

Medium-Sized Enterprises in Serbia: Basic Characteristics and Employment

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Abstract

The purpose of this paper is to present the basic characteristics of the medium-sized enterprises in Serbia with emphasis on the employment in this sector. Numerous studies point out that the role of SMEs is extremely important in the national economy. It is obvious that there are numerous analyses and discussions about the segment of SMEs. However, little attention is given to medium-sized enterprises only. In Serbia, detailed analysis of their basic characteristics is missing. Having in mind that medium-sized enterprises have a great potential to create new jobs as well as contribute to economic revival, it is understandable why we have decided to analyse this segment. Using the statistical data from Serbia Business Registry Agency we have managed to classify medium-sized enterprises according to registered activity and statistical region. The results show unsatisfactory regional and sectoral distribution that does not indicate good prospects for the development of medium-sized enterprises. This paper could be considered, to a certain extent, as a tool policy makers can use in the process of creating environment that would stimulate development and better prospects of medium-sized enterprises and their employees.

Keywords

Medium-sized enterprises, employment, regional disparity, activity analysis.

Introduction

In the recent decades, scientific journals and papers have devoted a lot of attention to entrepreneurship, as the phenomenon of the new business venture which creates new value for the society and the economy. It is often cited that entrepreneurship, viewed as an activity aimed at initiating, organizing and updating business operations with the primary aim of creating a new market and profit, is one of the most important drivers of economic growth. Therefore, there are numerous studies that confirm a direct positive relationship between development and encouraging of entrepreneurship and economic growth and growth of employment (Schumpeter, 2008; King & Levine, 1993; Wennekers & Thurik, 1999; Hasan & Tucci, 2010; and many more). However, entrepreneurship is also important from the perspective

of the individuals who start a business because this venture is a way to provide for themselves and for their family. If this venture is developed into successful business, owners can create new jobs and employ other people. Some authors have argued that SME growth is an important way of reducing unemployment in the country (Birch, 1979; Storey, 1994).

Entrepreneurship is also important from the point of prosperity in terms of creating conditions for a better life of all people. Almost all important inventions that gave us more comfortable, better quality life were created as a result of business (entrepreneurial) idea, ranging from radio and television, personal computers and other information technology to biotechnology and new innovative medical discoveries. Thus, the development and promotion of entrepreneurship is not only the basis for improving the quality of living standards

and economic growth, but is essential for the prosperity of society as a whole (Ljumović, Lazić, & Vesić, 2015).

Modern literature often associates entrepreneurial activity, innovation and economic growth, giving examples of prominent companies such as Facebook, Skype, Microsoft, Apple, Intel and similar. Although these companies are extremely interesting and have drawn the attention of researchers all over the world, they are rather exceptional, while the vast majority of small and medium-sized enterprises are not particularly innovative or overly successful. It should be considered that precisely these non-innovative companies account for the largest number of small and medium-sized enterprises and that they are employing the greatest number of people.

The focus of economic policy makers of the European Union is on the small and medium enterprises and their empowerment, especially in times of economic crisis. However, this trend is not present in Serbia. The number of small and medium enterprises is reducing, particularly as the result of the economic crisis and declining availability of the financial resources. It is assumed that a significant number of enterprises will not survive the economic crisis and that the number of micro, small and medium sized enterprises will further reduce in the next years (Ljumović et al., 2015).

Theoretical concepts of employment

Employment is a multi-layer phenomenon. From economic perspective it is a way to earn a living. Sociologists look at it as a tool that provides socializing with other people, developing teamwork and cooperation skills. Psychologically, employment is important because it can increase self-confidence, moral integrity and it can enable financial independence. On a personal level, it usually increases ability to enhance and develop skills, competences and knowledge. Employed people are an asset to society, since they generate income to the state by paying taxes and other contributions. Legally, employment presents link between employers and employees, defined by contract that regulates rights and responsibilities between parties.

Employment is directly related with economic, social and political indicators and the increase in the number of employees affects the reduction of the state's social costs allocated to the dependent part of the population (Radić, 2005). A large

number of the unemployed affects migration, which leads to the loss of the most productive part of the population. In the last few years, in countries with low rates of employment, young people are leaving the country seeking for better living conditions abroad or migrating from villages to larger cities, leading to regional differences in employment rates in the country.

Employment rate and unemployment rate are the main indicators of the labour market, while activity and inactivity rate are used to measure its effectiveness and conditions. Data for these indicators is obtained from Labour Force Survey and the records from the National Employment Service. The statistics on labour market are important since they could be used for ranking initiatives on employment policy and for monitoring the implementation and effectiveness of labour market programs (Goldfarb & Adams, 1993, pp. 2-4). The main indicator used in this paper is the employment rate, defined as the ratio between the total number of employees and the total number of working-age people. Having in mind the specificities of the Serbian market, such as transition and large-scale privatizations, it is usual to expect the problem of low employment rate since the early nineties (Radić, 2005). There is no doubt that the privatization of a large number of companies and changes in ownership structure influenced the dismissal of workers and hindered market relations in the field of the labour.

Since the beginning of the crisis, the largest annual decline of the employment rate in Serbia was recorded in 2009 (-7.2 %). The decline continued in the next three years, but at much slower pace. The unemployment rate in Serbia has changed in the period 2009-2013 from 16%, 19.2%, 23%, 23.9% and 22.1%, retroactively (Statistical Office of the Republic of Serbia, 2014).

Recent trends show that employment in the SME sector is constantly decreasing. In contrast to SMEs, large enterprises showed an increase employment in 2011 and 2012, but not enough to reduce the overall growth of unemployment in the economy of the Republic of Serbia. According to the latest data of the Ministry of Economy and National Agency for Regional Development (Ministarstvo privrede – Nacionalna agencija za regionalni razvoj, 2014), number of employees in the SME sector decreased by 13,476 in 2013 while the number of employees in medium enterprises in 2013 has not changed from the same pe-

riod of the 2012 (-0.5%). The greatest rate of decrease in the number of workers was in small companies (-3.7%).

According to the statistical data for the countries of the region, Croatia recorded positive changes on the Labour Market in 2013 (Teodorović & Lovrinčević, 1998). For example, employment growth is evident in the sector of small (1.9%) and medium enterprises (0.5%), while a decline in employment was recorded in large enterprises (2.7%) (CEPOR, 2014).

In Serbian economy, there is significant number of barriers to SME growth. Key issues are related with a high unemployment rate in the country, a low level of FDI and a high level of the government debt (Lazić, Pavlović, & Cvijanović, 2013). In 2013, number of micro enterprises has increased by 2,586 or 3.3%, while in all other business entities decreased such as the number of entrepreneurs by 3,980 or - 1.8%, medium-sized enterprises by 10 or -0.5%, small enterprises by 346 or -3.6% and large companies by 12 or 2.4%. Bartlett and Bukvić (2005) concluded that large enterprises have more advantages than small ones. On the other hand, an increase of the small companies has insignificant role in regeneration and transition growth (Scase, 1997).

Methodology

The primary database (containing data on registration number, status, name of the company, date of establishment, legal form, activity code, activity, tax number, size, number of employees) on the medium-sized enterprises was obtained from Serbia Business Registry Agency. The data shows that there were 1004 companies classified as medium-sized at the end of 2015. These companies were employing 165,785 workers. The basic data set from Serbia Business Registry Agency contained information that allowed us to further define their activity and statistical region where they were registered. Classification and analysis of enterprises was based on activities and on the basis of statistical regions. The importance of this analysis is reflected in the fact that, although there are a few similar analysis that include segment of SMEs as a whole, only raw data on medium-sized enterprises exists. In order to conduct analysis, authors had to add data about enterprise activity and NUTS 2 and NUTS 3 statistical region to every enterprise in the analysis.

The criteria for classification of enterprises are determined in accordance with Article 6 of the Law on Accounting. Enterprises are classified

middle if they satisfy two out of three following criteria:

1. The average number of employees is higher than 50 but lower than 250;
2. Operating income is between 8.8 and 34 million Euros in dinar equivalent;
3. Average value of business assets (calculated as the arithmetic mean value at the beginning and at the end of the business year) is in the range between 4.4 and 17.5 million Euros in dinar equivalent.

We were not able to make comparison with previous period due to the inconsistency of the methodology, regulatory framework and irregularity of annual publications. The classification of enterprises changed in 2013 when the new legislation was introduced and the number of medium-sized enterprises fell by over 50%. The latest issue of the annual publication on small and medium enterprises (with the number of medium-sized enterprises, their classification according to their activities and regional distribution) is available for 2013.

Basic characteristics of medium sized enterprises in the republic of Serbia

In order to get the basic characteristics of medium-sized enterprises related to their activity and regional distribution we classified them according to their registered activity and in relation to the district and region where they operate. This classification could give us an insight into the most attractive activities and regions with high concentration of medium-sized enterprises.

The classification of activities was done on the basis of the Law and the Regulation on Classification of Activities (Official Gazette of RS, 2009, 2010) and in relation to defined sectors in this regulation. The most important sector for medium-sized enterprises, according to the official registered activity, is manufacturing (sector C) with 368 registered companies. It is followed by wholesale and retail trade; repair of motor vehicles and motorcycles (sector G) which includes 272 companies. Together, these two sectors account for over 60% of registered medium-sized enterprises. Sector of agriculture, forestry and fishing (74 companies), construction sector (89), the transport and storage (51) and the sector of professional, scientific and technical activities (42) are also significant to a certain degree. All other sectors which are not listed here include

only 108 companies in total. This statistic is shown in Figure 1.

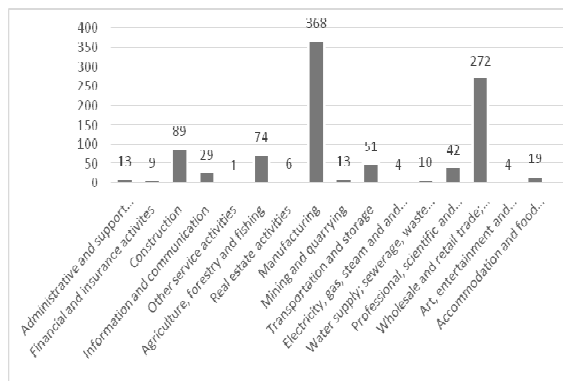


Figure 1 Distribution of medium-sized enterprises by Classification of Activities
 Source: Authors calculation according to the data from Serbia Business Registry Agency, 2016

Regional analysis shows significant differences in the level of development among regions of the Republic of Serbia, as well as the uneven geographical distribution of registered medium-sized enterprises. Belgrade region (44.1%) and region of Vojvodina (28.8%) (that constitute Northern Serbia) account for 72.9% of total medium-sized enterprises with 732 registered companies. Compared to the statistics of the total number of SMEs that operate in Serbia, regional disproportion is even more noticeable in medium-sized enterprises. As we mentioned, Northern Serbia accounts for 72.9% of all medium-sized enterprises, while this number is much lower in the general statistics on total SMEs and is 58.1%. The biggest distinction is made in the Belgrade region by over 10%. The number of medium-sized enterprises registered in Southern Serbia region (27.1%) is significantly smaller than the percentage of SMEs registered in this area 41.8% (Table 1). A methodological note has to be added. The report on small and medium enterprises that is used as a source for comparison of medium-sized enterprises and total SMEs is from 2013 and is the latest available. This report does not reflect the changes in classification made in 2013. However, the authors used this report because they assume that the total number of SMEs did not change to a great extent.

A more detailed analysis, according to NUTS 3 statistics, showed that there is no district beside Belgrade and South Bačka (with the city of Novi Sad) with the participation of over 10% in the total number of medium-sized enterprises (Table 1). The Belgrade District dominates over the sta-

tistics of medium-sized enterprises with 443 registered companies in contrast to the Pirot district, where only one medium-sized enterprise is registered. Pirot and Toplica districts with only 5 registered medium-sized enterprises perfectly illustrate this territorial disparity.

Table 1 The regional distribution of medium-sized enterprises by districts

			Number of medium-sized enterprises	% medium-sized enterprises in total	% of total SMEs
SERBIA - NORTH	Belgrade	Belgrade	443	44.1	31,7
	Vojvodina	West Bačka	25	2.5	n/a
		South Banat	31	3.1	n/a
		South Bačka	106	10.6	n/a
		North Banat	20	2.0	n/a
		North Bačka	38	3.8	n/a
		Central Banat	25	2.5	n/a
		Srem	44	4.4	n/a
		Total	289	28.8	26.5
	TOTAL		732	72.9	58.1
SERBIA - SOUTH	Šumadija and West Serbia	Zlatibor	20	2.0	n/a
		Kolubara	15	1.5	n/a
		Mačva	37	3.7	n/a
		Moravica	35	3.5	n/a
		Pomoravlje	16	1.6	n/a
		Rasina	21	2.1	n/a
		Raška	19	1.9	n/a
		Šumadija	26	2.6	n/a
	TOTAL	189	18.8	25,6	
	South and East Serbia	Bor	8	0.8	n/a
Braničevo		12	1.2	n/a	
Zaječar		5	0.5	n/a	
Jablanica		11	1.1	n/a	
Nišava		20	2.0	n/a	
Pirot		1	0.1	n/a	
Podunavlje		10	1.0	n/a	
Pčinja		12	1.2	n/a	
Toplica	4	0.4	n/a		
TOTAL	83	8.3	16,2		
TOTAL		272	27.1	41.9	

Source: Authors' calculation according to the data from Serbia Business Registry Agency (Ministarstvo privrede – Nacionalna agencija za regionalni razvoj, 2014)

Analysis on the level of municipality provides us with the information that the largest number of companies is registered in developed areas – large cities where Belgrade is the leader with 425 registered medium-sized companies. Although 1004 medium-sized enterprises that operate in Serbia at the end of 2015, were registered in 135 municipalities, only 15 municipalities have more than 10 registered entities. The remaining 121 municipalities have 321 registered companies, as shown in Figure 2.

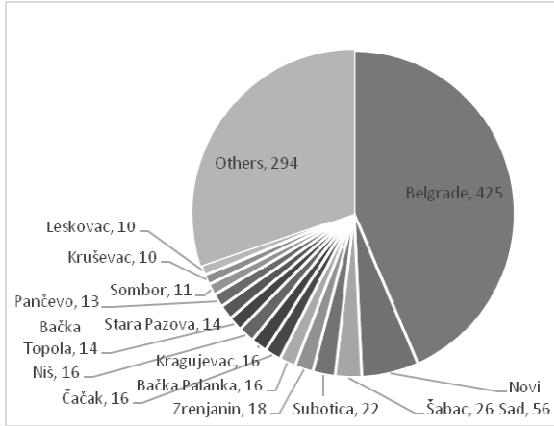


Figure 2 Distribution of medium-sized enterprises by municipalities
 Source: Authors calculation according to the data from Serbia Business Registry Agency, 2016

Employment analysis in medium-sized enterprises: regional and sectoral disparities

At the end of 2015, 1,004 medium-sized enterprises employed a total of 165,785 workers. Two sectors with the greatest number of enterprises (manufacturing with 66,284 - 40% and wholesale and retail trade; repair of motor vehicles and motorcycles, 29,054 - 17.5%) employ the most people. Even at a first glance, Figure 3 shows that activities have different intensity of employment. The administrative and support services stand out with the most intense activity, with average of over 1200 employees per enterprise. Only three activities (Transportation and storage; Art, entertainment and recreation and Professional, scientific and technical activities) have over 200 employees per company. The Electricity, gas, steam and air conditioning supply activity has the lowest intensity of employment.

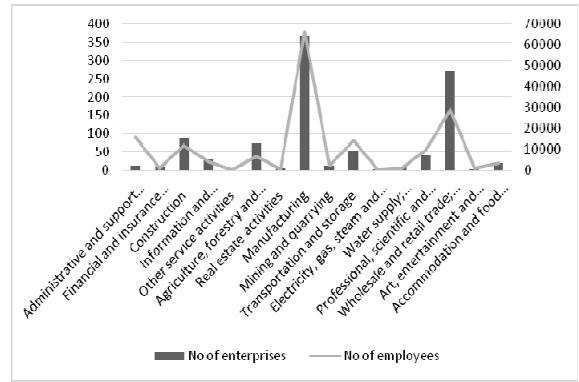


Figure 3 Number of employees in medium-sized enterprises in relation to activity
 Source: Authors calculation according to the data from Serbia Business Registry Agency, 2016

Serbian economy is characterized by great disparities in the level of economic development between regions and districts. This tendency is also noticeable in the segment of medium-sized enterprises and in the long term it could be a major development constraint. Statistics on the distribution of the number of employees’ is almost the same as distribution of the number of registered enterprises. The highest concentration of employees is in economically developed regions and districts. Northern Serbia employs 70 percent of all workforce in medium-sized enterprises, whereas Belgrade as the biggest and most developed area accounts for over 40 percent. On the other side, only 30% of employees are working in enterprises registered in Southern Serbia. The most drastic statistic is shown in the region of South-East Serbia where only one tenth of total employees works in medium-sized enterprises. Extremely high regional disparity levels of medium-sized enterprises are best illustrated by the number of employees in Pirot 1.3%, Zaječar 4.1%, Toplica 4.3% and in Bor 4.4% (all districts from South and East Serbia).

Employment in medium sized enterprises has the highest influence on the Belgrade region with 12.8 percent, while the lowest impact is achieved in the South East Serbia region with 7.1 percent. However, comparing the participation of employees in medium-sized enterprises to total employed workforce in all statistical areas, certain districts dominate. Medium-sized enterprises have high impact on the district where their employee participation is higher comparing to total workforce in the same district. These districts include Central Banat (19.2%), Belgrade (12.8%), Mačva (12.5) and Moravica (12.3%).

Table 2 The regional distribution of employees in medium-sized enterprises by districts

		NUTS 1	NUTS 2	NUTS 3	No of employees in medium-sized enterprises	No of total employees	% of medium-sized enterprises employee in total	% medium-sized enterprises in total	% of employees in medium-sized enterprises
SERBIA - NORTH	Belgrade		Beograd		72037	559231	12.8	44.1	43.4
	Vojvodina	West Bačka			2856	35246	8.1	2.5	1.7
		South Banat			2923	55719	5.2	3.1	1.7
		South Bačka			17245	176174	9.7	10.6	10.4
		North Banat			2735	31151	8.7	2.0	1.6
		North Bačka			4089	44676	9.1	3.8	2.4
		Central Banat			7560	39204	19.2	2.5	4.5
		Srem			6745	61226	11.0	4.4	4.0
		Total			44153	443396	9.9	28.8	26.6
	TOTAL			116190	1002627	11.5	72.9	70.0	
SERBIA - SOUTH	Šumadija and West Serbia	Zlatibor			3074	60284	5.1	2.0	1.8
		Kolubara			2160	39193	5.5	1.5	1.3
		Mačva			6383	50687	12.5	3.7	3.8
		Moravica			6006	48625	12.3	3.5	3.6
		Pomoravlje			2226	39733	5.6	1.6	1.3
		Rasina			4910	42714	11.5	2.1	2.9
		Raška			3031	51785	5.8	1.9	1.8
		Šumadija			3609	63089	5.7	2.6	2.1
	TOTAL			31399	396110	7.9	18.8	18.9	
	South and East Serbia	Bor			1196	27052	4.4	0.8	0.7
		Braničevo			3059	32669	9.3	1.2	1.8
		Zaječar			886	21221	4.1	0.5	0.5
		Jablonica			2349	36670	6.4	1.1	1.4
		Nišava			5518	77382	7.1	2.0	3.3
Pirot				248	18306	1.3	0.1	0.1	
Podunavlje				1892	33975	5.5	1.0	1.1	
Pčinja				2351	35665	6.5	1.2	1.4	
Toplica			697	16012	4.3	0.4	0.4		
TOTAL			18196	298952	6.0	8.3	10.9		
TOTAL			695062	49595	7.1	27.1	29.9		
TOTAL SERBIA			165785	1697689	9.7	100	100		

Source: Authors

Conclusion

The current situation in the medium-sized (and small) enterprises is affected by several factors. One of the most significant is the period of transi-

tion, which led to the disappearance of social capital, implementation of the structural changes and the number of reform measures. This was the first prerequisite for the growth and development of entrepreneurship and hence medium-sized enterprises. Restructuring or shutting down the enterprises with socially owned capital has created a vacuum space for the emergence of private companies that entered the market and employed workforce that was left jobless. The emergence of new companies reduced the growth of unemployment that was created as a result of shutting downs and restructuring of enterprises with socially owned capital to a certain extent. These new private companies that were usually in a form of small or medium-sized enterprises were supposed to be the drivers of economic growth and development of the Republic of Serbia. Unfortunately, in the post-transition period an opportunity to create a sustainable and favourable business environment that would stimulate and foster the growth of small and medium-sized enterprises was missed and therefore the chance for the economic growth. The rapid growth and increase in the competitiveness of small and medium-sized enterprises in the years after the transition is justified by their low starting base. Having this in mind, it is not surprising that the global financial crisis had the highest impact on the segment of SMEs.

Basic problems of medium-sized enterprises in Serbia that are identified in this analysis are unsatisfactory regional and sectoral distribution. Although the most important sector is manufacturing industry (with the largest number of enterprises and number of employees), companies operating within this sector often do not engage in their registered activity, but essentially do trading. If an estimation of the number of enterprises with manufacturing activities that are essentially engaged in trade is done and added to the number of companies from the sector of trade, the data shows devastating fact that companies from the segment of the economy which should be the engine of economic development (medium-sized enterprises) are essentially dealing with primary economic activity - trade. This does not indicate good prospects for the development of medium-sized enterprises. Regional statistics is also unsatisfactory. The analysis shows a high concentration in developed parts of the country, with over 40 per cent of registered medium-sized enterprises (and the number of employees) in Belgrade. This data may indicate only to intensification of migra-

tion to urban areas, of those who are looking for work. Unfortunately, the analysis does not show good prospective for medium-sized enterprises and their employees. Policymakers have a very large and difficult task in creating a business environment that would stimulate the segment of medium-sized enterprises and turn them into drivers of the economic development of Serbia. **SM**

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