	4.0
Efficiency of market goods	132	3.6
Efficiency of market labour	119	3.9
Development of financial market	115	3.5
Technological readiness	60	3.9
Market size	69	3.7
Innovation factors and sophistication (10.0%)	125	3.0
Business sophistication	137	3.2
Innovations	112	2.9

In TABLE I are given the comparative values of the competitiveness of Serbia and its positioning in relation to other countries of the world.

Labor costs are the primary factor in competitiveness, particularly in the industry. Labor costs per unit of output depend on the relationship between labor productivity and: a) the amount of compensation for work (wages) and b) other costs related to the basic salary. High labor

costs can be compensated by high productivity and thus preserve the competitive ability of the level that was possibly exist in lower labor costs. However, the problem of these costs will appear whenever their movement differs from the movement of productivity.

Raising the productivity of the Serbian economy on a competitive plane should enable the successful confrontation with polyvalent groups of producers in

foreign markets. The boundaries between the traditional industrial sectors cease to be clearly separated. This is especially evident in the branches of a higher level of technological sophistication. Enterprises operating in the field of telecommunications, information technology, pharmaceuticals, electronics, chemistry - are linked to each other and appear together in various groups and "alliances" creating a specific market structure. The relative level of direct costs of certain factors of production is no longer the primary factor of competitiveness. In modern conditions this role belongs to the structure and quality of education of the workforce, the ability to continually introduce improvements in the manufacturing process, the efficiency of industrial organization, availability to a capable legal and administrative infrastructure, and sufficiently wide range offer of quality products. It is important that all elements to be connected into a single unit that will result in a coherent development strategy. The importance of the aforementioned suggest a data for the countries of the European Union, in which between 75% and 95% of all labor costs in companies belong to the work of the organization and management (engineering, marketing, research and development operations, information technology, accounting and auditing). On the direct labor costs belongs a minimum percentage. In this way, the organizational capacity of individual companies, as well as the economy as a whole, becomes a key factor in the competitiveness of industrial manufacturers.

III. DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES (SME)

SMEs (small and medium size enterprises) will take on a key role in the transformation of the economic structure of Serbia. Their role is particularly pronounced in the service sector and the capital non-intensive activities. Achieving the proper proportion between SMEs and large enterprises is of vital importance in enhancing the competitiveness of the Serbian economy in the long run. Therefore, It would be necessary to perform several synchronized encouraging programs of SMEs. For this purpose, the Chamber of Commerce must take a more active role, which assumes its organizational change and training of the staff.

1)-Encourage the development of SME through the Agency for SME. In this regard, for small and medium enterprises to provide:

- a) – Help in crediting – checking business plans and help in the management of business policies (financial management).*
- b) – Marketing assistance – small enterprises should use these services through outsourcing, and the conditions for exporters to be more favourable.*
- c) - Help in managing human resources (human resources management, HRM) - especially in education (preparation for work, training, recruitment, selection, conducting*

technique). It would be necessary to group several educational programs into a single unit:

- i) -courses of management and sales, marketing, business organization;*
- ii) -courses on the use of new technologies, information technology, logistics;*
- iii) -new ways of financial operations (new financial instruments, new modes to obtain finance, risk management, etc.).*
- d) –Technical assistance in the implementation of export – aid in the realization of complex administrative procedures.*

2)- Encouraging the development of clusters – regional and economic development through the creation of conditions for creation of small and large enterprises in a planned environment.

3)- To stimulate the cooperation of domestic SMEs i TNC (transnational companies) that are invested through FDI in Serbia.

4)Financial programme. Primarily, it refers to improvement of conditions for financing of SMEs which, due to its size, hardly come to banking funding. It requires:

- a) provision of guarantees from the budget for obtaining the necessary bank loans;*
- b) budget co-financing of successful manufacturing, ie. Export solutions; therefore, not companies, but specific products and services (products with high added value, products for market niche, products for certain attractive markets, tourist services, etc.).*

5)Programme for the development of SME networks. Certain SMEs are too small and financially poor to develop a complex development functions (production, logistics, marketing, sales, research); linked to the development network, can obtain in the economic volume and higher efficiency. It requires:

- a)provide a legal basis for easier establishment of SMEs;*
- b)budgetary support;*
- c)legal assistance;*
- d)organizational support;*
- e)assist in export;*
- f) provide funding, except through loans, and entry of capital.*

6)Programme for the development of the quality. It refers for those SMEs which, in their export offer,

have products and services that needs to improve the quality in order to increase sales. This requires:

a. budget co-financing of organizational, manufacturing, technological and other changes needed for the improvement of the quality;

b. increased flow of information from the international market in order to achieve international quality standrad;

c. information base on manufacturing procedures, technological solutions and the like.

According to UNCTAD report, Serbia was the first country in the southeastern region by foreign direct investments with even 2.7 trillion dollars, while behind it is Albanija with 1 trillion dollars, the EU Member States: Slovenia with 999 million, Bulgaria with 1.9 billion dollars, and the newest member of the EU, Croatia with 1.5 billion dollars. In 2012, Serbia has received as many as 29% of total investments in the southeastern region (Fig. 2).

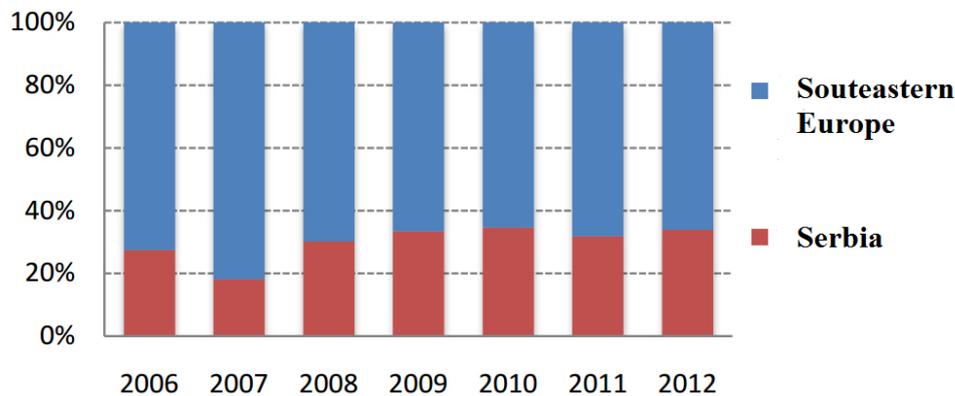


Fig. 2. The share of foreign investments in Southeast Europe and Serbia 2012 [17, 19]

Out of 181 countries ranked by the World Bank, assessing the reforms that they make in order to improve the business environment, Serbia in 2013 was at 101 and in 2008. at the 94th place as compared to 2006, the deterioration of 26 places. From the former Yugoslav Republic, Montenegro takes over, 90th, Macedonia 71st and Slovenia, which in 2006 was only in front of the Serbia at 61st place, takes more, 54th place. So, in addition to the statistical section and rank of countries in a given year, the analysis can be viewed dynamically, in terms of how much a country as compared to the previous year progressed in the World Bank's Doing Business. Dynamic comparison speaks about the past efforts of the public administration to reduce the administrative burden on the economy, simplify procedures, speed up procedures, etc., all with the aim of developing the private sector, of the unconditional holder.

Serbia from 2001 to 2006 achieved an average growth of foreign investments, of which the most visible growth is in 2006 (4.3 billion dollars). However, after 2006, the inflow of foreign investments in Serbia is almost halved (2 billion for 2007, and 2.36 billion for 2008. and about \$ 1 billion for the year 2012) as we can see in Fig. 3.

IV. CONCLUSION

Basically, the question of raising the competitiveness for us refers to a choice between the two development strategies. The first strategy is that with the depreciation of the domestic currency a critical mass of companies «below the line» make it profitable, along with the

strengthening of customs and non-tariff protection (protectionism). This strategy preserves and reproduces caught economic structure. And it is, in our case outdated, mostly compatible with a market of two and a half or three decades ago. Another strategy is based on the market value of the exchange rate and the liberalization of foreign trade. It forces companies that are below the line profitability to increase productivity and efficiency, the change of production programs, to achieve competitiveness in technological progress and quality. Serbia needs to build a modern material and information infrastructure, and to modernize, modernize their enterprises in order to increase this value added per employee. The major part of the industry Serbia reaches only the second level of technological potential, on a scale from 1 to 15. Without the participation of foreign capital our companies can renew their programs on average in the period from 20 to 25 years. Those involving foreign accumulation and management can do for 3 to 5 years. The technical backwardness of our economy compared to the industrial countries of Europe is around 5-6 years of technology, as in the time dimension equivalent to 30-35 years. Investment in modern equipment and production processes is the key prerequisite for improvement of competitiveness and achievement and, on that basis, higher increase of exports. An increase in export revenue is, in turn, the first condition of servicing foreign debt and provide financing for the import of equipment and technology, and that means a condition of economic development in the

coming years. In order to raise the rate of economic growth, and the constant increase in gross domestic product and the standard of employees, Serbia must attain global competitiveness, particularly in the countries of the European Union with which it takes the

largest part of its foreign trade and capital flows and to which it has most of his external debt. Economic policy must develop competitive advantages of Serbian economy, not just comparative advantages.

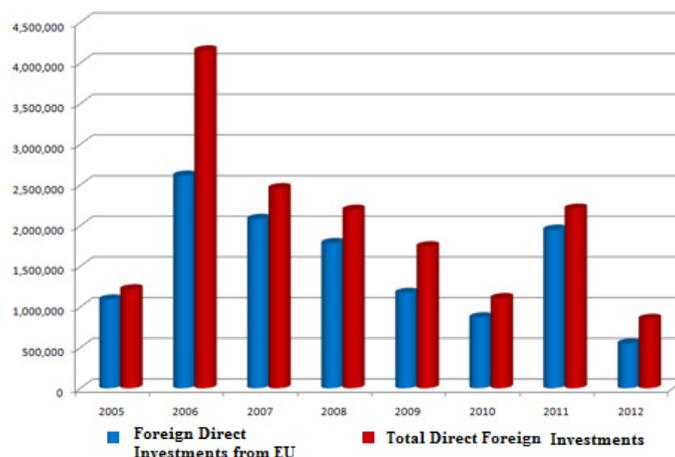


Fig. 3. Presentation of direct foreign investments in Serbia in the period of 2005-2012 [19]

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