

SME SECTOR AS A GROWTH FACTOR OF EMPLOYMENT IN SERBIA¹

Marija Lazarević-Moravčević²
Olivera Pantić³
Dragan Filimonović⁴

Abstract:

Unemployment is the biggest economic and social problem facing the economy of Serbia. Its chronic presence causes a decrease in gross domestic product (GDP) and undermines social stability and quality of life.

Given the fact that numerous social, economic, demographic and political problems emerge as the results of its effects, tackling of high unemployment requires a combination of different policies and strategies. One of the ways to lower unemployment in Serbia is creation of a business environment that stimulates entrepreneurship development encouraging in such a way formation of small and medium-sized enterprises.

Taking into account that potential of SME sector in Serbia is not fully used, the goal of this paper is to identify the main barriers that hinder the development of entrepreneurship and due to its great presence prevent more significant contribution of SMEs to employment growth.

Keywords: *SME sector, unemployment, business environment, human resources*

INTRODUCTION

Adoption of the National Employment Strategy for the period 2011-2020 represents an initial step towards combating the problem of unemployment in Serbia. According to the Strategy, priority activities designed to contribute to

¹This paper is part of a research project under code 179015 (Challenges and prospects of structural changes in Serbia: Strategic Directions for economic development and harmonization with the EU requirements) funded by the Ministry of Education, Science and Technological Development of the Republic of Serbia.

² Marija-Moravcevic Lazarevic, PhD, Assistant Professor, Belgrade Banking Academy - Faculty for banking, insurance and finance.

³ Olivera Pantic, Ma, Research Associate, Institute of Economic Science, Belgrade

⁴ Dragan Filimonovic, Ma, Research Associate, Institute of Economic Science, Belgrade

increase of employment are primarily aimed at improving the investment and business environment in order to foster the development of entrepreneurship and creation of new jobs.

According to the latest official data the entrepreneurial sector in Serbia consists of 315,412 companies, making 99.8% of the total number of business entities. SME sector generates approximately 64.9% of employment, holding a share of around 64.3% in total turnover, 43.2% in realized exports and 54.1% in realized gross value added of non-financial sector (Chamber of Commerce and Industry of Serbia, 2013).

Despite the great importance that entrepreneurial sector had in the overall development of the economy in the previous period, the SMEs face a number of problems arising due to the effects of external and internal factors. Under the influence of exogenous factors, as well as internal weaknesses faced by companies, the potential of SMEs is not fully exploited. Assuming that in the coming period the barriers to the development of entrepreneurship in Serbia will be removed, SMEs can become the backbone of economic development of the economy and the main creator of new jobs.

1. SHARE OF SMES IN EMPLOYMENT IN SERBIA

Small and medium enterprises play a central role in the EU Member States. High performance created by SME sector in developed economies is primarily the result of a planned policy pursued and strong institutional support given to the development of entrepreneurial sector. Thanks to the measures implemented in the EU economies the SME sector has a significant share in the creation of domestic product, improving living standards, employment growth and job creation.

Table 1: Number of enterprises and employment in EU-28, by size-class, 2013

	Micro	Small	Medium	SMEs	Large
Number of enterprises					
Number	19.969.338	1.378.374	223.648	21.571.360	43.517
%	92,4	6,4	1	99,8	0,2
Employment					
Number	38.629.012	27.353.660	22.860.792	88.843.464	44.053.576
%	29,1	20,6	17,2	66,9	33,1

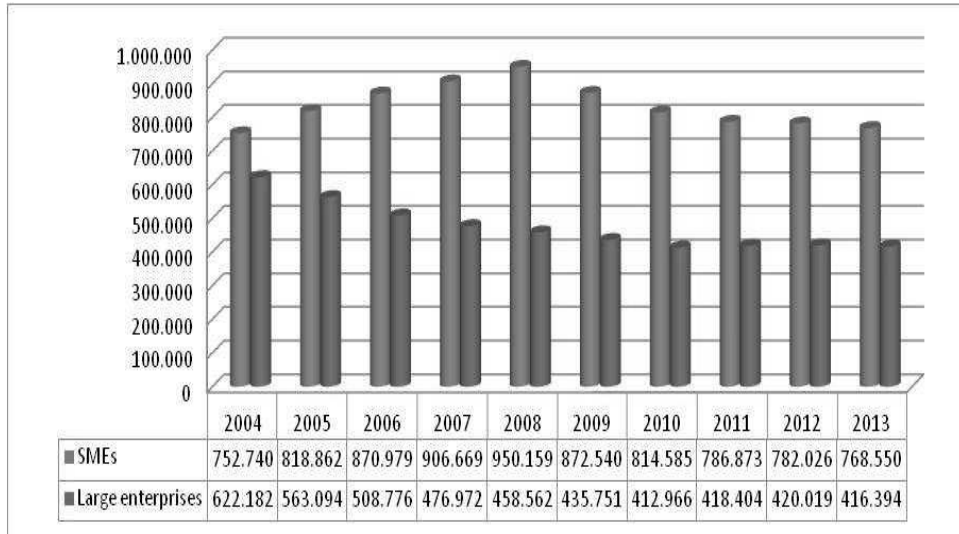
Source: Annual report on small and medium-sized enterprises in the EU, 2013/14

The SME sector in Serbia is an important segment of the economy. Considering the fact that employs two-thirds of employees of non-financial sector, it can be concluded that its role in the employment is of exceptional importance.

According to the latest data for 2013, the non-financial sector in Serbia employs 1,184,944 workers (Chamber of Commerce and Industry of Serbia, 2013). In comparison to 2012, due to reduction of workforce in all categories of enterprises, the employment in non-financial sector decreased by 1.4%. Upward trend in the number of employees in large companies, present in 2011 and 2012, was also stopped.

The greatest contribution of SME sector to the employment growth was achieved in the period between 2004 and 2008. In fact, until 2009, the growth of employment in SMEs significantly neutralized the growth of unemployment which had resulted as a consequence of restructuring of large enterprises. With the advent of the global economic crisis, more precisely since 2009, the share of SME sector in employment has been decreasing constantly. In comparison to 2009, the number of employees in SMEs has been reduced by 11.9%, or 103,990 workers (Chamber of Commerce and Industry of Serbia, 2013).

Chart 1: Employment trends in non-financial sector (2004-2013)



Source: Based on data from the Report on SMEs for the years 2008-2013

During 2013 SME sector was employing around 64.9% of employees of non-financial sector in Serbia (Chamber of Commerce and Industry of Serbia, 2013). In comparison to 2012, the number of employees decreased by 1.7%. The highest

reduction rates were achieved in small enterprises and entrepreneurial companies. Within the SME sector the largest share in employment had micro-enterprises, followed by medium and small enterprises.

Chart 2: The structure of employment in SMEs – 2013

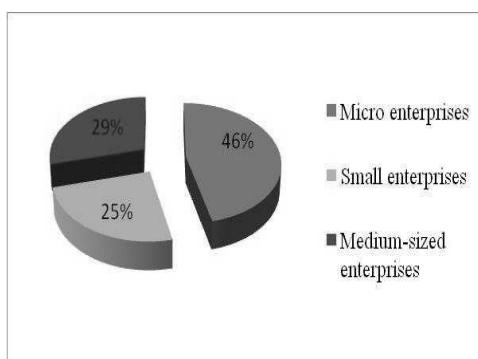
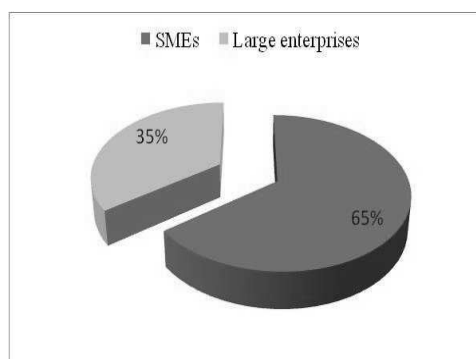


Chart 3: SME share in employment of non-financial sector - 2013



The occurrence of global economic crisis was followed by a downward trend in share of entrepreneurial sector in creation of GVA, productivity and employment. The slow recovery that began in 2010 has failed to return SMEs to the level of development recorded in 2007. It is particularly worrying that in the structure of SMEs the number of medium-sized enterprises is constantly decreasing, as well as its share in the employment.

Chart 4: Number of medium-sized enterprises

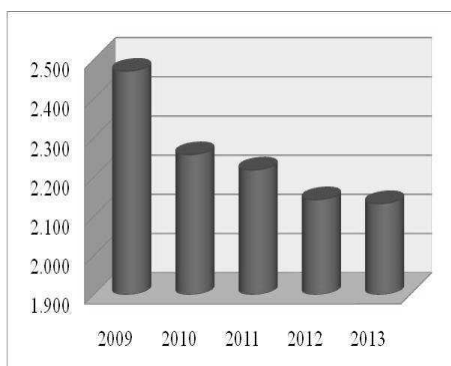
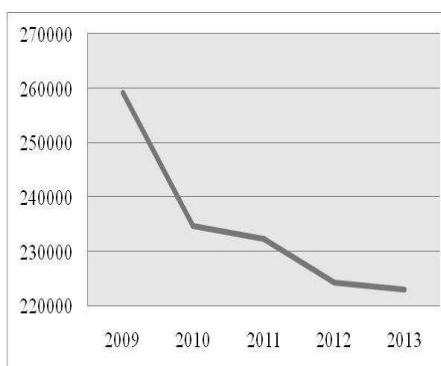


Chart 5: Number of employees in medium-sized enterprises



According to its nature, the medium-sized enterprises should be the driving force of SME sector and of the overall economy. Under the influence of numerous factors of the business environment, the number of medium-sized enterprises is

constantly decreasing. On the other hand, the business environment does not offer a chance for increase in the number of medium-sized enterprises which would be based on growth and development of smaller systems.

2. FACTORS LIMITING GROWTH AND DEVELOPMENT OF SMES

Under the influence of numerous exogenous factors, as well as internal weaknesses faced by companies in Serbia, the performance of SME sector is significantly lower when compared to entrepreneurial sector of developed economies. Macroeconomic instability, instability of financial markets, lack of investment in production, complicated legal regulations and other limitations result in low productivity, efficiency and competitiveness of SMEs.

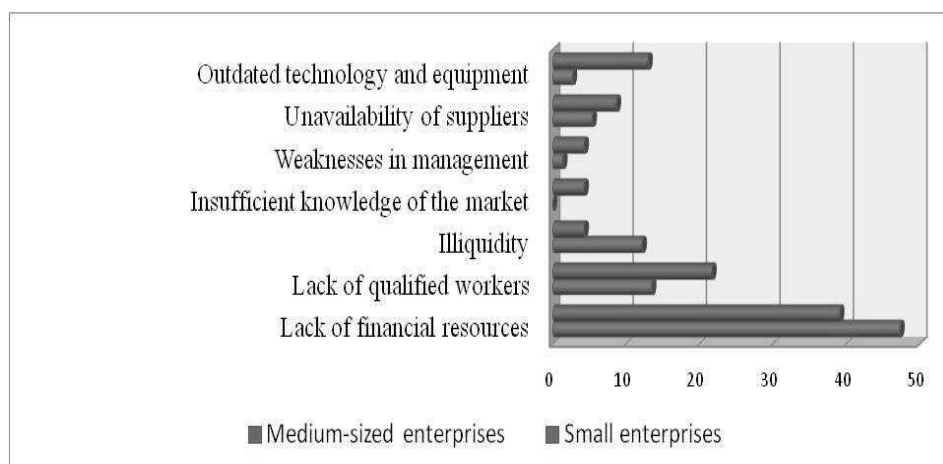
The World Bank report on business conditions confirms the fact that the environment in Serbia does not stimulate business development. According to the latest report of *Doing Business 2014* out of 189 economies included in the analysis, in terms of quality of the business environment Serbia occupies 93rd place or six places lower than in the previous year (The World Bank, 2013). For years Serbia obtained the lowest score for conditions for obtaining construction permits (182nd position). To obtain a construction permit 269 days must elapse and 18 procedures must be started. As compared to the previous year a positive shift was achieved in international trade.

On the way to gaining competitive advantage the SMEs face a number of obstacles which are not purely of exogenous nature. Numerous researches and studies confirm that the growth and development of SMEs are significantly limited by internal weaknesses - permanent lack of financial resources, low productivity and low efficiency that come as a result of small-scale operations, lack of strategic orientation, but also by the weaknesses that are found in the field of human resources.

With the aim to identify the main problems of internal nature facing management of SMEs in Serbia, the survey on a sample of 102 companies was conducted in this paper (Lazarevic-Moravcevic M., 2013, p. 210). The structure of the sample consists of companies that employ more than ten employees, achieve positive results and in which a potential for growth and development has been recognized. Also, in the sample a dominant share is hold by export-oriented enterprises⁵ as well as enterprises engaged in manufacturing activity (58%).

⁵ The export orientation was present in 52.7% of small businesses, and 78.3% in medium-sized companies

Chart 6: Internal factors and their effect on operations of SMEs



The survey results confirm the fact that a lack of resources is the basic problem of SMEs. Predominant presence of the problem - lack of funds is primarily caused by the fact that the external sources of financing are inaccessible to SMEs in Serbia. The second important factor that limits development of business is the lack of suitably qualified workers. The identified problem is partly a consequence of inefficient functioning of the labor market, but also of weaknesses that are recognized in the field of human resource management.

In the broadest sense, human resource management involves human resource acquisition, development, retention, adaptation, orientation and use of human resource potential in line with the objectives of organization, while respecting individual needs and goals of employees (Pržulj Ž., 2007, p.19). Human resource management refers to the practices and policies that are needed to perform managerial tasks related to personal issues, and in particular to the recruitment, training, assessment and rewarding of employees and providing a safe, ethically acceptable and equitable work environment (Dessler C., 2007, p.2). It is a concept that is based on the knowledge that people are the only „thinking” factor in business processes, and that employees, as the bearers of physical and spiritual abilities, are the driving force of growth and development of organization.

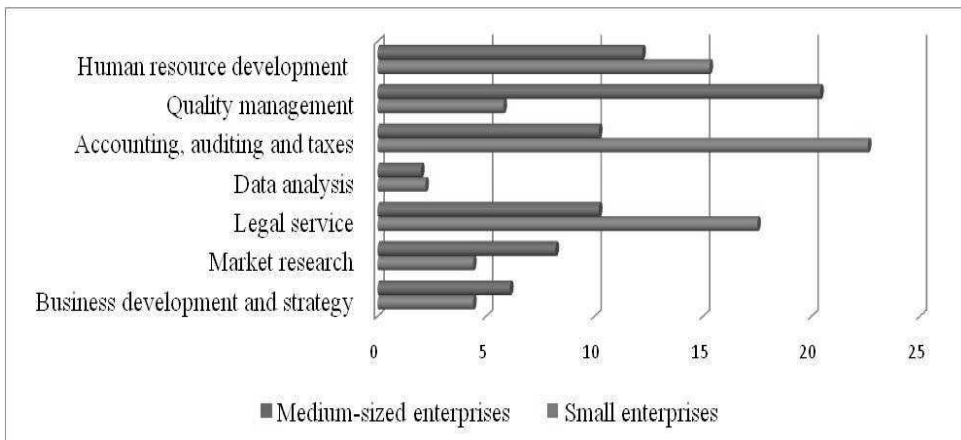
Some researches highlight that the SME sector in Serbia lacks a planned approach to managing and developing human resources. Employee development, with the use of different methods of training in SMEs, is usually carried out *ad hoc* and without defining educational needs. Trainings are conducted by inertia and without a clear picture of the effects on performance, which points out to certain

irrationalities in the use of limited resources that are available to SMEs (Chamber of Commerce and Industry of Serbia, 2012).

Small and medium enterprises often are not able to hire specialized professionals for human resource development. On the other hand, there is a possibility to hire individuals or agencies that are trained and that have competence to perform this process in a quality manner.

Despite the possibilities offered by the market of consulting services, the results shown in the following chart, obtained on the basis of research conducted by the authors of the paper (Lazarevic- Moravcevic M., 2013), confirm the fact that the use of specialized services in the field of human resource development is not a common practice in SMEs in Serbia.

Chart 7: Use of consulting services in SMEs



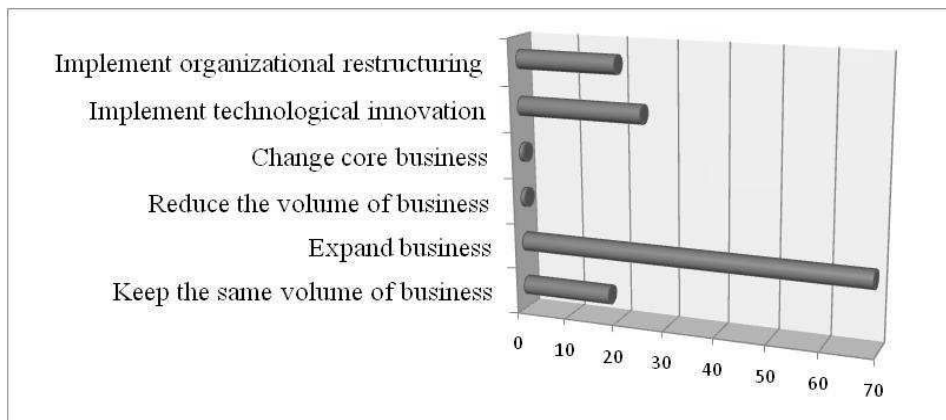
Size of a company significantly determines the organizational structuring and performance of activities in the field of human resources. In small organizations that are in the initial stages of growth and that have informal organizational structure mainly characterized by the lack of specialization and departmentalization, the practice of establishing organizational unit responsible for the activities of human resource management is not common. A key person dealing with issues in the field of human resources is the owner or manager (CEO) of the company. When carrying out the activities of recruitment, selection and development of human resources the smaller organizations use the standard methods that do not require high cost and can be directly controlled by the owner (manager) of the company (Cardon M.S., Stevens CE, 2004, p. 295-323). Recruitment usually means finding candidates through advertising in local newspapers, personal recommendations or recommendations by employees. It is

common practice that when selecting candidates simpler and cheaper methods are preferred, giving priority to the criteria of loyalty to the company (Chamber of Commerce and Industry of Serbia, 2012). Employment based on the above criteria excludes the possibility of recruiting employees with the best qualifications or work experience. Often smaller organizations suffer from a lack of effective system of monitoring (assessment) of work performance, as well as from an adequate system of rewarding of employees. Due to the fact that there is no possibility for development and promotion, employee motivation is at a very low level.

As the organization grows and expands its business the process of human resource management gets a new dimension. In larger organizations the process of recruitment and selection becomes more formal and complex. When selecting candidates the focus is on professional knowledge, which is checked using different methods of evaluation and testing. This is followed by obtaining conditions for more intensive investment in employee development, career management and for defining an effective system of rewards and scoring jobs. If the organization does not have a separate organizational unit specialized in performing activities of human resource management, there is a practice of using consulting services, especially in the field of development (education) of employees.

Despite many problems faced by SMEs, research conducted in this paper points the fact that the entrepreneurial spirit is not abandoning businessmen in Serbia (Lazarevic- Moravcevic M., 2013, p. 205).

Chart 8: The strategic choice of SMEs in Serbia



The growth strategy has been identified as a dominant strategic orientation of SMEs. The largest number of respondents plans to implement growth using

technological innovation and organizational restructuring. Only 1% of managers/owners from the category of small companies believe that in the coming period they will change activity and 1% of managers plan to reduce the scope of its business operations in future. Stability strategy and maintaining the current size and scope of activities is a choice of about 18% of the companies in the sample.

Since the growth strategy involves an increase in business scope, or expansion of activities within existing or new business field (Coulter M., 2010, p.248), assumption is that its implementation will require hiring new workers or job creation.

CONCLUSION

Long-term presence of high unemployment had a negative impact on the economic development of the Serbian economy. Measures taken in the previous period aimed at combating unemployment did not give the expected results.

Given that the SME sector in Serbia has been recognized as a key holder of employment growth in future, in order to establish the conditions for creation of new jobs in entrepreneurial sector, it is necessary to create a stimulating business environment. In accordance with the above said the support for development of entrepreneurship in the next period would include creation of a more efficient regulatory and administrative framework for business development, improvement of institutional support for SMEs and entrepreneurship, expansion of possibilities for financing SMEs, more efficient functioning of the labor market and easier access to qualified labor.

Improvement of business environment, as well as elimination of internal weaknesses faced by SMEs, would create conditions in which entrepreneurial sector will play a critical role in the overall development of the economy.

REFERENCES

1. *Annual report on small and medium-sized enterprises in the EU*, 2013/14, [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2014/annual-report-smes-2014_en.]
2. Cardon, M.S., Stevens, C.E. (2004) *Managing human resources in small organizations: What do we know?*, *Human Resource Management Review*, 14 (2), pp.295-323.
3. Coulter, M. (2010) *Strategijski menadžment na delu*, četvrto izdanje, Data Status, Beograd, str. 319

4. Dessler, C. (2007) *Osnovi menadžmenta ljudskih resursa*, četvrto izdanje, Data Status, Beograd, str. 2
5. *Doing business 2014 - Understanding Regulations for Small and Medium-Size Enterprises*, [<http://www.doingbusiness.org/reports/global-reports/doing-business-2014>]
6. Lazarević-Moravčević, M. (2013) *Faktori i pristupi u kreiranju konkurentskih strategija malih i srednjih preduzeća u Srbiji*, doktorska disertacija, Beogradska bankarska akademija – Fakultet za bankarstvo, osiguranje i finansije, Beograd
7. Pržulj, Ž. (2007) *Menadžment ljudskih resursa*, Fakultet za trgovinu i bankarstvo „Janićije i Danica Karić“, Beograd, str. 19.
8. Serbian Chamber of Commerce, *Analysis of SMEs for 2013*, [<http://www.pks.rs/Documents/Centar%20za%20mala%20i%20srednja%20pri vredna%20dru%C5%A1tva/Izvestaj%20MSP%202013.pdf>]
9. The Chamber of Commerce of Serbia (2012), *Analysis of the results of research on the needs of the economy of knowledge and skills*, [<http://www.pks.rs>]
10. The Ministry of Finance and Economy, Ministry of Regional Development and Local Self-Government, the National Agency for Regional Development, *Report on SMEs in 2012*, [<http://narr.gov.rs/>]
11. The National Employment Strategy for the period 2011-2020 [http://www.nsz.gov.rs/live/digitalAssets/0/302_nacionalna_strategija_zaposlja vanja_2011-2020.pdf]