The Effectiveness of SMEs Business Sector in AP Vojvodina

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Key changes that lead to market reforms in Serbia started only in 2000, with all the positive effects that enable the development of SMEs (small and medium-size enterprises). The growth of an entrepreneurial group, observed through the continuous increase in the number of active companies that are mostly privately owned, is the result of the general improvement of economic conditions, as well as undertaken incentive measures and activities of the state to the local level. Analysis of the level of development of SMEs in Vojvodina shows that it is becoming an increasingly important segment of the economy that it is the main driver of innovation and employment and an important factor in the process of European integration. The paper deals with the SMEs in Vojvodina, as well as the movement of key business indicators such as gross value added (GVA), profit, and profitability. The aim of the research is to show how the SMEs sector is efficient in its operations, even in times of crisis. Concluding remarks follow the paper.

Keywords: entrepreneurship, development, business efficiency

For a general assessment of transitional changes in Serbia, and therefore, achieved level of development and the impact of SMEs (small and medium-size enterprises) and entrepreneurship in the overall development, it is necessary to emphasize the fact that the key changes that lead to a market economy started only in 2000 with all the positive effects on the development of SMEs and entrepreneurship.

In the period 2001-2005, the institutional conditions for the expansion and strengthening of SMEs and entrepreneurship were significantly improved. The growth of an entrepreneurial group, observed through the continuous increase in the number of active enterprises (SMEs which are mostly privately owned), and shops, is the result of the general improvement of economic conditions, as well as undertaken incentive measures and activities of the state to the local level. The adoption of the Law on Registration of Companies and the establishment of the Business Registers Agency have enabled faster, easier, and cheaper procedures for the establishment of the company, and the first positive effects are manifested in the initial changes in the structure of the economy and the largest owned business entities. The focus of activities directed toward improving:

- (1) General macroeconomic conditions for business development and entrepreneurship;
- (2) Institutional infrastructure for development of SMEs and entrepreneurship;

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- (3) Legislation;
- (4) Tax and investment policies;
- (5) Financing system.

According to research by the World Bank and the International Finance Corporation of the results of operations, Serbia continued to improve the regulatory environment of business. Since 2003, World Bank has been analyzing the operations within the economy based on improving conditions for business, or the evolution of the company—the commencement of operations, compliance with legal obligations and regulatory measures, the possibilities of lending business, investor protection, business interruption and closure. Although Serbia lost the status (2006) of a leader in implementing reforms (of 155 countries analyzed), Serbia has significantly improved rating according to the World Bank's Doing Business 2007. Looking at the position of SMEs in Vojvodina, we can conclude the following:

- (1) In the economic structure of Vojvodina, there are dominated entrepreneurs (73.9%) and private forms of ownership (97.0%);
- (2) SME sector accounts for 99.8% of the total number of enterprises in Vojvodina;
- (3) In the context of SMEs, there are most numerous shops and micro enterprises and make 96.1% of all SMEs (74.1% and 22.0%, respectively);
- (4) In ownership dominated private sector, which makes 97.1% of the total number of SMEs. Within the private SMEs, there are most numerous shops (76.3%) and micro enterprises (20.8%), while SMEs have a share of 2.4% and 0.6%, respectively.

Change in the structure of the economy and the largest owned business entities, is the result of privatization, initiated restructuring of large economic systems and legislated for re-registration of companies (removal from the register of non-commercial entities). Due to the adoption of the Law on Registration of Companies and the establishment of the Business Registers Agency (facilitated, accelerated, and cheaper procedures for the establishment of the company), 4,297 new business entities have registered on the territory of Vojvodina (2,666 in 2005 and 1,631 in 2006)¹.

Reducing the number of actions is the result of above mentioned law in the field of entrepreneurship—removal from the register of actions that have never operated. In 2006, there has been completed process of free re-registration of shops, which gave a more complete picture of the active entrepreneurs. SMEs dominate in all sectors of the economy of Vojvodina. Of the total number of SMEs, 68.9% of them are concentrated in three sectors: wholesale and retail trade, repair of motor vehicles, motorcycles, and personal household use, and manufacturing.

Theory

Entrepreneurship is the process by which an individual or a group of individuals use organized effort to take advantage of opportunities and create value, and to expand by fulfilling the requirements and needs through innovation and uniqueness. This involves finding good opportunities and resources for exploitation. Today, most people share the opinion that entrepreneurship and SMEs are basic and the most important factor in solving many problems in ensuring the success of economic dynamism and overall economic development.

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¹ Secretariat for privatization, entrepreneurship, SMEs engaged by the Centre for Strategic Economic Studies "Vojvodina-CESS" to undertake the study "Analysis of the Small and Medium Enterprises in the Autonomous Province of Vojvodina". The state of the analysis is shown for the period 2000-2005.

Entrepreneurship and SMEs undoubtedly have great significance in solving the problem of unemployment, business success, and the economic development of the society, but they are neither the only, nor the most important factor in solving these problems.

Analysis of the level of development of SMEs in Vojvodina shows that it is becoming an increasingly important segment of the economy that it is the main driver of innovation and employment and an important factor in the process of European integration. With a dominant share in the number of active companies (99%), the sector with more than 60% contributes to the employment and to the formation of total turnover and with over 50% in gross value added of the economy of Vojvodina. In 2005, the development of SMEs has already reached countries with fast transition process, which is a good basis for their further dynamic development and growth.

Over the years, Serbian experience in the field of entrepreneurship was in many ways followed by many misconceptions, negative results, outdated approaches, and ineffective solutions. The main problems that are facing SMEs in Serbia are (Avlijaš, 2008, p. 180):

- (1) Competitiveness;
- (2) Financial stability and ability to invest in growth;
- (3) Human resource management;
- (4) Risk management in SMEs.

Challenges that SMEs will face in the next period in globalized economy in the world, is primarily related to:

- (1) SMEs struggle to stop its economic decline, as a kind of generators of the development of the economy, by increasing the innovative spirit and employment;
- (2) Taxes and tax policy;
- (3) Costs of health insurance;
- (4) Attracting and retaining a quality workforce;
- (5) Global competition.

Modern business conditions are characterized by rapid and continuous changes that affect the organization's effectiveness, an entrepreneurial management, and its strategic options and choices. In terms of changes, the role of entrepreneurial management modifies significantly, and adapts to the needs of the company, to company's goals and efforts to maintain or improve operations. More than ever, the entrepreneur is burdened by the need to respond quickly and anticipate changes in the environment, and to give the right response to pressure from various groups and individuals (stakeholders). Greater systemic support from the state on the one hand, and logistical support from chambers on the other hand, are essential prerequisites for the development of the SMEs, whose potentials are of great importance at this time, because they can become a major driving force behind the development of Republic of Serbia and thus directly affect the reduction of unemployment

Methods

Research and dynamic structural analysis of SMEs and entrepreneurs in Vojvodina were conducted on a database of relevant economic and governmental institutions, in the first place from the Regional Chamber of Commerce Novi Sad. Relevant data regarding the structure, gross value added (GVA), and profit generated in the SMEs sector in given period, were obtained by method of content analysis and statistical methods of data processing.

Findings

According to Eurostat standards, GVA is the most important statistical indicator—part of the system of national accounts expressed in basic prices. GVA is the difference between the final product at basic prices (the value of the goods and services that are incurred as a result of the production process) and intermediate consumption at purchasers' prices (the value of all goods and services, which is in a particular accounting period spent in the production process).

The difference between the base and the purchase price relates to the different treatment of taxes and subsidies on products, trade margins, and transport costs.

Base price = amount that the manufacturer receives from the purchaser for a unit of output – taxes on products + subsidies on products – transport costs of manufacturers;

Purchase price = the amount paid by the purchaser for a unit of output + taxes [excluding VAT (Value Added Tax)] – subsidies + transport costs.

GVA can be seen as an indicator of operating efficiency and profitability and indirectly indicates the movement of the overall business activity and the level of development of the market economy. Republic Statistical Office, after adjustment with the Eurostat methodology and standards and practices of the member states of the European Union (EU), has prepared a database of GVA in 2004 and 2005 (see Table 1).

Table 1

Gross Value of Vojvodina in 2005 According to Size and Ownership of Company

	Entrepreneurs		Micro		Small		Medium		SMEs		Big		Economy of Vojvodina	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
Social	0.0	0.0	0.1	0.1	0.8	0.6	2.3	1.6	3.2	2.3	14.4	2.7	17.5	5.0
Private	20.4	18.3	5.5	7.2	7.6	9.6	7.1	11.9	40.6	47.0	7.9	19.7	48.5	66.7
Cooperative	0.0	0.0	0.7	0.6	0.4	0.4	0.7	0.6	1.8	1.6	0.0	0.0	1.8	1.6
Mixed	0.0	0.0	0.2	0.1	0.9	0.5	6.7	3.0	7.7	3.7	17.1	3.7	24.9	7.4
State	0.0	0.0	0.0	0.0	0.6	0.6	2.0	1.8	2.6	2.5	4.7	16.8	7.2	19.3
Total	20.4	18.3	6.5	8.0	10.3	11.8	18.8	18.9	55.9	57.1	44.1	42.9	100.0	100.0

Note. Source: Government of APV (2006, p. 33).

Increased participation of SMEs in the formation of GVA, economy of Vojvodina is a result of achieved above average growth rates in this sector. Despite a significant influence on the formation of GVA, economy of Vojvodina, SME sector is still not the holder of structural changes. Economic activity and efficiency of Vojvodina, are determined by the major industrial systems, as 179 large companies (0.2% of the total number of undertakings) generate over 40% of GVA, for example, Petroleum Industry of Serbia achieved 16.0% of GVA of Vojvodina. Also, the derived parameters (GVA per enterprise and employee, share of GVA in total turnover) indicate greater business activity of large enterprises, better productivity, efficiency, and competitiveness in relation to the SME sector.

Similar conclusions can be reached through analysis of the private sector—the dominant form of ownership in the economic structure of Vojvodina. In 2005, the sector operated 96.3% of business entities that employed 50.4% of total employees and generated almost half of the GVA of the economy of Vojvodina. Almost the entire SME sector is privately owned and although it creates 70.4% of GVA private sectors of the Serbian economy, the main feature of this sector is fragmented, below average business activity and efficiency.

In contrast, large private companies (96 companies—0.5% of the total number of private enterprises in Vojvodina), have above average business activity, productivity, and efficiency, and generate 29.6% of GVA of the private sector in Vojvodina (see Figure 1).

Figure 1. The achieved GVA in private sector in 2005. Source: Government of APV (2006, p. 35).

Private companies from the territory of South Backa, South Banat, North Backa, and Srem region generated 77.6% of GVA of the private sector of the economy of Vojvodina, and 81.8% of GVA of private SMEs economy of Vojvodina (see Figure 2).

Figure 2. Regional distribution of GVA in private sector in Vojvodina. Source: Government of APV (2006, p. 38).

SME sector has a dominant influence on the formation of GVA in all districts, apart from South Backa, in which a dominant influence on GVA in districts have large enterprises. Within the SME sector, the largest share in the formation of GVA in most regions have medium enterprises (except in South Banat and Srem), while entrepreneurs in all districts generate the largest part GVA of the private SME sector.

Definition of gross domestic product (GDP)²—GDP is a measure of the total economic activity of all

² Due to the lack of statistical data for AP Vojvodina and the inability to predict that growth in gross domestic product (GDP) at the level of Vojvodina, Department of Macroeconomic Research, Centre for Strategic Economic Studies “Vojvodina-CESS”, in cooperation with the Vienna Institute for International Economic Studies (WIIW) on the basis of available data, calculated estimated growth rate of gross value added (GVA) for Vojvodina.

resident institutional units, whereby it is covered: production of material goods and services of all kinds, to services related to material production and all types of intangible services (government sector, healthcare, education, financial intermediation, and all other services).

Definition GVA—GVA measures the share of the overall economy of each individual producer, metal processing industry or sector in the country, and as such is used for estimating the GDP. For the calculation of GDP, there are three different approaches:

- (1) Access to production;
- (2) Method expenditures;
- (3) Method of revenue.

The evaluation was made for the period of 2002 to the second quarter of 2010. To calculate the rate of growth of GVA of AP Vojvodina, based on data for Serbia, it is necessary that the structure of the economy of the Republic of Serbia and Vojvodina are identical, or that contain the same sector of activity categories. Given that this is not the case; the goal is to estimate the growth rate of GVA of AP Vojvodina, the structure of the Serbian economy is adapted to the structure of the economy of AP Vojvodina. For the period of 2002 to the second quarter of 2010, the structure of the Serbian economy in order to adapt is constructed using the existing structure of the economy of AP Vojvodina. Structure of the economy of the Republic of Serbia and Vojvodina differ in certain sectors of activity. As it is required estimate growth rates for GVA, AP Vojvodina, Republic of Serbia structures must be adapted to the structure of AP Vojvodina. It has been constructed the structure of the economy of the Republic of Serbia for the period of 2002 to the second quarter of 2010, using the existing structure of AP Vojvodina.

On the basis of harmonized structures and growth rate of GVA by activities in the Republic of Serbia, the growth rate of GVA for AP Vojvodina has been estimated for the period 2002-2010, the second quarter. To assess the growth of GVA for a given quarter, first calculate the so-called weights that represent changes in the growth rate of GVA by activities. The weight coefficients are calculated as the product of quarterly growth rates of GVA of the Republic of Serbia, for the observed activity, and interest and activity in the structure of GVA of AP Vojvodina. Assessment of the rate of growth of GVA for the given quarter is obtained by summing the weight coefficients obtained, by all sectors in the reporting quarter. In this way, there are respectively estimated growth rates for the requested period of 2002 to the second quarter of 2010.

Table 2 and Figure 3 present a comparative presentation of the actual growth rate of GVA of the Republic of Serbia and the calculated estimates of the growth rate of GVA of AP Vojvodina.

Table 2

The Growth Rate of GVA According to the Same Quarter of the Previous Year

	Quarter	The growth rate of GVA (Republic of Serbia)	Estimated growth rate of GVA (AP Vojvodina)
2002	1	-1.88	-3.50
	2	0.88	0.94
	3	3.27	4.80
	4	-0.34	-0.80
2003	1	0.54	-0.86
	2	2.83	1.93
	3	0.10	-2.27
	4	1.29	8.22

Table 2 continued

	Quarter	The growth rate of GVA (Republic of Serbia)	Estimated growth rate of GVA (AP Vojvodina)
2004	1	6.22	0.79
	2	4.01	5.49
	3	8.35	11.83
	4	13.24	19.28
2005	1	2.46	1.34
	2	6.23	7.05
	3	5.81	7.21
	4	4.19	4.05
2006	1	8.16	9.33
	2	6.88	7.32
	3	7.13	7.73
	4	3.66	2.96
2007	1	7.66	9.21
	2	7.69	7.55
	3	5.29	4.27
	4	5.30	3.03
2008	1	8.69	8.71
	2	6.69	6.09
	3	5.14	4.73
	4	3.41	1.94
2009	1	-6.30	-8.95
	2	3.46	-8.71
	3	-1.92	-6.10
	4	1.65	-4.54
2010	1	0.38	-0.79
	2	1.86	1.92

Note. Source: Statistical Yearbook (2011, pp. 44-45).

Figure 3. The growth rate of GVA, according to the same quarter of the previous year. Source: Government of APV (2006, p. 39). Notes. — The growth rate of GVA of Republic of Serbia; — The estimated growth rate of GVA of AP Vojvodina.

The estimated growth rate of GVA of AP Vojvodina, in most of the period, does not deviate much from the growth rate of GVA of the Republic of Serbia. However, it is noted that the estimated growth of GVA of AP Vojvodina in the second half of 2004, is much higher than the growth of GVA of the Republic of Serbia. This difference is most pronounced in the last quarter of 2004 and it can be explained by the fact that the share of agriculture and manufacturing industry in the structure of AP Vojvodina in 2002 is higher than the share of these sectors in the structure of the Republic of Serbia. There is an increased dynamism of the manufacturing industry in the second half of 2004, which on the basis of a larger share of this sector in AP Vojvodina influences the growth of total GVA in Vojvodina.

On the other hand, a greater decline of GVA of Vojvodina, then decline of the GVA of the Republic of Serbia in the first half of 2009 can be explained by significant decline of manufacturing in the economy of the Republic of Serbia in relation to other sectors of activity. During the second half of 2009 and the first three months of 2010, GVA of AP Vojvodina continued negative growth. However, in the second quarter of 2010, the growth rate of GVA of AP Vojvodina, recorded a slight increase (see Table 2 and Figure 3).

GVA has a rising trend at micro-enterprises in the whole period, except in 2009, when there was a drop in GVA, due to the crisis, but in the very next year—2010, it has continued to grow. Absolutely identical trend we have for SMEs. Likewise, the decline in participation of MSMEs (micro, small and medium-sized enterprises) in overall GDP, 54.30% has been recorded also in 2009 (see Table 3 and Figure 4).

From Table 4, we can see that the largest profit (in nominal terms) was achieved in 2010. Height profits, over 80,000, have been realized in 2008, while in the crisis year 2009 in Serbia, they have recorded a decline of SMEs profits. On the other hand, the rate of return, which has from 2005, recorded a decline (and variations in decline) in 2010, which is still a crisis, it has reached the level of profitability in 2005.

The share of profit of APV in profit of SME sector in Serbia, reached the highest level in 2010, although it was a crisis year. After years of decline and fluctuations, the share of profits was finally higher, then in 2004, when it was started tracking this parameter (see Table 4, Figure 5, and Figure 6).

Table 3

GVA in Enterprises in AP Vojvodina (in Millions of Dinars)

	2004	2005	2006	2007	2008	2009
Micro	12,175	18,275	21,944	26,988	31,829	29,081
Small	19,339	26,862	39,372	49,023	56,009	53,320
Medium	35,386	43,016	49,648	67,984	79,233	77,416
Total	66,900	88,153	110,964	143,995	167,071	159,817
Total with big	148,997	185,556	213,905	266,777	288,093	294,318
Percentage of total number of micro	18.12%	20.73%	19.78%	18.74%	19.05%	18.20%
Percentage of total number of small	28.91%	30.47%	35.48%	34.04%	33.52%	33.36%
Percentage of total number of medium	52.89%	48.80%	44.74%	47.21%	47.42%	48.44%
The percentage of the total number of MSMEs (micro, small and medium-sized enterprises)	44.90%	47.51%	51.88%	53.98%	57.99%	54.30%

Note. Source: Regional Chamber of Commerce Novi Sad (2011b, p. 9).

Figure 4. GVA in the SMEs in the period 2004-2010. Source: Regional Chamber of Commerce Novi Sad (2011b, p. 9).

Table 4

The Profitability of SMEs in AP Vojvodina in the Period 2004-2010

	Profit of SMEs by year (in millions of dinars)	Share of profit of APV in profit of SME sector in Serbia	The rate of profitability per year in APV
2004	24.110	26.7	36.70
2005	34.092	25.9	40.07
2006	41.344	25.0	38.12
2007	73.012	26.3	33.90
2008	83.251	26.1	38.39
2009	76.425	25.9	36.52
2010	87.221	29.5	40.02

Note. Source: Regional Chamber of Commerce Novi Sad (2011a).

Figure 5. Profit of SMEs in period 2004-2010. Source: Regional Chamber of Commerce Novi Sad (2011b, p. 11).

Figure 6. Share of profit of APV in profit of SME sector in Serbia. Source: Regional Chamber of Commerce Novi Sad (2011b, p. 12).

Discussion

Research has shown that SMEs are the engine of growth and a solid secure support in times of crisis. GVA has a growth trend during the whole period, except in 2009, when there was a drop in GVA, due to the crisis, but in the very next year—2010, there is continued growth. The share of profits of APV in profit of SME sector in Serbia, reached the highest level in 2010, although it was a crisis year. The same goes for profitability rate, which recorded a decline in 2005 (and variations in decline), while in 2010, which is still a crisis year, it has reached the level of profitability in 2005.

Obtained results suggest that investing in the development of SMEs enables an increase in GDP, increase in the number of business entities, balanced regional development, as well as the steady growth in the gross value of profits and rates of return.

Conclusions and Implications

Sector of MSMEs is the dominant segment of the European economy (99.8% of total business entities), while by employment, occupy 2/3 of the labor market, and at the same time, generating GVA by more than 57%. This sector is less frequent in those areas where it requires a lot of investment in R&D (research and development)—innovation of products, production processes, etc.

In the economic structure of Vojvodina, dominate entrepreneurs (73.9%) and private forms of ownership (97.0%), while SME sector accounts for 99.8% of the total number of enterprises in Vojvodina. In ownership dominated private sector, which makes 97.1% of the total number of SMEs. Within the private SMEs are most numerous shops (76.3%) and micro enterprises (20.8%), while SMEs have a share of 2.4% and 0.6%, respectively.

The role and importance of entrepreneurial organizations (SMEs) is increasing, since the size is no longer a key factor in increasing revenue, but specialization which raises aggregate productivity. SMEs are efficient

when it comes to innovations and technologies that are emerging, for which large systems are not interested in because they cannot capitalize on them in the short term. In entrepreneurial organizations, barriers to innovation may be in their size, administrative barriers, and access to start-up capital. Problems arise when they have to attract skilled workforce and highly educated workers, which is more easily achieved in big companies.

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