

ENTREPRENEURSHIP – MOTOR OF ECONOMIC DEVELOPMENT

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Abstract: *It can be said that entrepreneurship is creation of vision from potential and possibilities not visible to all; it is a human creative act, ability to transform and to develop, it is application of energy for instigation and development of organization. Entrepreneurship comprises activities directed towards investment and combination of necessary resources, expansion on new markets, creation of new products, new customers and new technologies. This paper aims to review small and medium enterprises in Serbia, recommendations from European Union and suggestions how Serbia should transform this sector that – with adequate long-term support – can, no doubt, become one of the main motors of economic development.*

Key words: entrepreneurship, economic development, system support

1. ENTREPRENEURS

Successful entrepreneurs know that life is a matter of choice, not accident. Entrepreneurship offers opportunity for people to create their own destiny and opportunity to accomplish their potential to the fullest. Profit is another very strong motivational factor that gives people the opportunity to do what they find interesting, what gives them satisfaction and is inspirational for them.

Entrepreneurship is, actually, someone's ability – based on know-how and innovation – to instigate certain activity with the aim of achieving goals that are clearly defined, undertaking at the same time certain risks. 'Entrepreneurship is activity directed towards instigation, organization and innovation of a company, with the basic aim of creating new markets and achieving profit at the same time. It is related with all the aspects of human activity and behavior – entrepreneurship favors creativity, helps new ideas and makes the scope of human needs wider and richer.'¹

When we ask entrepreneurs, they give the following reasons for undertaking private business: vast majority says that being their own boss is the number one reason; then they maintain it is about flexibility of life-style and working hours and about more possibilities for making more money. Up to 49% of small business owners are happy with their job, contrary to not more than 29% of employees in firms owned by others.²

Independence is one of the most important elements of creation of any business including small business, because independence gives future business people freedom to make their own decisions and to fulfill their own projected goals. Every single entrepreneur must, no doubt, have following qualities: - clear vision of what is it new (better or with higher quality) that he brings to the market; - goals that are defined with precision; - ability to turn plans into deeds and actions; - independence in decision-making which, in turn, means highest level of responsibility; - endurance and will to fight in the long run; - never-ending desire to learn something new and to improve himself.

¹ Penezić, N. *How to Become Entrepreneur*

² National Employment Agency; www.nsz.gov.rs

2. ENTREPRENEURSHIP IN SERBIA – PRESENT SITUATION AND PROBLEMS

Encouragement and support of entrepreneurship is the key of any economic development. Entrepreneurship is present in any and all human activity might it be in economy, culture, education or sports. Entrepreneurship can actually exist in large companies, but we generally speak of small and medium enterprises (SME) when referring to this sector. SME create the most jobs in any economy in the world, both in developed countries as well as in developing countries too. Any entrepreneurial firm is, in its nature and by its definition, a basic carrier of all the innovations and the most flexible part of any national economy.

It is true that small business require a lot of their owners, but it is also true that this kind of business offers a satisfactory way of life to those who have chosen it, and it also contributes to faster development of the whole community. Apart from advantages for the economy, SME also offer a much broader scope of advantages to the local community and they employ a large number of special categories of the population, such as invalids, elderly people, housewives, part-time help). Further, earlier it was perceived that no one else but large companies can be a player in the international arena, but we now see that – due to their flexibility – entrepreneurs are become more visible in this area too.

Economists both foreign and domestic do agree that small and medium enterprises constitute the best development chance for Serbia. The share that SME have taken in the total number of enterprises in Serbia has already reached 90% and it is constantly growing. So called ‘small economy’ constitutes more than 50% of the whole national budget. Association of small and medium enterprises represents over 90% of the total business community in Serbia. Some 70% of the total number of jobs are in this sector and it participates in the BDP with some 60%.³

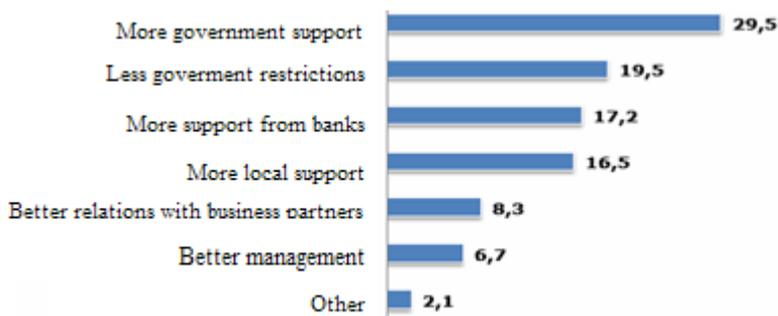


Figure 1: Pool of entrepreneurs in Serbia: Steps to improve business environment

Source: National agency for regional development

Entrepreneurship in Serbia is characterized by following: - the most preferred form of business is LTD; - three quarters of business owners have been in business for more than six years, and 42% of them for more than in eleven years, - some 67% of business owners are people between 35 and 55 years of age, and there are not more than 13% younger than 35; - some 42% of business owners use external sources of financing; - woman owns one in five SME. Entrepreneurs find, to great extent (Fig. 1) that supply of financial products by commercial banks is not stimulus and that most of those in this sector cannot avail of those products at all. High interest rates, difficulties in gathering bank guarantees, high bank

³ <http://www.economy.rs>

commissions, long procedures for bank loans. SME in Serbia offer their products mainly on the domestic market up to some 70% of total revenues.⁴

Regarding limiting factors for a more aggressive and more organized market approach by SME, entrepreneurs generally complain about difficulties in payment collecting, about monopolistic behavior by large firms, their own limited capacities, inadequate demand and disloyal competitors, lack of access to public tenders and inadequate distribution of information regarding market potentials. Entrepreneurs still do not use to the fullest possibilities of surpassing market limitations through cooperation and corporate inter-connections.

The floating exchange rate is a large problem as well, and it further creates the problem of falling behind with loan payments. The huge number of parafiscal costs constitutes the biggest obstacle for creating new small and medium enterprises because no entrepreneur can survive such burden and many small businesses are being shut down.

It is government that must create preconditions for improvement of business environment in the form of organized support net and reduction of limitations. It is government that must create motivational policies with stimulus measures in order to make commercial banks see their interest in offering entrepreneurs long-term quality cooperation. It is also necessary for local governments to show much more understanding towards SME.⁵

3. HOW TO CREATE SYSTEM OF SUPPORT FOR ENTREPRENEURS

The blue print of the European Strategy 2020⁶ requires three priorities both from the members of EU as well as from the candidates for membership: - 'smart' development: economic development based on know-how and innovations; - sustainable growth: promotion of a more efficient, greener and more competitive economy; - inclusive development: - encourage creation of new jobs with the aim of social and regional cohesion.

While entrepreneurship is in EU promoted in any and every possible way (for example in 2011 EU approved 1,3 billion⁷ euros for R&D in SME), we still witness very poor access to loans for SME in Serbia, over-costs on national level are unacceptably high, administration is huge, unoperational and often unnecessary). Not more than 5% of small and medium enterprises are able to invest into business expansion. Nevertheless, there is a clear trend that shows that more businesses have been closed than created within the past year.⁸

In order to create a favorable atmosphere for SME, it is necessary for national government to implement fiscal reform and to minimize grey economy.

Let us mention some quality institutional frames for support of entrepreneurs and namely they are: business incubators, training centers, agencies for support of SME and entrepreneurship. Those communities that wish to encourage this form of doing business do not keep their entrepreneurs isolated; rather, they establish mechanisms for support, encouragement and training of potential and current entrepreneurs.

Government must create a system of support for entrepreneurship and that means: a) reform of VAT calculation; b) government must pay to SME on time, without delay; c) there must be a debirocratization of cadaster land registry in order to enable SME to use their property to secure bank loans; also government must established a centralized data base on

⁴ Ministry of Finance; <http://www.mfp.gov.rs>

⁵ On economic indicators of SME in Serbia, See: Zdravković, B., *International Business Prospects of Small and Medium Enterprises in Serbia*, International Journal of Economics & Law, Vol 1, FORKUP, 2011, str 159-160.

⁶ European Strategy 2020; <http://ec.europa.eu/europe2020>

⁷ Same source

⁸ National Employment Strategy; <http://lokalnirazvoji.rs/nacionalna-strategija-zaposljavanja-2011-2020>

credit rating for faster and easier access to financial sources; d) government must create a better commercial frame for more acceptable terms of loans; e) government must provide adequate legal rules and their strict implementation where it would not be possible to create debts with own firm, then simply close it down and open another one.

Government must support small and medium enterprises, and one of the basic steps should be the change in VAT system so that these companies should not pay their taxes in advance but only when they get paid.

Lack of access to financial resources is the key problem for creation of new SME in Serbia. For a true boom of SME it is necessary to have cheaper financial resources because this sector has problems gathering financial back-up in times of crisis. This package should include the project of development bank on national level with the priority of instigating new enterprises.

Germany is a good example to illustrate how important SME is for a certain economy: 85% of their economy takes places within SME sector. EU cannot overstate the fact that competitive economy is one of the preconditions for EU membership.

Small and medium enterprises must become basic pillars of the total socio-economic development. SME should also become the basic factor in a well-spread regional development in Serbia.

Government must create and implement measures to instigate and encourage economic development. A true, viable help for entrepreneurs would be a package comprising both financial and non-financial measures of support. We can see from regional experience that non-financial measures comprise voucher systems and subsidies for all kinds of consulting services. This is also present in Serbia but not in satisfactory volume, it is still in opening stages. This country should do first things first and that means tax reform which is the government scrupulously avoids... Citing again the German example, let us say that in Serbia taxes on salaries go up to 60% while in Germany this percentage is half this figure.⁹

What does European Union recommend?¹⁰ A) Think outside the box; B) Think Small First; C) One market, one planet.

Actually, EU did adopt ten so called commandments for development of SME: 1) Think Small First – creating atmosphere where entrepreneurs and family business flourish; 2) make sure that honest entrepreneurs who have faced bankruptcy can get another chance rather soon; 3) create such adequate administration system with quick responses to SME needs; 4) adequate recognition of public-oriented entrepreneurship; 5) adjust tools and measures of state policies to SME needs: support SME in large state tenders through special funds; 6) provide access to finances for SME and create legal and business environment with strong incentives for commercial transaction paid out on time; 7) help SME to achieve more benefits; 8) promote and improve skills and all new forms of innovations within SME; 9) enable SME to turn environmental challenges into business opportunities; 10) help SME get a larger share from expanding markets.

Therefore we must undertake, and the sooner the better: - to classify SME and present analysis of their legal and financial situation; - to reform of public sector; - to minimize grey market; - to urgently and without delay improve our judicial system; - to finalize bankruptcy in all organizations with legal requirements for this; - to rigidly control public tenders, spending from the budget and development funds; - to reduce bureaucratic procedures; - to improve business competitiveness, - to introduce payment of VAT upon money is collected; - for government to settle all its obligations towards local authorities and SME;

⁹ Association of Women in Business; www.poslovnezene.org.rs

¹⁰ <http://www.poslodavci-apps.org/operativni-plan-ekonomskog-oporavka-msp-i-zanatskih-radnji>

- to create bank for economic development; - to implement fiscal reform.

Implementation of the above listed measures would create realistic preconditions for creating of long-term development strategy of SME. Long-term measures are: - stimulation of innovativity and entrepreneurial spirit among young people by introducing entrepreneurial education into school curriculums; - promotion of the importance of entrepreneurial spirit through proper education of teaching work-force; - development of possible models of cooperation of SME with business community through system strategies for entrepreneurial education; - securing that fiscal system does not affect transfer from one to another business sector in a negative way.

4. CONCLUSION

Entrepreneurship is an organizational skill; it is a combination of creativity and knowledge. Entrepreneurship stems from private property is the source from which

New times demand new concepts and new answers to the traditional economic questions: what to produce, how to produce and for whom. We witness that both new challenges and solutions are being created at the same time: knowledge economy, intellectual capital, innovativeness, globalization, etc. We crave for a much larger degree of flexibility and it is absolutely necessary to see things from all possible angles. Entrepreneurship constitutes adequate response to almost all challenges.

Entrepreneurship comprises creation of new ideas and acceptance of risk for business decisions made. There can be no entrepreneurship without innovations and competitiveness.

All over the world, in all times, entrepreneurs are people of strong will and determination who know that it is exactly those qualities that change virtually anything. Entrepreneurs are people with clear ideas and clear vision. They are also aware there is always choice in life and that our life depends exactly upon the way we choose. Hard work enables entrepreneurs to broaden both their abilities as well as possibilities at their disposal. Empirical know-how entrepreneurs collect this way and their will to constantly renew and broaden their knowledge constitute the source of their development and success.

Small and medium enterprises are the birthplace of new ideas and new, efficient economic concepts. Entrepreneurship also takes for granted high degree of flexibility and adaptability. This is why it is entrepreneurs that are always on the lookout for new chances and they are the first to accept risks.

You can indeed secure a loan for creation of business in Serbia today but it is under very unfavorable conditions. Nevertheless, we still see that lack of entrepreneurial culture and fear of risks are the main reasons for not creating more new enterprises. We still face the mentality 'it is better to wait and see,' we still wait for someone else to take matters into his hands.

'In the future, emphasis will be given to the prevention of errors and failures, rather than solving problems. Successful will be those that prevent rather than solve problems and eliminate errors.'¹¹

Government must constantly introduce new and improve existing measures for instigation of SME, especially on the local level; must simplify and remove administrative barriers; offer new business ideas, lower interest rates and long-term investment loans; local authorities must adopt friendly and inclusive policies for families of SME, specially where women are owners; apart from education and training, we must encourage entrepreneurship

¹¹ Radosavljević, M., »Strategy for learning from failure«, *Intl Journal of economics and law*, Vol. 2, No.4, pp 115

among young people in all possible ways; government must educate financial experts to be able to release new micro-loans and to develop security and help networks for SME.

In accordance with the proven role of SME in social integration and in accordance with Serbia's wish (as a potential EU candidate) to reduce poverty and unemployment as key issues of social exclusion, the set goals should be: - research possibilities for a new legal frame as a favorable environment for all different forms of social economy; - introduce concepts and forms of SME already in existence in EU; - recognize and encourage all the potential for entrepreneurship in Serbia; - analyze the present situation and define recommendations for future development.

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