

PROBLEMS IN THE BUSINESS OF SMALL AND MEDIUM-SIZED ENTERPRISES AND ENTREPRENEURSHIP IN SERBIA

Marina Gajic Glamoclija²

DOI: <https://doi.org/10.31410/eraz.2018.16>

Abstract: *The development of small enterprises is vital for the healthy economy of each country and the development of entrepreneurship, as they provide greater business incentives, employment and income.*

Not all important obstacles have been overcome for the intensive development of the SME sector, strengthening its competitiveness and innovation. In particular, this refers to high fiscal actions, unfair competition recruited from the gray economy, and often from abroad, difficult collection of receivables, inaccessibility of public procurements, monopoly in many business sectors, tax and inspection procedures, complicated, slow and expensive procedures for obtaining building and use consents and permits for connection to infrastructure networks, corruption, municipal fees, etc.

In terms of access to funding sources, significant steps have been taken recently, especially with incentive micro loans for beginners, start up loans, as well as various incentives for local communities, but funding is still at the top of the scale of the biggest problems and needs of State incentives are still relatively modest, insufficient and limited, and bank loans are too expensive and inaccessible to most of the SMEs.

No operational mechanisms have been created for the establishment of risk capital funds, there is no support for the so-called "business angels" and the practice of developing partnerships with foreign and domestic companies and cooperators is also missing.

The procedure and speed of the adoption of new legislation, the number of by-laws and administrative procedures, which are often mutually uncoordinated, unspecified and assigned to a large number of public office holders - represent a limiting factor in accelerating the growth of SME.

As a result of these occurrences, confusion and additional costs in time and capital are often confronted with most small businesses, who have a fairly limited human resources.³

Key words: *SME, entrepreneurship; Serbia*

1. Introduction

In most small and medium-sized enterprises, the greatest problem is the lack of funds, and then the lack of legislation with accompanying regulations. Numerous research in this sector shows that the greatest problem is the lack of funds at 38.5%, and insufficient and poor regulation at 27.5%, which is somewhat higher than previous research, in 2005 (36% and 21% respectively).

² Executive Director for Economic, Legal and Commercial Affairs, JKP „Beograd put“ – Belgrade, Serbia

³ These estimates were also confirmed in the analysis of the survey research of the situation, problems and needs of the SME sector, which was organized by the Republic Agency for Development of SME, and in 2016, conducted by 13 regional agencies / centers in the areas covered, with the participation of 1404 respondents. Business entities covered by the survey employ a total of 14,485 employees or 13 workers per company average. The conducted survey covered all the important aspects of this sector's development: market, financial, technological, innovation, need for non-financial support, etc.

Relatively smaller importance of the obstacles are the lack of market information and the lack of qualified workforce (9.4%), non-compliance with standards (7.1%) and lack of information on technologies (4.1%). Chart 1.

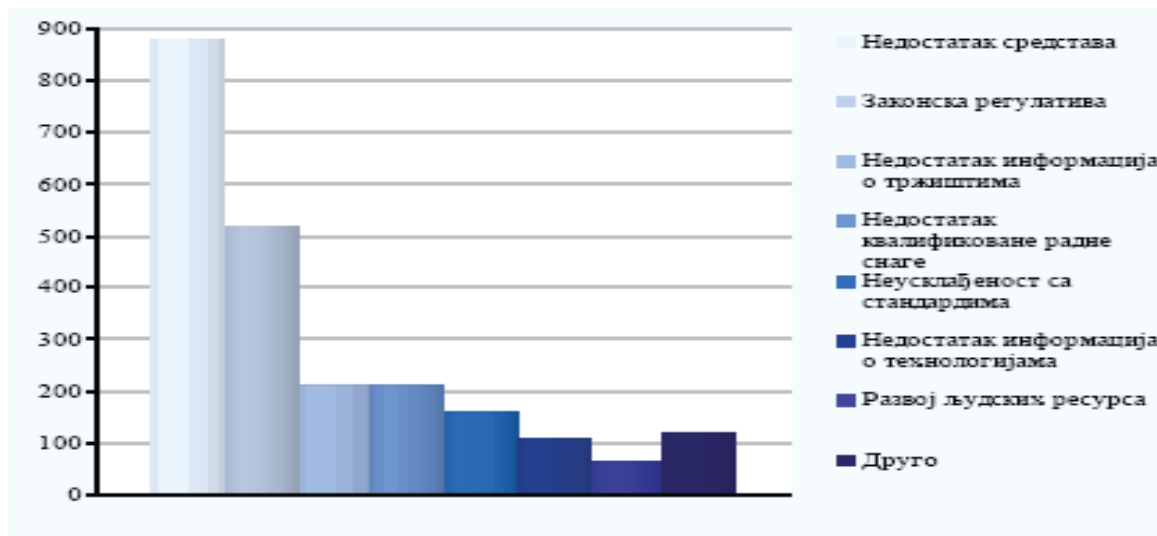


Chart 1: The greatest business problem, Source: Survey of the Republic Agency for Development of Small and Medium-sized Enterprises and Entrepreneurship

The leading place for the lack of funds and regulations among the problems was determined by all surveyed firms, regardless of the size, activity to which they belong, and the territorial schedule. Oscillations occur mainly within lower ranked problems. In the case of micro companies and entrepreneurs, the problems of financing and the lack of skilled workers in relation to the average of the surveyed firms are more prominent.

However, many obstacles to the accelerated development of this sector have not been removed. Above all, it is still an inadequate climate of entrepreneurship in all areas, especially local ones. Most of the young and educated staff are hesitant to against the risks of going for a new job and entrepreneurial ventures that are uncertain. Such an approach is favorable by the considerable participation of the gray economy, the overall and significant fiscal actions, the inaccessibility of public procurements, monopolies, the difficulty of collecting receivables, excessive administration and inadequate tax administration. The biggest discouragement are complicated and costly administrative procedures. At the state level, development of risk capital funds and other more favorable sources of financing for SME is missing.

No permanent dialogue between representatives of SME and relevant institutions at national and local level has been established about problems, needs and appropriate measures and support instruments. The development programs of this sector are not in line with the privatization and restructuring processes. A significant problem is that the development of business cooperation between small and large companies is neglected.

The level of knowledge and skills of entrepreneurs still lags considerably behind the needs of creating a competitive, export-oriented SME sector. Reform processes aimed at overcoming this situation are initiated, but require a longer period of time. The greatest progress has been made in preparation for the study of entrepreneurship within the secondary vocational education and the increased number of private high schools and colleges and faculties that focus precisely on acquiring entrepreneurial knowledge. In informal education, which needs to ensure the

implementation of lifelong learning principles and compensate for the shortcomings of formal education, certain initial results are achieved, but the overall situation is unsatisfactory.

Access to SME funding sources is still largely limited. The backbone of the SME sector financing continues to be the Development Fund of the Republic of Serbia, where the incentive credit lines of the Ministry of Economy and Regional Development are implemented through special programs. Despite some changes, bank loans are still very expensive and inaccessible to the majority of interested SMEs.

The establishment of appropriate regulations in the area of capital risk is lacking, which limits the development of microcredit and guarantee funds at regional and local levels, as well as other sources of financing that are in line with the real possibilities of this sector.

2. STRENGTHENING THE INNOVATION CAPACITY OF THE SERBIAN ECONOMY

The low level of innovative activities of the Serbian economy is the main brake on economic development in the modern international market, where the highest ranking is given to knowledge-based conditions and high-end technology. At the same time, it affects the unrecognizability of the economy and distorts national competitiveness with all the negative consequences on the domestic market and future development. The desire to introduce technologically more intensive production processes and the production of technologically new products requires large investments and educated workforce. According to internationally valid criteria, the Serbian economy is in the process of creating the initial conditions of this system even without an organized system and final solutions within innovative activities.

Serbian economy as a whole is characterized by a low level of activity and a lack of sufficient business innovation, the absence of an innovative network. The lack of research and modest resources directed at this sector, poor reputation of domestic products, insufficient support in financial terms and infrastructure, the inadequacy of laboratories and research capacities, as well as the absence of a significant factor - the innovation network - are key issues for slow development of entrepreneurial activities.

Strengthening of innovative capabilities is one of the key factors and preconditions for rapid development of the sector of small and medium-sized enterprises in Serbia. One of the conditions for this is the availability of appropriate and qualified workforce, as well as directing more significant resources into innovative projects.

3. MODERNIZATION OF SME BUSINESS METHODS

The development of information technologies made information systems available to smaller companies, i.e. small and medium-sized enterprises. In the world, the business of these companies, as well as the big ones, has become unimaginable without information systems in recent years. In our country, even larger companies do not use information systems in their business or are insufficiently used, and only some small and medium-sized enterprises have recently become aware of the importance of using information systems for successful and efficient business.

Famous futurist Chuck Martin, author of the book " Net Future: The 7 Cyber Trends That Will Drive Your Business, Create New Wealth and Define Your Future", has recognized seven

revolutionary trends that will strongly affect the traditional way of doing business and change it from the ground.

The three most important trends Martin is writing about:

Trend 1: Cyber economy is a reality. The proof is that the population using the Internet is profiled by the youngest to the broader strata of consumers. The most common online price is the lowest of all offered on the market. The offer that cannot be resisted is due to a sudden reduction in the costs of marketing, storage and distribution for companies operating on the Internet. An example are the books that can be purchased via the Amazon.com world bookstore - a virtual bookstore without a warehouse, which only forwards the orders to the distributor and can compete with any real business.

Trend 2: Networked workforce brings new quality. To increase efficiency, common, networked labor, through the integration of the Internet, intranets and extranets is being used more. Networked workers become a qualitatively new workforce and have a better insight into the needs of users, that is, the needs and jobs that appear in a networked environment. They are closest to the user and can decide on their jobs more and more independently. The role of entrepreneurs and managers is significantly changing and is different from traditional understanding of hierarchical management. Workforce is scattered and new technologies need to be used for remote management: e-mail, mobile digital phone, tele-conferences, video conferencing and other network services.

Trend 3: *Open business companies are emerging.* By "open business", it refers to companies that connect suppliers, customers, and networked workforce through extranet.

Such extended enterprise opens data and functions and offers "self-service" to the user. An example is Federal Express, which has enabled its customers to order shipping services online. The driver receives an order to collect and deliver the shipment directly from the application, based on an online order. Through this approach, the company's services are transformed: from the offer of products, it switches to offering a platform for doing business.

In the world, almost all companies have accepted these trends and use the Internet in all forms of business, from marketing to trading of all types of goods and services. In our country, this type of business is still not at the desired level, although some companies, both large and small and medium-sized, see the great advantages of the Internet and e-business and are trying to use them, in accordance with their capabilities.

Perhaps the reason for avoiding the transition of our businesses (especially small and medium-sized) to e-business is that relatively few people have access to the Internet. In the USA, at the end of 1997, about 18% of all households were connected to the Network (in 1996 it was only 13%, and already the Internet was a mass media), while in 1999 there were about 55 million Americans on the Network. In the USA, the Internet has long since switched to commercial use. The revenues of Internet companies, especially their investments, are measured in millions of dollars. (Bill Gates, in his book „Business @ The Speed Of Thought“, said that the Internet will change business over the next 10 years more than it has changed over the last 50 years. Include in the footnote)

Data, for example, shows that out of 340 analyzed small and medium-sized enterprises in Serbia, and in the sectors of agriculture, metal and services, 60% does not have a digital strategy

at all. The remaining 40% who do have a strategy mainly refer to the purchase of computers and the use of some forms of business digital communication. This was shown by the latest research by the Center for Digital Transformation within the Serbian Chamber of Commerce.

Small and medium-sized enterprises in Serbia do not have enough digital education and financial resources, and therefore the process of digitization of these companies is significantly slowed down. Another important problem is the linking of SMEs with digitalization carriers in Serbia. It is necessary to create a "map of the path" of digitization and the beginning of the implementation of technological solutions.

4. CONCLUDING REMARKS

Entrepreneurship is a significant development factor for Serbian economy, and is underdeveloped in development policy. All resources for its faster development exist and are rapidly being created. The education system at all levels allows for a significant increase in knowledge about entrepreneurship, small and medium-sized enterprises. The education system for employees and the unemployed for a new business should be constantly expanded and it should become a permanent activity of educational and consulting institutions.

Coordination of all activities in the accelerated development of SMEs must be carried out by state authorities. They need to coordinate and accelerate the activities of local communities that are visible lately. A significant contribution to these processes is provided by the Chamber of Commerce through its associations.

By giving stronger support to the SME sector, through adequate regulation, the state will create the appropriate and necessary climate for entrepreneurship in Serbia, which is not recognizable enough today.

By removing the expressed obstacles to entrepreneurship and SMEs, the most significant of which is reflected in the work, and above all in the availability of necessary resources for future entrepreneurs and small business owners - a strong base for the expansion of SMEs will be created.

Particular attention should be paid to stimulating innovation in this sector because they will represent a development engine in the future, as well as the application of modern technologies and artificial intelligence. The possibilities and flexibility of entrepreneurs as holders of these activities should be used here.

As companies whose competitive advantage is reflected in speed, flexibility and sensitivity to consumer needs, small businesses can significantly contribute to the development of the market economy. New, small enterprises are creators of new products and services, which have significantly changed the lives of people, significantly contribute to the changes in the economic structure. They today represent the most flexible forms of business and are the most sensitive to responding to consumer needs. In this sense, they represent the most sensitive part of every economy.

Literature

1. Ilic S., Small enterprises in Serbia, Megatrender, Belgrade, september 2017
2. *Reports of the Republic of Serbia on small enterprises* - based on the EU Questionnaire, Belgrade, 2013
3. Jelasic R., « *Financing of small and medium-sized enterprises in Serbia* », Belgrade, October 6-7, 2013
4. Zivkovic, M., »*Entrepreneurship*«, **FPE Bar** 2016
5. Paunovic B., « *Development of SMEs in the Republic of Serbia* », Ministry of Economy and Privatization, 2003
6. *Program for development of business incubators and clusters in the Republic of Serbia 2007-2010*, Republic of Serbia, Ministry of Economy
7. *Strategy for development of small and medium-sized enterprises and entrepreneurship in the Republic of Serbia 2003 - 2008* - Ministry of Economy and Privatization, Republic of Serbia
8. Trifunovic, D., *Report on the SME sector in 2016* PKS, 2016
9. Zivkovic, M. Dragicevic, T., „*Motives to start an entrepreneurial venture*“, Megatrend review vol.2, Belgrade 2015
10. www.oecd.org