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THE IMPORTANCE OF IMPROVING THE COMPETITIVENESS OF THE SMEEs FOR DEVELOPMENT OF THE ECONOMY OF REPUBLIC OF SERBIA

Ivana Kostadinović

University of Niš, Faculty of Economics, Serbia
✉ *ivana.kostadinovic@eknfak.ni.ac.rs*

Marija Petrović-Ranđelović

University of Niš, Faculty of Economics, Serbia
✉ *marija.petrovic@eknfak.ni.ac.rs*

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Abstract: The results of numerous investigations carried out show that the sector of small and medium-sized enterprises and entrepreneurship (SMEEs) represent a significant driving force of economic development of each country and that it is a potential generator of entrepreneurial ideas and innovations. With the intensification of the process of transition after 2000, SMEEs has become a bearer of economic growth and employment and grown into the most dynamic and most efficient segment of the economy of the Republic of Serbia. However, these companies still face many problems in business which is only further underlined by the global financial and economic crisis. The low level of competitiveness of this sector in the Republic of Serbia represents an important limitation of its future development. The main competitive advantage of every modern company accented in its ability to innovate. The advantage of SMEEs, among many others, is reflected in innovation. In general, SMEEs due to their flexibility, as well as a homogeneous structure having a good and an important prerequisite to develop innovation and thus enhance market competitiveness. Regarding their flexibility, it is particularly evident in periods of slow or stagnant economic activity and crises. Therefore, the main direction of development of the SME sector is an innovative approach to real market needs. Providing that, the aim of this paper is to contribute to a clearer understanding of the role and importance of SMEEs for economic development of the Republic of Serbia, as well as to point out the importance of improving the competitiveness and innovativeness of this sector bodies for the future economic development of the national economy.

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1. Introduction

In the last decade of the 20th century, the small and medium enterprises sector, due to a significant increase in economic activity, has taken a prominent place in the development agenda of many countries, especially developing countries and countries in transition. Today, rightly points out that small and medium-sized enterprises represent a promoter of economic development. Specifically, they promote private ownership and entrepreneurial skills and contribute to a significant improvement of national competitiveness. According to many economists and experts, SMEEs are synonymous for the private sector and in the figurative sense of entrepreneurship. Their comparative advantage lies in its flexibility and ability to quickly adapt to change and to satisfy the growing demand on the market. It strengthens the economy in several ways: they are directed to specific parts of the market and consumers, respond more quickly to opportunities and threats from the environment, they are an important source of entrepreneurial ideas and innovations, they are the largest generators of job creation and thanks to the development of the Internet and telecommunications, increasingly contribute to the further globalization of business.

As an advantage of small and medium-sized enterprises, we should, certainly, point out the possibility of meeting specific or occasional needs for some products whose production is small-scale and the possibility of faster and more efficient operation of large enterprises, when it comes to changes in organizational structure in relation to the dynamic market trends of products and services. On the other hand, the weaknesses of small and medium-sized enterprises are reflected, primarily, in the lack of resources necessary for business. As the main and the most important obstacles to the development of small and medium enterprises, in the domestic market, are the following: lack of knowledge and lack of adequate institutional infrastructure, and a lack of financial resources.

In 2003, the Republic of Serbia joined the European Charter for Small Enterprises. The European Charter for Small Enterprises gives the basic guideline for the development of the SMEEs sector, and their concretization, apropos the commitment to move from guidelines to targeted activities is contained in a document entitled "Small Business Act for Europe" (European Commission), adopted in 2008.

The Serbian government adopted several strategic documents related to the SMEEs sector. It is noteworthy that the last strategy, the strategy of development of the competitive and innovative small and medium-sized enterprises, for the period from 2008 to 2013, through the annual action plan for the first time binding targets for budget funds, although in practice, budgetary planning annually, still insufficiently follows the strategic guidelines of this or any other national strategy. This strategy is in line with the European Charter for Small Enterprises and the Small Business Act.

In accordance with the laid goal, after introductory remarks, in the first part of this paper the attention will be focused on explaining the role and importance of small and medium-sized enterprises for the development of the Serbian economy. After that, it will be analyzed and provides the assessment of the development of this sector in the Republic of Serbia. Furthermore, we will discuss the competitiveness of the SMEEs sector in the Republic of Serbia, and then about the importance of raising the innovation of this sector as a determinant of improving its competitiveness. In conclusion of the paper the synthesis of considerations will be performed.

2. The Role and Importance of SMEEs in the Economy of the Republic of Serbia

In the EU, the SMEEs sector plays a key role in generating entrepreneurial knowledge, innovation and employment. In the Republic of Serbia, which follows the path of European integration, the SMEEs sector is recognized as one of the pillars of economic development, due to the achievement of macroeconomic stability, the creation of an enabling business environment, and building a system for stimulating the development of this sector. The dynamic development of the SMEEs sector to some extent contributed to the achievement of positive macroeconomic results. “It is estimated that in 2008, SMEEs accounted for 35% of the GDP of the Republic and 43.2% in total employment. SMEEs foreign trade activity in 2008 was 45.5% of exports and 59.3% of imports of the Serbian economy. This sector (303,449 businesses) are in, 2008 achieved 66.6% of total turnover, 59.1% of gross value added and 58.7% of the profits of the non-financial sector. However, we emphasize the importance of the entrepreneurial sector bodies to reduce social tensions, and the continuous increase in the number of employees” (Republički zavod za razvoj, 2010, p. 30).

The slow development of the entrepreneurial sector after 2008 is one of the manifestations of negative consequences of the global financial and economic crisis on the Serbian economy. The deterioration of the business environment for companies (reduction of external and internal demand, investment, and increase the risk of the investment cost, as well as fear of failure) has affected the dynamics of the ebbing of the implementation of structural reforms and overall economic activity. “The rate of survival of newly established SMEEs reduced from 71.9% in 2007 to 61.7% in 2010. During 2011, every month about 3,400 entrepreneurs established new own companies (5,000 per month in 2007). From the second quarter of 2011 there are clear signs of the so-called “W effect” – renewal of the recession on the global level and in Serbia. Consumer demand has been further reduced, further loss of business confidence has negatively influenced the availability of financial support, which is essential to limit the creation of new and development of existing enterprises and shops. The impact of the global economic crisis adversely affected both the economic operators in early stage of the business, as well as the more established companies – here are fewer business opportunities and more difficult is to start a business, as an entrepreneur caused an increase in the fear of failure and lower expectations of results started a business venture". (Ministarstvo regionalnog razvoja i lokalne samouprave, 2012, p. 38).

Table 1 - Macroeconomic Balance of the Republic of Serbia, 2001 – 2012.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP, bil EUR	12,8	16,0	17,3	19,0	20,3	23,3	28,5	32,7	28,9	28,0	31,5	29,9
GDP, real growth in %	5,3	4,3	2,5	9,3	5,4	3,6	5,4	3,8	-3,5	1,0	1,6	-1,7
Inflation, end of period	40,7	14,8	7,8	13,7	17,7	6,6	10,1	6,8	6,6	10,3	7,0	12,2
Exchange rate of RSD/EUR period average	59,78	60,69	65,12	72,69	82,99	84,11	79,96	81,44	93,95	103,04	101,95	113,13
The current account deficit, in % GDP	2,2	-4,2	-7,8	-13,8	-8,8	-10,1	-17,7	-21,6	-6,6	-6,7	-9,1	-10,5
SDI, % GDP	1,4	3,1	6,9	4,1	6,2	14,3	6,4	5,6	4,7	3,1	5,8	0,8
Reserves NBS, bil EUR	1,3	2,2	2,8	3,1	4,9	9,0	9,6	8,2	10,6	10,0	12,1	10,9
Fiscal deficit, % GDP	0,0	-3,3	-1,1	0,9	1,1	-1,6	-2,0	-2,6	-4,5	-4,7	-4,9	-6,4
Public debt, % GDP	105,2	72,9	66,9	55,3	52,2	37,7	30,9	29,2	34,7	44,5	48,2	59,3
External debt, % GDP	85,5	58,7	55,9	49,8	60,1	60,9	60,2	64,6	77,7	84,9	76,7	85,9
Private external debt, % GDP	5,5	4,8	6,7	11,5	21,2	32,6	38,1	44,6	50,8	52,5	42,4	45,2

Source: RZS, NBS, MFP, MRRLS – research

Despite the fact that since 2009, the extensive measures of recovery of the domestic economy from the consequences of the crisis have been taken, it could be concluded that the instability of the macroeconomic environment for business has multiple negative consequences for the SMEEs sector in the Republic of Serbia. The rate of GDP growth after a record low value of -3.5%

in 2009, entered in barely positive developments during 2010 and 2011, while in 2012 took a negative connotation due to the stagnation in the economy. During 2012, the Republic of Serbia recorded negative trends of key macroeconomic indicators: it recorded a fall in GDP in comparison to 2011 and the rate of GDP growth entered in the zone of negative developments. In addition, smaller financial investments (17.9% of GDP) resulted in the decrease in production volume, and consequently a drop in trade turnover. As for exports, it increased by 4.5%, due to the export of extremely current automotive industry. 2012 was also marked by higher unemployment rate (24.6%), which caused more compelling problems in the economy and society.

According to the latest report on small and medium enterprises and entrepreneurship for the 2012, the basic positive business trends of the SMEEs sector, in regard with 2011 are: (Ministarstvo regionalnog razvoja i lokalne samouprave, Nacionalna agencija za regionalni razvoj, 2013, p. 8)

- An increase in business activity – turnover in real terms increased by 1.5%;
- Dynamic growth of exports (15.7%) and take a leading role in the export of non-financial sectors of the economy (the share of 51.1%) and held satisfactory coverage of imports by exports above (a rate of 51.3%);
- Achieved above average growth rates of GVA (3.2%) and earnings (6.5%) compared to the non-financial sector (2.1% and 4.3% respectively);
- An increase in productivity, which in part can be attributed to the reduction of employment. The achieved growth rate of GVA per employee by 3.8%, as compared to the non-financial sector (2.4%) and large enterprises (0.4%);
- The above-average earnings growth – 6.5% versus 4.3% in the non-financial sector and 2.1% in large enterprises; and
- Weakness degree of decrease in the total number of companies and businesses, the relationship between the number of established and closed companies is much more favorable than in the previous year (1.2: 1 versus 0.6: 1), although it retained an unfavorable net effect of the establishment of new operations (0, 9: 1).

In addition to the positive, there are some negative trends that certainly affect the business of small and medium enterprises, among which stand out in importance: (Ministarstvo regionalnog razvoja i lokalne samouprave, Nacionalna agencija za regionalni razvoj, 2013, p. 8)

- Reduction of employment in the SMEEs sector by 0.6% (to 4,847 workers);
- Reducing the number of active business entities at the end of 2012 by 1.3% compared to the end of 2011 (for 4,287 companies and shops);
- Above average increase in foreign trade deficit (20.6%) and imports (18%), which led to an increase of the total non-financial sector deficit from 66.7% to 74% respectively;

- At the end of 2012 the number of active business entities was 1.3% lower (for 4,287 companies and shops);
- Reserved unfavorable tendency of sectoral concentration of SMEEs with the absolute domination of the processing activities and wholesale and retail;
- Regional disproportions are still exaggerated – the level of development of the SMEEs sector measured by GVA per employee indicator in the City of Belgrade in relation to the underdeveloped Pčinjski area is 2.3: 1.

In general, during 2012 the economy of the Republic of Serbia faces major macroeconomic problems (decrease in exports and imports, rise in inflation, a decline in employment, the decline in economic activity, a slight increase in wages, the weakening national currency), which are predominantly caused negative developments in the SMEEs sector. Serbia's entry into the recovery phase after a crisis requires the application of the model of economic growth, based on the revival of industrial production, stimulate exports and investment. It should be noted that the model must be supported by measures of industrial, monetary and fiscal policy.

Table 2 - Indicators of SMEEs' Development

	SMEEs		**Large**		**Non-financial sector**		**Participation of SMEEs in %**	
	2011	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
Number of companies	319.304	317.162	498	506	319.802	317.668	99,8	99,8
Number of employees	786.873	782.026	418.404	420.019	1.205.277	1.202.045	65,3	65,1
Turnover (bil. rsd.)	5.200.832	5.689.666	2.738.749	3.011.466	7.939.582	8.701.131	65,5	65,4
GVA (bil.din.)	878.245	977.088	712.483	774.252	1.590.729	1.751.340	55,2	55,8
Export (bil.din.)	400.015	498.886	424.975	477.500	824.990	976.386	48,5	51,1
Import (bil.din.)	765.047	973.376	606.815	644.240	1.371.862	1.617.616	55,8	60,2
Commodity balance (bil. rsd.)	-365.032	-474.491	-181.840	-166.740	-546.872	-641.231	66,7	74,0
Investments (bil.rsd.)	216.101		259.241		475.342		45,5	

Source: MRRLS – research

After unfavorable and turbulent changes caused by the global economic crisis, a mild recovery in economic activity in 2012 is reflected in the SMEEs sector, which really increased the value of most indicators. Compared to 2011, in 2012 there was a profit growth, growth in exports, imports, GVA and traffic, and a fall in employment (by 0.6%).

Table 3 - Business Indicators of SMEEs in 2012 by Enterprise Size

	Micro		Small		Medium		SMEEs	
	value	%	value	%	value	%	value	%
Number of companies	305.321	96,3	9.699	3,0	2.142	0,7	317.162	100
Number of employees	361.311	45,2	196.492	25,1	224.223	28,7	782.026	100
Turnover (bil.rsd.)	2.237.978	39,3	1.769.859	31,1	1.681.829	29,6	5.689.666	100
GVA (bil.rsd.)	375.081	38,4	280.026	28,7	321.980	32,9	977.088	100
Employment per company	1,2		20,3		104,7		2,5	
Earnings per company (thousnds rsd.)	727		769		888		784	
Turnover per company(bil.rsd.)	7,3		182,5		785,2		17,9	
GVA per company (bil.rsd.)	1,3		28,4		150,3		3,1	
Export (bil.rsd.)	114.646	23,0	142.997	28,6	241.243	48,4	498.886	100
Import (bil.rsd.)	248.402	25,5	367.734	37,8	357.241	36,7	973.376	100
Commodity balance (bil.rsd.)	-133.757	28,2	-224.736	47,4	-115.997	24,4	-474.491	100
Coefficient export/import		46,2		38,9		67,5		51,3

Source: MRRLS – research

The SMEEs sector has maintained high participation in the formation of the basic indicators of non-financial sector of the Serbian economy (Republički zavod za razvoj). The SMEEs sector generates about 2/3 of employment, turnover, GVA and imports and around 50% of exports, profits and investment of non-financial sector. It is estimated that in 2012, the SMEEs sector accounted for about 34% of GDP of the Republic. Looking companies by size, it could be concluded that there was no drastic change compared to the previous year. The most numerous are still micro enterprises (305,321) in the SMEEs sector, while small and medium enterprises have a dominant position (see Table 3), observed by key performance indicators (53.8 in employment, 61.6% of GVA, 60.7% of turnover, 74.5% of imports, 77.0% of exports).

Key business indicators in 2012 indicate that, there are large development problems despite the great impact of the SMEEs sector on the overall economic development. The most important being: unfavorable structure with insufficient and the low level of development of medium-sized enterprises as an engine of development, limited production and economic resources, low competitiveness and insufficient participation in international markets, as well as the extremely unfavorable structure of SMEEs by sectors. It should also be noted that in 2012 the number of medium-sized companies has been reduced, and there was recorded decrease in the number of employed persons in those companies, which was far more pronounced than in other companies.

3. SMEEs Business in the Republic of Serbia – State Assessment

During the past period, the number of SMEEs has increased slightly, which are becoming increasingly competitive in the market. The SMEEs are oriented to smaller sections of the market, and thus to certain consumers, who have a growing demand in the market. They quickly adapt to changed business conditions, quickly recognize and react more quickly to potential threats, but also to the potential.

The key question is any changes that occurred in the SMEEs sector and how the Republic of Serbia has made progress in this field. According to data from Table 4, it is evident that in 2012 stopped the negative trend of decreasing profits and profitability. Namely, in 2012 the SMEEs sector got 364.1 billion dinars or 52% of the non-financial sector (700.5 billion dinars). The largest part of the profit sector was realized in small enterprises – 35.4%, or 18.4% of profit of non-financial sector, while the micro and medium enterprises created 30.9% and 33.7%. (Nacionalna agencija za regionalni razvoj, 2013, p. 34).

Table 4 - Profit and Profitability Levels in 2012 by Enterprise Size

	Micro	Small	Medium	Total SME	Large	Non-finan. sector
Profit (mil. rsd)	**112.363**	**128.880**	**122.894**	**364.138**	**336.361**	**700.500**
Profit sharing SME, in %	30,9	35,4	33,7	100,0	-	-
Profit sharing of non-financial sector, in %	16,0	18,4	17,5	52,0	48,0	100,0
Profitability	**30,0**	**46,0**	**38,2**	**37,3**	**43,4**	**40,0**
Level of profitability (profitability SME = 100 index points)	80,4	123,5	102,4	100,0	-	-
Level of profitability (profit. of non-financial sector = 100 index points)	74,9	115,1	95,4	93,2	108,6	100,0

Source: MRRLS – research

Great influence on the profit the SMEEs sector has in all sectors of the non-financial part of the economy, except Mining, Electricity, Gas and Steam, Water Supply and Management, Wastewater Management, Information and Communication and Arts, Entertainment and Recreation, where large companies have a considerably higher share of profit.

Table 5 - Sectoral Profitability of SMEs in 2012

Sectors	Profit of SME Es(mil. rsd.)	Profit sharing SMEEs (%)	Profit sharing of non-financial sector (%)	Profitability	Level of profitability (profitability SMEEs = 100 index points)	Level of profitability (profitability of nonfin.sector = 100 index points)
Trade	116.634	32,0	16,7	43,3	116,1	108,3
Manufacturing	99.166	27,2	14,2	39,9	107,0	99,8
Construction	31.499	8,7	4,5	38,9	104,3	97,3
Traffic	26.084	7,2	3,7	38,5	103,2	96,3
Agriculture, forestry and fisheries	23.763	6,5	3,4	57,2	153,4	143,0
Professional, scientific and innovation tech.activities	19.540	5,4	2,8	21,9	58,7	54,8

Source: MRRLS – research

Table 6 - GVA of the Non-Financial Sector in 2012 by Size and Form of Organization of Business Entities

Form of organisation	SMEEs	Large	Total	
	in bil. rsd	in bil. rsd	in bil. rsd	structure (%)
Companies	765,4	774,3	1.539,7	87,9
Entrepreneurs	211,7		211,7	12,1
Total	977,1	774,3	1.751,3	100,0
Structure (%)	55,8	44,2	100,0	

Source: MRRLS – research

Table 7 - Derivative Indicators of GVA, 2011-2012

	GVA per companies		GVA per employee		GVA/turnover	
	Thousands. rsd.	Growth rate 2011-2012 (%)	Thousands rsd.	Growth rate 2011-2012 (%)	in %	Growth rate 2011-2012 (%)
Micro	1.228	3,6	1.038	2,3	16,8	1,6
Small	28.872	1,6	1.425	1,6	15,8	-1,0
Medium	150.318	8,3	1.436	8,3	19,1	4,5
SMEEs	3.081	3,9	1.249	3,8	17,2	1,7
Large	1.530.142	-0,8	1.843	0,4	25,7	-1,2
Total	5.513	2,8	1.457	2,4	20,1	0,5

Source: MRRLS – research

In 2012, SMEEs have registered a slight increase in the volume of activity. According to data from Table 6, it can be concluded that in the non-financial sector of the Serbian economy in 2012 recorded 1.751 billion dinars of GVA (5 mil. per enterprise). The SMEEs sector realized 977 billion GVA dinars or 55.8%

of GVA of the non-financial sector. Compared with 2011, the share of SMEEs in creating GVA non-financial sector increased by some 0.6 structural points.

Looking at indicators of productivity, it could be concluded, that the most favorable are those for large enterprises. The GVA per enterprise and GVA per employee are far higher than the average SMEEs and non-financial sector. Compared to 2011, in the SMEEs sector real value of GVA per enterprise is 3.9% to 2.8% in the economy, while GVA per employee 3.8% to 2.4%, which directly leads to the conclusion that there has been an increase in the value of GVA of the SMEEs sector.

4. Competitiveness of the SMEEs Sector

The Serbian government has adopted a number of strategic documents to support the development of small and medium enterprises. The strategy of development of competitive and innovative small and medium-sized enterprises for the period 2008 to 2013 the annual action plan for the first time binding defined targets for budget funds. The aim of the Strategy is to develop entrepreneurial economy based on knowledge and innovation, which creates a strong, competitive and export-oriented SMEEs sector, but also contributes significantly to the rise in living standards in the Republic of Serbia. Its application in the coming period should allow the creation of more efficient and flexible business environment of small and medium-sized enterprises, balance the number of SMEEs and encouraging faster development of the sector. In addition, the Strategy is fully harmonized with the Law on Small Businesses (Small Business Act), the document adopted by the European Commission in June 2008.

Table 8 - Serbia's Position on the Scale of Global Competitiveness in Relation to Selected Countries in the Region, 2010-2014

	2010		2011		2012		2013		2014	
	GCI rank	mark	GCI rank	mark	GCI rank	mark	GCI rank	mark	GCI rank	mark
Albania	88	3,9	78	4,1	98	3,9	95	3,8	97	3,8
Croatia	77	4,0	76	4,1	81	4,0	75	4,1	77	4,1
Bulgaria	71	4,1	74	4,1	62	4,3	57	4,3	54	4,4
Hingary	52	4,3	48	4,4	60	4,3	63	4,2	60	4,3
FYR Macedonia	79	4,0	79	4,1	80	4,0	73	4,1	63	4,3
Montenegro	79	4,4	60	4,3	72	4,1	67	4,2	67	4,2
Romania	67	4,2	77	4,1	78	4,1	76	4,1	59	4,3
Serbia	96	3,8	95	3,9	95	3,9	101	3,8	94	3,9

Source: The World Competitiveness Report, various years (2010, 2011, 2012, 2013, 2014)

Table 8 gives a comparative overview of the position of Serbia on the scale of global competitiveness relative to the countries in its environment (Albania, Bosnia and Herzegovina, Croatia, Greece, Hungary, Macedonia, Montenegro, Romania, Slovakia and Slovenia) for the period from 2007 to 2013.

It should be noted that, in relation to selected countries in the region, Serbia is lagging behind in terms of competitiveness. This observation is confirmed by the fact that throughout the period the Republic of Serbia at the very bottom, both in terms of GCI ranking, and in terms of its value. Certainly improving the position of the Republic of Serbia on the scale of global competitiveness is noticeably in 2014, since there has been a shift in the rank of 7 positions up compared to 2013.

According to research by the World Economic Forum, Serbia is the least competitive country in the European continent. The causes of uncompetitiveness of the Serbian economy lie precisely in its slow modernization and restructuring. One of the most important determinants of competitiveness is investment in education, because the success and development of the enterprises, and the economy depends on the intellectual abilities that a country possesses. Underdeveloped Serbian SMEEs sector did not get along in the new circumstances. (Ministarstvo regionalnog razvoja i lokalne samouprave, Nacionalna agencija za regionalni razvoj, 2013, p. 44)

Competitive advantages are, in contrast to the comparative advantages, based on the entrepreneurial environment, education, structure, quality of production and infrastructure, which in some way provides an opportunity for the growth of productivity, exports and investments. It is necessary to identify the key factors that will stimulate the restructuring of the real sector and that will increase the overall competitive potential of Serbia. It should be taken into account that certain companies manufacturing industry managed to improve its production capacity, change the organizational structure and way of doing business and enterprise management, introduce the necessary standards required in developed countries and increase their export potential, which certainly require large investments. It is precisely such companies are recording high growth rates of GVA and managed to engage in market competition.

It is evident that the retention unchanged competitiveness level of SMEEs productivity growth must be high enough to compensate for the growth in real wages and the appreciation of the currency. For this reason, one of the strategic tasks of the authorities in the next period relates to the conduct of such a policy which will provide strong support to the development and improvement of competitiveness of the SMEEs, as well as sources of economic growth, job creation and sustainable development of the Serbian economy. In addition, improving the competitiveness of the SMEEs sector is an important link in the process of European integration of the Republic of Serbia, and a prerequisite for meeting the Copenhagen criteria which relate to the ability of a candidate country to withstand competitive pressure and market forces within the EU.

Table 9 - The Main Business Indicators for the SMEEs Sector in Selected EU Countries and in the Republic of Serbia in 2012

	EU	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovenia	Republic of Serbia	
	2012							2011	2012
Number of companies, in 000	20.703,2	310,5	938,9	570,3	1.393,4	530,2	106,7	319,3	317,2
Number of employees, in 000	87.477,0	1.457,6	2.381,7	1.795,9	5.498,5	2.692,1	413,3	786,9	782,0
Turnover, in bil. EUR	12.464	72,8	248,3	152,5	441,0	129,4	52,1	51,0	50,3
GVA, in bil. EUR	3.587,5	11,4	46,6	25,6	86,3	25,4	11,3	8,6	8,6
No. SMEs per 1.000 population	41,2	42,4	89,4	57,4	36,1	24,8	51,9	44,4	44,1
No. of employees. per company	4,2	4,7	2,5	3,1	3,9	5,1	4,0	2,5	2, 5
Turnover per employee in 000 EUR	142,5	50,0	104,3	84,9	80,2	48,1	126,0	64,8	64,3
GVA per employee. in 000 EUR	41,0	7,8	19,6	14,3	15,7	9,4	27,2	10,9	11,0
SME PARTICIPATION IN NON-FINANCIAL SECTOR									
Number of companies	99,8	99,8	99,9	99,9	99,8	99,7	99,8	99,8	99,8
Number of employees	66,8	75,7	69,8	72,8	68,0	67,2	70,5	65,3	65,1
Turnover	59,1	69,5	60,7	59,9	58,1	60,3	65,0	65,5	65,4
GVA	58,3	61,9	55,7	53,8	51,6	52,4	62,8	55,2	55,8

Source: MRRLS – research based on data from EUroStat, dG enterprise and Industry i P3C.

Comparative overview of the business of the SMEEs sector in Serbia and selected EU countries, on the basis of which can be derived estimates of the level of competitiveness of this sector in Serbia and define the priority directions of activity, is given in Table 9.

It should be noted that the SMEEs sector of the Republic of Serbia by participation in a number of companies and employment, and generated turnover and GVA, is at the level of the EU average. However, this sector is far below the EU average, if we look at turnover per employee, GVA per employee and profit per employee.

Whereas in 2012 the Serbian economy entered a new recessionary phase, in accordance with such tendencies, it was not a surprise that there was a decrease in the number SMEEs, compared to 2011. In 2012, 8648 were established (about 2% more than in 2011), and 7,388 shut down (about 45.6% less than in 2011). In addition, in 2012 there was a trend concerning reduction of the establishment of new stores, (established 30.206 new stores representing a decrease of 8.7% compared to the previous year), and a declining trend in shutdown of new stores (extinguished 33.071, or about 6.2% less than in the previous year). The net effect, i.e. ratio of the number of established and closed enterprises in 2012 is more favorable in comparison to the previous year and amounted to 1.2:1. For example, in 2007, on every 6 established enterprises slaked the existing one, and in 2011 this ratio was 0.6:1. The net effect of establishing new stores in 2012 is at the level of the previous year (0.9:1), although it is noticeable that the net effect shows the weakness per year, although slower (in 2007 on every 10 stores that have ceased to operate established 15 in 2011 and 2012. 9 new stores). Besides that, in 2012, 44.1 SMEEs were operating on every 1000 inhabitants, which is far above the EU average (41.2%), and higher than in Bulgaria (42.4%), Poland (36.1%), Romania (24.8%). However, from the aspect of the development needs of the country the number of SMEEs per capita is insufficient to become a generator of new jobs and new businesses, and thus a factor mitigating the social tensions in the economy of the Republic of Serbia.

For the development and improvement of competitiveness of small and medium-sized enterprises the economic crisis is “responsible” also. Very interesting is the fact that the recession may be seen as an opportunity for entrepreneurship and establishing advantages over on weaker competitors, because it changes people's consciousness, but the company seems more open to change. In fact, in such conditions, stimulate the development of ideas for new products and production methods and inspires entrepreneurs to introduce these ideas to market.

5. Innovation as a Determinant of Improving SMEEs Competitiveness in the Republic of Serbia

Increasing the competitiveness of the SMEEs sector greatly depends on the level of innovative activity. Innovation, as defined in the EU, is the application of new or significantly improved products, processes or services, marketing or a new organizational method in business, organized labor and relations of businesses with the environment.

Innovation is a necessary factor of development. In fact, it always leads to new solutions, new ideas, new forms of business, particularly in the SMEEs sector. The main competitive advantage of every modern company is reflected in its ability to innovate their own business. In general, innovation companies has resulted in an advantage over the competition, and achieved competitive advantage has resulted in an increase in profits, which is the primary goal of every modern company.

Every company must have an organized and applicable development that will result in new innovative product or service that is competitive in the market. Very often innovations require much less investment and achieve much greater results. Entrepreneurs need to think about new processes, new ways of working, as well as new products, especially in times of crisis and transition. Their aim is not only, to survive in the market, but with lower price and higher quality products or services, enhance the existing market position. In this way, they will get new ideas, new businesses, which will bring new jobs. The future of SMEEs is just in business development based on knowledge. A company that is able to offer a quality resource of intellectual capital will surely find partners in the market. The most wanted goods and services are the one based on innovations and knowledge.

Under the innovation involves the “novelty that is inserted in the existing situation”. By the nature and extent of the novelty, it may be manifested as a substitute and as reconstruction (amendment). In any case, it is the change of the former and the introduction of new, which covers the future of the existing reality. (Ožanić, 1989, p. 21)

What should be emphasized is that the process of innovation begins with an idea that turns into a proposal, and the proposal becomes a plan. Further, when an idea turns into a plan, performing detailed business plan in what may well be invested. The investment, when it realized augments the value of organization and brings higher profit, which represents the main goal of the whole process.

P. Drucker all causes of innovation is classified into seven groups: (Drucker, 1991, p. 62)

1) An unexpected: success, failure and external event,
2) The discrepancy between the current and normative reality,
3) The need caused by some process,
4) Changes: in the structure of the economy or the market,
5) Demographic trends,
6) Changes: in perceptions, moods and meanings and
7) New: scientific and unscientific information.

The low level of innovation is one of the key factors of insufficient competitiveness of the SMEEs sector in the Republic of Serbia. This observation is confirmed by the low ranking of the Republic of Serbia according to the GEI. “Global Entrepreneurship Index provides a detailed view of the nation's entrepreneurial ecosystem, combining individual data for the institutional components... This composite index of individual and institutional data for each country represents a useful tool for economic policy makers to understand the entrepreneurial strengths and weaknesses of their economies and providing nevertheless to them to implement the policies that encourage productive entrepreneurship”. (Ács, Szerb, Autio, 2014, p. 2) GEI represents a composite index based on 14 pillars which are grouped into three sub-indices, also called 3A:

1. *Entrepreneurial inclinations*,

- observation capabilities,
- skills for starting a business,
- acceptance risks,
- connection,
- cultural support,

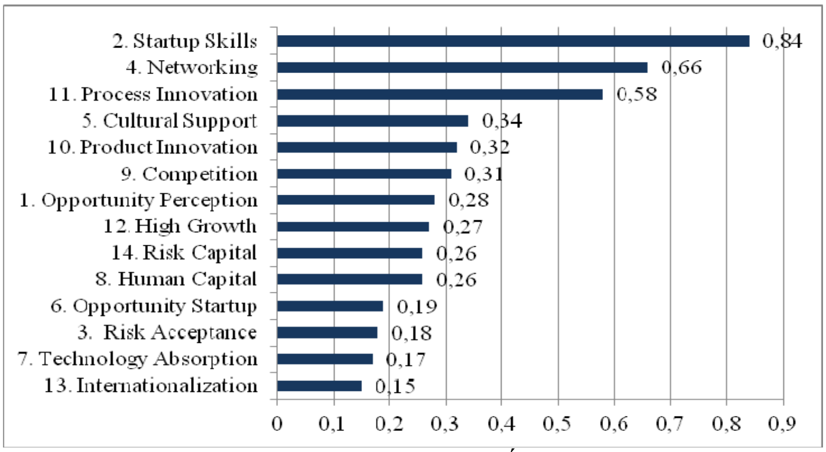
2. *Entrepreneurial skills,*

- opportunities for starting a new job,
- the adoption of technology,
- human capital,
- competition,

3. *Entrepreneur aspirations,*

- product innovation,
- innovation process,
- high growth,
- internationalization,
- capital risking.

Figure 1 - Appraisal of GEI Pillars from Best to Worst



Source: Own graphical representation according Ács, Szerb, Autio, 2014, p. 228.

According to data from the Report on the Global Entrepreneurship Index 2015, in 2014 the Republic of Serbia ranked to 78th place in the group of 130 countries covered by this report, and on the penultimate 38th place in a group of 39 European countries. According to this international indicator of the quality of entrepreneurship and innovation, which is largely determined by individual and institutional factors, the Republic of Serbia has a comparative advantage in skills that have beginners in business, since in this segment recorded the highest values. However, insufficient level of internationalization of SMEE sector, low level of introduction of new technology, less inclined to take risks and not enough opportunity to start new companies are quoted weaknesses identified much lower ranking of the Republic of Serbia among the countries of the region and the world.

Table 10 - GEI Rank of the Republic of Serbia and National Competitiveness

	2010	2011	2012	2013	2014
GEI rank	62	80	81	69	78
GCI rank	96	95	95	101	94

Source: Global Entrepreneurship Index, various years, and The World Competitiveness Report, varous years

Table 11 calculates the Spearman rank correlation coefficient for the Republic of Serbia according GEI and GCI, which indicate an inverse relationship between the two. The correlation is not statistically significant because of the realized level of significance (Sig. (2-tailed)) greater than 0.05. However, it should be borne in mind that due to the limited availability of data is taken a shorter time period for determining the correlation and that in practice confirmed that between these two indicators are relations of mutual connection and mutual dependence.

Table 11 - Correlation

			GEI	GCI
Spearman's rho	GEI	Correlation Coefficient	1.000	-.564
		Sig. (2-tailed)	.	.322
		N	5	5
	GCI	Correlation Coefficient	-.564	1.000
		Sig. (2-tailed)	.322	.
		N	5	5

Source: Author's calculations based on data from Table 10.

Analyzing the competitive position of the Republic of Serbia using Porter's model of competitiveness, it is possible to identify key competitive advantages and disadvantages based on data from the last report on global competitiveness for the period 2014-2015. (Schwab, 2014) First, in 2014 compared to 2013 the value of GCI for the Republic of Serbia increased by 0.1. Unlike 2013, where the decline in value of GCI 0.1 in relation to 2012 considered significant, since the value of GCI located at the historical minimum in the period from 2007 to 2013, in 2014 GCI value is increased to 0.1. This led to the displacement rank the Republic of Serbia to scale up the global competitiveness of 7 positions (from 101th to 94th place). By comparing the values of the indicators of global competitiveness and their rank in the previous two years, it might be concluded that there has been some improvements in the quality of the business environment, since all indicators followed an upward trend.

Second, based on the level of annual GDP per capita data and the methodology of the World Economic Forum, Serbia with US $ 7,787 GDP per capita in 2014 (International Monetary Fund) ranks among the efficiency-driven economy, so it is logical to assume that the competitive disadvantages most pronounced in the third, the conditions of demand, especially in the fourth component of Porter's diamond, related and supporting activities. Key competitive disadvantages in this segment continues to refer to the low level of cluster development (115th place), and therefore the scope of innovative activities, which is reflected in the capacity for innovation (130th place) and the company's investment in research and development (125th place), and insufficient public procurement of advanced technology products (122th place).

Numerous studies just confirm that entrepreneurial performance vary significantly depending on the phase of development which is in one country. Thus, entrepreneurial performance efficiency-driven economies differ significantly from the innovation-driven economy "in all indicators except one. The exception is the potential for the perception of opportunities". (Acs, Szerb, 2010, p. 22) Besides that, the "factor-driven and efficiency driven countries have many similarities in terms of entrepreneurship indicators, but the differences are the greatest in the case of indicators of entrepreneurial inclinations. This indicates that the development of entrepreneurial tendencies of significance to those countries that are in the transition from factor in the efficiency-driven stage of the economy... The biggest difference between countries that are in the second and third stage refers to the new products, internationalization and risk capital". (Acs, Szerb, 2010, p. 22) This statement confirmed also the appraisals of GEI pillars for the Republic of Serbia (see Fig. 1).

6. Conclusion

Joseph Alois Schumpeter, more than one hundred years ago, pointed out that entrepreneurship is essential to the understanding of economic development. Today, despite the global recession, entrepreneurship is experiencing a renaissance in the world. The dynamics of the process is quite different depending on the institutional context and level of development of an economy. (Acs, Szerb, 2010, p. 2)

The SMEEs sector is now considered the backbone of growth and development of the national economy, since it achieves the largest contribution to the increase in employment, GVA and turnover. For countries in transition, the development of this sector is particularly important, since the absorption of surplus labor force, as inevitable consequences of transition and ownership transformation of state and socially-owned enterprises, performs an important social function and contributes to reducing social tensions. SMEEs have a number of advantages, both in terms of size and flexibility, as well as in terms of preferences for innovative and high-risk business ventures, and greater opportunities for specialization. These advantages allow them easily and quickly from large business systems adapt to continuous changes in consumer demands and modern, turbulent conditions in the global market.

Encouraging the development of the SMEEs sector is defined as one of the priorities of the economic policy of the Republic of Serbia at the start of transition and reform process. In line with this commitment, the SMEEs sector is to a significant extent determined the dynamics of economic growth in the Republic of Serbia in the period from 2001 to 2008. During this period, all business indicators of SMEEs recorded an upward trend, apropos a dynamic growth in employment, gross value added and exports is recorded. In the period after the effectuation of the negative consequences of the global financial and economic crisis on the Serbian economy is obviously slowing down the development of the entrepreneurial sector, which, along with the deterioration of the business environment for business entities influenced the dynamics of the ebbing of the implementation of structural reforms and overall economic activity. After unfavorable changes caused by the global economic crisis, the SMEEs sector is seen a slight recovery in economic activity in 2012, since it saw an increase in the value of most indicators.

However, lack of competitiveness remains a key constraint on the development of the SMEEs sector and preventing full absorption of the developmental benefits of this sector for the economy of the Republic of Serbia. In addition, the results of a field survey of the situation, needs and problems of small and medium sized enterprise and entrepreneurs (SMEEs) in the Republic of Serbia in 2012, show that "SMEEs respondents are not as dedicated to innovative business, which is very unfavorable in terms of the necessary increase in the competitiveness of the sector... only every fifth company runs its own innovative activities, and every sixth realizes innovative collaboration with other companies or institutions." (Nacionalna agencija za regionalni razvoj, 2013, p. 37)

Besides that, among the key issues in business, which act as a barrier to improving the competitiveness and innovativeness of this sector, the surveyed entrepreneurs cited the following: the lack of favorable sources of financing, the legal framework of business, lack of workers with specific skills and qualifications, incompatibility of business with the requirements of quality, lack of information on markets and technology, and the problems of illiquidity and payment deadlines and billing.

The development of this sector in the coming period requires the need for improving the factors that affect performance, among which the most important are the following (Nacionalna agencija za regionalni razvoj, 2013, p. 37): an increase in support from the state and commercial banks (53% and 36 %, respectively), followed by significant support of local government (29%), strengthening personal initiative and performance guarantee (23%) and better mutual cooperation (22%). Besides, improving the competitiveness of this sector is largely determined by raising the competitiveness of the national economy, especially synergetic improving key parameters in those segments in which the Republic of Serbia recorded competitive disadvantages, which are especially pronounced in the segment of demand conditions and related and supporting activities Porter diamond of national competitiveness.

Namely, it should be stressed that the more competitive SMEEs are those which are innovative at the same time. In addition, the successful organizations do not only practice the innovations. They innovate with purpose, and it means that they constantly monitor the wishes and needs of the people, so that they gain insight into the real situation. It is essential that organizations examine the needs of consumers in the market faster and better than the competition. This, of course, requires that the organization has the people with the vision of working together and create an image of what the future will be. Innovative small and medium enterprises accept the philosophy that there is always a better and more efficient way of doing business and therefore constantly searching for new ideas that will increase their value, and reduce costs. In order to accelerate the innovation component in small and medium-sized enterprises, the market is offering consulting services aimed at companies that provide recommendations and advice in order to improve an existing business or solving problems within specific areas of business.

An innovative approach to the real needs of the market is the direction in which small and medium enterprises in the Republic of Serbia can be developed. This is especially because the key precondition for the survival of every company is constantly competitiveness improvement, i.e. investing in product innovation and services.

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ZNAČAJ UNAPREĐENJA KONKURENTNOSTI SEKTORA MSPP ZA RAZVOJ PRIVREDE REPUBLIKE SRBIJE

Apstrakt: Rezultati brojnih izvršenih istraživanja pokazuju da sektor malih i srednjih preduzeća i preduzetništva (MSPP) predstavlja značajnu pokretačku snagu privrednog razvoja svake zemlje i da je on potencijalni generator preduzetničkih ideja i inovacija. Sa intenziviranjem procesa tranzicije nakon 2000. godine sektor MSPP je postao nosilac privrednog rasta i zapošljavanja i prerastao u najdinamičniji i najefikasniji segment privrede Republike Srbije. Međutim, ova preduzeća se i dalje suočavaju sa brojnim problemima u poslovanju koje je samo dodatno potencirala svetska finansijska i ekonomska kriza. Nizak nivo konkurentnosti ovog sektora u Republici Srbiji predstavlja važno ograničenje njegovog budućeg razvoja. Kao osnovna konkurentska prednost svakog savremenog preduzeća ističe se njegova sposobnost da inovira. Prednost MSPP, pored mnogih drugih, ogleda se i u inovativnosti. Generalno, MSPP zbog svoje fleksibilnosti, kao i homogene strukture imaju dobar i važan preduslov da razvijaju inovativnost i time obezbede tržišnu konkurentnost. Što se tiče njihove fleksibilnosti, ona posebno dolazi do izražaja u periodima usporavanja ili stagnacije privrednih aktivnosti i krize. Stoga, osnovni pravac razvoja sektora MSPP jeste inovativni pristup realnim potrebama tržišta. Imajući to u vidu, cilj ovog rada je da doprinese jasnijem razumevanju uloge i značaja sektora MSPP za privredni razvoj Republike Srbije, kao i da ukaže na značaj unapređenja konkurentnosti i inovativnosti ovog sekora za budući privredni razvoj nacionalne ekonomije.

Ključne reči: sektor MSPP, privredni razvoj, konkurentnost, inovativnost.